

Discovery Communications, Inc.
Form 10-K
February 17, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

Commission File Number: 001-34177

DISCOVERY COMMUNICATIONS, INC.

(Exact name of Registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

35-2333914
(I.R.S. Employer
Identification No.)

One Discovery Place

Silver Spring, Maryland
(Address of principal executive offices)

20910
(Zip Code)

(240) 662-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Series A Common Stock, par value \$0.01 per share	The NASDAQ Global Select Market
Series B Common Stock, par value \$0.01 per share	The NASDAQ Global Select Market
Series C Common Stock, par value \$0.01 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of voting and non-voting common stock held by non-affiliates of the Registrant computed by reference to the last sales price of such stock, as of the last business day of the Registrant's most recently completed second fiscal quarter, which was June 30, 2011, was approximately \$10 billion.

Total number of shares outstanding of each class of the Registrant's common stock as of February 10, 2012 was:

Series A Common Stock, par value \$0.01 per share	142,516,019
Series B Common Stock, par value \$0.01 per share	6,570,067
Series C Common Stock, par value \$0.01 per share	109,426,484

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Item 10 through Item 14 of Part III of this Annual Report on Form 10-K is incorporated herein by reference to the Registrant's definitive Proxy Statement for its 2011 Annual Meeting of Stockholders, which shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days of the Registrant's fiscal year end.

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PART I

ITEM 1. Business.

For convenience, the terms Discovery, DCI, the Company, we, us or our are used in this Annual Report on Form 10-K to refer to both Discovery Communications, Inc. and collectively to Discovery Communications, Inc. and one or more of its consolidated subsidiaries, unless the context otherwise requires.

OVERVIEW

We are a global nonfiction media and entertainment company that provides programming across multiple distribution platforms throughout the world. We also have a diversified portfolio of websites and other digital media services, develop and sell curriculum-based education products and services, and provide postproduction audio services. We were formed on September 17, 2008 as a Delaware corporation in connection with Discovery Holding Company (DHC) and Advance/Newhouse Programming Partnership (Advance/Newhouse) combining their respective ownership interests in Discovery Communications Holding, LLC (DCH) and exchanging those interests with and into Discovery (the Discovery Formation). DCH owned and operated various television networks, website properties and other digital media services throughout the world and sold curriculum-based education products and services. As a result of the Discovery Formation, DHC and DCH became wholly-owned subsidiaries of Discovery, with Discovery becoming the successor reporting entity to DHC.

As one of the world's largest nonfiction media companies, we provide original and purchased programming to more than 1.7 billion cumulative subscribers worldwide through networks that we wholly or partially own. Our global portfolio of networks includes prominent television brands such as Discovery Channel, one of the first nonfiction networks and our most widely distributed global brand, TLC and Animal Planet.

Our content spans genres including science, exploration, survival, natural history, sustainability of the environment, technology, docu-series, anthropology, paleontology, history, space, archaeology, health and wellness, engineering, adventure, lifestyles, forensics, civilizations and current events. Our programming tends to maintain its relevance for an extended period of time. As a result, a significant amount of our content translates well across international borders and is made even more accessible through extensive use of dubbing and subtitles in local languages. We also create local programming tailored to individual market preferences.

We have an extensive library of content and own all or most rights to the majority of our programming and footage, which enables us to exploit our library to launch new brands and services into new markets quickly. Our programming can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world. Substantially all of our programming is produced in high definition (HD) format.

Financial information for our segments and geographical areas in which we do business is set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 21, to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

Subscriber statistics set forth in this Annual Report on Form 10-K include both wholly-owned networks and networks operated by equity method investees. Domestic subscriber statistics are based on Nielsen Media Research. International subscriber statistics are derived from internal data coupled with external sources when available. As used herein, a subscriber is a single household that receives the applicable network from its cable television operator, direct-to-home (DTH) satellite operator, or other television provider, including those who receive our networks from pay-television providers without charge pursuant to various pricing plans that include free periods and/or free carriage. The term cumulative subscribers refers to the collective sum of the total number of subscribers to each of our networks or programming services. By way of example, two households that each receives five of our networks from their television provider represent two subscribers, but 10 cumulative subscribers.

U.S. NETWORKS

Our U.S. Networks segment principally consists of national television networks. U.S. Networks generates revenues from fees charged to operators who distribute our network content, which include cable and DTH satellite service providers and digital distributors, and from advertising sold on our television networks and other arrangements. Our U.S. Networks segment also generates income to offset expenses associated with providing sales representation and network services to equity method investee networks and the licensing of our brands for consumer products. Our U.S. Networks segment wholly owns and operates nine national television networks, including fully distributed television networks, Discovery Channel, TLC and Animal Planet. In addition, this segment holds our interests in OWN, The Hub and 3net, which are operated by equity method investees. We account for our interests in the underlying ventures using the equity method and fees for services provided to them are recorded as other revenue.

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Our U.S. Networks segment owns and operates the following television networks:

Discovery Channel

Discovery Channel reached approximately 100 million subscribers in the U.S. as of December 31, 2011. Discovery Channel also reached 8 million subscribers through a licensing arrangement with partners in Canada as of December 31, 2011.

Discovery Channel is dedicated to providing nonfiction content that informs and entertains viewers about the wonder and diversity of the world. The network offers a mix of genres, including science and technology, exploration, adventure, history and in-depth, behind-the-scenes glimpses at the people, places and organizations that shape and share our world.

Programming highlights on Discovery Channel include *Deadliest Catch*, *Mythbusters*, *Dirty Jobs* and *Gold Rush*. Discovery Channel is also home to specials and mini-series such as *Frozen Planet* (premiering March 18, 2012).

Target viewers are adults ages 25-54, particularly men.

Discovery Channel is simulcast in HD.

TLC

TLC reached approximately 99 million subscribers in the U.S. as of December 31, 2011. TLC also reached approximately 8 million subscribers in Canada as of December 31, 2011, according to internal data.

TLC features docu-series and reality-based programming about people.

Programming highlights on TLC include *Cake Boss*, *Little Couple*, *What Not to Wear*, *Police Women*, *Say Yes to the Dress*, *Sister Wives* and *19 Kids and Counting*.

Target viewers are adults ages 18-54, particularly women.

TLC is simulcast in HD.

Animal Planet

Animal Planet reached approximately 97 million subscribers in the U.S. as of December 31, 2011. Animal Planet also reaches 2 million subscribers through a licensing arrangement with partners in Canada as of December 31, 2011.

Animal Planet provides a full range of programming related to life in the animal kingdom and human interaction with animals.

Programming highlights on Animal Planet include *River Monsters*, *Finding Bigfoot*, *Whale Wars*, *I Shouldn't be Alive*, *Fatal Attractions*, *Pit Bulls and Parolees* and *It's Me or the Dog*.

Target viewers are adults ages 25-54.

Animal Planet is simulcast in HD.

Investigation Discovery

Investigation Discovery reached approximately 79 million subscribers in the U.S. as of December 31, 2011.

Investigation Discovery offers programming that focuses on mysteries and true stories through in-depth series and documentaries that deliver insight into the human condition and the real world of investigations, piecing together the dramatic puzzles of human nature.

Programming highlights on Investigation Discovery include *On the Case with Paula Zahn*, *Disappeared*, *I (Almost) Got Away With It*, *Who The (Bleep) Did I Marry?*, *Unusual Suspects*, *I Married a Mobster* and *Nightmare Next Door*.

Target viewers are adults ages 25-54.

Investigation Discovery is simulcast in HD.

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SCIENCE

SCIENCE reached approximately 69 million subscribers in the U.S. as of December 31, 2011.

SCIENCE provides programming that explores the possibilities of science, from string theory and futuristic cities to accidental discoveries and outrageous inventions.

Programming highlights on SCIENCE include *Through the Wormhole with Morgan Freeman*, *An Idiot Abroad*, *Wonders of the Universe*, *How It's Made*, *Sci Fi Science*, *Oddities* and *Punkin Chunkin*.

Target viewers are adults ages 25-54.

SCIENCE is simulcast in HD.

Military Channel

Military Channel reached approximately 60 million subscribers in the U.S. as of December 31, 2011. Military Channel also reached approximately 1 million subscribers in Canada, according to internal data as of December 31, 2011.

Military Channel brings viewers real-world stories of heroism, military strategy, battlefield maneuvers, technological breakthroughs, aviation and turning points in history through the personal stories of servicemen and women.

Programming highlights on Military Channel include *Future Weapons*, *Showdown: Air Combat*, *An Officer and a Movie*, *Greatest Tank Battles* and *Science of the Elite Soldier*.

Target viewers are men ages 35-64.

Planet Green

Planet Green reached approximately 58 million subscribers in the U.S. as of December 31, 2011.

Planet Green targets viewers who like to discover something new, championing the innovators and mavericks who are transforming the way we view the world.

Programming highlights on Planet Green include series and specials that inform, entertain and inspire viewers.

Target viewers are adults ages 18-54.

Planet Green is simulcast in HD.

Discovery Fit & Health

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Rebranded from FitTV as of February 1, 2011, Discovery Fit & Health reached approximately 49 million subscribers in the U.S. as of December 31, 2011.

Discovery Fit & Health programming includes forensic mysteries, medical stories, emergency room trauma dramas, baby and pregnancy programming, parenting challenges, and stories of extreme life conditions.

Programming includes *Dr. G: Medical Examiner*, *I'm Pregnant And*, *Untold Stories of the ER*, *I Didn't Know I Was Pregnant* and *Gilad's Bodies in Motion*.

Target viewers are adults ages 25-54.

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Velocity

Rebranded from HD Theater as of October 4, 2011, Velocity reached approximately 40 million subscribers in the U.S. as of December 31, 2011.

Velocity showcases premier high definition real world programming in the automotive, sports and leisure, adventure, lifestyle and travel genres, including live auctions, world rally championships, and historical and biographical series.

Programming highlights on Velocity include *Inside West Coast Customs*, *Mecum Auto Auctions*, *Café Racer* and *Chasing Classic Cars*.

Target viewers are adults ages 25-54, particularly men.

Our U.S. Networks segment owns interests in the following television networks that are operated by equity method investees:

OWN: Oprah Winfrey Network

OWN: Oprah Winfrey Network (formerly Discovery Health) debuted on January 1, 2011, and reached approximately 77 million subscribers in the U.S. as of December 31, 2011.

OWN is a multi-platform venture, including the OWN television network and Oprah.com, designed to entertain, inform and inspire people to live their best lives.

Programming highlights on OWN include *Oprah's Life Class*, *The Rosie Show*, *Our America with Lisa Ling*, *Oprah's Master Class*, *Welcome to Sweetie Pie's* and *Oprah's Next Chapter*.

Target viewers are adults 25-54, particularly women.

OWN is simulcast in HD.

The Hub

The Hub reached approximately 62 million subscribers in the U.S. as of December 31, 2011.

The Hub features original programming, game shows and live-action series and specials focused on children and their families, including content drawn from Hasbro's portfolio of entertainment and educational properties, content from Discovery's extensive library of award-winning children's educational programming, and third-party acquisitions.

Programming highlights on The Hub include *Transformers Prime*, *R.L. Stine's The Haunting Hour: The Series*, *My Little Pony Friendship is Magic*, *Pound Puppies* and *Family Game Night*.

Target viewers are children ages 2-11 and families.

The Hub is simulcast in HD.

3net

3net launched on February 13, 2011, and was available to all DIRECTV subscribers in the U.S. with 3D capable television sets as of December 31, 2011.

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3net, the first fully programmed 24/7 3D television network in the U.S., features an extensive library of 3D content in genres including natural history, documentary, action/adventure, travel, history, kids and family, hyper-reality, lifestyle and cuisine, concerts, movies, and scripted series.

Programming highlights on 3net include *Scary Tales*, *Indy 500: The Inside Line*, *China Revealed*, *Fields of Valor: The Civil War*, *Cloudy with a Chance of Meatballs* and *Hubble 3D*.

Target viewers are adults 25-54.

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Our Digital Media business consists of our websites and mobile and video-on-demand (VOD) services. Our websites include network branded websites such as Discovery.com, TLC.com and AnimalPlanet.com, and other websites such as HowStuffWorks.com, an online source of explanations of how the world actually works; Treehugger.com, a comprehensive source for green news, solutions and product information; and Petfinder.com, a leading pet adoption destination. Together, these websites attracted an average of 24 million cumulative unique monthly visitors, according to comScore, Inc. in 2011.

INTERNATIONAL NETWORKS

Our International Networks segment principally consists of national and pan-regional television networks. This segment generates revenues primarily from fees charged to operators who distribute our networks, which primarily include cable and DTH satellite service providers, and from advertising sold on our television networks and websites. Discovery Channel, Animal Planet and TLC lead the International Networks portfolio of television networks, which are distributed in virtually every pay-television market in the world through an infrastructure that includes operational centers in London, Singapore and Miami. International Networks has one of the largest international distribution platforms of networks with one to twelve networks in more than 200 countries and territories around the world. At December 31, 2011, International Networks operated over 150 unique distribution feeds in over 40 languages with channel feeds customized according to language needs and advertising sales opportunities.

Our International Networks segment owns and operates the following television networks which reached the following number of subscribers as of December 31, 2011:

Global Networks	International Subscribers (millions)	Regional Networks	International Subscribers (millions)
Discovery Channel	213	DMAX	47
Animal Planet	166	Discovery Kids	37
TLC, Real Time and Travel & Living	150	Liv	29
Discovery Science	66	Quest	23
Discovery Home & Health	48	Discovery History	13
Turbo	37	Shed	12
Discovery World	27	Discovery en Espanol (U.S.)	5
Investigation Discovery	23	Discovery Familia (U.S.)	4
HD Services	17		

EDUCATION AND OTHER

Our Education and Other segment primarily includes the sale of curriculum-based product and service offerings and postproduction audio services. This segment generates revenues primarily from subscriptions charged to K-12 schools for access to an online suite of curriculum-based VOD tools, professional development services, and to a lesser extent student assessment and publication of hardcopy curriculum-based content. Our education business also participates in corporate partnerships, global brand and content licensing business with leading non-profits, foundations and trade associations. Other businesses primarily include postproduction audio services that are provided to major motion picture studios, independent producers, broadcast networks, cable channels, advertising agencies, and interactive producers.

CONTENT DEVELOPMENT

Our content development strategy is designed to increase viewership, maintain innovation and quality leadership, and provide value for our network distributors and advertising customers. Substantially all content is sourced from a wide range of third-party producers, which includes some of the world's leading nonfiction production companies with which we have developed long-standing relationships, as well as independent producers. Our production arrangements fall into three categories: produced, coproduced and licensed. Substantially all produced content includes programming which we engage third parties to develop and produce while we retain editorial control and own most or all of the rights in exchange for paying all development and production costs. Coproduced content refers to program rights acquired that we have collaborated with third parties to finance and develop. Coproduced programs are typically high-cost projects for which neither we nor our coproducers wish to bear the entire cost or productions in which the producer has already taken on an international broadcast partner. Licensed content is comprised of films or series that have been previously produced by third parties.

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International Networks maximizes the use of programming from our U.S. Networks. Much of our content tends to be culturally neutral and maintains its relevance for an extended period of time. As a result, a significant amount of our programming translates well across international borders and is made even more accessible through extensive use of dubbing and subtitles in local languages. Our programming can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world. We also develop local programming that is tailored to individual market preferences, which is typically produced through third-party production companies.

REVENUES

We generate revenues principally from: (i) fees charged to operators who distribute our network content, which primarily include cable and DTH satellite service providers and digital distributors, (ii) advertising sold on our networks, websites and other digital media services, and (iii) other transactions, including curriculum-based products and services, affiliate and advertising sales representation services for third-party networks, content licenses, postproduction audio services, and the licensing of our brands for consumer products. No single customer represented more than 10% of our total consolidated revenues for 2011, 2010 or 2009.

Distribution

Distribution revenue includes fees charged for the right to view Discovery network branded content made available to customers through a variety of distribution platforms and viewing devices. The largest component of distribution revenue is comprised of fees charged to cable, DTH satellite and telecommunication service providers for distribution rights to Discovery's television networks. Typically, Discovery's television networks are aired pursuant to multi-year carriage agreements that generally provide for the level of carriage Discovery's networks will receive, and if applicable, for scheduled graduated annual rate increases. Carriage of Discovery networks depends upon channel placement and package inclusion such as whether on more widely distributed, broader packages or lesser-distributed, specialized packages. Distribution revenue also includes fees charged for bulk content arrangements and other subscription services for episodic content. Distribution revenues are largely dependent on the number of subscribers that receive our networks or content and the quality and quantity of programming that Discovery provides.

As an incentive to obtain long-term distribution agreements for our newer networks, we have made cash payments to distributors to carry the network (launch incentives), provide the channel to the distributor for free for a predetermined length of time, or both. We have contracts with distributors representing most cable and satellite service providers around the world, including the largest operators in the U.S. and major international distributors. In the U.S., approximately 90% of distribution revenues come from the top 10 distributors, with whom we have agreements that expire at various times from 2012 through 2020. At the end of 2012, three of these distribution arrangements will expire and we intend to renew these agreements. Outside of the U.S., less than 50% of distribution revenue comes from the top 10 distributors. Distribution fees are typically collected ratably throughout the year.

Advertising

Our advertising revenues consist of consumer advertising, which is sold primarily on a national basis in the U.S. and on a pan-regional or local-language feed basis outside the U.S. Advertising contracts generally have terms of one year or less.

In the U.S., advertising revenues are a function of the size and demographics of the audience delivered, quantitative and qualitative characteristics of the audience of each network, the perceived quality of the network and of the particular programming, the brand appeal of the network and ratings as determined by third-party research companies such as Nielsen Media Research, as well as overall advertiser demand in the marketplace. We sell advertising time in both the upfront and scatter markets. In the upfront market, advertisers buy advertising time for the upcoming season, and by purchasing in advance, often receive discounted rates. In the scatter market, advertisers buy advertising time close to the time when the commercials will be run, and often pay a premium. The mix between the upfront and scatter markets is based upon a number of factors, such as pricing, demand for advertising time and economic conditions.

Outside the U.S. advertisers buy advertising time closer to the time when the commercials will be run. International television markets vary in their stages of development. Some, notably the U.K., are more advanced digital multi-channel television markets, while others remain in the analog environment with varying degrees of investment from operators in expanding channel capacity or converting to digital. Advertising revenues outside of the U.S. are dependent upon a number of factors, including the stage of development of pay television markets, the number of subscribers to our channels, viewership demographics, the popularity of our programming, and our ability to sell commercial time over a group of channels. In developing pay television markets, we expect

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advertising revenue growth will result from subscriber growth, our localization strategy, and the shift of advertising spending from broadcast to pay television. In relatively mature markets, such as Western Europe, the growth dynamic is changing. Increased market penetration and distribution are unlikely to drive rapid growth in those markets. Instead, growth in advertising sales would come from increasing viewership and advertising pricing on our existing pay television networks and launching new services, either in pay television or free television environments.

Revenues from advertising are subject to seasonality, market-based variations, and general economic conditions. Advertising revenue is typically highest in the second and fourth quarters. Revenues can also fluctuate due to the popularity of particular programs and viewership ratings. In some cases, advertising sales are subject to ratings guarantees that require us to provide additional advertising time if the guaranteed audience levels are not achieved.

We also generate revenues from the sale of advertising on our online properties. We sell advertising on our websites both on a stand-alone basis and as part of advertising packages with our television networks.

Other

Revenues from curriculum-based services are recognized ratably over the contract term. Revenues from postproduction audio services are recognized as services are provided.

COMPETITION

Television network programming is a highly competitive business in the U.S. and worldwide. We experience competition in the development and acquisition of content, for the distribution of our programming, for the selling of commercial time on our networks, and for viewers. Our networks compete with studios, television networks, and other forms of media such as DVDs and the internet for the acquisition of programming and creative talent such as writers, producers and directors. Our ability to produce and acquire popular programming is an important competitive factor for the distribution of our networks, attracting viewers and the sale of commercial time. Our success in securing popular programming and creative talent depends on various factors such as the number of competitors providing programming that targets the same genre and audience, the distribution of our networks, viewership, and the production, marketing and advertising support we provide.

Our networks compete with other television networks, including broadcast, cable and local, for the distribution of our programming and fees charged to cable television operators, DTH satellite service providers and other distributors that carry our network programming. Our ability to secure distribution agreements is necessary to ensure the effective distribution of network programming to our audiences. Our contractual agreements with distributors are renewed or renegotiated from time to time in the ordinary course of business. At the end of 2012, three of our largest U.S. distribution arrangements will expire and we intend to renew these agreements. Growth in the number of networks distributed, consolidation and other market conditions in the cable and satellite distribution industry, and other platforms may adversely affect our ability to obtain and maintain contractual terms for the distribution of our programming that are as favorable as those currently in place. The ability to secure distribution agreements is dependent upon the production, acquisition and packaging of original programming, viewership, the marketing and advertising support and incentives provided to distributors, and the prices charged for carriage.

Our networks and websites compete for the sale of advertising with other television networks, including broadcast, cable and local networks, online and mobile outlets, radio programming and print media. Our success in selling advertising is a function of the size and demographics of our viewers, quantitative and qualitative characteristics of the audience of each network, the perceived quality of the network and of the particular programming, the brand appeal of the network and ratings as determined by third-party research companies, prices charged for advertising and overall advertiser demand in the marketplace.

Our networks and websites also compete for their target audiences with all forms of programming and other media provided to viewers, including broadcast, cable and local networks, pay-per-view and VOD services, DVDs, online activities and other forms of news, information and entertainment.

Our education business also competes with other providers of curriculum-based products to schools. Our postproduction audio services business competes with other production and in-house sound companies.

INTELLECTUAL PROPERTY

Our intellectual property assets principally include copyrights in television programming, websites and other content, trademarks in brands, names and logos, domain names and licenses of intellectual property rights of various kinds.

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We are fundamentally a content company and the protection of our brands and content is of primary importance. To protect our intellectual property assets, we rely upon a combination of copyright, trademark, unfair competition, trade secret and Internet/domain name statutes and laws and contract provisions. However, there can be no assurance of the degree to which these measures will be successful. Moreover, effective intellectual property protection may be either unavailable or limited in certain foreign territories. Policing unauthorized use of our products and services and related intellectual property is often difficult. We seek to limit unauthorized use of our intellectual property through a combination of approaches. However, the steps taken to prevent the infringement by unauthorized third parties of our intellectual property may not work.

Third parties may challenge the validity or scope of our intellectual property from time to time, and such challenges could result in the limitation or loss of intellectual property rights. Irrespective of their validity, such claims may result in substantial costs and diversion of resources which could have an adverse effect on our operations. In addition, piracy, which encompasses both the theft of our signal and unauthorized use of our programming, including in the digital environment, continues to present a threat to revenues from products and services based on intellectual property.

REGULATORY MATTERS

Our businesses are subject to and affected by regulations of U.S. federal, state and local government authorities, and our international operations are subject to laws and regulations of local countries and international bodies such as the European Union. Programming networks, such as those owned by us, are regulated by the Federal Communications Commission (FCC) in certain respects if they are affiliated with a cable television distributor. Other FCC regulations, although imposed on cable television operators and satellite operators, affect programming networks indirectly. The rules, regulations, policies and procedures affecting our businesses are constantly subject to change. These descriptions are summary in nature and do not purport to describe all present and proposed laws and regulations affecting our businesses.

Program Access

The FCC's program access rules prevent a satellite or cable programming vendor in which a cable operator has an attributable ownership interest under FCC rules from entering into exclusive contracts for programming with a distributor and from discriminating among competing multichannel video programming distributors (MVPDs), such as cable and satellite operators, in the rates, terms and conditions for the sale or delivery of programming. These rules also permit MVPDs to initiate complaints to the FCC against programming networks if an MVPD claims it is unable to obtain rights to carry the programming network on nondiscriminatory rates, terms or conditions.

Must-Carry /Retransmission Consent

The Cable Television Consumer Protection and Competition Act of 1992 (the Act) imposed must-carry regulations on cable systems, requiring them to carry the signals of most local broadcast television stations in their market. Direct broadcast satellite (DBS) systems are also subject to their own must-carry rules. The FCC's implementation of must-carry obligations requires cable operators and DBS providers to give broadcasters preferential access to channel space. This reduces the amount of channel space that is available for carriage of our networks by cable operators and DBS providers. The Act also established retransmission consent, which refers to a broadcaster's right to require consent from MVPDs, such as cable and satellite operators, before distributing its signal to their subscribers. Broadcasters have traditionally used the resulting leverage from demand for their must-have broadcast programming to obtain carriage for their affiliated networks. Increasingly, broadcasters are additionally seeking substantial monetary compensation for granting carriage rights for their must-have broadcast programming. Such increased financial demands on distributors reduce the programming funds available for independent programmers not affiliated with broadcasters, such as us.

Closed Captioning and Advertising Restrictions

Certain of our networks must provide closed-captioning of programming for the hearing impaired, our programming and websites intended primarily for children 12 years of age and under must comply with certain limits on advertising, and commercials embedded in our networks programming stream adhere to certain standards for ensuring that those commercials are not transmitted at louder volumes than our program material. In the future, the 21st Century Communications and Video Accessibility Act of 2010 may require us to provide closed captioning on certain video programming that we offer on the Internet.

Obscenity Restrictions

Network distributors are prohibited from transmitting obscene programming, and our affiliation agreements generally require us to refrain from including such programming on our networks.

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Regulation of the Internet

We operate several websites which we use to distribute information about our programs and to offer consumers the opportunity to purchase consumer products and services. Internet services are now subject to regulation in the U.S. relating to the privacy and security of personally identifiable user information and acquisition of personal information from children under 13, including the federal Child Online Protection Act and the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act. In addition, a majority of states have enacted laws that impose data security and security breach obligations. Additional federal and state laws and regulations may be adopted with respect to the Internet or other online services, covering such issues as user privacy, child safety, data security, advertising, pricing, content, copyrights and trademarks, access by persons with disabilities, distribution, taxation and characteristics and quality of products and services. In addition, to the extent we offer products and services to online consumers outside the U.S., the laws and regulations of foreign jurisdictions, including, without limitation, consumer protection, privacy, advertising, data retention, intellectual property, and content limitations, may impose additional compliance obligations on us.

EMPLOYEES

As of December 31, 2011, we had approximately 4,600 employees, including full-time and part-time employees of our wholly-owned subsidiaries and consolidated ventures. There were approximately 250 personnel at our postproduction audio services business subject to collective bargaining agreements. There are no active grievances, strikes or work stoppages and we believe our relations with our union and non-union employees are strong. We do not believe a dispute with employees subject to collective bargaining agreements would have a material adverse effect on our business.

AVAILABLE INFORMATION

All of our filings with the U.S. Securities and Exchange Commission (the "SEC"), including reports on Form 10-K, Form 10-Q and Form 8-K, and all amendments to such filings are available free of charge at the investor relations section of our website, www.discoverycommunications.com, as soon as reasonably practical after such material is filed with, or furnished to, the SEC. Our annual report, corporate governance guidelines, code of business conduct and ethics, audit committee charter, compensation committee charter, and nominating and corporate governance committee charter are also available on our website. In addition, we will provide a printed copy of any of these documents, free of charge, upon written request at: Investor Relations, Discovery Communications, Inc., 850 Third Avenue, 8th Floor, New York, NY 10022-7225. The information contained on our website is not part of this Annual Report on Form 10-K and is not incorporated by reference herein.

ITEM 1A. Risk Factors.

Investing in our securities involves risk. In addition to the other information contained in this report, you should consider the following risk factors before investing in our securities.

Our success is dependent upon U.S. and foreign audience acceptance of our programming and other entertainment content, which is difficult to predict.

The production and distribution of pay television programs and other entertainment content are inherently risky businesses because the revenue we derive and our ability to distribute our content depend primarily on consumer tastes and preferences that often change in unpredictable ways. Our success depends on our ability to consistently create and acquire content and programming that meet the changing preferences of viewers in general, viewers in special interest groups, viewers in specific demographic categories and viewers in various international marketplaces. The commercial success of our programming and other content also depends upon the quality and acceptance of competing programs and other content available in the applicable marketplace at the same time certain of our networks are new or are equity method investees. There is no assurance of audience acceptance of these new brands. Other factors, including the availability of alternative forms of entertainment and leisure time activities, general economic conditions, piracy, digital and on-demand distribution and growing competition for consumer discretionary spending may also affect the audience for our content. Audience sizes for our media networks are critical factors affecting both the volume and pricing of advertising revenue that we receive, and the extent of distribution and the license fees we receive under agreements with our distributors. Consequently, reduced public acceptance of our entertainment content may decrease our audience share and adversely affect our results of operations.

Changes in consumer behavior resulting from new technologies and distribution platforms may impact the performance of our businesses.

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Our business is focused on television, and we face emerging competition from other providers of digital media, some of which have greater financial, marketing and other resources than we do. In particular, programming offered over the Internet has become more prevalent as the speed and quality of broadband networks have improved. Providers such as Hulu, Roku, Netflix, Apple TV,

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Amazon and Google TV are aggressively working to establish themselves as alternative providers of video services. These services and the growing availability of online content, coupled with an expanding market for connected devices and internet-connected televisions, may impact our traditional distribution methods for our services and content. Additionally, devices that allow users to view television programs on a time-shifted basis and technologies that enable users to fast-forward or skip programming have caused changes in consumer behavior that may affect the attractiveness of our offerings to advertisers and could therefore adversely affect our revenues. If we cannot ensure that our distribution methods and content are responsive to our target audiences, our business could be adversely affected.

The loss of key talent could disrupt our business and adversely affect our revenue.

Our business depends upon the continued efforts, abilities and expertise of our corporate and divisional executive teams and entertainment personalities. We employ or contract with entertainment personalities who may have loyal audiences. These individuals are important to audience endorsement of our programs and other content. There can be no assurance that these individuals will remain with us or retain their current audiences. If we fail to retain key individuals or if our entertainment personalities lose their current audience base, our operations could be adversely affected.

We operate in increasingly competitive industries.

The entertainment and media programming industries in which we operate are highly competitive. We compete with other programming networks for distribution, viewers, and advertising. We also compete for viewers with other forms of media entertainment, such as home video, movies, periodicals and online and mobile activities. In particular, websites and search engines have seen significant advertising growth, a portion of which is derived from traditional cable network and satellite advertisers. In addition, there has been consolidation in the media industry and our competitors include market participants with interests in multiple media businesses which are often vertically integrated. Our online businesses compete for users and advertising in the enormously broad and diverse market of free internet-delivered services. Our commerce business competes against a wide range of competitive retailers selling similar products. Our curriculum-based video business competes with other providers of education products to schools. If our distributors have to pay higher rates to holders of sports broadcasting rights, it might be difficult for us to negotiate higher rates for distribution of our networks. Our ability to compete successfully depends on a number of factors, including our ability to consistently supply high quality and popular content, access our niche viewership with appealing category-specific programming, adapt to new technologies and distribution platforms and achieve widespread distribution. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that increasing competition will not have a material adverse effect on our business, financial condition or results of operations.

Further consolidation among cable and satellite providers could adversely affect our revenue and profitability.

Consolidation among cable and satellite operators has given the largest operators considerable leverage in their relationships with programmers, including us. In the U.S., approximately 90% of our distribution revenues come from the top 10 distributors. We currently have agreements in place with the major U.S. cable and satellite operators which expire at various times beginning in 2012 through 2020. In addition, many of the international countries and territories in which we distribute our networks also have a small number of dominant distributors. Continued consolidation within the industry could further reduce the number of distributors available to carry our programming and increase the negotiating leverage of our distributors which could adversely affect our revenue. Not only could the Company experience a reduction in affiliate revenues, but in advertising revenues, which are also impacted by affiliate subscriber amounts.

The loss of our affiliation agreements, or renewals with less advantageous terms, could cause our revenue to decline.

Because our networks are licensed on a wholesale basis to distributors such as cable and satellite operators which in turn distribute them to consumers, we are dependent upon the maintenance of affiliation agreements with these operators. These affiliation agreements generally provide for the level of carriage our networks will receive, such as channel placement and programming package inclusion (widely distributed, broader programming packages compared to lesser distributed, specialized programming packages) and for payment of a license fee to us based on the number of subscribers that receive our networks. While the number of subscribers associated with our networks impacts our ability to generate advertising revenue, these per-subscriber payments also represent a significant portion of our revenue. Our affiliation agreements generally have a limited term which varies by market and distributor, and there can be no assurance that these affiliation agreements will be renewed in the future, or renewed on terms that are favorable to us. A reduction in the license fees that we receive per subscriber or in the number of subscribers for which we are paid, including as a result of a loss or reduction in carriage for our networks, could adversely affect our distribution revenue. Such a loss or reduction in carriage could also decrease the potential audience for our programs thereby adversely affecting our advertising revenue. At the end of 2012, three of these distribution arrangements will expire. Although we intend to renew these agreements, a failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on our results of operations and financial condition. In addition, our affiliation agreements are complex and individually negotiated. If we were to disagree with one of our counterparties on the interpretation of an affiliation agreement, our relationship with that counterparty could be damaged and our business could be negatively

affected.

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Some terms of our agreements with distributors could be interpreted in a manner that could adversely affect distribution revenue payable to us under those agreements.

Some of our distribution agreements contain most favored nation clauses. These clauses typically provide that if we enter into an agreement with another distributor which contains certain more favorable terms, we must offer some of those terms to our existing distributors. We have entered into a number of distribution agreements with terms that differ in some respects from those contained in other agreements. While we believe that we have appropriately complied with the most favored nation clauses included in our distribution agreements, these agreements are complex and other parties could reach a different conclusion that, if correct, could have an adverse effect on our financial condition or results of operations.

We may pursue acquisitions and other strategic transactions to complement or expand our business that may not be successful and we may lose up to the entire value of our investment in these acquisitions and transactions.

Our success may depend on opportunities to buy other businesses or technologies that could complement, enhance or expand our current business or products or that might otherwise offer us growth opportunities. We may not be able to complete any transactions and these transactions, if executed, pose significant risks and could have a negative effect on our operations. Any transactions that we are able to identify and complete may involve a number of risks, including:

the diversion of our management's attention from our existing business to integrate the operations and personnel of the acquired or combined business or equity method investee;

possible adverse effects on our operating results during the integration process;

a high degree of risk involved in these transactions, which could become substantial over time, and higher exposure to significant financial losses if the underlying ventures are not successful; and

our possible inability to achieve the intended objectives of the transaction.

In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees. We may not be able to maintain uniform standards, controls, procedures and policies, and this may lead to operational inefficiencies.

New acquisitions, equity method investments and other transactions may require the commitment of significant capital that would otherwise be directed to investments in our existing businesses or be distributed to shareholders.

The financial performance of our equity method investments may differ from current estimates used and impact the accounting treatment of certain items.

We have equity investments in certain entities and the accounting treatment applied for these investments varies depending on a number of factors, including, but not limited to, our percentage ownership and whether we have any influence or control over the relevant entity. Under certain accounting standards, any losses experienced by these entities could adversely impact our results of operations and the value of our investment. In addition, if these entities were to fail and cease operations, we may lose the entire value of our investment and the stream of any shared profits. Some of our ventures are newly formed networks, which may require significant funding before achieving profitability.

Our business could be adversely affected by any continuation or worsening of the current economic downturn.

We derive substantial revenues from the sale of advertising on our networks. Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions, as well as budgeting and buying patterns. The current economic conditions and any continuation of these adverse conditions may adversely affect the economic prospects of advertisers and could alter current or prospective advertisers' spending priorities. A decrease in advertising expenditures would have an adverse effect on our business. A decline in economic conditions usually impacts consumer discretionary spending. A reduction in consumer spending may impact pay television subscriptions, particularly to the more expensive digital service tiers, which could lead to a decrease in our distribution fees and may reduce the rates we can charge for advertising.

Substantial leverage and debt service obligations may adversely affect us.

As of December 31, 2011, we had approximately \$4.2 billion of consolidated debt, including capital leases. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on, or other amounts due with respect to our indebtedness. In addition, we have the ability to draw down our revolving credit facility in the ordinary course, which would have the effect of increasing our indebtedness. We are also permitted, subject to certain restrictions under our existing indebtedness, to obtain additional long-term debt and working capital lines of credit to meet future financing needs. This would have the effect of increasing our total leverage.

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Our substantial leverage could have significant negative consequences on our financial condition and results of operations, including:

impairing our ability to meet one or more of the financial ratio covenants contained in our debt agreements or to generate cash sufficient to pay interest or principal, which could result in an acceleration of some or all of our outstanding debt in the event that an uncured default occurs;

increasing our vulnerability to general adverse economic and market conditions;

limiting our ability to obtain additional debt or equity financing;

requiring the dedication of a substantial portion of our cash flow from operations to service our debt, thereby reducing the amount of cash flow available for other purposes;

requiring us to sell debt or equity securities or to sell some of our core assets, possibly on unfavorable terms, to meet payment obligations;

limiting our flexibility in planning for, or reacting to, changes in our business and the markets in which we compete; and

placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

Restrictive covenants in the loan agreements for our revolving credit facility could adversely affect our business by limiting our flexibility.

The loan agreement for our revolving credit facility contains restrictive covenants, as well as requirements to comply with certain leverage and other financial maintenance tests. These covenants and requirements could limit our ability to take various actions, including incurring additional debt, guaranteeing indebtedness and engaging in various types of transactions, including mergers, acquisitions and sales of assets. These covenants could place us at a disadvantage compared to some of our competitors, who may have fewer restrictive covenants and may not be required to operate under these restrictions. Further, these covenants could have an adverse effect on our business by limiting our ability to take advantage of financing, mergers and acquisitions or other opportunities.

We are a holding company and could be unable in the future to obtain cash in amounts sufficient to service our financial obligations or meet our other commitments.

Our ability to meet our financial obligations and other contractual commitments will depend upon our ability to access cash. We are a holding company, and our sources of cash include our available cash balances, net cash from the operating activities of our subsidiaries, any dividends and interest we may receive from our investments, availability under any credit facilities that we may obtain in the future and proceeds from any asset sales we may undertake in the future. The ability of our operating subsidiaries, including Discovery Communications, LLC, to pay dividends or to make other payments or advances to us will depend on their individual operating results and any statutory, regulatory or contractual restrictions, including restrictions under our credit facility, to which they may be or may become subject. We are required to accrue and pay U.S. taxes to repatriate certain cash balances held by foreign corporations. However, we intend to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Risks associated with our international operations could harm our financial condition.

Our networks are offered worldwide, and we are focused on expanding our international operations in key markets, some of which are emerging markets. Inherent economic risks of doing business in international markets include, among other things, changes in the economic environment,

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exchange controls, tariffs and other trade barriers, longer payment cycles, foreign taxation, corruption, and, in some markets, increased risk of political instability. As we continue to expand the provision of our products and services to international markets, these risks and uncertainties may harm our results of operations.

Furthermore, some foreign markets where we and our partners operate may be more adversely affected by current economic conditions than the United States. We also may incur substantial expense as a result of changes in the existing economic or political environment in the regions where we do business, including the imposition of new restrictions. Acts of terrorism or other hostilities, or other future financial, political, economic or other uncertainties, could lead to a reduction in revenue or loss of investment, which could adversely affect our business, financial condition or results of operations.

Fluctuations in foreign exchange rates could have an adverse effect on our results of operations.

We have significant operations in a number of foreign jurisdictions and certain of our operations are conducted in foreign currencies. The value of these currencies fluctuates relative to the U.S. dollar. As a result, we are exposed to exchange rate fluctuations, which could have an adverse effect on our results of operations in a given period or in specific markets.

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Financial market conditions may impede access to or increase the cost of financing our operations and investments.

The ongoing changes in U.S. and global financial and equity markets, including market disruptions and tightening of the credit markets, may make it more difficult for us to obtain financing for our operations or investments or increase the cost of obtaining financing. In addition, our borrowing costs can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in significant part, on our performance as measured by credit metrics such as interest coverage and leverage ratios. A low rating could increase our cost of borrowing or make it more difficult for us to obtain future financing.

Our business is subject to risks of adverse laws and regulations, both domestic and foreign.

Programming services like ours, and the distributors of our services, including cable operators, satellite operators and other MVPDs, are highly regulated by U.S. federal laws and regulations issued and administered by various federal agencies, including the FCC, as well as by state and local governments, in ways that affect the daily conduct of our video programming business. See the discussion under Business Regulatory Matters above. The U.S. Congress, the FCC and the courts currently have under consideration, and may in the future adopt, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operations of our U.S. media properties or modify the terms under which we offer our services and operate. For example, any changes to the laws and regulations that govern the services or signals that are carried by cable television operators or our other distributors may result in less capacity for other programming services, such as our networks, which could adversely affect our revenue.

Similarly, the foreign jurisdictions in which our networks are offered have, in varying degrees, laws and regulations governing our businesses. Programming businesses are subject to regulation on a country-by-country basis. Changes in regulations imposed by foreign governments could also adversely affect our business, results of operations and ability to expand our operations beyond their current scope.

Piracy of our entertainment content, including digital piracy, may decrease revenue received from our programming and adversely affect our business and profitability.

The success of our business depends in part on our ability to maintain the intellectual property rights to our entertainment content. We are fundamentally a content company and piracy of our brands, DVDs, television networks and other programming, digital content and other intellectual property has the potential to significantly adversely affect us. Piracy is particularly prevalent in many parts of the world that lack copyright and other protections similar to existing law in the U.S. It is also made easier by technological advances allowing the conversion of programming into digital formats, which facilitates the creation, transmission and sharing of high quality unauthorized copies. Unauthorized distribution of copyrighted material over the Internet is a threat to copyright owners' ability to protect and exploit their property. The proliferation of unauthorized use of our content may have an adverse effect on our business and profitability because it reduces the revenue that we potentially could receive from the legitimate sale and distribution of our content.

Our directors overlap with those of Liberty and certain related persons of Advance/Newhouse, which may lead to conflicting interests.

Our eleven-person board of directors includes two persons who are currently members of the board of directors of Liberty Media Corporation (Liberty Media), three persons who are currently members of the board of directors of Liberty Global, Inc. (Liberty Global), and two persons who are currently members of the board of directors of Liberty Interactive Corporation (Liberty Interactive), all of which include John C. Malone as Chairman of the boards of those companies. In addition, our board of directors includes three designees of Advance/Newhouse, including Robert J. Miron, who was the Chairman of Advance/Newhouse until December 31, 2010, and Steven A. Miron, the Chief Executive Officer of Advance/Newhouse. The Liberty entities and the parent company of Advance/Newhouse own interests in a range of media, communications and entertainment businesses. None of the Liberty entities own any interest in us. Mr. Malone beneficially owns stock of Liberty Media representing approximately 58% of the aggregate voting power of its outstanding stock, owns shares representing approximately 35% of the aggregate voting power of Liberty Global, owns shares representing approximately 32% of the aggregate voting power of Liberty Interactive, and owns shares representing approximately 22% of the aggregate voting power (other than with respect to the election of the common stock directors) of our outstanding stock. Mr. Malone controls approximately 30% of our aggregate voting power relating to the election of the eight common stock directors, assuming that the preferred stock awarded by Advance/Newhouse has not been converted into shares of our common stock. Those of our directors who are also directors of the Liberty entities own Liberty Media, Liberty Global or Liberty Interactive stock and stock incentives and own our stock and stock incentives. Advance/Newhouse will elect three directors annually for so long as it owns a specified minimum amount of our Series A convertible preferred stock, and two of its directors are its former Chairman, Robert J. Miron, and its Chief Executive Officer, Steven A. Miron. The Advance/Newhouse Series A convertible preferred stock, which votes with our common stock on all matters other than the election of directors, represents approximately 25% of the voting power of our outstanding shares. The Series A convertible preferred stock also grants Advance/Newhouse consent rights over a range of our corporate actions, including fundamental changes to our business, the issuance of additional capital stock, mergers and business combinations and certain acquisitions and dispositions. These ownership interests and/or business positions could create, or

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appear to create, potential conflicts of interest when these individuals are faced with decisions that could have different implications for us, the Liberty entities, and/or Advance/Newhouse. For example, there may be the potential for a conflict of interest when we, on the one hand, or a Liberty entity, and/or Advance/Newhouse, on the other hand, look at acquisitions and other corporate opportunities that may be suitable for the other.

The members of our board of directors have fiduciary duties to our stockholders. Likewise, those persons who serve in similar capacities at Liberty Media, Liberty Global, Liberty Interactive, or Advance/Newhouse have fiduciary duties to those companies. Therefore, such persons may have conflicts of interest or the appearance of conflicts of interest with respect to matters involving or affecting both respective companies. Although the terms of any transactions or agreements will be established based upon negotiations between employees of the companies involved, there can be no assurance that the terms of any transactions will be as favorable to us or our subsidiaries as would be the case where the parties are at arms length.

Our overlapping directors with Liberty Media and Liberty Interactive may result in the diversion of business opportunities and other potential conflicts.

Both Liberty Media and Liberty Interactive own interests in various U.S. and international programming companies that have subsidiaries that own or operate domestic or foreign programming services that may compete with the programming services we offer. We have no rights in respect of U.S. or international programming opportunities developed by or presented to the subsidiaries of Liberty Media and Liberty Interactive, and the pursuit of these opportunities by such subsidiaries may adversely affect our interests and those of our stockholders. Because we and these Liberty entities have overlapping directors, the pursuit of business opportunities may serve to intensify the conflicts of interest or appearance of conflicts of interest faced by the respective management teams. Our charter provides that none of our directors or officers will be liable to us or any of our subsidiaries for breach of any fiduciary duty by reason of the fact that such individual directs a corporate opportunity to another person or entity (including Liberty Media or Liberty Interactive), for which such individual serves as a director or officer, or does not refer or communicate information regarding such corporate opportunity to us or any of our subsidiaries, unless (x) such opportunity was expressly offered to such individual solely in his or her capacity as a director or officer of us or any of our subsidiaries and (y) such opportunity relates to a line of business in which we or any of our subsidiaries is then directly engaged.

The personal educational media, lifelong learning, and travel and automotive industry investments by John S. Hendricks, a common stock director and our Founder, may conflict with or compete with our business activities.

Our Founder, John S. Hendricks, manages his non-Discovery, personal business investments through Hendricks Investment Holdings LLC (HIH), a Delaware limited liability company of which he is the sole owner and member. HIH owns a travel club and travel-related properties including a resort in Gateway, Colorado and has created a learning academy for guests that includes online and advanced media offerings in the area of informal and lifelong learning. Certain video productions and offerings of this academy may compete with our educational media offerings. We and the academy may enter into a business arrangement for the offering of our video products for sale by the academy and/or for the joint-production of new educational media products or coproduction agreements for programming to be aired on our networks, such as the Curiosity series. In addition, from time to time, HIH or its subsidiaries may enter into transactions with us or our subsidiaries. For example, through HIH, Mr. Hendricks owns a number of business interests in the automotive field, some of which are involved in programming offered by us, in particular on our Velocity network. Although the terms of any such transactions or agreements will be established based upon negotiations between employees of the companies involved, there can be no assurance that the terms of any such transactions will be as favorable to us or our subsidiaries as would be the case where the parties are at arms length.

It may be difficult for a third party to acquire us, even if doing so may be beneficial to our stockholders.

Certain provisions of our charter and bylaws may discourage, delay or prevent a change in control that a stockholder may consider favorable. These provisions include the following:

authorizing a capital structure with multiple series of common stock: a Series B that entitles the holders to ten votes per share, a Series A that entitles the holders to one vote per share and a Series C that, except as otherwise required by applicable law, entitles the holders to no voting rights;

authorizing the Series A convertible preferred stock with special voting rights, which prohibits us from taking any of the following actions, among others, without the prior approval of the holders of a majority of the outstanding shares of such stock:

increasing the number of members of the Board of Directors above 11;

making any material amendment to our charter or bylaws;

engaging in a merger, consolidation or other business combination with any other entity;

appointing or removing our Chairman of the Board or our Chief Executive Officer;

authorizing the issuance of blank check preferred stock, which could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;

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classifying our common stock directors with staggered three year terms and having three directors elected by the holders of the Series A convertible preferred stock, which may lengthen the time required to gain control of our board of directors;

limiting who may call special meetings of stockholders;

prohibiting stockholder action by written consent (subject to certain exceptions), thereby requiring stockholder action to be taken at a meeting of the stockholders;

establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;

requiring stockholder approval by holders of at least 80% of our voting power or the approval by at least 75% of our board of directors with respect to certain extraordinary matters, such as a merger or consolidation, a sale of all or substantially all of our assets or an amendment to our charter;

requiring the consent of the holders of at least 75% of the outstanding Series B common stock (voting as a separate class) to certain share distributions and other corporate actions in which the voting power of the Series B common stock would be diluted by, for example, issuing shares having multiple votes per share as a dividend to holders of Series A common stock; and

the existence of authorized and unissued stock which would allow our board of directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us.

We have also adopted a shareholder rights plan in order to encourage anyone seeking to acquire us to negotiate with our board of directors prior to attempting a takeover. While the plan is designed to guard against coercive or unfair tactics to gain control of us, the plan may have the effect of making more difficult or delaying any attempts by others to obtain control of us.

Holders of any single series of our common stock may not have any remedies if any action by our directors or officers has an adverse effect on only that series of common stock.

Principles of Delaware law and the provisions of our charter may protect decisions of our board of directors that have a disparate impact upon holders of any single series of our common stock. Under Delaware law, the board of directors has a duty to act with due care and in the best interests of all of our stockholders, including the holders of all series of our common stock. Principles of Delaware law established in cases involving differing treatment of multiple classes or series of stock provide that a board of directors owes an equal duty to all common stockholders regardless of class or series and does not have separate or additional duties to any group of stockholders. As a result, in some circumstances, our directors may be required to make a decision that is adverse to the holders of one series of common stock. Under the principles of Delaware law referred to above, stockholders may not be able to challenge these decisions if our board of directors is disinterested and adequately informed with respect to these decisions and acts in good faith and in the honest belief that it is acting in the best interests of all of our stockholders.

The exercise by Advance/Newhouse of its registration rights may cause our stock price to decline significantly, even if our business is doing well.

Advance/Newhouse has been granted registration rights covering all of the shares of common stock issuable upon conversion of the convertible preferred stock held by Advance/Newhouse. Advance/Newhouse's preferred stock is currently convertible into shares of our Series A and Series C common stock on a 1-for-1 basis, subject to certain anti-dilution adjustments. The registration rights, which are immediately exercisable, are transferrable with the sale or transfer by Advance/Newhouse of blocks of shares representing 10% or more of the preferred stock it holds. The exercise of the registration rights, and subsequent sale of possibly large amounts of our common stock in the public market, could materially and adversely affect the market price of our common stock.

John C. Malone and Advance/Newhouse each have significant voting power with respect to corporate matters considered by our stockholders.

For corporate matters other than the election of directors, John C. Malone and Advance/Newhouse each beneficially own shares of our stock representing approximately 22% and 25%, respectively, of the aggregate voting power represented by our outstanding stock. With respect to the election of directors, Mr. Malone controls approximately 30% of the aggregate voting power relating to the election of the eight common stock directors (assuming that the convertible preferred stock owned by Advance/Newhouse (the A/N Preferred Stock) has not been converted into shares of our common stock). The A/N Preferred Stock carries with it the right to designate the three preferred stock directors to our board (subject to certain conditions), but will not vote with respect to the election of the eight common stock directors. Also, under the terms of the A/N Preferred Stock, Advance/Newhouse has special voting rights as to certain enumerated matters, including material amendments to the restated charter and bylaws, fundamental changes in our business, mergers and other business combinations, certain acquisitions and dispositions and future issuances of capital stock. Although there is no stockholder agreement, voting agreement or any similar arrangement between Mr. Malone and Advance/Newhouse, by virtue of their respective holdings, each of Mr. Malone and Advance/Newhouse likely have significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders.

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ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

We own and lease 1.6 million square feet of building space for the conduct of our businesses at 49 locations throughout the world. In the U.S. alone, we own and lease approximately 597,000 and 775,000 square feet of building space, respectively, at 19 locations. Principal locations in the U.S. include: (i) our world headquarters located at One Discovery Place, Silver Spring, Maryland, where approximately 543,000 square feet is used for executive offices and general office space by our U.S. Networks, International Networks, and Education and Other segments, (ii) general office space at 850 Third Avenue, New York, New York, where approximately 132,000 square feet is primarily used for sales by our U.S. Networks segment, (iii) general office space and a production and post-production facility located at 8045 Kennett Street, Silver Spring, Maryland, where approximately 149,000 square feet is primarily used by our U.S. Networks segment, (iv) general office space and a production and post-production facility at 1619 Broadway, New York, New York, where approximately 69,000 square feet is used by our Education and Other segment, (v) general office space located at 10100 Santa Monica Boulevard, Los Angeles, California, where approximately 58,000 square feet is primarily used for sales by our U.S. Networks segment, (vi) general office space at 6505 Blue Lagoon Drive, Miami, Florida, where approximately 91,000 square feet is primarily used by our International Networks segment, and (vii) an origination facility at 45580 Terminal Drive, Sterling, Virginia, where approximately 54,000 square feet of space is used to manage the distribution of domestic network television programming by our U.S. Networks segment.

We also lease over 270,000 square feet of building space at 30 locations outside of the U.S., including the U.K., Germany and Singapore.

Each property is considered to be in good condition, adequate for its purpose, and suitably utilized according to the individual nature and requirements of the relevant operations. Our policy is to improve and replace property as considered appropriate to meet the needs of the individual operation.

ITEM 3. Legal Proceedings.

We experience routine litigation in the normal course of our business. We believe that none of the pending litigation will have a material adverse effect on our consolidated financial condition, future results of operations, or liquidity.

ITEM 4. Mine Safety Disclosures.

Not applicable.

Executive Officers of Discovery Communications, Inc.

Pursuant to General Instruction G(3) to Form 10-K, the information regarding our executive officers required by Item 401(b) of Regulation S-K is hereby included in Part I of this report.

The following table sets forth the name and date of birth of each of our executive officers and the office held by such officer as of February 10, 2012.

Name	Position
John S. Hendricks Born March 29, 1952	Chairman and a common stock director. Mr. Hendricks is our Founder and has served as Chairman of Discovery since September 1982. Mr. Hendricks served as our Chief Executive Officer from September 1982 to June 2004; and our Interim Chief Executive Officer from December 2006 to January 2007.
David M. Zaslav Born January 15, 1960	President, Chief Executive Officer and a common stock director. Mr. Zaslav has served as our President and Chief Executive Officer since January 2007. Mr. Zaslav served as President, Cable & Domestic Television and New Media Distribution of NBC Universal, Inc., a media and entertainment company (NBC), from May 2006 to December 2006. Mr. Zaslav served as Executive Vice President of NBC, and President of NBC Cable, a division of NBC, from October 1999 to May 2006. Mr. Zaslav was a director of Tivo Inc. from 2000 to 2010.

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Bradley E. Singer

Born July 11, 1966

Senior Executive Vice President, Chief Financial Officer. Mr. Singer has served as our Senior Executive Vice President, Chief Financial Officer since July 2008 and served as our Treasurer from February 2009 to September 2011. Mr. Singer served as Chief Financial Officer and Treasurer of American Tower Corporation, a wireless and broadcast communications infrastructure company, from December 2001 to June 2008. Mr. Singer has announced that he will resign from his position effective March 31, 2012.

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Name	Position
<p>Mark G. Hollinger</p> <p>Born August 26, 1959</p>	<p>President and Chief Executive Officer of Discovery Networks International. Mr. Hollinger became President and Chief Executive Officer of Discovery Networks International in December 2009. Prior to that, Mr. Hollinger served as our Chief Operating Officer and Senior Executive Vice President, Corporate Operations from January 2008 through December 2009; and as our Senior Executive Vice President, Corporate Operations from January 2003 through December 2009. Mr. Hollinger served as our General Counsel from 1996 to January 2008, and as President of our Global Businesses and Operations from February 2007 to January 2008.</p>
<p>Adria Alpert-Romm</p> <p>Born March 2, 1955</p>	<p>Senior Executive Vice President, Human Resources. Ms. Romm has served as our Senior Executive Vice President of Human Resources since March 2007. Ms. Romm served as Senior Vice President of Human Resources of NBC from 2004 to 2007. Prior to 2004, Ms. Romm served as a Vice President in Human Resources for the NBC TV network and NBC staff functions.</p>
<p>Bruce L. Campbell</p> <p>Born November 26, 1967</p>	<p>Chief Development Officer, General Counsel and Secretary. Mr. Campbell became Chief Development Officer in August 2010 and our General Counsel and Secretary in December 2010. Prior to that, Mr. Campbell served as our President, Digital Media & Corporate Development from March 2007 through August 2010. Mr. Campbell served as Executive Vice President, Business Development of NBC from December 2005 to March 2007, and Senior Vice President, Business Development of NBC from January 2003 to November 2005.</p>
<p>Thomas R. Colan</p> <p>Born July 21, 1955</p>	<p>Executive Vice President, Chief Accounting Officer. Mr. Colan has served as our Executive Vice President, Chief Accounting Officer since March 2008. Mr. Colan served as Senior Vice President Controller and Treasurer at America Online/Time Warner from September 2001 to March 2008.</p>

Table of Contents**PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our Series A common stock, Series B common stock and Series C common stock are listed and traded on The NASDAQ Global Select Market (NASDAQ) under the symbols DISCA, DISCB and DISCK, respectively. Our common stock began trading on NASDAQ on September 18, 2008. The following table sets forth, for the periods indicated, the range of high and low sales prices per share of our Series A common stock, Series B common stock and Series C common stock as reported on NASDAQ.

	Series A Common Stock		Series B Common Stock		Series C Common Stock	
	High	Low	High	Low	High	Low
2011						
Fourth quarter	\$ 45.14	\$ 35.65	\$ 47.26	\$ 36.48	\$ 41.81	\$ 33.19
Third quarter	\$ 42.77	\$ 34.75	\$ 42.32	\$ 32.05	\$ 39.74	\$ 31.63
Second quarter	\$ 45.81	\$ 39.50	\$ 45.65	\$ 39.37	\$ 40.46	\$ 35.17
First quarter	\$ 44.33	\$ 37.62	\$ 43.83	\$ 38.40	\$ 39.58	\$ 32.81
2010						
Fourth quarter	\$ 45.52	\$ 39.62	\$ 44.52	\$ 41.40	\$ 39.71	\$ 34.54
Third quarter	\$ 44.39	\$ 34.70	\$ 44.56	\$ 35.62	\$ 39.14	\$ 30.14
Second quarter	\$ 40.13	\$ 33.48	\$ 40.52	\$ 33.82	\$ 34.58	\$ 28.45
First quarter	\$ 34.36	\$ 27.69	\$ 34.18	\$ 28.14	\$ 30.14	\$ 24.96

As of February 10, 2012, there were approximately 2,104, 115 and 2,211 record holders of our Series A common stock, Series B common stock and Series C common stock, respectively. These amounts do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each institution as one shareholder.

We have not paid any cash dividends on our Series A common stock, Series B common stock or Series C common stock, and we have no present intention to do so. Payment of cash dividends, if any, will be determined by our Board of Directors in consideration of our earnings, financial condition and other relevant considerations. Our credit facility restricts our ability to declare dividends in certain situations.

Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered securities during the three months ended December 31, 2011.

The following table presents information about our repurchases of common stock that were made through open market transactions during the three months ended December 31, 2011.

Period	Total Number of Shares Purchased	Average Price Paid per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾⁽²⁾
Series C common stock:				
October 1, 2011 – October 31, 2011	2,709,000	\$ 37.36	2,709,000	\$ 1,061,422,014
November 1, 2011 – November 30, 2011	2,081,048	\$ 38.96	2,081,048	\$ 980,345,913
December 1, 2011 – December 31, 2011	2,207,809	\$ 37.31	2,207,809	\$ 897,968,833
Total	6,997,857	\$ 37.82	6,997,857	\$ 897,968,833

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- (1) The amounts do not give effect to any fees, commissions or other costs associated with repurchases of shares.
- (2) On August 3, 2010, we announced a stock repurchase program, pursuant to which we are authorized to purchase up to \$1.0 billion of our common stock. On July 27, 2011, the Company's Board of Directors authorized the Company to purchase an additional \$1.0 billion of its common stock under the stock repurchase program. In total, the Company has been authorized to purchase up to \$2.0 billion of its common stock under the repurchase program. We expect to fund repurchases through a combination

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of cash on hand, cash generated by operations, borrowings under our revolving credit facility and future financing transactions. Under the program, management is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to stock price, business conditions, market conditions and other factors. The repurchase program does not have an expiration date. The above repurchases were funded using cash on hand. There were no repurchases of our Series A common stock or Series B common stock during the three months ended December 31, 2011.

Stock Performance Graph

The following graph sets forth the cumulative total shareholder return on our Series A common stock, Series B common stock and Series C common stock as compared with the cumulative total return of the companies listed in the Standard and Poor's 500 Stock Index (S&P 500 Index) and a peer group of companies comprised of CBS Corporation Class B common stock, News Corporation Class A common stock, Scripps Network Interactive, Inc., Time Warner, Inc., Viacom, Inc. Class B common stock and The Walt Disney Company. The graph assumes \$100 originally invested on September 18, 2008, the date upon which our common stock began trading, in each of our Series A common stock, Series B common stock and Series C common stock, the S&P 500 Index, and the stock of our peer group companies, including reinvestment of dividends, for the period September 18, 2008 through December 31, 2008 and the years ended December 31, 2009, 2010 and 2011.

	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011
DISCA	\$ 102.53	\$ 222.09	\$ 301.96	\$ 296.67
DISCB	\$ 78.53	\$ 162.82	\$ 225.95	\$ 217.56
DISCK	\$ 83.69	\$ 165.75	\$ 229.31	\$ 235.63
S&P 500	\$ 74.86	\$ 92.42	\$ 104.24	\$ 104.23
Peer Group	\$ 68.79	\$ 100.70	\$ 121.35	\$ 138.19

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Equity Compensation Plan Information

Information regarding securities authorized for issuance under equity compensation plans will be set forth in our definitive Proxy Statement for our 2012 Annual Meeting of Stockholders under the caption Securities Authorized for Issuance Under Equity Compensation Plans, which is incorporated herein by reference.

ITEM 6. Selected Financial Data.

The table set forth below presents our selected financial information for each of the past five years. The selected statement of operations information for each of the three years ended December 31, 2011 and the selected balance sheet information as of December 31, 2011 and 2010 have been derived from and should be read in conjunction with the information in Item 7, Management's Discussion and Analysis of Results of Operations and Financial Position, the audited consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, and other financial information included elsewhere in this Annual Report on Form 10-K. The selected statement of operations information for each of the two years ended December 31, 2008 and 2007 and the selected balance sheet information as of December 31, 2009, 2008 and 2007 have been derived from financial statements not included in the Annual Report on Form 10-K.

We were formed in connection with DHC and Advance/Newhouse combining their respective ownership interests in DCH and exchanging those interests with and into Discovery, which was consummated on September 17, 2008. Prior to our formation, DCH was a stand-alone private company, which was owned approximately 66 2/3% by DHC and 33 1/3% by Advance/Newhouse. As a result of this transaction we became the successor reporting entity to DHC.

The selected financial information set forth below reflects our formation as though it was consummated on January 1, 2008. Accordingly, the selected statement of operations information for each of the three years ended December 31, 2011 and the selected balance sheet information as of December 31, 2011, 2010, 2009 and 2008 reflect the consolidated results of operations and financial position of Discovery. The selected statement of operations information for the year ended December 31, 2008 reflects the combined results of operations of DHC and DCH for the period January 1, 2008 through September 17, 2008 and the consolidated results of operations for Discovery for the period September 18, 2008 through December 31, 2008. The selected statement of operations information of the year ended December 31, 2007 and the selected balance sheet information as of December 31, 2007 reflect the consolidated results of operations and financial position of DHC. Prior to our formation, DHC accounted for its investment in DCH using the equity method. Therefore, DHC's results of operations and cash flows for the period January 1, 2008 through September 17, 2008 have been adjusted to eliminate the portion of DCH's earnings originally recorded by DHC in its stand-alone financial statements under the equity method. Additionally, DCH's earnings for the period January 1, 2008 through September 17, 2008 have been adjusted to allocate a portion of its earnings to Advance/Newhouse.

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	2011	2010	2009	2008	2007
	(in millions, except per share amounts)				
Selected Statement of Operations Information:					
Revenues	\$ 4,235	\$ 3,773	\$ 3,458	\$ 3,382	\$ 76
Costs of revenues, excluding depreciation and amortization	1,233	1,073	1,044	1,002	60
Operating income (loss)	1,799	1,360	1,274	1,064	(8)
DHC's equity in earnings of DCH					142
Income from continuing operations, net of taxes	1,134	647	570	404	86
(Loss) income from discontinued operations, net of taxes	(1)	22	(6)	40	(154)
Net income (loss)	1,133	669	564	444	(68)
Net income attributable to noncontrolling interests	(1)	(16)	(15)	(127)	
Net income (loss) attributable to Discovery Communications, Inc.	1,132	653	549	317	(68)
Stock dividends to preferred interests		(1)	(8)		
Net income (loss) available to Discovery Communications, Inc. stockholders	1,132	652	541	317	(68)
Income per share from continuing operations available to Discovery Communications, Inc. stockholders:					
Basic	\$ 2.82	\$ 1.48	\$ 1.29	\$ 0.86	\$ 0.31
Diluted	\$ 2.80	\$ 1.47	\$ 1.29	\$ 0.86	\$ 0.31
(Loss) income per share from discontinued operations available to Discovery Communications, Inc. stockholders:					
Basic	\$	\$ 0.05	\$ (0.01)	\$ 0.12	\$ (0.55)
Diluted	\$	\$ 0.05	\$ (0.01)	\$ 0.12	\$ (0.55)
Net income (loss) per share available to Discovery Communications, Inc. stockholders:					
Basic	\$ 2.82	\$ 1.53	\$ 1.28	\$ 0.99	\$ (0.24)
Diluted	\$ 2.80	\$ 1.52	\$ 1.27	\$ 0.98	\$ (0.24)
Weighted average shares outstanding:					
Basic	401	425	423	321	281
Diluted	405	429	425	322	281
Selected Balance Sheet Information:					
Cash and cash equivalents	\$ 1,048	\$ 466	\$ 623	\$ 94	\$ 8
DHC's investment in DCH					3,272
Goodwill	6,291	6,434	6,433	6,891	1,782
Total assets	11,913	11,019	10,952	10,481	5,866
Long-term debt:					
Current portion	26	20	38	458	
Long-term portion	4,219	3,598	3,457	3,331	
Total liabilities	5,394	4,786	4,683	4,875	1,371
Redeemable noncontrolling interests			49	49	
Equity attributable to Discovery Communications, Inc.	6,517	6,225	6,197	5,536	4,495
Equity attributable to noncontrolling interests	2	8	23	21	
Total equity	6,519	6,233	6,220	5,557	4,495

Income (loss) per share amounts may not sum since each is calculated independently.

Our results of operations for 2011 include a \$112 million income tax benefit related to foreign tax credits and a \$129 million gain on the disposition of the Discovery Health network as a contribution to OWN upon the launch of the network. As we continue to be involved in the operations of OWN subsequent to its launch, the results of operations of the Discovery Health network have not been presented as discontinued operations. Therefore, our results of operations for 2010, 2009 and 2008 include the gross revenues and expenses of the Discovery Health network. For periods subsequent to January 1, 2011, our results of operations include only our proportionate share of OWN's net operating results under the equity method of accounting. The Discovery Health network was part

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of DCH prior to our formation and, therefore, did not impact the 2007 financial information in the above table.

Our results of operations for 2010 include a \$136 million loss on the extinguishment of debt.

On September 1, 2010, we sold our Antenna Audio business for net proceeds of \$24 million in cash, which resulted in a \$9 million gain, net of taxes. The operating results of Antenna Audio have been reported as discontinued operations for 2011, 2010, 2009 and 2008. Antenna Audio was previously a business of DCH prior to our formation and, therefore, did not impact the 2007 financial information in the above table.

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On May 22, 2009, we sold a 50% interest in the U.S. Discovery Kids network to Hasbro and formed The Hub. Both parties then contributed their interests in the U.S. Discovery Kids network to a newly formed joint venture. We recognized a pretax gain of \$252 million in connection with this transaction. As we continue to be involved in the operations of the joint venture subsequent to its formation, the results of operations of the U.S. Discovery Kids network have not been presented as discontinued operations. Therefore, our results of operations for January 1, 2009 through May 22, 2009 and 2008 include the gross revenues and expenses of the U.S. Discovery Kids network. For periods subsequent to May 22, 2009, our results of operations include only our proportionate share of the U.S. Discovery Kids network net operating results under the equity method of accounting. The U.S. Discovery Kids network was part of DCH prior to our formation and, therefore, did not impact the 2007 financial information in the above table.

On September 17, 2008, DHC concluded the spin-off of Ascent Capital Group (ACG) in connection with our formation, which did not result in a gain or loss. The operating results of ACG have been reported as discontinued operations for 2008 and 2007.

Table of Contents**ITEM 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.**

Management's discussion and analysis of results of operations and financial condition is a supplement to and should be read in conjunction with the accompanying consolidated financial statements and related notes. This section provides additional information regarding Discovery Communications, Inc.'s (Discovery, Company, we, us, or our) businesses, recent developments, results of operations, cash flows, financial condition, contractual commitments and critical accounting policies.

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, financial prospects and anticipated sources and uses of capital. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated: the inability of advertisers or affiliates to remit payment to us in a timely manner or at all; general economic and business conditions; industry trends, including the timing of, and spending on, feature film, television and television commercial production; spending on domestic and foreign television advertising and foreign first-run and existing content libraries; the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate; continued consolidation of broadband distribution and production companies; uncertainties inherent in the development of new business lines and business strategies; financial performance of our equity method investees may differ from current estimates used and impact our results of operations; integration of acquired businesses; uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies; changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand (VOD), internet protocol television, mobile personal devices and personal tablets and their impact on television advertising revenue; rapid technological changes; future financial performance, including availability, terms, and deployment of capital; fluctuations in foreign currency exchange rates and political unrest in international markets; the ability of suppliers and vendors to deliver products, equipment, software and services; the outcome of any pending or threatened litigation; availability of qualified personnel; the possibility of an industry-wide strike or other job action affecting a major entertainment industry union, or the duration of any existing strike or job action; changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission and adverse outcomes from regulatory proceedings; changes in income taxes applicable to our operations due to regulatory changes or changes in our corporate structure; changes in the nature of key strategic relationships with partners and equity method investee partners; competitor responses to our products and services and the products and services of the entities in which we have interests; threatened terrorist attacks and military action; reduced access to capital markets or significant increases in costs to borrow; a failure to secure affiliate agreements or renewal of such agreements on less favorable terms; and a reduction of advertising revenue associated with unexpected reductions in the number of subscribers. For additional risk factors, refer to Item 1A, Risk Factors. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

BUSINESS OVERVIEW

We are a global nonfiction media and entertainment company that provides programming across multiple distribution platforms throughout the world. We distribute customized programming, in over 40 languages, in the U.S. and over 200 other countries and territories. Our global portfolio of networks includes prominent television brands such as Discovery Channel, one of the first nonfiction networks and our most widely distributed global brand, TLC and Animal Planet. We also have a diversified portfolio of websites and other digital media services, develop and sell curriculum-based products and services, and provide postproduction audio services.

Our objectives are to invest in content for our networks to build viewership, optimize distribution revenue, capture advertising sales, and create or reposition additional branded channels and businesses that can sustain long-term growth and occupy a desired programming niche with strong consumer appeal. Our strategy is to optimize the distribution, ratings, and profit potential of each of our branded networks. In addition to growing distribution and advertising revenue for our branded networks, we are extending content distribution across new platforms, including brand-aligned websites, mobile devices, VOD, broadband channels and on-line streaming, which provide promotional platforms for our television programming and serve as additional outlets for advertising and distribution revenue.

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Our media content is designed to target key audience demographics and the popularity of our programming creates a reason for advertisers to purchase commercial time on our channels. Audience ratings are a key driver in generating advertising revenue and creating demand on the part of cable television operators, DTH satellite operators, and other content distributors to deliver our programming to their customers.

We classify our operations in three segments: U.S. Networks, consisting principally of domestic television networks, websites, and other digital media services; International Networks, consisting primarily of international television networks and websites; and Education and Other, consisting principally of curriculum-based product and service offerings and postproduction audio services.

U.S. Networks

U.S. Networks generated net revenues of \$2,619 million during 2011, which represented 62% of our total consolidated net revenues. This segment wholly owns and operates nine national television networks, including fully distributed television networks such as Discovery Channel, TLC and Animal Planet. In addition, this segment holds our interests in OWN, The Hub, and 3net, which are networks operated by equity method investees. We account for our interests in the underlying ventures using the equity method and services provided to them as other revenue.

U.S. Networks generates revenues from fees charged to distributors of our network content, which include cable and DTH satellite service providers and digital distributors, from advertising sold on our television networks and other arrangements. Distribution fees are largely based on the number of subscribers receiving our programming. Distribution revenues are recognized net of incentives we provide to operators in exchange for carrying our networks. Incentives may include launch incentives, providing the channel to the distributor for free for a predetermined length of time, or both. Launch incentives are capitalized as assets upon launch of our network by the operator and are amortized on a straight-line basis as a reduction of revenue over the term of the contract, including free periods. Advertising revenues are dependent upon a number of factors including the number of subscribers to our channels, viewership demographics, the popularity of our programming, and our ability to sell commercial time over a group of channels. Our U.S. Networks segment also generates income to offset expenses associated with providing affiliate and advertising sales representation and network services for equity method investee networks and the licensing of our brands for consumer products. During 2011, distribution, advertising, and other revenues were 45%, 51%, and 4%, respectively, of total net revenues for this segment. The Discovery Channel, TLC and Animal Planet collectively generated 72% of U.S. Networks' total net revenues.

U.S. Networks' largest single cost is content expense, including content amortization, content impairments and production costs. U.S. Networks amortizes the cost of capitalized content rights based on the proportion that current estimated revenues bear to the estimated remaining total lifetime revenues, which normally results in an accelerated amortization method over the estimated useful lives. Certain networks utilize a straight-line method of amortization over the estimated useful lives of the content.

On January 1, 2011, we contributed the domestic Discovery Health network to OWN. The contribution included affiliate relationships with cable operators and DTH satellite service providers, content licenses, and website user information. The contribution did not impact our ownership interest, voting control, or governance rights related to OWN, but was accompanied by an equitable partner contribution to OWN. We recorded our contribution at fair value, which resulted in a pretax gain of \$129 million. The gain resulted in \$27 million of tax expense. Following the contribution, we no longer consolidate the domestic Discovery Health network. Additional information is discussed in Note 4 to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

International Networks

International Networks generated net revenues of \$1,455 million during 2011, which represented 34% of our total consolidated net revenues. International Networks consists of national and pan-regional television networks and a portfolio of websites. The Discovery Channel, Animal Planet and TLC lead the International Networks' portfolio of television networks, which are distributed in virtually every pay-television market in the world through an infrastructure that includes operational centers in London, Singapore, and Miami. Of U.S. television companies, our International Networks segment has one of the largest international distribution platforms of television networks with one to twelve networks in more than 200 countries and territories. International Networks also has free to air networks in the U.K., Germany, Italy and Spain. At December 31, 2011, International Networks operated over 150 unique distribution feeds in over 40 languages with channel feeds customized according to language needs and advertising sales opportunities.

The International Networks segment continues to pursue international expansion in select areas. For example, in 2010, we began the international rollout of TLC as a female-targeted global flagship and have launched TLC or a similarly branded network which uses TLC content in over 150 countries and territories. During 2011, the Company acquired a factual entertainment production company in the U.K. and a cable channel in Latin America to further improve the global strength of TLC.

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On November 12, 2010, we acquired the remaining 50% interest in substantially all of the international Animal Planet and Liv (formerly People + Arts) networks from the BBC, increasing our ownership of these networks to 100%. Previously, these networks were operated as 50-50 ventures between us and the BBC. We determined that we were the primary beneficiary of the ventures, and therefore, consolidated them prior to the acquisition. With this acquisition, we wholly own and operate most of our international television networks, except for channels in Japan and Canada, which are operated by equity method investees that have strategically important local investment partners. On February 17, 2010, we acquired all interests in an uplink facility in the U.K., including its employees and operations, for a payment of \$35 million. The uplink facility has been included in the International Networks segment operating results since the date of acquisition.

On September 1, 2010, we sold Antenna Audio Limited, which was a component of our International Networks segment, which is reported as discontinued operations for all periods presented.

Similar to our U.S. Networks segment, the primary sources of revenues for International Networks are fees charged to operators who distribute our networks, which primarily include cable and DTH satellite service providers, and from advertising sold on our television networks. Distribution fees are based on the number of subscribers receiving our programming and are recognized net of launch incentives. International television markets vary in their stages of development. Some, notably the U.K., are more advanced digital multi-channel television markets, while others remain in the analog environment with varying degrees of investment from operators in expanding channel capacity or converting to digital. Advertising revenues are dependent upon a number of factors including the stage of development of pay television markets, number of subscribers to our channels, viewership demographics, the popularity of our programming, and our ability to sell commercial time over a group of channels. In developing pay television markets, we expect advertising revenue growth will result from subscriber growth, our localization strategy, and the shift of advertising spending from broadcast to pay television. In relatively mature markets, such as Western Europe, increased market penetration and distribution are unlikely to drive rapid growth in those markets. Instead, growth in advertising sales will come from increasing viewership and advertising pricing on our existing pay television networks and launching new services, either in pay television or free television environments. During 2011, distribution, advertising, and other revenues were 61%, 35%, and 4%, respectively, of total net revenues for this segment.

International Networks' largest cost is content expense. International Networks executes a localization strategy by offering programming from U.S. Networks, customized content, and localized schedules via our distribution feeds. While our International Networks segment maximizes the use of programming from our U.S. Networks segment, we also develop local programming that is tailored to individual market preferences. International Networks amortizes the cost of capitalized content rights based on the proportion that current estimated revenues bear to the estimated remaining total lifetime revenues, which results in either an accelerated method or a straight-line method over the estimated useful lives.

Effective January 1, 2011, we realigned our International Networks reporting structure into the following four regions: Western Europe, which includes the U.K. and western European countries; Central and Eastern Europe, the Middle East, and Africa (CEEMEA); Latin America; and Asia-Pacific. Previously, International Networks' regional operations reported into the following four regions: the U.K.; Europe (excluding the U.K.), the Middle East, and Africa (EMEA); Asia-Pacific; and Latin America. This realignment did not impact our consolidated financial statements other than to change the regions in which we describe our operating results for the International Networks segment.

Education and Other

Education and Other generated net revenues of \$162 million during 2011, which represented 4% of our total consolidated net revenues. Our Education and Other segment is primarily comprised of curriculum-based product and service offerings and postproduction audio services. Our education business generates revenues primarily from subscriptions charged to K-12 schools for access to an online suite of curriculum-based VOD tools, professional development services, student assessment tools, publication of hardcopy curriculum-based content, corporate partnerships, and global brand and content licensing. Other businesses primarily include postproduction audio services that are provided to major motion picture studios, independent producers, broadcast networks, cable channels, advertising agencies, and interactive producers.

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Following the contribution of the domestic Discovery Health network to OWN on January 1, 2011, we no longer consolidate the network. The comparability of our results of operations between 2011 and 2010 has been impacted by the deconsolidation. Accordingly, to assist the reader in better understanding the changes in our results of operations, the following table presents the results of operations of the Discovery Health network for 2010 (in millions).

	Year Ended December 31, 2010
Revenues:	
Distribution	\$ 15
Advertising	62
Other	1
Total revenues	78
Costs of revenues	32
Selling, general and administrative	13
Restructuring and impairment charges	1
Total operating expenses	46
Operating income	\$ 32

Reclassifications

We expanded the types of revenue included in distribution revenue in our consolidated statements of operations during 2011 and reclassified related prior year amounts. Distribution revenues include fees charged for the right to view Discovery network branded content made available to customers through a variety of distribution platforms and viewing devices. The largest component of distribution revenue continues to be fees charged to cable, DTH satellite and telecommunications service providers for distribution rights to Discovery's television networks. Distribution revenue also includes fees charged for certain licensing arrangements, including those for digital streaming of library content, which totaled \$109 million in 2011. These fees, which totaled \$25 million in 2010, were previously classified as other revenue and have been reclassified to distribution revenue to conform to the current presentation.

Table of Contents**Consolidated Results of Operations 2011 vs. 2010**

Our consolidated results of operations for 2011 and 2010 were as follows (in millions).

	Year Ended December 31,		% Change
	2011	2010	
Revenues:			
Distribution	\$ 2,070	\$ 1,832	13%
Advertising	1,852	1,645	13%
Other	313	296	6%
Total revenues	4,235	3,773	12%
Costs of revenues, excluding depreciation and amortization	1,233	1,073	15%
Selling, general and administrative	1,183	1,185	%
Depreciation and amortization	119	130	(8)%
Restructuring and impairment charges	30	25	20%
Gains on dispositions	(129)		NM
Total costs and expenses	2,436	2,413	1%
Operating income	1,799	1,360	32%
Interest expense, net	(208)	(203)	2%
Loss on extinguishment of debt		(136)	(100)%
Other expense, net	(32)	(86)	(63)%
Income from continuing operations before income taxes	1,559	935	67%
Provision for income taxes	(425)	(288)	48%
Income from continuing operations, net of taxes	1,134	647	75%
(Loss) income from discontinued operations, net of taxes	(1)	22	NM
Net income	1,133	669	69%
Net income attributable to noncontrolling interests	(1)	(16)	(94)%
Net income attributable to Discovery Communications, Inc.	1,132	653	73%
Stock dividends to preferred interests		(1)	(100)%
Net income available to Discovery Communications, Inc. stockholders	\$ 1,132	\$ 652	74%

NM = not meaningful.

Revenues

Distribution revenues increased \$238 million. Excluding the impact of foreign currency fluctuations and the effect of no longer consolidating the Discovery Health network, distribution revenues increased 12%, or \$226 million. During 2011, we extended and expanded an agreement to license selected library titles. As a result of titles delivered under this and similar agreements, license revenue increased \$84 million. The remaining distribution revenue increase was attributable to contractual rate increases and growth of pay television services and subscribers.

Advertising revenues increased \$207 million. Excluding the impact of foreign currency fluctuations and the effect of no longer consolidating the Discovery Health network, advertising revenues increased 16%, or \$253 million. Increases were primarily due to worldwide increases in pricing, higher sellouts at U.S. Networks, and international expansion and rebranding of networks. Advertising revenues also benefited from \$13 million

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in non-recurring revenue items at our U.S. Networks operating segment.

Other revenues increased \$17 million, due to \$33 million for the growth in services provided to our unconsolidated equity method investees. Increases also came from our education business. These increases were partially offset by no longer providing services to The Travel Channel. Changes in foreign currency exchange rates and the effect of no longer consolidating the Discovery Health network did not significantly impact other revenues.

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Costs of Revenues

Costs of revenues, which consist primarily of content expense, distribution costs, and sales commissions, increased \$160 million. Excluding the impact of foreign currency fluctuations and the effect of no longer consolidating the Discovery Health network, costs of revenues increased 17%, or \$181 million. The increase in costs of revenues was principally related to higher content expense of \$155 million, which primarily reflects our continued investment in content, the international expansion of TLC, \$26 million for content impairments and accelerated content amortization, and \$11 million for charges associated with the licensing of selected library titles. Costs of revenues also increased due to higher distribution costs and sales commissions.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, marketing costs, research costs, occupancy, and back office support fees, decreased \$2 million. Excluding the impact of foreign currency fluctuations and the effect of no longer consolidating the Discovery Health network, selling, general and administrative expenses decreased 2%, or \$19 million. The decrease in selling, general and administrative expenses was primarily due to decreases of \$83 million for stock-based compensation. Stock-based compensation expense decreased \$100 million due to a decline in outstanding unit awards and stock appreciation rights (SARs), which are cash-settled awards, partially offset by an increase in expense of \$17 million for stock options, performance based restricted stock units (PRSUs) and service based restricted stock units (RSUs). The decreases in stock-based compensations expense were partially offset by higher employee compensation costs, increases in headcount, increased costs related to the international expansion of TLC, greater presence in CEEMEA, and increased research costs related to obtaining ratings services for additional networks.

Depreciation and Amortization

Depreciation and amortization expense, which includes depreciation of fixed assets and amortization of finite-lived intangible assets, decreased \$11 million. Excluding the impact of foreign currency fluctuations, depreciation and amortization expense decreased 16%, or \$23 million, due to lower asset balances as a result of property, equipment and intangible assets becoming fully depreciated in prior periods.

Restructuring and Impairment Charges

In 2011, we recorded \$30 million of restructuring and impairment charges, which was comprised of \$10 million of exit and restructuring charges and a \$20 million goodwill impairment charge. Exit and restructuring charges for 2011 primarily related to various employee terminations and organizational changes. The goodwill impairment charge was due to lower than expected operating performance at our commerce business, which is a component of our U.S. Networks segment.

During 2010, we recorded \$25 million of restructuring and impairment charges, which was comprised of \$14 million of exit and restructuring charges and an \$11 million goodwill impairment charge. Exit and restructuring charges for 2010 related to the realignment of our reporting regions at our International Networks segment, cost reduction initiatives in the U.S., and the contribution of the Discovery Health network to OWN. The charges primarily consisted of severance costs associated with the elimination of certain positions and contract termination expenses. The goodwill impairment charge was due to lower than expected operating performance at our postproduction audio business, which is a component of our Education and Other segment.

Gains on Dispositions

In connection with the contribution of the Discovery Health network to OWN on January 1, 2011, we recorded a pretax gain of \$129 million, which represents the fair value of the investment retained less the book basis of contributed assets.

Interest Expense, Net

Interest expense, net, was relatively flat in 2011 compared to the prior year, due to an increase in the amount of outstanding debt offset by a decrease in interest expense related to realized losses on interest rate swaps recorded during the prior year. During 2010, most of our interest rate swaps either matured or were settled prior to maturity as a result of refinancing most of our debt in June 2010.

Loss on Extinguishment of Debt

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In June 2010, we refinanced most of our outstanding debt. In connection with the repayment of \$2.9 billion of existing debt outstanding under our term loans and private senior notes, we recognized a \$136 million loss on extinguishment of debt, which included \$114 million for make-whole premiums, \$12 million of noncash write-offs of unamortized deferred financing costs and \$10 million for the repayment of the original issue discount from our term loans.

Table of Contents***Other Expense, Net***

Other expense, net consisted of the following (in millions).

	Year Ended December 31,	
	2011	2010
Unrealized gains on derivative instruments, net	\$ 2	\$ 13
Realized losses on derivative instruments, net	(3)	(42)
Loss from equity investees, net	(35)	(57)
Other, net	4	
Total other expense, net	\$ (32)	\$ (86)

The decrease in realized losses on derivative instruments is a result of reducing the derivatives held by us as part of the issuance of senior notes on June 30, 2010. The decrease in losses from equity method investments was primarily attributable to changes associated with our investment in OWN. While we recognized 100% of OWN's losses prior to OWN's launch on January 1, 2011, we have recognized 50% of OWN's losses subsequent to the launch. During 2012, the Company expects operating losses at OWN to exceed the balance of equity contributions recorded by OWN. Once the equity balance of OWN is depleted, Discovery expects to continue to fund OWN and will record 100% of any future operating losses of OWN in loss from equity investees, net. Future net income generated by OWN will initially be allocated 100% to us until previously recognized losses in excess of our ownership percentage have been recouped.

Provision for Income Taxes

For 2011 and 2010, our provisions for income taxes were \$425 million and \$288 million and the effective tax rates were 27% and 31%, respectively.

Discovery's effective tax rate for 2011 differed from the federal statutory rate of 35% principally because our legal entity reorganization resulted in the recognition of \$112 million net benefit for foreign tax credits as discussed below and production activity deductions, which were partially offset by state income taxes. The Company was not required to record a deferred tax liability of \$21 million with respect to the portion of the outside basis in the OWN venture attributable to the nondeductible goodwill contributed to OWN.

In November 2011, the Company reorganized certain of its international operations to better align its functions and establish a regional ownership structure. The regional holding companies are foreign corporations whose earnings will not be taxed in the U.S. until the earnings are repatriated back to the U.S. The Company will not record a provision for deferred U.S. tax expense that could result from the remittance of such undistributed earnings since the Company intends to reinvest the earnings outside the U.S. indefinitely. As a result of the international reorganization, the Company has entered into intercompany license and royalty agreements with certain of its controlled foreign corporations to allow the foreign corporations to use intangible property owned by the parent company. The license fees will result in incremental U.S. tax expense which will be recognized over the four-year estimated useful life of the intangible property. This incremental tax expense will be partially mitigated by the Company's ability to utilize foreign tax credits for taxes which were deducted in prior years. As a result, the Company recognized an income tax benefit of \$112 million in the fourth quarter of 2011 related to the foreign tax credits, which were previously not considered realizable. Due to the lower statutory and negotiated tax rates in the foreign corporations' jurisdictions, the Company expects a favorable impact on the effective tax rate in the future under the new operating structure.

Our effective tax rate for 2010 differed from the federal statutory rate of 35% due primarily to the reversal of a \$28 million foreign tax reserve as a result of a foreign tax authority completing its tax audit and providing us notification that certain tax years will not be adjusted and production activity deductions, which were partially offset by state taxes.

(Loss) Income from Discontinued Operations, Net of Taxes

Loss from discontinued operations in 2011 relates to activities connected with businesses classified as discontinued operations in previous years. Income from discontinued operations in 2010 relates to the sale of our Antenna Audio business and the elimination of an obligation to ACG an entity spun off in 2008.

Table of Contents**Net Income Attributable to Noncontrolling Interests**

The \$15 million decrease in net income attributable to noncontrolling interests was due to the acquisition of the BBC's interests in the international Animal Planet and Liv networks on November 12, 2010. Following the acquisition, we no longer allocate net operating results to noncontrolling interests of these networks.

Segment Results of Operations 2011 vs. 2010

We evaluate the operating performance of our segments based on financial measures such as revenues and adjusted operating income before depreciation and amortization (Adjusted OIBDA). Adjusted OIBDA is defined as revenues less costs of revenues and selling, general and administrative expenses excluding: (i) mark-to-market stock-based compensation, (ii) depreciation and amortization, (iii) amortization of deferred launch incentives, (iv) exit and restructuring charges, (v) certain impairment charges, and (vi) gains (losses) on business and asset dispositions. We use this measure to assess the operating results and performance of our segments, perform analytical comparisons, identify strategies to improve performance, and allocate resources to each segment. We believe Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. We exclude mark-to-market stock-based compensation, exit and restructuring charges, certain impairment charges, and gains (losses) on business and asset dispositions from the calculation of Adjusted OIBDA due to their volatility. We also exclude the depreciation of fixed assets and amortization of intangible assets and deferred launch incentives as these amounts do not represent cash payments in the current reporting period. Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income, cash flows provided by operating activities and other measures of financial performance reported in accordance with U.S. generally accepted accounting principles (GAAP).

Additionally, certain corporate expenses are excluded from segment results to enable executive management to evaluate segment performance based upon decisions made directly by segment executives. Additional financial information for our segments and geographical areas in which we do business is discussed in Note 21 to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

Total consolidated Adjusted OIBDA was calculated as follows (in millions).

	Year Ended December 31,		% Change
	2011	2010	
Revenues:			
U.S. Networks	\$ 2,619	\$ 2,363	11%
International Networks	1,455	1,251	16%
Education and Other	162	153	6%
Corporate and inter-segment eliminations	(1)	6	NM
Total revenues	4,235	3,773	12%
Costs of revenues, excluding depreciation and amortization⁽¹⁾	(1,233)	(1,073)	15%
Selling, general and administrative ⁽¹⁾	(1,140)	(1,043)	9%
Add: Amortization of deferred launch incentives ⁽²⁾	52	42	24%
Adjusted OIBDA	\$ 1,914	\$ 1,699	13%

NM not meaningful.

⁽¹⁾ Costs of revenues and selling, general and administrative expenses exclude mark-to-market stock-based compensation, depreciation and amortization, restructuring and impairment charges, and gains on dispositions.

⁽²⁾ Amortization of deferred launch incentives are included as a reduction of distribution revenues for reporting in accordance with GAAP, but are excluded from Adjusted OIBDA.

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The following table presents our Adjusted OIBDA, by segment, with a reconciliation of total consolidated Adjusted OIBDA to consolidated operating income (in millions).

	Year Ended December 31,		
	2011	2010	% Change
Adjusted OIBDA:			
U.S. Networks	\$ 1,495	\$ 1,365	10%
International Networks	645	545	18%
Education and Other	23	15	53%
Corporate and inter-segment eliminations	(249)	(226)	10%
Total Adjusted OIBDA	1,914	1,699	13%
Amortization of deferred launch incentives	(52)	(42)	24%
Mark-to-market stock-based compensation	(43)	(142)	(70)%
Depreciation and amortization	(119)	(130)	(8)%
Restructuring and impairment charges	(30)	(25)	20%
Gains on dispositions	129		NM
Operating income	\$ 1,799	\$ 1,360	32%

NM not meaningful.

U.S. Networks

The following table presents, for our U.S. Networks segment, revenues by type, certain operating expenses, contra revenue amounts, Adjusted OIBDA, and a reconciliation of Adjusted OIBDA to operating income (in millions). While the table below discloses reported amounts, the discussion of segment results that follows compares the current year operating results to the prior year s excluding the impact of the Discovery Health network.

	Year Ended December 31,		
	2011	2010	% Change
Revenues:			
Distribution	\$ 1,180	\$ 1,054	12%
Advertising	1,337	1,222	9%
Other	102	87	17%
Total revenues	2,619	2,363	11%
Costs of revenues, excluding depreciation and amortization	(689)	(573)	20%
Selling, general and administrative	(445)	(432)	3%
Add: Amortization of deferred launch incentives	10	7	43%
Adjusted OIBDA	1,495	1,365	10%
Amortization of deferred launch incentives	(10)	(7)	43%
Depreciation and amortization	(15)	(21)	(29)%
Restructuring and impairment charges	(24)	(3)	NM
Gains on dispositions	129		NM
Operating income	\$ 1,575	\$ 1,334	18%

NM not meaningful.

Revenues

Distribution revenues increased \$141 million, excluding the impact of the Discovery Health network, primarily due to the extension and expansion of an agreement to license selected library titles. As a result of titles delivered under this and similar agreements, license revenue increased \$81 million. The remaining distribution revenue increase was attributable to annual contractual rate increases, and increases in paying subscribers, principally for our fully distributed networks carried on the digital tier.

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Advertising revenues increased \$177 million, excluding the impact of Discovery Health network, which was driven by increased pricing in the upfront and scatter markets, and higher sellouts. Advertising revenues also benefited from \$13 million in non-recurring revenue items.

Other revenues increased \$16 million, excluding the impact of the Discovery Health network, due to \$32 million for the growth in revenues from services provided to our unconsolidated equity method investees. These increases were partially offset by no longer providing services to The Travel Channel.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, increased \$148 million, excluding the impact of the Discovery Health network. The increase in costs of revenues was principally related to higher content expense, which primarily reflects our continued investment in content, as well as increases of \$11 million for an accelerated charge associated with the licensing of selected library titles and \$24 million for content impairments and accelerated content amortization.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, marketing costs, research costs and occupancy and back office support fees, increased \$26 million, excluding the impact of the Discovery Health network. Increased selling, general and administrative expenses were attributable to higher research expenses from the newly rated networks and other costs, which were partially offset by lower marketing expenses.

Adjusted OIBDA

Adjusted OIBDA increased \$163 million, excluding the impact of the Discovery Health network, primarily due to increased distribution revenues largely generated from licensing of selected library titles, contractual rate increases with our affiliates, and higher advertising sales, partially offset by higher content expense and selling, general and administrative expenses.

International Networks

The following table presents, for our International Networks segment, revenues by type, certain operating expenses, contra revenue amounts, Adjusted OIBDA, and a reconciliation of Adjusted OIBDA to operating income (in millions).

	Year Ended December 31,		
	2011	2010	% Change
Revenues:			
Distribution	\$ 890	\$ 778	14%
Advertising	514	422	22%
Other	51	51	%
Total revenues	1,455	1,251	16%
Costs of revenues, excluding depreciation and amortization	(455)	(405)	12%
Selling, general and administrative	(397)	(336)	18%
Add: Amortization of deferred launch incentives	42	35	20%
Adjusted OIBDA	645	545	18%
Amortization of deferred launch incentives	(42)	(35)	20%
Depreciation and amortization	(43)	(39)	10%
Restructuring and impairment charges	(3)	(9)	(67)%
Operating income	\$ 557	\$ 462	21%

NM not meaningful.

Revenues

Distribution revenues increased \$112 million. Excluding the impact of foreign currency fluctuations, distribution revenues increased 11%, or \$85 million, which is attributable to continued growth of pay television services and subscribers across all regions.

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Advertising revenues increased \$92 million. Excluding the impact of foreign currency fluctuations, advertising revenues increased by 18%, or \$76 million, due to improved pricing across all regions as well as from increased viewership at new and rebranded networks which use TLC content.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, distribution costs, and sales commissions, increased \$50 million. Excluding the impact of foreign currency fluctuations, cost of revenues increased 10%, or \$39 million, due to increased content expense of \$27 million for the international rollout of TLC and higher sales commissions across most regions.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, marketing costs, research costs and occupancy and back office support fees, increased \$61 million. Excluding the impact of foreign currency fluctuations, selling, general and administrative expenses increased 9%, or \$31 million, attributable to a greater presence in CEEMEA, the international rollout of TLC, and other expenses in Latin America. The variance in foreign currency largely results from working capital revaluations for European and Asian entities.

Adjusted OIBDA

Adjusted OIBDA increased \$100 million, primarily due to the growth of television services and subscribers across all regions driving higher distribution and advertising revenues as well as higher costs of revenues and selling, general, and administrative expenses. Changes in foreign currency exchange rates did not significantly impact Adjusted OIBDA.

Education and Other

The following table presents, for our Education and Other segment, revenues by type, certain operating expenses, Adjusted OIBDA, and a reconciliation of Adjusted OIBDA to operating (loss) income (in millions).

	Year Ended December 31,		
	2011	2010	% Change
Revenues:			
Advertising	\$ 1	\$ 1	%
Other	161	152	6%
Total revenues	162	153	6%
Costs of revenues, excluding depreciation and amortization	(87)	(91)	(4)%
Selling, general and administrative	(52)	(47)	11%
Adjusted OIBDA	23	15	53%
Depreciation and amortization	(5)	(6)	(17)%
Restructuring and impairment charges		(11)	(100)%
Operating (loss) income	\$ 18	\$ (2)	NM

NM not meaningful.

Revenues

Other revenues increased \$9 million, primarily due to continued growth in subscriptions for access to an online streaming service that includes a suite of curriculum-based tools, growth in corporate partnerships, and assessment services for our educational business.

Costs of Revenues

Costs of revenues, which consist principally of content expense, royalty payments, distribution costs and sales commissions, were consistent between 2011 and 2010.

Table of Contents***Selling, General and Administrative***

Selling, general and administrative expenses, which are principally comprised of employee costs, occupancy expenses, back office support fees, and marketing costs, increased \$5 million due to higher employee expenses for additional headcount.

Adjusted OIBDA

Adjusted OIBDA increased \$8 million, primarily due to continued growth in online streaming services, partially offset by increased employee expenses.

Corporate and Inter-segment Eliminations

The following table presents, for our unallocated corporate amounts, revenues, certain operating expenses, Adjusted OIBDA, and a reconciliation of Adjusted OIBDA to operating loss (in millions).

	Year Ended December 31,		
	2011	2010	% Change
Revenues:			
Other	\$ (1)	\$ 6	NM
Total revenues	(1)	6	NM
Costs of revenues, excluding depreciation and amortization	(2)	(4)	(50)%
Selling, general and administrative	(246)	(228)	8%
Adjusted OIBDA	(249)	(226)	10%
Mark-to-market stock-based compensation	(43)	(142)	(70)%
Depreciation and amortization	(56)	(64)	(13)%
Restructuring and impairment charges	(3)	(2)	50%
Operating loss	\$ (351)	\$ (434)	(19)%

NM not meaningful.

Corporate operations primarily consist of executive management, administrative support services, substantially all of our stock-based compensation, and a consolidated joint venture. Consistent with our segment reporting, corporate expenses are excluded from segment results to enable executive management to evaluate business segment performance based upon decisions made directly by business segment executives.

Selling, general and administrative expenses increased \$18 million due to higher stock-based compensation expense for equity-settled awards such as stock options, PRSUs, and RSUs that received fixed accounting.

RESULTS OF OPERATIONS 2010 vs. 2009**Reclassifications**

We expanded the types of revenue included in distribution revenue in our consolidated statements of operations during 2011 and reclassified related prior year amounts. Distribution revenues include fees charged for the right to view Discovery network branded content made available to customers through a variety of distribution platforms and viewing devices. The largest component of distribution revenue continues to be fees charged to cable, DTH satellite and telecommunications service providers for distribution rights to Discovery's television networks. Distribution revenue also includes fees charged for certain licensing arrangements, including those for digital streaming of library content. These fees, which totaled \$25 million and \$21 million in 2010 and 2009, respectively, were previously classified as other revenue and have been reclassified to distribution revenue to conform to the current presentation.

Table of Contents**Consolidated Results of Operations 2010 vs. 2009**

Our consolidated results of operation for 2010 and 2009 were as follows (in millions).

	Year Ended December 31,		
	2010	2009	% Change
Revenues:			
Distribution	\$ 1,832	\$ 1,719	7%
Advertising	1,645	1,427	15%
Other	296	312	(5)%
Total revenues	3,773	3,458	9%
Costs of revenues, excluding depreciation and amortization			
Selling, general and administrative	1,185	1,188	%
Depreciation and amortization	130	152	(14)%
Restructuring and impairment charges	25	52	(52)%
Gains on dispositions		(252)	(100)%
Total costs and expenses	2,413	2,184	10%
Operating income	1,360	1,274	7%
Interest expense, net	(203)	(248)	(18)%
Loss on extinguishment of debt	(136)		NM
Other (expense) income, net	(86)	13	NM
Income from continuing operations before income taxes	935	1,039	(10)%
Provision for income taxes	(288)	(469)	(39)%
Income from continuing operations, net of taxes	647	570	14%
Income (loss) from discontinued operations, net of taxes	22	(6)	NM
Net income	669	564	19%
Less net income attributable to noncontrolling interests	(16)	(15)	7%
Net income attributable to Discovery Communications, Inc.	653	549	19%
Stock dividends to preferred interests	(1)	(8)	(88)%
Net income available to Discovery Communications, Inc. stockholders	\$ 652	\$ 541	21%

NM not meaningful.

Revenues

Distribution revenues increased \$113 million, which was driven by contractual rate increases, subscriber growth and reduced amortization of deferred launch incentives. These increases were partially offset by an \$18 million decline for the effect of deconsolidating the U.S. Discovery Kids network in May 2009 and changes in our channel mix in EMEA. Changes in foreign currency exchange rates did not significantly impact distribution revenues.

Advertising revenues increased \$218 million, which was attributable to increased pricing, higher inventory utilization, and greater audience delivery. These increases were partially offset by the absence of a \$6 million settlement of a prior contract dispute in 2009. Changes in foreign currency exchange rates did not significantly impact advertising revenues.

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Other revenues decreased \$16 million as a result of an affiliate and advertising sales representation agreement ending in May 2010, transitioning our commerce business model in early 2009, and lower DVD sales at a consolidated joint venture. These decreases were partially offset by an increase in the number of subscriptions to our online curriculum-based education tools. Other revenues were not significantly impacted by changes in foreign currency exchange rates.

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Costs of Revenues

Costs of revenues, which consist primarily of content expense, distribution costs and sales commissions, increased \$29 million. The increase in costs of revenues was due to higher content expense, sales commissions, and license fees for music rights. Content expense increased \$8 million, reflecting our continued investment in programming. Sales commissions increased \$17 million due to improved advertising sales. The increase in license fees for music rights was due to the absence of a \$6 million reversal of liabilities recorded in 2009 as a result of changes in estimates for amounts accrued in prior periods. These increases were partially offset by a \$7 million decrease for the effect of deconsolidating the U.S. Discovery Kids network in May 2009, an \$11 million decline due to the transition of our commerce business model in early 2009, and lower costs related to DVD sales. Cost revenues were not significantly impacted by changes in foreign currency rates.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, marketing costs, research costs and occupancy and back office support fees, decreased \$3 million. Excluding the impact of foreign currency fluctuations, selling, general and administrative expenses increased 1%. The increase was attributable to higher marketing and personnel costs due to increased promotion of our programs, expanded distribution of our international networks, and growth in our education business, partially offset by a decline in stock-based compensation. Stock-based compensation decreased \$46 million driven by a decline in the number of outstanding cash-settled awards, which was partially offset by an increase in the fair value of outstanding awards and an increase in the number of stock-settled awards.

Depreciation and Amortization

Depreciation and amortization expense, which includes depreciation of fixed assets and amortization of finite-lived intangible assets, decreased \$22 million. The decrease was due primarily to lower property and equipment and finite-lived intangible asset balances, which were attributable to certain assets becoming fully amortized and impairment charges recorded in prior periods.

Restructuring and Impairment Charges

In 2010, we recorded \$25 million of restructuring and impairment charges, which were comprised of \$14 million of exit and restructuring charges and an \$11 million goodwill impairment charge. Exit and restructuring charges for 2010 related to the realignment of our reporting regions at our International Networks segment, cost reduction initiatives in the U.S., and the contribution of the Discovery Health network to OWN. The charges primarily consisted of severance costs associated with the elimination of certain positions and contract termination expenses. The goodwill impairment charge was due to lower than expected operating performance at our postproduction audio business, which is a component of our Education and Other segment.

During 2009, we recorded \$52 million of restructuring and impairment charges, which consisted of \$26 million related to exit and restructuring charges and \$26 million of goodwill impairment charges. The exit and restructuring charges incurred during 2009 related to realignments of portions of our operations to better align our organizational structure with our strategic priorities, the transition of our commerce business to a licensing model, and cost reduction initiatives. The realignment reflected changes to our organizational structure in an effort to centralize certain functions that were previously performed by various departments. The charges primarily consisted of severance costs associated with the elimination of certain positions and contract termination expenses. The impairment charges related to certain intangible assets and software at our U.S. Networks and International Networks segments.

Gains on Dispositions

In connection with deconsolidating the U.S. Discovery Kids network in May 2009, we recorded a pretax gain of \$252 million. The gain comprised \$125 million for the 50% interest sold to the joint venture partner and \$127 million as a result of stepping up our basis for the 50% interest retained in the joint venture.

Interest Expense, Net

Interest expense, net decreased \$45 million, which was primarily due to changes in the designation and termination of interest rate swaps as a result of refinancing most of our debt in June 2010.

Loss on Extinguishment of Debt

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In June 2010, we refinanced most of our outstanding debt. In connection with the repayment of \$2.9 billion of existing debt outstanding under our term loans and private senior notes, we recognized a \$136 million loss on extinguishment of debt, which included \$114 million for make-whole premiums, \$12 million of noncash write-offs of unamortized deferred financing costs and \$10 million for the repayment of the original issue discount from our term loans.

Table of Contents***Other (Expense) Income, Net***

Other (expense) income, net consisted of the following (in millions).

	Year Ended December 31,	
	2010	2009
Unrealized gains on derivative instruments, net	\$ 13	\$ 26
Realized losses on derivative instruments, net	(42)	(6)
Loss from equity investees, net	(57)	(24)
Realized gains on sales of investments		15
Other, net		2
 Total other (expense) income, net	 \$ (86)	 \$ 13

The change in net realized and unrealized gains (losses) on derivative instruments was primarily due to changes in the designation and termination of interest rate swaps as a result of refinancing most of our debt in June 2010.

The increase in losses from equity method investments was primarily attributable to OWN, which reflects selling, general and administrative costs incurred prior to the launch of the new network on January 1, 2011.

In 2009 we sold investments for \$22 million, which resulted in pretax gains of \$15 million.

Provision for Income Taxes

For 2010 and 2009, our provisions for income taxes were \$288 million and \$469 million and the effective tax rates were 31% and 45%, respectively.

Our effective tax rate for 2010 differed from the federal statutory rate of 35% due primarily to the reversal of a \$28 million foreign tax reserve, as a result of a foreign tax authority completing its tax audit and providing us notification that certain tax years will not be adjusted and production activity deductions, which were partially offset by state taxes.

Our effective tax rate for 2009 differed from the federal statutory rate of 35% due primarily to a permanent difference on the \$252 million gain from deconsolidating the U.S. Discovery Kids network in May 2009 and state income taxes, which were partially offset by deductions for domestic production activities and the release of a valuation allowance of \$12 million.

Income (Loss) from Discontinued Operations, Net of Taxes

On September 1, 2010, we sold our Antenna Audio business for net proceeds of \$24 million in cash, which resulted in a \$9 million gain, net of taxes. We previously recorded a \$12 million gain, net of taxes, in our results of operations for the quarter ended September 30, 2010. However, during the quarter ended December 31, 2010 we recorded an adjustment to a deferred tax asset, which reduced the gain by \$3 million. Antenna Audio, which provides audio, multimedia and mobile tours for museums, exhibitions, historic sites and visitor attractions around the world, was a component of our International Networks segment.

On September 27, 2010, we received a tax refund, which eliminated a \$12 million obligation to repay amounts to AMC, which has been recorded as a benefit in 2010 in income from discontinued operations.

Net Income Attributable to Noncontrolling Interests

The increase in net income attributable to noncontrolling interests was due to higher operating results at consolidated entities that are not wholly owned.

Stock Dividends to Preferred Interests

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We declared noncash stock dividends of \$1 million and \$8 million to our preferred stock shareholder during 2010 and 2009, respectively. We released approximately 43,000 and 254,000 of our Series A common stock and approximately 60,000 and 211,000 of our Series C common stock from escrow during 2010 and 2009, respectively, in payment of most of the dividends declared. We are contractually obligated to issue the dividends upon the issuance of our common stock to settle the exercise of stock options and stock appreciation rights that we assumed in connection with our formation on September 17, 2008. The decrease in dividends declared was due to a lower number of stock options and stock appreciation rights being exercised.

Table of Contents**Segment Results of Operations 2010 vs. 2009**

We evaluate the operating performance of our segments based on financial measures such as revenues and Adjusted OIBDA. Adjusted OIBDA is defined as revenues less costs of revenues and selling, general and administrative expenses excluding: (i) mark-to-market stock-based compensation, (ii) depreciation and amortization, (iii) amortization of deferred launch incentives, (iv) exit and restructuring charges, (v) certain impairment charges, and (vi) gains (losses) on business and asset dispositions. We use this measure to assess the operating results and performance of our segments, perform analytical comparisons, identify strategies to improve performance, and allocate resources to each segment. We believe Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses and also provides investors a measure to analyze the operating performance of each segment against historical data. We exclude mark-to-market stock-based compensation, exit and restructuring charges, certain impairment charges, and gains (losses) on business and asset dispositions from the calculation of Adjusted OIBDA due to their volatility. We also exclude the depreciation of fixed assets and amortization of intangible assets and deferred launch incentives as these amounts do not represent cash payments in the current reporting period. Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income, cash flows provided by operating activities and other measures of financial performance reported in accordance with GAAP.

Additionally, certain corporate expenses are excluded from segment results to enable executive management to evaluate segment performance based upon decisions made directly by segment executives. Additional financial information for our segments and geographical areas in which we do business is discussed in Note 21 to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

Total consolidated Adjusted OIBDA was calculated as follows (in millions).

	Year Ended December 31,		
	2010	2009	% Change
Revenues:			
U.S. Networks	\$ 2,363	\$ 2,170	9%
International Networks	1,251	1,131	11%
Education and Other	153	148	3%
Corporate and inter-segment eliminations	6	9	(33)%
Total revenues	3,773	3,458	9%
Costs of revenues, excluding depreciation and amortization ⁽¹⁾	(1,073)	(1,044)	3%
Selling, general and administrative ⁽¹⁾	(1,043)	(983)	6%
Add: Amortization of deferred launch incentives ⁽²⁾	42	55	(24)%
Adjusted OIBDA	\$ 1,699	\$ 1,486	14%

⁽¹⁾ Costs of revenues and selling, general and administrative expenses exclude mark-to-market stock-based compensation, depreciation and amortization, restructuring and impairment charges, and gains on dispositions.

⁽²⁾ Amortization of deferred launch incentives are included as a reduction of distribution revenues for reporting in accordance with GAAP, but are excluded from Adjusted OIBDA.

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The following table presents our Adjusted OIBDA, by segment, with a reconciliation of total consolidated Adjusted OIBDA to consolidated operating income (in millions).

	Year Ended December 31,		
	2010	2009	% Change
Adjusted OIBDA:			
U.S. Networks	\$ 1,365	\$ 1,229	11%
International Networks	545	445	22%
Education and Other	15	16	(6)%
Corporate and inter-segment eliminations	(226)	(204)	11%
Total Adjusted OIBDA	1,699	1,486	14%
Amortization of deferred launch incentives	(42)	(55)	(24)%
Mark-to-market stock-based compensation	(142)	(205)	(31)%
Depreciation and amortization	(130)	(152)	(14)%
Restructuring and impairment charges	(25)	(52)	(52)%
Gains on dispositions		252	(100)%
Operating income	\$ 1,360	\$ 1,274	7%

U.S. Networks

The following table presents, for our U.S. Networks segment, revenues by type, certain operating expenses, contra revenue amounts, Adjusted OIBDA, and a reconciliation of Adjusted OIBDA to operating income (in millions).

	Year Ended December 31,		
	2010	2009	% Change
Revenues:			
Distribution	\$ 1,054	\$ 985	7%
Advertising	1,222	1,082	13%
Other	87	103	(16)%
Total revenues	2,363	2,170	9%
Costs of revenues, excluding depreciation and amortization	(573)	(544)	5%
Selling, general and administrative	(432)	(418)	3%
Add: Amortization of deferred launch incentives	7	21	(67)%
Adjusted OIBDA	1,365	1,229	11%
Amortization of deferred launch incentives	(7)	(21)	(67)%
Mark-to-market stock-based compensation		(1)	(100)%
Depreciation and amortization	(21)	(30)	(30)%
Restructuring and impairment charges	(3)	(31)	(90)%
Gains on dispositions		252	(100)%
Operating income	\$ 1,334	\$ 1,398	(5)%

Revenues

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Distribution revenues increased \$69 million, primarily due to annual contractual rate increases for fees charged to operators who distribute our networks, an increase in paying subscribers, principally for networks carried on the digital tier, and decreased amortization of deferred launch incentives. These increases were partially offset by an \$18 million decrease for the effect of deconsolidating the U.S. Discovery Kids network in May 2009.

Advertising revenues increased \$140 million, which was driven by increased pricing in the upfront and scatter markets, higher sellouts, and greater audience delivery, reflecting the improved advertising market.

Other revenues decreased \$16 million, which was attributable to lower affiliate and advertising sales representation services for third-party networks and commerce sales. The decrease in affiliate and advertising sales representation services was the result of an agreement ending in May 2010. The decline in commerce sales was due to the transition of our commerce business model in early 2009.

Table of Contents**Costs of Revenues**

Costs of revenues, which consist primarily of content expense, sales commissions, and distribution costs, increased \$29 million. The increase in costs of revenues was driven by higher content expense and sales commissions. Content expense increased \$26 million due to continued investments in our programming. Sales commissions were \$7 million higher due to improved advertising sales. These increases were partially offset by a \$7 million decrease for the effect of deconsolidating the U.S. Discovery Kids network in May 2009 and an \$11 million decline due to the transition of our commerce business model in early 2009.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, marketing costs, research costs and occupancy and back office support fees, increased \$14 million. Increased selling, general and administrative expenses were attributable to higher marketing costs, which were partially offset by lower employee costs as a result of restructurings that eliminated certain positions.

Adjusted OIBDA

Adjusted OIBDA increased \$136 million, primarily due to increased advertising sales, growth in distribution revenues and lower employee costs. These improvements were partially offset by increased content expense, sales commissions, and marketing costs, as well as a decline in other revenues and a \$10 million decrease for the effect of deconsolidating the U.S. Discovery Kids network in May 2009.

International Networks

The following table presents, for our International Networks segment, revenues by type, certain operating expenses, contra revenue amounts, Adjusted OIBDA, and a reconciliation of Adjusted OIBDA to operating income (in millions).

	Year Ended December 31,		
	2010	2009	% Change
Revenues:			
Distribution	\$ 778	\$ 734	6%
Advertising	422	344	23%
Other	51	53	(4)%
Total revenues	1,251	1,131	11%
Costs of revenues, excluding depreciation and amortization	(405)	(403)	%
Selling, general and administrative	(336)	(317)	6%
Add: Amortization of deferred launch incentives	35	34	3%
Adjusted OIBDA	545	445	22%
Amortization of deferred launch incentives	(35)	(34)	3%
Depreciation and amortization	(39)	(38)	3%
Restructuring and impairment charges	(9)	(14)	(36)%
Operating income	\$ 462	\$ 359	29%

Revenues

Distribution revenues increased \$44 million, which was attributable to growth in the number of paying subscribers in Latin America and an increase in average contractual rates for fees charged to operators who distribute our networks in the U.K. Subscribers increased due to growth in pay television services in those regions. These increases were partially offset by changes in our channel mix in EMEA. Changes in foreign currency exchange rates did not significantly impact distribution revenues.

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Advertising revenues, which increased \$78 million, were higher in all international regions in which we operate. The increase in advertising revenues was driven by increased pricing in the U.K. Advertising revenues also increased in Latin America, EMEA and Asia-Pacific as a result of higher sellouts and audience delivery. Higher sellouts reflect improvements in the advertising market.

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Increased viewership was driven by growth in pay television services in international markets. These increases were partially offset by the absence of a \$6 million settlement of prior contract disputes in 2009. Changes in foreign currency exchange rates did not significantly impact advertising revenues.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, distribution costs, and sales commissions, increased \$2 million. Excluding the impact of foreign currency fluctuations, cost of revenues increased 1%. The increase in costs of revenues was due to higher sales commissions and license fees for music rights. Sales commissions increased \$8 million due to improved advertising sales. The increase in license fees for music rights was due to the absence of a \$6 million reversal of liabilities in 2009 as a result of changes in estimates for amounts accrued in prior periods. These increases were partially offset by a \$4 million decline in content expense, reflecting a decline in write-offs.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, marketing costs, research costs and occupancy and back office support fees, increased \$19 million. Excluding the impact of foreign currency fluctuations, selling, general and administrative expenses increased 9%. Increased selling, general and administrative expenses were attributable to the international rollout of the TLC network, expansion in Eastern Europe, and investments in Latin America, which increased employee and marketing costs.

Adjusted OIBDA

Adjusted OIBDA increased \$100 million. Excluding the impact of foreign currency fluctuations, Adjusted OIBDA increased 20%, primarily due to increased advertising sales, growth in distribution revenues, and lower content expense. These improvements were partially offset by increased employee and marketing costs, higher sales commissions, and an increase in license fees for music rights.

Education and Other

The following table presents, for our Education and Other segment, revenues by type, certain operating expenses, Adjusted OIBDA, and a reconciliation of Adjusted OIBDA to operating (loss) income (in millions).

	Year Ended December 31,		
	2010	2009	% Change
Revenues:			
Advertising	\$ 1	\$ 1	%
Other	152	147	3%
Total revenues	153	148	3%
Costs of revenues, excluding depreciation and amortization	(91)	(90)	1%
Selling, general and administrative	(47)	(42)	12%
Adjusted OIBDA	15	16	(6)%
Depreciation and amortization	(6)	(6)	%
Restructuring and impairment charges	(11)	(2)	NM
Operating (loss) income	\$ (2)	\$ 8	NM

NM not meaningful.

Revenues

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Other revenues increased \$5 million, primarily due to continued growth in subscriptions for access to an online streaming service that includes a suite of curriculum-based tools, which was partially offset by a decline in postproduction audio services. The decline in postproduction audio services was driven by the overall decline in the DVD marketplace.

Table of Contents**Costs of Revenues**

Costs of revenues, which consist principally of content expense and royalty payments, were consistent between 2010 and 2009.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, occupancy and back office support fees and marketing costs, increased \$5 million due to higher employee costs as a result of hiring additional personnel to support the growth in our education business.

Adjusted OIBDA

Adjusted OIBDA decreased \$1 million, primarily due to a decline in postproduction audio services and increased employee costs, which were partially offset by continued growth in subscriptions to curriculum-based tools offered through our online streaming services.

Corporate and Inter-segment Eliminations

The following table presents, for our unallocated corporate amounts, revenues, certain operating expenses, Adjusted OIBDA, and a reconciliation of Adjusted OIBDA to operating loss (in millions).

	Year Ended December 31,		
	2010	2009	% Change
Revenues:			
Other	\$ 6	\$ 9	(33)%
Total revenues	6	9	(33)%
Costs of revenues, excluding depreciation and amortization	(4)	(7)	(43)%
Selling, general and administrative	(228)	(206)	11%
Adjusted OIBDA	(226)	(204)	11%
Mark-to-market stock-based compensation	(142)	(204)	(30)%
Depreciation and amortization	(64)	(78)	(18)%
Restructuring and impairment charges	(2)	(5)	(60)%
Operating loss	\$ (434)	\$ (491)	(12)%

Corporate operations primarily consist of executive management, administrative support services, substantially all of our stock-based compensation, and a consolidated joint venture. Consistent with our segment reporting, corporate expenses are excluded from segment results to enable executive management to evaluate business segment performance based upon decisions made directly by business segment executives.

Other revenues and costs of revenues both declined \$3 million as a result of lower DVD sales at a consolidated joint venture. Selling, general and administrative expenses increased \$22 million, which was primarily attributable to a \$17 million increase in stock-based compensation expense for equity settled awards such as stock options, PRSUs and RSUs that received fixed accounting. The increase in stock-based compensation was driven by an increase in the number of outstanding awards and the fair value of awards granted during 2010 due to increases in the price of our Series A common stock.

LIQUIDITY AND CAPITAL RESOURCES**Liquidity**

Sources and Uses of Cash

Our principal sources of cash are cash and cash equivalents on hand, cash flows from operating activities, available borrowing capacity under our revolving credit facility and access to capital markets. As of December 31, 2011, we had approximately \$2.0 billion of total capital resources available, comprised of \$1.0 billion of cash and cash equivalents on hand and approximately \$1.0 billion available to borrow under our revolving credit facility. As a public company, we may have access to other sources of capital such as the public bond and equity markets. On June 17, 2009, we filed a Registration Statement on Form S-3 (Shelf Registration) with the SEC in which we registered securities, including debt securities, common stock and preferred stock. On June 20, 2011, DCL, one of

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our subsidiaries, issued \$650 million aggregate principal amount of 4.375% Senior Notes due on June 15, 2021. DCL received net proceeds of \$641 million from the offering after deducting underwriting discounts and issuance costs. In total we have issued approximately \$4.2 billion of public senior notes under this Shelf Registration. Access to sufficient capital from the public market is not assured.

On August 8, 2011, DCL modified its \$1.0 billion revolving credit agreement to extend the expiration date two years to October 12, 2015 and to reduce interest rates and fees. The terms of the arrangement are otherwise consistent with the previous arrangement.

Our primary uses of cash include the creation and acquisition of new content, operating expenditures, discretionary repurchases of stock, income taxes, interest, funding to equity method investees, capital expenditures and business acquisitions. We believe our financial condition is sound and anticipate that our existing cash and cash equivalents on hand, cash generated by operating activities, and cash available to us, considered together, should be sufficient to meet our anticipated cash operating requirements for at least the next twelve months.

We plan to continue to significantly invest in the creation and acquisition of new content. Additional information regarding contractual commitments to acquire content is set forth in the section titled "Commitments and Off-Balance Sheet Arrangements" in Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition" in this Annual Report on Form 10-K.

On August 3, 2010, we implemented a stock repurchase program, pursuant to which we were authorized to purchase up to \$1.0 billion of our common stock. On July 27, 2011, our Board of Directors authorized us to purchase an additional \$1.0 billion of our common stock under our stock repurchase program. In total, we have been authorized to purchase up to \$2.0 billion of our common stock under our repurchase program. We have been funding and expect to continue to fund repurchases through a combination of cash on hand, cash generated by operations, borrowings under our revolving credit facility, and future financing transactions. Under the repurchase program, management is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to stock price, business conditions, market conditions, and other factors. The repurchase program does not have an expiration date. During 2011, we repurchased 27 million shares of our Series C common stock for \$997 million through open market transactions. The repurchases were funded using cash on hand. As of December 31, 2011, we had remaining authorization of \$898 million for future repurchases of common stock. The \$997 million aggregate purchase price of the acquired stock was recorded in a separate account as a reduction of equity. We repurchased an additional 2.65 million shares of our Series C common stock for \$103 million from January 1, 2012 through February 10, 2012.

We have interests in various equity method investees and provide funding to those equity method investees from time to time. As of December 31, 2011, we have an outstanding note receivable including interest accrued from OWN, our equity method investee, which totals \$312 million. We currently expect to provide significant additional funding to our equity method investees and expect to recoup amounts funded.

In 2012, we expect our uses of cash to include approximately \$215 million for interest payments related to our outstanding indebtedness, and capital lease obligations, and approximately \$60 million for capital expenditures. We expect tax payments in 2012 to increase significantly as a result of the expiration of the tax law that allows for the immediate deduction of certain domestic programming costs. Additionally, we expect to continue to make payments to settle vested cash-settled equity awards. Actual amounts expensed and payable for cash-settled awards are dependent on future calculations of fair value which are primarily affected by changes in our stock price or changes in the number of awards outstanding. During 2011, we paid \$126 million for cash-settled equity awards. As of December 31, 2011, we accrued \$37 million for outstanding cash-settled equity awards, of which \$27 million was classified as current.

Table of Contents**Cash Flows**

Changes in cash and cash equivalents were as follows (in millions).

	Year Ended December 31,		
	2011	2010	2009
Cash and cash equivalents, beginning of period	\$ 466	\$ 623	\$ 94
Cash provided by operating activities	1,100	668	642
Cash (used in) provided by investing activities	(214)	(190)	238
Cash used in financing activities	(297)	(641)	(356)
Effect of exchange rate changes on cash and cash equivalents	(7)	6	5
Net change in cash and cash equivalents	582	(157)	529
Cash and cash equivalents, end of period	\$ 1,048	\$ 466	\$ 623

Changes in cash and cash equivalents include amounts related to discontinued operations.

Operating Activities

Cash provided by operating activities increased \$432 million for the year ended December 31, 2011 as compared to the year ended December 31, 2010. The increase in cash provided by operating activities was driven by increased operating results, a decrease in taxes paid, a decrease in interest payments, and decreases in stock compensation payments for cash settled equity awards. During 2010, there was a \$112 million overpayment of tax (2010 overpayment) resulting primarily from an extension of the tax law in the fourth quarter of 2010 that allowed for the immediate deduction of certain domestic programming costs. During 2011, we received a \$39 million tax refund related to the 2010 overpayment and there was a decrease in tax payments of \$107 million primarily attributable to the use of the remaining overpayment carry forward from 2010. The decrease in interest payments was principally the result of \$114 million of make-whole premiums paid in 2010 in connection with the refinancing of most of our outstanding debt. The \$32 million decrease in payments for cash-settled equity awards was attributable to the decrease in number of outstanding unit awards and SARs. These improvements were partially offset by a \$110 million increase in cash used by operating activities attributable to investments in programming.

Cash provided by operating activities for the year ended December 31, 2010 increased by \$26 million as compared to the year ended December 31, 2009. The increase in cash provided by operating activities was driven by increased earnings, principally from increased advertising and distribution revenues at our U.S. Networks and International Networks segments, and a decrease of \$49 million in tax payments, principally due to a nonrecurring tax payment in 2009 related to the gain on the U.S. Discovery Kids Transaction. These increases were partially offset by \$114 million of make-whole premiums paid in connection with refinancing most of our outstanding debt in June 2010 and a \$77 million increase in payments for cash-settled equity awards. The increase in payments for cash-settled equity awards was attributable to the increase in fair value of outstanding awards due to the increase in the prices of our Series A common stock and settlements of SARs granted in late 2008 and early 2009 as part of a transition from an existing equity plan under which we typically granted cash-settled awards to a new equity plan under which we typically issue stock-settled awards.

Investing Activities

Cash flows used in investing activities increased \$24 million for the year ended December 31, 2011 as compared to the year ended December 31, 2010. The increase was attributable to a \$24 million increase in funding to unconsolidated equity method investees and a \$9 million increase in payments for purchases of property and equipment. The increase in funding to unconsolidated equity method investees was primarily due to continued investments in OWN, which was launched on January 1, 2011. The increase in cash used in investing activities in 2011 was partially offset by a \$12 million decrease in cash used in business acquisitions, net of cash acquired. During 2011 we used \$26 million for the acquisition of a factual entertainment production company in the U.K. and a Latin American cable channel. Cash flows used in investing activities for the year ended December 31, 2010 included \$35 million for the acquisition of an uplink facility.

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Cash used in investing activities for the year ended December 31, 2010 was \$190 million as compared to cash provided by investing activities of \$238 million for the year ended December 31, 2009. The decline in cash flows from investing activities was due to a decline in cash from business and investment dispositions, an increase in cash used for business acquisitions, and increased funding payments to unconsolidated ventures, which were partially offset by a reduction in capital expenditures. Cash used in investing activities during 2010 consisted of \$127 million in funding to our unconsolidated network ventures, payments of \$49 million for property and equipment acquisitions and \$35 million for the purchase of an uplink facility, which were partially offset by net proceeds of \$24 million related to the sale of our Antenna Audio business.

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Cash provided by investing activities for 2009 principally included a \$300 million nonrecurring payment received in connection with the Discovery Kids Transaction and \$24 million in proceeds from the sale of investments, which were partially offset by \$55 million of property and equipment acquisitions and \$31 million in funding to our unconsolidated ventures.

Financing Activities

Cash flows used in financing activities decreased \$344 million for the year ended December 31, 2011 as compared to the year ended December 31, 2010. The cash flows used in financing activities were principally attributable to repurchases of 27 million shares of Series C common stock for \$997 million made pursuant to our stock repurchase program implemented on August 3, 2010, and repayments of our capital lease obligations, partially offset by our issuance of \$650 million of senior notes in June 2011 for which we received \$641 million of net proceeds. We paid an additional \$2 million in financing fees associated with our modified credit agreement.

Cash flows used in financing activities for the year ended December 31, 2010 increased \$285 million compared to the year ended December 31, 2009. The increase in cash used in financing activities during 2010 was driven by \$2.9 billion of additional repayments made on term loans and private senior notes, \$605 million used during 2010 to repurchase shares of the Company's Series C common and Series C preferred stock, and \$148 million paid during 2010 for the acquisition of the remaining 50% ownership interest in the international Animal Planet and Liv networks. The increases in cash flows used in financing activities during 2010 were partially offset by \$3.0 billion of additional debt offering proceeds received during 2010, \$38 million of additional proceeds received during 2010 for stock options exercised and excess tax benefits from stock-based compensation, and a reduction of repayments made on revolver loans during 2010, since repayments totaled \$315 million during 2009.

Capital Resources

As of December 31, 2011, we had approximately \$2 billion of total capital resources available, which was comprised of the following (in millions).

	Total Capacity	As of December 31, 2011		Unused Capacity
		Outstanding Letters of Credit	Outstanding Indebtedness	
Cash and cash equivalents	\$ 1,048	\$	\$	\$ 1,048
Revolving credit facility	1,000	1		999
Fixed rate public debt:				
3.70% Senior Notes, semi-annual interest, due June 2015	850		850	
5.625% Senior Notes, semi-annual interest, due August 2019	500		500	
5.05% Senior Notes, semi-annual interest, due June 2020	1,300		1,300	
4.375% Senior Notes, semi-annual interest, due June 2021	650		650	
6.35% Senior Notes, semi-annual interest, due June 2040	850		850	
	4,150		4,150	
Total	\$ 6,198	\$ 1	\$ 4,150	\$ 2,047

As of December 31, 2011, \$51 million of the Company's \$1.05 billion of cash and cash equivalents was held by our foreign corporations. We intend to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations. However, if these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds.

Additional information regarding the changes in our outstanding indebtedness and the significant terms and provisions of our revolving credit facility and outstanding indebtedness is discussed in Note 10 to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

Table of Contents**COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS****Contractual Obligations**

As of December 31, 2011, our significant contractual obligations, including related payments due by period, were as follows (in millions).

	Total	Payments Due by Period			More than 5 Years
		Less than 1 Year	1-3 Years	3-5 Years	
Long-term debt:					
Principal payments	\$ 4,150	\$	\$	\$ 850	\$ 3,300
Interest payments	2,702	208	415	368	1,711
Capital lease obligations					
Principal payments	106	26	24	20	36
Interest payments	27	7	9	6	5
Operating lease obligations	306	64	104	65	73
Purchase obligations:					
Content	402	336	64	2	
Other	592	171	175	42	204
Total	\$ 8,285	\$ 812	\$ 791	\$ 1,353	\$ 5,329

The above table does not include certain long-term obligations reflected on our consolidated balance sheet as the timing or the amount of the payments cannot be predicted. Such funding obligations include funding commitments to equity method investees. As of December 31, 2011, we are committed to fund up to \$234 million to equity method investees, of which \$209 million has been funded. Additionally, as of December 31, 2011, we have accrued \$37 million for cash-settled stock-based compensation awards, which are remeasured at fair value each reporting period. Reserves for income taxes have been excluded from the above table because we are unable to reasonably predict the ultimate amount or timing of settlement of our reserves for income taxes. Our reserves for income taxes totaled \$46 million as of December 31, 2011.

Long-term Debt

Principal payments on long-term debt reflect the repayment of our outstanding senior notes, at face value, assuming repayment will occur upon maturity. Interest payments on our outstanding senior notes are projected based on the notes' contractual rate and maturity.

Capital Lease Obligations

We acquire satellite transponders and other equipment through multi-year capital lease arrangements. Principal payments on capital lease obligations reflect amounts due under our capital leases agreements. Interest payments on our outstanding capital lease obligations are based on the stated or implied rate in our capital lease agreements.

Operating Lease Obligations

We obtain office space and equipment under multi-year lease arrangements. Most operating leases are not cancelable prior to their expiration. Payments for operating leases represent the amounts due under the agreements assuming the agreements are not canceled prior to their expiration.

Purchase Obligations

Content purchase obligations include obligations for contracts with certain third-party producers for the production of programming that airs on our television networks. Production contracts generally require us to purchase a specified number of episodes of the program. Content purchase obligations also include program licenses that typically require payments over the terms of the licenses. Licensed programming includes both programs that have been delivered and are available for airing and programs that have not yet been produced. If the programs are not produced, our commitments would generally expire without obligation. We expect to enter into additional production contracts and program licenses to

meet our future programming needs.

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Other purchase obligations include multi-year agreements with certain vendors and suppliers for the purchase of goods and services whereby the underlying agreements are enforceable, legally binding and specify all significant terms. Significant purchase obligations include transmission services, television rating services, marketing research, employment contracts, equipment purchases, and information technology and other services. These contracts typically do not require the purchase of fixed or minimum quantities and generally may be terminated with a 30-day to 60-day advance notice without penalty. Amounts related to employment contracts include base compensation and do not include compensation contingent on future events.

Guarantees

We have guaranteed a certain level of operating performance for The Hub joint venture through December 2015, which is achieved over time as the network operates. As of December 31, 2011, the maximum amount potentially due under this guarantee was less than \$160 million. The maximum exposure to loss is expected to decline to zero during 2015. Additional information regarding our guarantee is discussed in Note 4 to the consolidated financial statements included in Item 8, *Financial Statements and Supplementary Data* in this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements (as defined in Item 303(a)(4) of Regulation S-K) that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

RELATED PARTY TRANSACTIONS

In the ordinary course of business we enter into transactions with related parties, primarily companies in which we have an interest accounted for under the equity method and Liberty Global, Inc., Liberty Interactive, Liberty Media and Ascent Media Corporation and their respective subsidiaries and affiliates. Information regarding transactions and amounts with related parties is discussed in Note 19 to the consolidated financial statements included in Item 8, *Financial Statements and Supplementary Data* in this Annual Report on Form 10-K.

NEW ACCOUNTING AND REPORTING PRONOUNCEMENTS

We adopted certain accounting and reporting standards during 2011. Information regarding our adoption of new accounting and reporting standards is discussed in Note 2 to the consolidated financial statements included in Item 8, *Financial Statements and Supplementary Data* in this Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with GAAP, which requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management considers an accounting policy to be critical if it is important to the Company's financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by management and the related disclosures have been reviewed with the Audit Committee of the Board of Directors of the Company. The Company considers policies relating to the following matters to be critical accounting policies:

Revenue Recognition;

Goodwill and Intangible Assets;

Income Taxes;

Content Rights;

Stock-based Compensation; and

Equity Method Investments.

For a discussion of each of the Company's critical accounting policies, including information and analysis of estimates and assumptions involved in their application, and other significant accounting policies, see Note 2 to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

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ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.

Our financial position, earnings and cash flows are exposed to market risks and can be affected by, among other things, economic conditions, interest rate changes, foreign currency fluctuations, and changes in the market values of investments. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks. We may use derivative financial instruments to modify our exposure to market risks from changes in interest rates and foreign exchange rates. We do not use derivative financial instruments unless there is an underlying exposure. Therefore, we do not hold or enter into financial instruments for speculative trading purposes.

Interest Rates

We are exposed to the impact of interest rate changes primarily through our borrowing activities. As of December 31, 2011, we had outstanding \$4.2 billion under various public senior notes with fixed interest rates. Additionally, we have access to a \$1.0 billion revolving credit facility, with no amounts outstanding as of December 31, 2011. If we were to draw on the revolving credit facility, interest would be variable based on an underlying index rate. The nature and amount of our long-term debt may vary as a result of market conditions and other factors.

Fixed and variable rate debts are impacted differently by changes in interest rates. A change in the interest rate or yield of fixed rate debt will impact the fair market value of such debt, while a change in the interest rate of variable debt will impact interest expense and the cash required to service such debt. Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we may use interest rate swaps to manage our net exposure to interest rate changes related to our outstanding indebtedness. For fixed rate debt, we may enter into variable interest rate swaps, effectively converting fixed rate borrowings to variable rate borrowings indexed to LIBOR, in order to reduce the amount of interest paid. For variable rate debt, we may enter into fixed interest rate swaps to effectively fix the amount of interest paid in order to mitigate the impact of interest rate changes on earnings. There were no interest rate swaps outstanding as of December 31, 2011.

As of December 31, 2011, the fair value of our outstanding public senior notes was \$4.6 billion. The potential change in fair value of these senior notes from an adverse 100 basis-point change in quoted interest rates across all maturities, often referred to as a parallel shift in the yield curve, would be approximately \$394 million as of December 31, 2011.

Foreign Currency Exchange Rates

We transact business globally and are subject to risks associated with changing foreign currency exchange rates. Through December 31, 2011, our International Networks segment reported into the following four regions: Western Europe, CEEMEA, Asia-Pacific, and Latin America. Cash is managed from our four international regions with net earnings reinvested locally and working capital requirements met from existing liquid funds. To the extent such funds are not sufficient to meet working capital requirements, draw downs in the appropriate local currency are available from intercompany borrowings. Since earnings of our international operations are expected to be reinvested in those businesses indefinitely, we do not hedge our investment in the net assets of those foreign operations.

The functional currency of substantially all of our international subsidiaries is the local currency. The financial statements of our foreign corporations are translated into U.S. dollars as part of our consolidated financial reporting. As a result, fluctuations in exchange rates affect our financial position and results of operations. The majority of our foreign currency exposure is to the British pound and the Euro.

We may enter into spot, forward and option contracts that change in value as foreign currency exchange rates change to hedge certain exposures associated with the cost for producing or acquiring programming abroad. These contracts hedge forecasted foreign currency transactions in order to mitigate fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates. Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flows. We did not hold any foreign currency derivative instruments at December 31, 2011.

Market Values of Investments

We had investments in entities accounted for using the equity method and highly liquid instruments such as mutual funds that are accounted for at fair value. The carrying values of investments in equity method investees were \$807 million and the carrying values of investments in mutual funds totaled \$711 million at December 31, 2011. Investments in mutual funds include both fixed rate and floating rate interest earning securities that carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our income from such investments may decrease in the future. A hypothetical 100 basis-point increase in interest rates would not materially impact the fair values of

our investments in mutual funds as of December 31, 2011.

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ITEM 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Financial Statements of Discovery Communications, Inc.:	
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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Discovery Communications, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of the inherent limitations in any internal control, no matter how well designed, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2011 based on the framework set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that, as of December 31, 2011, the Company's internal control over financial reporting was effective based on the specified criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report in Item 8 of Part II of this Annual Report on Form 10-K under the caption Report of Independent Registered Public Accounting Firm.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Board of Directors and

Stockholders of Discovery Communications, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equity, and of cash flows present fairly, in all material respects, the financial position of Discovery Communications, Inc. and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia

February 17, 2012

Table of Contents**DISCOVERY COMMUNICATIONS, INC.****CONSOLIDATED BALANCE SHEETS**

(in millions, except par value)

	As of December 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,048	\$ 466
Receivables, net	1,042	880
Content rights, net	93	83
Deferred income taxes	73	81
Prepaid expenses and other current assets	175	225
Total current assets	2,431	1,735
Noncurrent content rights, net	1,302	1,245
Property and equipment, net	379	399
Goodwill	6,291	6,434
Intangible assets, net	571	605
Equity method investments	807	455
Other noncurrent assets	132	146
Total assets	\$ 11,913	\$ 11,019
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 53	\$ 87
Accrued liabilities	482	393
Deferred revenues	113	114
Current portion of stock-based compensation liabilities	27	118
Current portion of long-term debt	26	20
Other current liabilities	45	53
Total current liabilities	746	785
Long-term debt	4,219	3,598
Deferred income taxes	337	304
Other noncurrent liabilities	92	99
Total liabilities	5,394	4,786
Commitments and contingencies (See Note 20)		
Equity:		
Discovery Communications, Inc. stockholders' equity:		
Series A convertible preferred stock: \$0.01 par value; 75 shares authorized; 71 shares issued at 2011 and 2010	1	1
Series C convertible preferred stock: \$0.01 par value; 75 shares authorized; 57 shares issued at 2011 and 2010	1	1
Series A common stock: \$0.01 par value; 1,700 shares authorized; 142 and 138 shares issued at 2011 and 2010, respectively	1	1
Series B convertible common stock: \$0.01 par value; 100 shares authorized; 7 shares issued at 2011 and 2010		
Series C common stock: \$0.01 par value; 2,000 shares authorized; 142 shares issued at 2011 and 2010	2	2
Additional paid-in capital	6,505	6,358

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Treasury stock, at cost: 30 and 3 Series C common shares at 2011 and 2010, respectively	(1,102)	(105)
Retained earnings	1,132	
Accumulated other comprehensive loss	(23)	(33)
Total Discovery Communications, Inc. stockholders' equity	6,517	6,225
Noncontrolling interests	2	8
Total equity	6,519	6,233
Total liabilities and equity	\$ 11,913	\$ 11,019

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**DISCOVERY COMMUNICATIONS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in millions, except per share amounts)

	Year Ended December 31,		
	2011	2010	2009
Revenues:			
Distribution	\$ 2,070	\$ 1,832	\$ 1,719
Advertising	1,852	1,645	1,427
Other	313	296	312
Total revenues	4,235	3,773	3,458
Costs and expenses:			
Costs of revenues, excluding depreciation and amortization	1,233	1,073	1,044
Selling, general and administrative	1,183	1,185	1,188
Depreciation and amortization	119	130	152
Restructuring and impairment charges	30	25	52
Gains on dispositions	(129)		(252)
Total costs and expenses	2,436	2,413	2,184
Operating income	1,799	1,360	1,274
Interest expense, net	(208)	(203)	(248)
Loss on extinguishment of debt		(136)	
Other (expense) income, net	(32)	(86)	13
Income from continuing operations before income taxes	1,559	935	1,039
Provision for income taxes	(425)	(288)	(469)
Income from continuing operations, net of taxes	1,134	647	570
(Loss) income from discontinued operations, net of taxes	(1)	22	(6)
Net income	1,133	669	564
Net income attributable to noncontrolling interests	(1)	(16)	(15)
Net income attributable to Discovery Communications, Inc.	1,132	653	549
Stock dividends to preferred interests		(1)	(8)
Net income available to Discovery Communications, Inc. stockholders	\$ 1,132	\$ 652	\$ 541
Income per share from continuing operations available to Discovery Communications, Inc. stockholders:			
Basic	\$ 2.82	\$ 1.48	\$ 1.29
Diluted	\$ 2.80	\$ 1.47	\$ 1.29
(Loss) income per share from discontinued operations available to Discovery Communications, Inc. stockholders:			
Basic	\$	\$ 0.05	\$ (0.01)

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Diluted	\$	\$ 0.05	\$ (0.01)
Net income per share available to Discovery Communications, Inc. stockholders:			
Basic	\$	2.82	\$ 1.53
			\$ 1.28
Diluted	\$	2.80	\$ 1.52
			\$ 1.27
Weighted average shares outstanding:			
Basic		401	425
			423
Diluted		405	429
			425

Income per share amounts may not sum since each is calculated independently.

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**DISCOVERY COMMUNICATIONS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

	Year Ended December 31,		
	2011	2010	2009
Operating Activities			
Net income	\$ 1,133	\$ 669	\$ 564
Adjustments to reconcile net income to cash provided by operating activities:			
Stock-based compensation	99	182	228
Depreciation and amortization	119	132	155
Content amortization and impairment expense	846	715	709
Gains on dispositions	(129)	(9)	(252)
Equity in losses and distributions from investee companies	65	72	28
Other, net	109	58	44
Changes in operating assets and liabilities:			
Receivables, net	(179)	(81)	(37)
Content rights	(884)	(774)	(758)
Accounts payable and accrued liabilities	6	(1)	28
Stock-based compensation liabilities	(126)	(158)	(81)
Income tax receivable	72	(107)	
Other, net	(31)	(30)	14
Cash provided by operating activities	1,100	668	642
Investing Activities			
Purchases of property and equipment	(58)	(49)	(55)
Business acquisitions, net of cash acquired	(26)	(38)	
Proceeds from dispositions, net		24	300
Investment proceeds	21		24
Investments in, advances to and payments on behalf of equity investees	(151)	(127)	(31)
Cash (used in) provided by investing activities	(214)	(190)	238
Financing Activities			
Net repayments of revolver loans			(315)
Borrowings from long-term debt, net of discount and issuance costs	639	2,970	970
Principal repayments of long-term debt		(2,883)	(1,012)
Principal repayments of capital lease obligations	(20)	(10)	(14)
Repurchases of common and preferred stock	(997)	(605)	
Purchase of noncontrolling interests		(148)	
Cash distributions to noncontrolling interests	(7)	(31)	(13)
Proceeds from stock option exercises	60	47	28
Excess tax benefits from stock-based compensation	28	19	
Cash used in financing activities	(297)	(641)	(356)
Effect of exchange rate changes on cash and cash equivalents	(7)	6	5
Net change in cash and cash equivalents	582	(157)	529
Cash and cash equivalents, beginning of period	466	623	94

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Cash and cash equivalents, end of period	\$ 1,048	\$ 466	\$ 623
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**DISCOVERY COMMUNICATIONS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

(in millions)

	Year Ended December 31,		
	2011	2010	2009
Supplemental Cash Flow Information			
Cash paid for interest, net:			
Periodic interest payments for debt, interest rate swaps and capital lease obligations	\$ 205	\$ 217	\$ 242
Make-whole premiums, termination payments and repayment of original issue discount		148	3
Total cash paid for interest, net	\$ 205	\$ 365	\$ 245
Cash paid for taxes, net	\$ 288	\$ 395	\$ 444
Noncash Investing and Financing Transactions			
Investment in OWN	\$ 273	\$	\$
Assets acquired under capital lease arrangements	\$	\$ 28	\$ 61
Stock dividends to preferred interests	\$	\$ 1	\$ 8
Acquisitions			
Fair value of assets	\$ 35	\$ 38	\$
Fair value of liabilities	(9)		
Cash paid, net of cash acquired	\$ 26	\$ 38	\$

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**DISCOVERY COMMUNICATIONS, INC.****CONSOLIDATED STATEMENTS OF EQUITY****(in millions)**

	Discovery Communications, Inc. Stockholders									
	Preferred	Common	Additional	Treasury	(Accumulated	Accumulated	Discovery	Noncontrolling	Total	
	Stock	Stock	Paid-In	Stock	Deficit)/	Other	Communications,	Interests	Equity	
	Stock	Stock	Capital	Stock	Earnings	Loss	Equity	Equity	Equity	
As of December 31, 2008	\$ 2	\$ 3	\$ 6,545	\$	\$ (936)	\$ (78)	\$ 5,536	\$ 21	\$ 5,557	
Comprehensive income:										
Net income					549		549	15	564	
Foreign currency translation adjustments, net						27	27		27	
Market value adjustments and reclassifications for securities and derivatives, net						30	30		30	
Total comprehensive income							606	15	621	
Stock dividends declared to preferred interests			(8)				(8)			