

Discovery Communications, Inc.

Form 10-Q

November 02, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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)

Not Applicable

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Total number of shares outstanding of each class of the Registrant's common stock as of October 26, 2010:

Series A Common Stock, \$0.01 par value	137,087,129
Series B Common Stock, \$0.01 par value	6,589,084
Series C Common Stock, \$0.01 par value	140,640,756

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements.****DISCOVERY COMMUNICATIONS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited; in millions, except par value)**

	As of September 30, 2010	As of December 31, 2009 (recast)
ASSETS		
Current assets:		
Cash and cash equivalents (including \$10 and \$40 held by VIEs at 2010 and 2009, respectively)	\$ 1,016	\$ 623
Receivables, net	843	812
Content rights, net	81	75
Prepaid expenses and other current assets	197	161
Total current assets	2,137	1,671
Noncurrent content rights, net	1,229	1,207
Property and equipment, net	389	409
Goodwill	6,435	6,433
Intangible assets, net	615	643
Other noncurrent assets	593	589
Total assets	\$ 11,398	\$ 10,952
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 464	\$ 446
Current portion of long-term debt	18	38
Other current liabilities	310	299
Total current liabilities	792	783
Long-term debt	3,595	3,457
Other noncurrent liabilities	267	443
Commitments and contingencies (Note 16)		
Redeemable noncontrolling interests	49	49
Equity:		
Discovery Communications, Inc. stockholders' equity:		
Series A convertible preferred stock: \$0.01 par value; 75 shares authorized; 71 shares issued at 2010 and 2009	1	1
Series C convertible preferred stock: \$0.01 par value; 75 shares authorized; 71 shares issued at 2010 and 2009	1	1
	1	1

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Series A common stock: \$0.01 par value; 1,700 shares authorized; 137 and 135 shares issued at 2010 and 2009, respectively

Series B convertible common stock: \$0.01 par value; 100 shares authorized; 7 shares issued at 2010 and 2009

Series C common stock: \$0.01 par value; 2,000 shares authorized; 142 shares issued at 2010 and 2009	2	2
Additional paid-in capital	6,664	6,600
Treasury stock, at cost: Series C common stock: 1.12 shares at 2010	(38)	
Retained earnings (accumulated deficit)	75	(387)
Accumulated other comprehensive loss	(23)	(21)
Total Discovery Communications, Inc. stockholders equity	6,683	6,197
Noncontrolling interests	12	23
Total equity	6,695	6,220
Total liabilities and equity	\$ 11,398	\$ 10,952

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009 (recast)	2010	2009 (recast)
Revenues:				
Distribution	\$ 452	\$ 422	\$ 1,346	\$ 1,266
Advertising	402	341	1,185	1,009
Other	72	74	227	233
Total revenues	926	837	2,758	2,508
Costs of revenues, excluding depreciation and amortization listed below				
Selling, general and administrative	306	324	894	885
Depreciation and amortization	32	39	98	115
Restructuring and impairment charges	15	2	18	40
Gains on dispositions				(252)
	614	616	1,792	1,539
Operating income	312	221	966	969
Interest expense, net	(49)	(65)	(155)	(182)
Loss on extinguishment of debt			(136)	
Other (expense) income, net	(16)	(1)	(57)	10
Income from continuing operations before income taxes	247	155	618	797
Provision for income taxes	(83)	(52)	(171)	(387)
Income from continuing operations, net of taxes	164	103	447	410
Income (loss) from discontinued operations, net of taxes	25	1	25	(2)
Net income	189	104	472	408
Less net income attributable to noncontrolling interests	(3)	(4)	(10)	(10)
Net income attributable to Discovery Communications, Inc.	186	100	462	398
Stock dividends to preferred interests		(6)	(1)	(8)
Net income available to Discovery Communications, Inc. stockholders	\$ 186	\$ 94	\$ 461	\$ 390
Income per share from continuing operations available to Discovery Communications, Inc. stockholders:				
Basic	\$ 0.38	\$ 0.22	\$ 1.03	\$ 0.93

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Diluted	\$	0.37	\$	0.22	\$	1.01	\$	0.92
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Income (loss) per share from discontinued operations available to Discovery Communications, Inc. stockholders:

Basic	\$	0.06	\$		\$	0.06	\$	
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Diluted	\$	0.06	\$		\$	0.06	\$	
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Net income per share available to Discovery Communications, Inc. stockholders:

Basic	\$	0.44	\$	0.22	\$	1.08	\$	0.92
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Diluted	\$	0.43	\$	0.22	\$	1.07	\$	0.92
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