Discovery Communications, Inc.
Form 10-K/A
February 19, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

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

For the fiscal year ended December 31, 2012

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)

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 ý   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 ý
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes ý   No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).   Yes ý   No ¨
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. ý
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	ý	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 ý
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, 2012, was approximately $12 billion.
Total number of shares outstanding of each class of the Registrant's common stock as of February 7, 2013 was:

Series A Common Stock, par value $0.01 per share	145,124,861
Series B Common Stock, par value $0.01 per share	6,549,897
Series C Common Stock, par value $0.01 per share	93,580,324

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 2013 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.

EXPLANATORY NOTE

The Company is filing this Amendment No. 1 ("Amendment No. 1") to its Annual Report on Form 10−K for the fiscal year ended December 31, 2012 (the "Initial Report") solely to correct typographical errors in the certifications contained in Exhibits 31.1, 31.2, 32.1 and 32.2 to the Initial Report. The corrected certifications are filed as Exhibits 31.1, 31.2, 32.1 and 32.2 to this Amendment No. 1. This Amendment No. 1 does not change the Company's previously reported consolidated financial statements or make any other changes to the Initial Report and should be read in conjunction with the Initial Report. The Company has not updated the disclosures contained in the Initial Report to reflect any events that have occurred after the filing date of the Initial Report.

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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 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 media company that provides content across multiple distribution platforms, including digital distribution arrangements, throughout the world. 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”). 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 content to more than 1.9 billion cumulative subscribers worldwide through networks that we wholly or partially own. We distribute customized content in the U.S. and over 200 other countries and territories in over 40 languages. 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 develop and sell curriculum-based education products and 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 content niche with strong consumer appeal. Our strategy is to maximize 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, on-line streaming, mobile devices, video on demand (“VOD”) and broadband channels, which provide promotional platforms for our television content and serve as additional outlets for advertising and distribution revenue. Audience ratings are a key driver in generating advertising revenue and creating demand on the part of cable television operators, direct-to-home (“DTH”) satellite operators, and other content distributors who deliver our content to their customers.

Our content spans genres including science, exploration, survival, natural history, technology, docu-series, anthropology, paleontology, history, space, archeology, health and wellness, engineering, adventure, lifestyles, forensics, civilizations, current events and kids. We have an extensive library of content and own all or most rights to the majority of our content and footage, which enables us to exploit our library to launch brands and services into new markets quickly. Our content 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 content is produced in high definition (“HD”) format.

We classify our operations in three segments: U.S. Networks, consisting principally of domestic television networks, websites and digital distribution arrangements; International Networks, consisting primarily of international television networks and websites; and Education, consisting principally of curriculum-based product and service offerings. 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, 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 content services. By way of example, two households that each receive five of our networks from their television provider represent two subscribers, but 10 cumulative subscribers.

U.S. NETWORKS

U.S. Networks generated revenues of $2,748 million during 2012, which represented 61% of our total consolidated revenues. Our U.S. Networks segment principally consists of national television networks. Our U.S. Networks segment wholly owns and operates nine national television networks, including fully distributed television networks such as Discovery Channel, TLC, Animal Planet, Investigation Discovery and Science. Discovery Channel, TLC and Animal Planet collectively generated 72% of U.S. Networks' total revenue. In addition, this segment holds equity method interests in OWN, The Hub and 3net.

- Discovery Channel reached approximately 99 million subscribers in the U.S. as of December 31, 2012. Discovery Channel also reached 8 million subscribers through a licensing arrangement with partners in Canada as of December 31, 2012.
- Discovery Channel is dedicated to providing 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.
- Content on Discovery Channel includes Deadliest Catch, Mythbusters, Jungle Gold, Yukon Men, Moonshiners and Gold Rush. Discovery Channel is also home to specials and mini-series such as Frozen Planet.
- Target viewers are adults ages 25-54, particularly men.
- Discovery Channel is simulcast in HD.

- TLC reached approximately 99 million subscribers in the U.S. as of December 31, 2012. TLC also reached approximately 7 million subscribers in Canada as of December 31, 2012, according to internal data.
- TLC features docu-series and reality-based content about people.
- Content on TLC includes Cake Boss, Say Yes to the Dress, Sister Wives, Honey Boo Boo, 19 Kids and Counting, What Not to Wear and Long Island Medium.
- Target viewers are adults ages 18-54, particularly women.
- TLC is simulcast in HD.

- Animal Planet reached approximately 97 million subscribers in the U.S. as of December 31, 2012. Animal Planet also reached 2 million subscribers through a licensing arrangement with partners in Canada as of December 31, 2012.
- Animal Planet provides content related to life in the animal kingdom and human interaction with animals.
- Content on Animal Planet includes River Monsters, Finding Bigfoot, Whale Wars, Call of the Wildman, Tanked, Gator Boys and Too Cute.
- Target viewers are adults ages 25-54.
- Animal Planet is simulcast in HD.

- Investigation Discovery reached approximately 80 million subscribers in the U.S. as of December 31, 2012.
- Investigation Discovery offers mystery and true story content 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.
- Content on Investigation Discovery includes 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, particularly women.
- Investigation Discovery is simulcast in HD.

- SCIENCE reached approximately 77 million subscribers in the U.S. as of December 31, 2012.
- SCIENCE provides content that explores the possibilities of science, from string theory and futuristic cities to accidental discoveries and outrageous inventions.
- Content on SCIENCE includes Through the Wormhole with Morgan Freeman, An Idiot Abroad, How the Universe Works, How It's Made, Dark Matters, Oddities and Punkin Chunkin.
- Target viewers are adults ages 25-54.
- SCIENCE is simulcast in HD.

- Military Channel reached approximately 61 million subscribers in the U.S. as of December 31, 2012. Military Channel also reached approximately 1 million subscribers in Canada as of December 31, 2012, according to internal data.
- 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.
- Content on Military Channel includes 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.

- Rebranded from Planet Green as of May 28, 2012, Destination America reached approximately 60 million subscribers in the U.S. as of December 31, 2012.
- Destination America celebrates the people, places and stories of the United States, featuring travel, food, adventure, home and natural history programming.
- Content on Destination America includes BBQ Pitmasters, United States of Bacon, A Haunting, Cheating Vegas and Buying Alaska.
- Target viewers are adults ages 18-54.
- Destination America is simulcast in HD.

- Discovery Fit & Health reached approximately 49 million subscribers in the U.S. as of December 31, 2012.
- Discovery Fit & Health content includes forensic mysteries, medical stories, emergency room trauma dramas, baby and pregnancy content, parenting challenges and stories of extreme life conditions.
- Content on Fit & Health includes Dr. G: Medical Examiner, Secretly Pregnant, Untold Stories of the ER, Addicted and Gilad's Bodies in Motion.
- Target viewers are adults ages 25-54.

- Velocity reached approximately 45 million subscribers in the U.S. as of December 31, 2012.
- Velocity showcases premier high definition real world content in the automotive, adventure, lifestyle and travel genres, including live auctions, world rally championships, and historical and biographical series. Velocity broadcasts only in high definition.
- Content on Velocity includes Inside West Coast Customs, Mecum Auto Auctions, Café Racer, Man vs Wild, Tech Toys, Saw Dogs 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 reached approximately 80 million subscribers in the U.S. as of December 31, 2012.
- 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.
- Content on OWN includes Oprah’s Next Chapter, Iyanla: Fix My Life, Welcome to Sweetie Pie’s, Our America with Lisa Ling, Oprah’s Life Class and Oprah’s Master Class.
- Target viewers are adults 25-54, particularly women.
- OWN is simulcast in HD.

- The Hub reached approximately 71 million subscribers in the U.S. as of December 31, 2012.
- The Hub features original content, 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 content, and third-party acquisitions.
- Content on The Hub includes 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 is available to all DIRECTV subscribers in the U.S. with 3D capable television sets as of December 31, 2012.
- 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.
- Content on 3net includes African Wild, Marksmen, Forgotten Planet, From the Basement and Storm Surfers.
- Target viewers are adults 25-54.

INTERNATIONAL NETWORKS

International Networks generated revenues of $1,637 million during 2012, which represented 37% of our total consolidated revenues. Our International Networks segment principally consists of national and pan-regional television networks. This segment generates revenue from operations in virtually every pay-television market in the world through an infrastructure that includes operational centers in London, Singapore and Miami. Discovery Channel, Animal Planet and TLC lead the International Networks' portfolio of television networks. International Networks has one of the largest international distribution platforms of networks with as many as fourteen networks in more than 200 countries and territories around the world. At December 31, 2012, International Networks operated over 180 unique distribution feeds in over 40 languages with channel feeds customized according to language needs and advertising sales opportunities. International Networks also has free-to-air networks in the U.K., Germany, Italy and Spain and continues to pursue international expansion.

Our International Networks segment owns and operates the following television networks which reached the following number of subscribers as of December 31, 2012:

Global Networks	International Subscribers (millions)	Regional Networks	International Subscribers (millions)
Discovery Channel	246	DMAX	90
Animal Planet	183	Discovery Kids	61
TLC, Real Time and Travel & Living	174	Quest	26
Discovery Science	75	Discovery History	13
Investigation Discovery	63	Shed	12
Discovery Home & Health	57	Discovery en Espanol (U.S.)	5
Turbo	42	Discovery Familia (U.S)	4
Discovery World	27		

On December 21, 2012, our International Networks segment acquired 20% equity ownership interests in Eurosport, a European sports satellite and cable network, and a portfolio of pay television networks from TF1, a French media company, for $264 million, including transaction costs. We have a call right that enables us to purchase a controlling interest in Eurosport starting December 2014 and for one year thereafter. If we exercise our call right, TF1 will have the right to put its remaining interest to us for one year thereafter. The arrangement is intended to increase the growth of Eurosport, which focuses on niche but regionally popular sports such as tennis, skiing, cycling and skating, and enhance our pay television offerings in France. On December 28, 2012, we acquired Switchover Media, a group of five Italian television channels with children's and entertainment programming. (See Note 3 to the accompanying consolidated financial statements.)

EDUCATION

Education generated revenues of $105 million during 2012, which represented 2% of our total consolidated revenues. Education is comprised of curriculum-based product and service offerings. 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, digital textbooks and, to a lesser extent, student assessments and publication of hardcopy curriculum-based content. Our education business also participates in global brand and content licensing and engages in partnerships with leading non-profits, corporations, foundations and trade associations.

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. Our content is sourced from a wide range of third-party producers, which include some of the world's leading nonfiction production companies as well as independent producers. Our production arrangements fall into three categories: produced, coproduced and licensed. Substantially all produced content includes content that 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 that we have collaborated with third parties to finance and develop because at times world-wide rights are not available for acquisition or we save costs by collaborating with third parties. Licensed content is comprised of films or series that have been previously produced by third parties.

International Networks maximizes the use of content 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 content translates well across international borders and is made even more accessible through extensive use of dubbing and subtitles in local languages. Our content 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 content that is tailored to individual market preferences, which is typically produced through third-party production companies. International Networks executes a localization strategy by offering content from U.S. Networks, customized content and localized schedules via our distribution feeds. While our International Networks segment maximizes the use of content from U.S. Networks, we also develop local content that is tailored to individual market preferences.

Our largest single cost is content expense, which includes content amortization, content impairments and production costs. We amortize the cost of capitalized content rights based on the proportion that the current year's 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.

REVENUES

We generate revenues principally from: (i) fees charged to operators who distribute our network content, which primarily include cable, DTH satellite and digital service providers, (ii) advertising sold on our networks and websites, and (iii) other transactions, including curriculum-based products and services, affiliate and advertising sales representation services, content licenses and the licensing of our brands for consumer products. During 2012, distribution, advertising, and other revenues were 49%, 46% and 5%, respectively, of consolidated revenue. No individual customer represented more than 10% of our total consolidated revenues for 2012, 2011 or 2010.

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 our television networks. 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. Typically, our television networks are aired pursuant to multi-year carriage agreements that provide for the level of carriage that Discovery’s networks will receive, and, if applicable, for scheduled graduated annual rate increases. Carriage of our networks depends upon channel placement and package inclusion, such as whether networks are on the more widely distributed, broader packages or lesser-distributed, specialized packages. Distribution revenues are largely dependent on the rates negotiated in the agreements, the number of subscribers that receive our networks or content, and the market demand for the content that we provide. We have provided distributors launch incentives, in the form of cash payments or free periods, to carry our networks.

Distribution revenue also includes fees charged for bulk content arrangements and other subscription services for episodic content. Digital distribution agreements are impacted by the quantity, as well as the quality, of the content Discovery provides.

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 2013 through 2020. Outside of the U.S., approximately 50% of distribution revenue comes from the top 10 distributors. Distribution fees are typically collected ratably throughout the year. International television markets vary in their stages of development. Some, notably the U.K., are more advanced digital multi-channel television markets, while others operate in the analog environment with varying degrees of investment from distributors in expanding channel capacity or converting to digital.

Advertising

Our advertising revenue consists 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 a term of one year or less.

In the U.S., we sell advertising time in 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 closer to the time when the commercials will be run. Advertising revenue is dependent upon a number of factors, including the stage of development of television markets, the popularity of free-to-air television, the number of subscribers to our channels, viewership demographics, the popularity of our content 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 mature markets, such as the U.S. and Western Europe, high proportions of market penetration and distribution are unlikely to drive rapid revenue growth. Instead, growth in advertising sales comes from increasing viewership and pricing and launching new services, either in pay television or free-to-air television environments.

Revenue from advertising is subject to seasonality, market-based variations and general economic conditions. Advertising revenue is typically highest in the second and fourth quarters. 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 revenue from the sale of advertising on our websites on a stand-alone basis and as part of advertising packages with our television networks.

Other

We also generate income associated with providing affiliate and advertising sales representation and network services for equity method investee networks, curriculum-based products and services and the licensing of our brands for consumer products.

COMPETITION

Television network content is a highly competitive business worldwide. We experience competition for the development and acquisition of content, distribution of our content, selling of commercial time on our networks and viewership. Our networks compete with studios, television networks, and the internet for the acquisition of content and creative talent such as writers, producers and directors. Our ability to produce and acquire popular content is an important competitive factor for the distribution of our networks, attracting viewers and the sale of advertising. Our success in securing popular content and creative talent depends on various factors such as the number of competitors providing content 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 content and fees charged to cable television operators, DTH satellite service providers, and other distributors that carry our network content. Our ability to secure distribution agreements is necessary to ensure the retention of our audiences. Our contractual agreements with distributors are renewed or renegotiated from time to time in the ordinary course of business. Growth in the number of networks distributed, consolidation and other market conditions in the cable and satellite distribution industry, and increased popularity of other platforms may adversely affect our ability to obtain and maintain contractual terms for the distribution of our content 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 content, viewership, the marketing and advertising support and incentives provided to distributors, the product offering across a series of networks within a region, 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 content 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 content, 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 content 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 competes with other providers of curriculum-based products and services to schools.

INTELLECTUAL PROPERTY

Our intellectual property assets include copyrights in television content, trademarks in brands, names and logos, websites, and licenses of intellectual property rights from third parties.

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 difficult and costly. We seek to limit unauthorized use of our intellectual property through a combination of approaches. However, the steps taken to prevent the infringement of our intellectual property by unauthorized third parties may not work.

Third parties may challenge the validity or scope of our intellectual property from time to time, and the success of any 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 the theft of our signal, and unauthorized use of our content, in the digital environment continues to present a threat to revenues from products and services based on our 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 the countries and international bodies, such as the European Union, in which we operate. Content 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 operator. Other FCC regulations, although imposed on cable television operators and direct broadcast satellite ("DBS") operators, affect content 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 content vendor in which a cable operator has an “attributable” ownership interest from discriminating among competing multichannel video content distributors (“MVPDs”), such as cable and DBS operators, in the rates, terms and conditions for the sale or delivery of content. These rules also permit MVPDs to initiate complaints to the FCC against content networks if an MVPD claims it is unable to obtain rights to carry the content network on nondiscriminatory rates, terms or conditions. The FCC allowed a previous blanket prohibition on exclusive arrangements with cable operators to expire in October 2012, but will consider case-by-case complaints that exclusive contracts between cable operators and cable-affiliated programmers significantly hinder or prevent a competing MVPD from providing satellite or cable programming.

“Must-Carry”/Retransmission Consent

The Cable Television Consumer Protection and Competition Act of 1992 (the “Act”) imposes “must-carry” regulations on cable systems, requiring them to carry the signals of most local broadcast television stations in their market. 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 operators. 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 content to obtain carriage for their affiliated networks. Increasingly, broadcasters are additionally seeking substantial monetary compensation for granting carriage rights for their must-have broadcast content. Such increased financial demands on distributors reduce the content 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 content for the hearing impaired. Additionally, our content 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’ content stream adhere to certain standards for ensuring that those commercials are not transmitted at louder volumes than our program material. The 21st Century Communications and Video Accessibility Act of 2010 requires us to provide closed captioning on certain IP-delivered video content that we offer.

Obscenity Restrictions

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

Violent Programming

In 2007, the FCC issued a report on violence in programing that recommended Congress prohibit the availability of violent programming, including cable programming, during hours when children are likely to be watching. Recent events have led to a renewed interest by some members of Congress in the alleged effects of violent programming, which could lead to a renewal of interest in limiting the availability of such programming or prohibiting it.

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 Children's Online Privacy 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 on-line 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 on-line 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, 2012, we had approximately 4,500 employees, including full-time and part-time employees of our wholly-owned subsidiaries and consolidated ventures.

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 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 entertainment content, which is difficult to predict.

The production and distribution of 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 that meets the changing preferences of viewers in general, in special interest groups, in specific demographic categories and in various international marketplaces. The commercial success of our content also depends upon the quality and acceptance of competing content available in the applicable marketplace. At the same time, certain of our consolidated and equity method investee networks are new. There is no assurance of audience acceptance of the programming available on these new brands. Other factors, including the availability of alternative forms of entertainment and leisure time activities, general economic conditions, piracy, 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.

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, content offered over the

Internet has become more prevalent as the speed and quality of broadband networks have improved. Providers such as Hulu, Netflix, Apple TV, Amazon, Google TV and Intel, as well as gaming and other consoles such as Microsoft's Xbox, Sony's PS3, Nintendo's Wii and Roku, are aggressively establishing themselves as alternative providers of video services. These services and the growing availability of online content, coupled with an expanding market for mobile devices and tablets that allow users to view content on an on-demand basis 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, including commercials, such as DVRs and portable digital devices and systems that enable users to store or make portable copies of content, 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.

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 on-line 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 on-line businesses compete for users and advertising in the 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 content, 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 2013 through 2020. In addition, many of the 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 content and increase the negotiating leverage of our distributors which could adversely affect our revenue.

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. 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.

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 integrate, operate, maintain and manage our newly acquired operations or employees successfully or profitably . We may not be able to maintain uniform standards, controls, procedures and policies, and this may lead to operational inefficiencies. The integration of the SBS Nordic business, following the completion of that acquisition, and other recently acquired businesses and assets may not be successful, may divert management attention and could have an adverse effect on our results of operations.

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.

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. 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 recently launched networks, which may require significant funding before achieving profitability.

Our business could be adversely affected by any worsening of the current economic condition.

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, including the potential negative impact of the so-called "fiscal cliff" on financial markets and overall economic activity, 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.

Our substantial debt leverage and debt service obligations may adversely affect us.

As of December 31, 2012, we had approximately $5.2 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 associated with 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.

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

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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.

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.

Restrictive covenants in the loan agreement 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 for repatriation of 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, exchange controls, tariffs and other trade barriers, longer payment cycles, foreign taxation, corruption, and increased risk of political instability in some markets. 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 U.S. We also may incur substantial expense as a result of changes, including the imposition of new restrictions, in the existing economic or political environment in the regions where we do business. Acts of terrorism, hostilities, or financial, political, economic or other uncertainties could lead to a reduction in revenue or loss of investment, which could adversely affect our 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.

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 multichannel video programming distributors, 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 content business. See the discussion under "Business – Regulatory Matters" above. The U.S. Congress, the FCC and the courts currently have under consideration, and may adopt in the future, 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 content 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 entertainment content 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, digital content and other intellectual property has the potential to significantly and 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 content 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 Media Corporation ("Liberty Media"), Liberty Global, Inc. ("Liberty Global"), Liberty Interactive Corporation ("Liberty Interactive") 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, three persons who are currently members of the board of directors of Liberty Global and two persons who are currently members of the board of directors of 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 owns any interest in us. Mr. Malone beneficially owns stock of Liberty Media representing approximately 40% of the aggregate voting power of its outstanding stock, owns shares representing approximately 36% of the aggregate voting power of Liberty Global, shares representing approximately 34% of the aggregate voting power of Liberty Interactive, and 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 29% of our aggregate voting power relating to the election of our eight common stock directors, assuming that the preferred stock owned 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 and/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

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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 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 us and 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, and 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 in the absence of a conflict of interest.

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

Liberty Media, Liberty Global and Liberty Interactive own interests in various U.S. and international companies that have subsidiaries that own or operate domestic or foreign content services that may compete with the content services we offer. We have no rights in respect of U.S. or international content opportunities developed by or presented to the subsidiaries of Liberty Media, Liberty Global 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, Liberty Global 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 on-line 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 co-production agreements for content 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 content offered by us, in particular on our Velocity network. 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 in the absence of a conflict of interest.

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 by-laws;

engaging in a merger, consolidation or other business combination with any other entity; and
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;
- 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 ofDirectors;
- 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 transferable 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 29% 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 three preferred stock directors to our board (subject to certain conditions), but does 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, Mr. Malone and Advance/Newhouse each have significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

We own and lease 1.5 million square feet of building space for the conduct of our businesses at 57 locations throughout the world. In the U.S. alone, we own and lease approximately 597,000 and 589,000 square feet of building space, respectively, at 21 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 certain executive offices and general office space by our U.S. Networks, International Networks and Education segments, (ii) general office space at 850 Third Avenue, New York, New York, where approximately 179,000 square feet is primarily used for sales by our U.S. Networks segment and certain executive offices, (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 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, (v) 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 (vi) 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 content by our U.S. Networks segment.

We also lease over 357,000 square feet of building space at 36 locations outside of the U.S., including the U.K., Singapore, India, and Italy.

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 14, 2013.

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. ("NBC"), a media and entertainment company, 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.
Andrew Warren Born September 8, 1966	Senior Executive Vice President, Chief Financial Officer. Mr. Warren has served as our Senior Executive Vice President, Chief Financial Officer since March 2012. Mr. Warren served as Chief Financial Officer of Liz Claiborne, Inc. (now Fifth & Pacific Companies Inc.) a designer, marketer and retail supplier of premium lifestyle fashion brands, from 2007 to 2012.
Mark G. Hollinger Born August 26, 1959	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.
Adria Alpert-Romm Born March 2, 1955	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.
Bruce L. Campbell Born November 26, 1967	Senior Executive Vice President, Chief Development Officer and General Counsel. Mr. Campbell became Chief Development Officer in August 2010 and our General Counsel in December 2010. Prior to that, Mr. Campbell served as our President, Digital Media & Corporate Development from March 2007 through August 2010. Mr. Campbell also served as our corporate secretary from December 2010 to February 2012. 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.
Kurt T. Wehner Born June 30, 1962	Executive Vice President and Chief Accounting Officer. Mr. Wehner joined the Company in September 2011 and has served as our Executive Vice President, Chief Accounting Officer since November 2012. Mr. Wehner was an Audit Partner at KPMG LLP from 2000 to 2011.

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
2012						
Fourth quarter	$63.61	$55.18	$63.59	$55.11	$58.87	$51.28
Third quarter	$59.90	$49.10	$60.00	$49.82	$56.04	$45.27
Second quarter	$55.13	$48.37	$55.08	$48.55	$50.45	$44.05
First quarter	$50.60	$40.87	$51.79	$41.25	$46.88	$37.14
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

As of February 7, 2013, there were approximately 1,969, 108 and 2,077 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 after consideration of our earnings, financial condition and other relevant factors such as our credit facility's restrictions on our ability to declare dividends in certain situations.
Sales of Unregistered Securities and Use of Proceeds
There were no sales of unregistered securities during the three months ended December 31, 2012.
Purchases of Equity Securities
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, 2012 (in millions, except per share amounts).

Period	Total Number of Series A Shares Purchased	Average Price Paid per Share: Series A[(a)]	Total Number of Series C Shares Purchased	Average Price Paid per Share: Series C [(b)]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(b)]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[(a)(b)]
October 1, 2012-October 31, 2012	0.3	$60.24	1.5	$56.37	1.8	$648
November 1, 2012-November 30, 2012	—	—	0.7	$53.03	0.7	$610

December 1, 2012-December 31, 2012	0.1	$61.20	1.5	$56.95	1.6	$1,518
Total	0.4	$60.44	3.7	$55.96	4.1	$1,518

[a] The amounts do not give effect to any fees, commissions or other costs associated with repurchases of shares.

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(b) On April 25, 2012 and December 11, 2012, our Board of Directors approved separate additional authorizations of \$1.0 billion under our stock repurchase program, which was originally announced on August 3, 2010, bringing the total authorized under the stock repurchase program to \$4.0 billion. As of December 31, 2012, we had remaining authorization of \$1.5 billion for future repurchases of our common stock under the stock repurchase program, of which \$518 million and \$1.0 billion will expire on April 25, 2014 and December 11, 2014, respectively. Under the program, management is authorized to purchase shares from time to time through open market purchases at prevailing prices or privately negotiated transactions, subject to market conditions and other factors. The above repurchases were funded using cash on hand. We expect to fund stock repurchases through a combination of cash on hand, cash generated by operations, borrowings under our revolving credit facility and future financing transactions. There were no repurchases of our Series B common stock during the year ended December 31, 2012.

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, 2011, and 2012.

	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012
DISCA	$ 102.53	$ 222.09	$ 301.96	$ 296.67	$ 459.67
DISCB	$ 78.53	$ 162.82	$ 225.95	$ 217.56	$ 327.11
DISCK	$ 83.69	$ 165.75	$ 229.31	$ 235.63	$ 365.63
S&P 500	$ 74.86	$ 92.42	$ 104.24	$ 104.23	$ 118.21
Peer Group	$ 68.79	$ 100.70	$ 121.35	$ 138.19	$ 190.58

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 2013 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, 2012 and the selected balance sheet information as of December 31, 2012 and 2011 have been derived from and should be read in conjunction with the information in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” 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, 2009 and 2008 and the selected balance sheet information as of December 31, 2010, 2009 and 2008 have been derived from financial statements not included in this Annual Report on Form 10-K.

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 five years ended December 31, 2012 and the selected balance sheet information as of December 31, 2012, 2011, 2010, 2009 and 2008 reflect the consolidated results of operations and financial condition 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. 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.

	2012	2011	2010	2009	2008
	(in millions, except per share amounts)				
Selected Statement of Operations Information:					
Revenues	$4,487	$4,168	$3,706	$3,387	$3,307
Costs of revenues, excluding depreciation and amortization	1,218	1,176	1,013	984	946
Operating income	1,855	1,803	1,377	1,274	1,062
Income from continuing operations, net of taxes	956	1,136	659	570	383
(Loss) income from discontinued operations, net of taxes	(11)	(3)	10	(6)	61
Net income	945	1,133	669	564	444
Net income attributable to noncontrolling interests	(2)	(1)	(16)	(15)	(127)
Net income attributable to Discovery Communications, Inc.	943	1,132	653	549	317
Stock dividends to preferred interests	—	—	(1)	(8)	—
Net income available to Discovery Communications, Inc. stockholders	943	1,132	652	541	317
Income per share from continuing operations available to Discovery Communications, Inc. stockholders:					
Basic	$2.54	$2.83	$1.51	$1.29	$0.80
Diluted	$2.51	$2.80	$1.50	$1.29	$0.80
(Loss) income per share from discontinued operations available to Discovery Communications, Inc. stockholders:					
Basic	$(0.03)	$(0.01)	$0.02	$(0.01)	$0.19
Diluted	$(0.03)	$(0.01)	$0.02	$(0.01)	$0.19
Net income per share available to Discovery Communications, Inc. stockholders:					
Basic	$2.51	$2.82	$1.53	$1.28	$0.99
Diluted	$2.48	$2.80	$1.52	$1.27	$0.98
Weighted average shares outstanding:					
Basic	376	401	425	423	321
Diluted	380	405	429	425	322
Selected Balance Sheet Information:					
Cash and cash equivalents	$1,201	$1,048	$466	$623	$94
Goodwill	6,399	6,291	6,434	6,433	6,891
Total assets	12,930	11,913	11,019	10,952	10,481
Long-term debt:					
Current portion	31	26	20	38	458
Long-term portion	5,212	4,219	3,598	3,457	3,331
Total liabilities	6,637	5,394	4,786	4,683	4,875
Redeemable noncontrolling interests	—	—	—	49	49
Equity attributable to Discovery Communications, Inc.	6,291	6,517	6,225	6,197	5,536
Equity attributable to noncontrolling interests	2	2	8	23	21
Total equity	$6,293	$6,519	$6,233	$6,220	$5,557

- Income per share amounts may not sum since each is calculated independently.
- On September 17, 2012, we sold our postproduction audio business, whose results of operations have been reclassified to discontinued operations for all periods presented. (See Note 3 to the accompanying consolidated financial statements.)

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- 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 share of OWN's net operating results under the equity method of accounting. (See Note 4 to the accompanying consolidated financial statements.)
- 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 all periods presented. (See Note 3 to the accompanying consolidated financial statements.)
- On May 22, 2009, we sold a 50% interest in the U.S. Discovery Kids network to Hasbro and formed The Hub. 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.
- On September 17, 2008, DHC concluded the spin-off of Ascent Capital Group, Inc. ("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.

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

Management's discussion and analysis of financial condition and results of operations 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 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 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 accomplished. The following is a list of 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; market demand for 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; uncertainties regarding the financial performance of our equity method investees; 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, 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 or duration of an industry-wide strike or other job action affecting a major entertainment industry union; 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 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 media company that provides programming across multiple distribution platforms, including digital distribution arrangements, throughout the world. We generate revenues principally from: (i) fees charged to operators who distribute our network content, which primarily include cable, DTH satellite and digital service providers, (ii) advertising sold on our networks and websites, and (iii) other transactions, including curriculum-based products and services, affiliate and advertising sales representation services, content licenses and the licensing of our brands for consumer products. Our objectives are to invest in content for our networks to build viewership, maximize 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 content is designed to target key audience demographics and the popularity of our programming creates demand on the part of advertisers and distributors. We classify our operations in three segments: U.S. Networks, consisting principally of domestic television networks and websites; International Networks, consisting primarily of international television networks and websites; and Education, consisting principally of curriculum-based product and service offerings. For further discussion of our Company, segments in which we do business, content development activities and revenues, see our business overview set forth in Item 1, “Business” in this Annual Report on Form 10-K.

RESULTS OF OPERATIONS – 2012 vs. 2011

Discontinued Operations

On September 17, 2012, we sold our postproduction audio business, whose results of operations have been reclassified to discontinued operations for all periods presented. (See Note 3 to the accompanying consolidated financial statements.) The postproduction audio business was an operating segment combined with Education as a reportable segment.

Consolidated Results of Operations – 2012 vs. 2011

Our consolidated results of operations for 2012 and 2011 were as follows (in millions).

	Year Ended December 31,		
	2012	2011	% Change
Revenues:			
Distribution	$2,206	$2,070	7%
Advertising	2,037	1,852	10%
Other	244	246	(1)%
Total revenues	4,487	4,168	8%
Costs of revenues, excluding depreciation and amortization	1,218	1,176	4%
Selling, general and administrative	1,291	1,171	10%
Depreciation and amortization	117	117	—%
Restructuring and impairment charges	6	30	(80)%
Gain on disposition	—	(129)	(100)%
Total costs and expenses	2,632	2,365	11%
Operating income	1,855	1,803	3%
Interest expense, net	(248)	(208)	19%
Other expense, net	(89)	(32)	NM
Income from continuing operations before income taxes	1,518	1,563	(3)%
Provision for income taxes	(562)	(427)	32%
Income from continuing operations, net of taxes	956	1,136	(16)%
Loss from discontinued operations, net of taxes	(11)	(3)	NM
Net income	945	1,133	(17)%
Net income attributable to noncontrolling interests	(2)	(1)	100%
Net income available to Discovery Communications, Inc. stockholders	$943	$1,132	(17)%

Not meaningful ("NM")

Revenues

Distribution revenue is largely dependent on the rates negotiated in the agreements, the number of subscribers that receive our network or content, and the market demand for the content we provide. Distribution revenue increased $136 million. Excluding the impact of foreign currency fluctuations, distribution revenues increased 9%, or $177 million. The increase was attributable to contractual rate increases, growth of pay television subscribers, and decreased amortization of deferred launch incentives.

Advertising revenue is dependent upon a number of factors, including the stage of development of television markets, the number of subscribers to our channels, viewership demographics, the popularity of our content, and our ability to sell commercial time over a group of channels. Advertising revenue increased $185 million. Excluding the impact of foreign currency fluctuations, advertising revenues increased 12%, or $212 million. The increase was primarily due to increases in pricing at U.S. and international networks, along with growth of our international free-to-air networks.

Other revenue was consistent with the prior year. We changed the classification of service charges to certain of our equity method investees from other revenue to selling, general, and administrative expenses beginning January 1, 2012. This change was offset by additional revenue from a production company acquired during the fourth quarter of 2011 and higher revenue from the Education segment. Changes in foreign currency exchange rates did not significantly impact other revenues.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, distribution costs, and sales commissions, increased $42 million. Excluding the impact of foreign currency fluctuations, costs of revenues increased 4%, or $51 million. The increase in costs of revenues was principally related to higher content amortization, distribution and production costs partially offset by lower content impairments.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, marketing costs, research costs, occupancy, and back office support fees, increased $120 million. Excluding the impact of foreign currency fluctuations, selling, general and administrative expenses increased 12%, or $141 million. The increase in selling, general and administrative expenses was primarily due to higher personnel costs, equity-based compensation expense and transaction costs, offset by a change in the classification of service charges to certain of our equity method investees from other revenue to selling, general, and administrative expenses beginning January 1, 2012. Equity-based compensation expense increased $55 million due to an increase in the value of outstanding cash-settled unit awards.

Depreciation and Amortization

Depreciation and amortization expense, which includes depreciation of fixed assets and amortization of finite-lived intangible assets, was consistent with the prior year.

Restructuring and Impairment Charges

In 2012 and 2011, we recorded restructuring charges of $6 million and $10 million, respectively. (See Note 15 to the accompanying consolidated financial statements.) In 2011, we also recorded a $20 million goodwill impairment charge. (See Note 9 to the accompanying consolidated financial statements.)

Gain on Disposition

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 increased $40 million due to an increase in outstanding debt.

Other Expense, Net

Other expense, net, which consists primarily of losses from our equity method investees, increased $57 million due to an increase of $51 million in losses from equity method investees. During the three months ended March 31, 2012, accumulated losses at OWN exceeded the equity contribution to OWN, and we began to record 100% of OWN’s incremental net losses. We recognized 50% of OWN’s net losses throughout 2011. (See Note 4 to the accompanying consolidated financial statements.)

Provision for Income Taxes

For 2012 and 2011, our provisions for income taxes were $562 million and $427 million and the effective tax rates were 37% and 27%, respectively. (See Note 16 to the accompanying consolidated financial statements.)

Loss from Discontinued Operations, Net of Taxes

Loss from discontinued operations in 2012 relates to the sale of our postproduction audio business in 2012. Loss from discontinued operations in 2011 relates to activities connected with businesses classified as discontinued operations in previous years in addition to the postproduction audio business.

Segment Results of Operations – 2012 vs. 2011

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 equity-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 equity-based compensation, exit and restructuring charges, certain impairment charges, and gains and 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

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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 the decisions of segment executives. Additional financial information for our segments and geographical areas in which we do business is discussed in Note 21 to the accompanying 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, 2012	2011	% Change
Revenues:			
U.S. Networks	$2,748	$2,619	5 %
International Networks	1,637	1,455	13 %
Education	105	95	11 %
Corporate and inter-segment eliminations	(3)	(1)	NM
Total revenues	4,487	4,168	8 %
Costs of revenues, excluding depreciation and amortization	(1,218)	(1,176)	4 %
Selling, general and administrative[(a)]	(1,194)	(1,128)	6 %
Add: Amortization of deferred launch incentives[(b)]	20	52	(62)%
Adjusted OIBDA	$2,095	$1,916	9 %

(a) Selling, general and administrative expenses exclude mark-to-market equity-based compensation, restructuring charges and gains (losses) on dispositions.

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

	Year Ended December 31, 2012	2011	% Change
Adjusted OIBDA:			
U.S. Networks	$1,622	$1,495	8 %
International Networks	721	645	12 %
Education	27	25	8 %
Corporate and inter-segment eliminations	(275)	(249)	10 %
Total Adjusted OIBDA	2,095	1,916	9 %
Amortization of deferred launch incentives	(20)	(52)	(62)%
Mark-to-market equity-based compensation	(97)	(43)	NM
Depreciation and amortization	(117)	(117)	— %
Restructuring and impairment charges	(6)	(30)	(80)%
Gain on disposition	—	129	(100)%
Operating income	$1,855	$1,803	3 %

U.S. Networks

The table below 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,		
	2012	2011	% Change
Revenues:			
Distribution	$1,222	$1,180	4 %
Advertising	1,456	1,337	9 %
Other	70	102	(31)%
Total revenues	2,748	2,619	5 %
Costs of revenues, excluding depreciation and amortization	(688)	(689)	— %
Selling, general and administrative	(447)	(445)	— %
Add: Amortization of deferred launch incentives	9	10	(10)%
Adjusted OIBDA	1,622	1,495	8 %
Amortization of deferred launch incentives	(9)	(10)	(10)%
Depreciation and amortization	(13)	(15)	(13)%
Restructuring and impairment charges	(3)	(24)	(88)%
Gains on dispositions	—	129	(100)%
Operating income	$1,597	$1,575	1 %

Revenues

Distribution revenue increased $42 million. Distribution revenue increased $52 million driven by annual contractual rate increases and increases in paying subscribers, principally for networks carried on the digital tier. This increase was offset by the impact of agreements to extend and expand the license of selected library titles in the prior year.

Advertising revenue increased $119 million driven by increased pricing and delivery.

Other revenue decreased $32 million due to a change in the classification of service charges to certain of our equity method investees from other revenue to selling, general and administrative expenses beginning January 1, 2012 as well as a reduction in revenue for sales representation services provided to third-party networks.

Costs of Revenues

Costs of revenues were consistent with the prior year due to an increase in content investment and royalty expenses, offset by a decrease in content impairments of $30 million.

Selling, General and Administrative

Selling, general and administrative expenses were consistent with the prior year due to higher personnel costs, offset by a change in the classification of service charges to certain of our unconsolidated equity method investees from other revenue to selling, general and administrative expenses beginning January 1, 2012.

Adjusted OIBDA

Adjusted OIBDA increased $127 million primarily due to contractual rate increases with our affiliates, and higher advertising sales, partially offset by higher personnel costs.

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,					
	2012		2011		% Change	
Revenues:						
Distribution	$984		$890		11	%
Advertising	580		514		13	%
Other	73		51		43	%
Total revenues	1,637		1,455		13	%
Costs of revenues, excluding depreciation and amortization	(499	)	(455	)	10	%
Selling, general and administrative	(428	)	(397	)	8	%
Add: Amortization of deferred launch incentives	11		42		(74	)%
Adjusted OIBDA	721		645		12	%
Amortization of deferred launch incentives	(11	)	(42	)	(74	)%
Depreciation and amortization	(47	)	(43	)	9	%
Restructuring and impairment charges	(1	)	(3	)	(67	)%
Operating income	$662		$557		19	%

Revenues

Distribution revenue increased $94 million. Excluding the impact of foreign currency fluctuations, distribution revenues increased 16%, or $135 million, which is attributable to continued growth of pay television services and subscribers in Latin America, Central and Eastern Europe, the Middle East and Africa ("CEEMEA") and Asia, as well as decreased amortization of deferred launch incentives.

Advertising revenue increased $66 million. Excluding the impact of foreign currency fluctuations, advertising revenues increased 19%, or $93 million, due to improved pricing across most regions and strong growth from new and existing free-to-air networks in Western Europe.

Other revenue increased $22 million due to revenue from a production company acquired during the fourth quarter of 2011. Changes in foreign currency exchange rates did not significantly impact other revenues.

Costs of Revenues

Costs of revenues increased $44 million. Excluding the impact of foreign currency fluctuations, costs of revenues increased 12%, or $53 million, due to increased investment in content, higher distribution costs and costs from a production company acquired during the fourth quarter of 2011, partially offset by cost savings from the vertical integration of sales functions in select markets.

Selling, General and Administrative

Selling, general and administrative expenses increased $31 million. Excluding the impact of foreign currency fluctuations, selling, general and administrative expenses increased 14%, or $52 million, attributable to increased personnel and higher marketing costs across all regions.

Adjusted OIBDA

Adjusted OIBDA increased $76 million. Excluding the impact of foreign currency fluctuations, Adjusted OIBDA increased 18%, or $117 million, primarily due to the growth of television services, which resulted in higher distribution and advertising revenues, offset by higher content expense and personnel costs. Variances due to foreign currency resulted from unfavorable revenue impacts in Europe, Brazil and India as a result of the strengthening of the U.S. dollar compared to the Euro, Brazilian real and Indian rupee.

Education

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

	Year Ended December 31,		
	2012	2011	% Change
Revenues	$105	$95	11 %
Costs of revenues, excluding depreciation and amortization	(31)	(30)	3 %
Selling, general and administrative	(47)	(40)	18 %
Adjusted OIBDA	27	25	8 %
Depreciation and amortization	(2)	(3)	(33)%
Operating income	$25	$22	14 %

Adjusted OIBDA increased slightly compared with the prior year due to increased revenues offset by higher employee costs for our digital textbook.

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,		
	2012	2011	% Change
Revenues	$(3)	$(1)	NM
Costs of revenues, excluding depreciation and amortization	—	(2)	(100)%
Selling, general and administrative	(272)	(246)	11 %
Adjusted OIBDA	(275)	(249)	10 %
Mark-to-market equity-based compensation	(97)	(43)	NM
Depreciation and amortization	(55)	(56)	(2)%
Restructuring and impairment charges	(2)	(3)	(33)%
Operating loss	$(429)	$(351)	22 %

Corporate operations primarily consist of executive management, administrative support services and substantially all of our equity-based compensation. Corporate expenses are excluded from segment results to evaluate business segment performance based upon decisions made directly by business segment executives.

Adjusted OIBDA decreased $26 million due to increased transaction and personnel costs.

RESULTS OF OPERATIONS – 2011 vs. 2010

Discontinued Operations

On September 17, 2012, we sold our postproduction audio business, whose results of operations have been reclassified to discontinued operations for all periods presented. (See Note 3 to the accompanying consolidated financial statements.) The postproduction audio business was an operating segment combined with Education as a reportable segment.

Items Impacting Comparability

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

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,		
	2011	2010	% Change
Revenues:			
Distribution	$2,070	$1,832	13 %
Advertising	1,852	1,645	13 %
Other	246	229	7 %
Total revenues	4,168	3,706	12 %
Costs of revenues, excluding depreciation and amortization	1,176	1,013	16 %
Selling, general and administrative	1,171	1,174	— %
Depreciation and amortization	117	128	(9)%
Restructuring and impairment charges	30	14	NM
Gain on disposition	(129)	—	NM
Total costs and expenses	2,365	2,329	2 %
Operating income	1,803	1,377	31 %
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	1,563	952	64 %
Provision for income taxes	(427)	(293)	46 %
Income from continuing operations, net of taxes	1,136	659	72 %
(Loss) income from discontinued operations, net of taxes	(3)	10	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 %

Revenues

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

Other revenue 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.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, distribution costs, and sales commissions, increased $163 million. Excluding the impact of foreign currency fluctuations and the effect of no longer consolidating the Discovery Health network, costs of revenues increased 19%, or $184 million. The increase in costs of revenues was principally related to higher content expense of $139 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, was consistent with the prior year. 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 $20 million. The decrease in selling, general and administrative expenses was primarily due to decreases of $83 million for equity-based compensation. Equity-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 equity-based compensation 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 intangible assets becoming fully depreciated in prior periods.

Restructuring and Impairment Charges

In 2011 and 2010, we recorded restructuring charges of $10 million and $14 million, respectively. (See Note 15 to the accompanying consolidated financial statements.) In 2011, we recorded a $20 million goodwill impairment charge. (See Note 9 to the accompanying consolidated financial statements.)

Gain on Disposition

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

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.

Other Expense, Net

Other expense, net, which consists primarily of losses from our equity method investees and gains and losses on derivative instruments, decreased $54 million primarily due to a decrease in realized losses on derivative instruments of $39 million and losses from our equity method investees of $22 million. 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.

Provision for Income Taxes

For 2011 and 2010, our provisions for income taxes were $427 million and $293 million and the effective tax rates were 27% and 31%, respectively. (See Note 16 to the accompanying consolidated financial statements.)

(Loss) Income from Discontinued Operations, Net of Taxes

Loss from discontinued operations in 2011 relates to activities connected with our postproduction audio business and 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, offset by losses on our postproduction audio business.

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

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

	Year Ended December 31,		
	2011	2010	% Change
Revenues:			
U.S. Networks	$2,619	$2,363	11 %
International Networks	1,455	1,251	16 %
Education	95	86	10 %
Corporate and inter-segment eliminations	(1)	6	NM
Total revenues	4,168	3,706	12 %
Costs of revenues, excluding depreciation and amortization	(1,176)	(1,013)	16 %
Selling, general and administrative[(a)]	(1,128)	(1,032)	9 %
Add: Amortization of deferred launch incentives[(b)]	52	42	24 %
Adjusted OIBDA	$1,916	$1,703	13 %

[(a)] Selling, general and administrative expenses exclude mark-to-market equity-based compensation, restructuring charges and gains (losses) on dispositions.

[(b)] Amortization of deferred launch incentives are included as a reduction of distribution revenue for reporting in accordance with GAAP but are excluded from Adjusted OIBDA.

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	25	19	32 %
Corporate and inter-segment eliminations	(249)	(226)	10 %
Total Adjusted OIBDA	1,916	1,703	13 %
Amortization of deferred launch incentives	(52)	(42)	24 %
Mark-to-market equity-based compensation	(43)	(142)	(70)%
Depreciation and amortization	(117)	(128)	(9)%
Restructuring and impairment charges	(30)	(14)	NM
Gain on disposition	129	—	NM
Operating income	$1,803	$1,377	31 %

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
Gain on disposition	129	—	NM
Operating income	$1,575	$1,334	18 %

Revenues

Distribution revenue 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.

Advertising revenue 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.

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Costs of Revenues

Costs of revenues 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 increased $26 million, excluding the impact of the Discovery Health network. Increased selling, general and administrative expenses were attributable to higher research expenses from our 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%

Revenues

Distribution revenue 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.

Advertising revenue 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 increased $50 million. Excluding the impact of foreign currency fluctuations, costs 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 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

The following table presents, for our Education 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	$95	$86	10 %
Costs of revenues, excluding depreciation and amortization	(30)	(31)	(3)%
Selling, general and administrative	(40)	(36)	11 %
Adjusted OIBDA	25	19	32 %
Depreciation and amortization	(3)	(4)	(25)%
Operating (loss) income	$22	$15	47 %

Adjusted OIBDA increased $6 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	$(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 equity-based compensation	(43)	(142)	(70)%
Depreciation and amortization	(56)	(64)	(13)%
Restructuring and impairment charges	(3)	(2)	50 %
Operating loss	$(351)	$(434)	(19)%

Corporate operations primarily consist of executive management, administrative support services, substantially all of our equity-based compensation, and a consolidated joint venture. Corporate expenses are excluded from segment results to evaluate business segment performance based upon decisions made directly by business segment executives. Adjusted OIBDA decreased $13 million due to higher equity-based compensation expense for equity-settled awards such as stock options, PRSUs, and RSUs that received fixed accounting.

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, 2012, we had $1.2 billion

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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 September 25, 2012, we modified our existing $1.0 billion revolving credit facility agreement to extend the expiration date two years to October 12, 2017. The terms of the revolving credit facility otherwise remained substantially the same. On May 17, 2012, Discovery Communications, LLC ("DCL"), our wholly-owned subsidiary, issued $1.0 billion aggregate principal amount of senior notes consisting of $500 million aggregate principal amount of 3.30% Senior Notes due May 15, 2022 and $500 million of aggregate principal amount of 4.95% Senior Notes due May 15, 2042. DCL received net proceeds of approximately $983 million from the offering after deducting the related underwriting discounts and expenses. We maintain an effective Registration Statement on Form S-3 that allows us to conduct registered offerings of securities, including debt securities, common stock and preferred stock. Access to sufficient capital from the public market is not assured.

Our primary uses of cash include the creation and acquisition of new content, repurchases of treasury stock, personnel costs, payments for income taxes and interest on our outstanding senior notes, funding for various equity method and other investments and business acquisitions.

- On April 25, 2012 and December 11, 2012, our Board of Directors approved separate authorizations of $1.0 billion each under our stock repurchase program. As of December 31, 2012, we had remaining authorization of $1.5 billion for future repurchases of its common stock under the stock repurchase program, of which $518 million and $1.0 billion will expire on April 25, 2014 and December 11, 2014, respectively. We have been funding and expect to continue to fund stock repurchases through a combination of cash on hand, cash generated by operations, borrowings under our revolving credit facility and future financing transactions. Under the stock repurchase program, management is authorized to purchase shares from time to time through open market purchases at prevailing prices or privately negotiated transactions market conditions and other factors. As of December 31, 2012, the Company had repurchased 2.0 million and 56.7 million shares of Series A and Series C common stock over the life of the program for the aggregate purchase price of $109 million and $2.4 billion, respectively.
- We have interests in various equity method investees and provide funding to those equity method investees from time to time. As of December 31, 2012, we have an outstanding note receivable from OWN, our equity method investee, which totals $482 million including interest. We currently expect to provide additional funding to our equity method investees and to recoup amounts funded.
- On December 21, 2012, we acquired 20% equity ownership interests in Eurosport and a portfolio of pay television networks from a French media company, TF1, for $264 million, including transaction costs. We have a call right that enables us to purchase a controlling interest in Eurosport starting December 2014 and for one year thereafter. If we exercise our call right, TF1 will have the right to put their remaining interest to us for one year thereafter.
- We plan to continue to invest significantly in the creation and acquisition of new content. Additional information regarding contractual commitments to acquire content is set forth in “Commitments and Off-Balance Sheet Arrangements” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K.
- On December 14, 2012, we entered into a sale and purchase agreement, which we expect to close in the first quarter of 2013, to acquire certain television and radio business operations in Sweden, Norway, Denmark, Finland and England (“SBS Nordic”) from Prosiebensat.1 Media AG for cash of approximately $1.7 billion (€1.3 billion). We plan to pay for such transactions with a combination of cash on hand and the unused capacity on our revolving credit facility or other indebtedness.
- We expect to continue to make payments for vested cash-settled equity awards. Actual amounts expensed and payable for cash-settled awards are dependent on future fair value calculations which are primarily affected by changes in our stock price or changes in the number of awards outstanding. During 2012, we paid $45 million for cash-settled equity awards. As of December 31, 2012, we accrued liabilities of $80 million for outstanding cash-settled equity awards, of which $55 million was classified as current.
- In 2013, we expect our uses of cash to include other business combinations (see Note 3 to the accompanying consolidated financial statements) and approximately $255 million for interest payments related to our outstanding

indebtedness and capital lease obligations.

Cash Flows

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

	Year Ended December 31,		
	2012	2011	2010
Cash and cash equivalents, beginning of period	$1,048	$466	$623
Cash provided by operating activities	1,099	1,100	668
Cash used in investing activities	(643)	(214)	(190)
Cash used in financing activities	(305)	(297)	(641)
Effect of exchange rate changes on cash and cash equivalents	2	(7)	6
Net change in cash and cash equivalents	153	582	(157)
Cash and cash equivalents, end of period	$1,201	$1,048	$466

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

Operating Activities

Cash provided by operating activities decreased $1 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011. The decrease in cash provided by operating activities was principally driven by increases in content investment of $207 million, cash paid for taxes of $197 million and cash paid for interest of $39 million partially offset by a decrease in cash-settled equity-based compensation payments of $81 million and changes in other operating assets and liabilities.

Cash provided by operating activities for the year ended December 31, 2011 increased by $432 million 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 equity compensation payments for cash settled equity awards. During 2010, there was a $112 million overpayment of tax (the "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 content 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 content.

Investing Activities

Cash flows used in investing activities increased $429 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011. The increase was primarily attributable to a $253 million increase in investments in and advances to unconsolidated equity method investees that was driven by $264 million in investments in Eurosport and the pay-television portfolio of TF1 (see Note 5 to the accompanying consolidated financial statements) and a $123 million increase in net cash invested in business acquisitions (see Note 3 to the accompanying consolidated financial statements).

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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Financing Activities

Cash flows used in financing activities increased $8 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011. The increase was the result of a $383 million increase in repurchases of our Series A and Series C common stock pursuant to our stock repurchase program partially offset by a $342 million increase in cash flows from the issuance of senior notes.

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 change in cash flows used in financing activities was principally attributable to an increase of $552 million in our net issuance of senior notes partially offset by an increase in repurchases of Series C common stock for $392 million made pursuant to our stock repurchase program implemented on August 3, 2010.

Capital Resources

As of December 31, 2012, capital resources were comprised of the following (in millions).

	December 31, 2012			
	Total Capacity	Outstanding Letters of Credit	Outstanding Indebtedness	Unused Capacity
Cash and cash equivalents	$1,201	$—	$—	$1,201
Revolving credit facility	1,000	1	—	999
Senior notes[a]	5,150	—	5,150	—
Total	$7,351	$1	$ 5,150	$2,200

[a] Interest on senior notes is paid semi-annually. Our senior notes outstanding as of December 31, 2012 had interest rates that ranged from 3.30% to 6.35% and will mature between 2015 and 2042.

As of December 31, 2012, we held $125 million of our $1.2 billion of cash and cash equivalents in our foreign corporations. We intend to permanently reinvest these funds outside of the U.S. 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 U.S. operations, we would be required to accrue and pay U.S. taxes to repatriate them.

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 accompanying consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS
Contractual Obligations
As of December 31, 2012, our significant contractual obligations, including related payments due by period, were as follows (in millions).

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt:					
Principal payments	$5,150	$—	$850	$—	$4,300
Interest payments	3,381	249	482	435	2,215
Capital lease obligations:					
Principal payments	110	31	29	23	27
Interest payments	21	6	7	5	3
Operating lease obligations	313	42	88	87	96
Purchase obligations:					
Content	547	492	55	—	—
Other	652	173	134	60	285
Total	$10,174	$993	$1,645	$610	$6,926

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, 2012, we have funding commitments to certain equity method investees of $20 million. Additionally, as of December 31, 2012, we have accrued $80 million for cash-settled equity-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 predict reasonably the ultimate amount or timing of settlement of our reserves for income taxes. Our reserves for income taxes totaled $128 million as of December 31, 2012.

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 lease 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 third-party producers for the production of content 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 content 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 content licenses to meet our future content needs.

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 which is achieved over time for The Hub through December 2015. As of December 31, 2012, the maximum amount potentially due under this guarantee was less than $110 million. The maximum exposure to loss is expected to decline to zero during 2014. Additional information regarding our guarantee is discussed in Note 4 to the accompanying 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 our equity method investees and Liberty Global. Information regarding transactions and amounts with related parties is discussed in Note 19 to the accompanying 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 2012. Information regarding our adoption of new accounting and reporting standards is discussed in Note 2 to the accompanying 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

Our 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 our 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. We consider policies relating to the following matters to be critical accounting policies:

- Revenue recognition;
- Goodwill and intangible assets;
- Income taxes;
- Content rights;
- Equity-based compensation; and
- Equity method investments.

For a discussion of each of our 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 accompanying consolidated financial statements included in Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

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 potential borrowing activities. We have access to a $1.0 billion revolving credit facility, with no amounts outstanding as of December 31, 2012. If we were to draw on the revolving credit facility, interest would be variable based on an underlying index rate. As of December 31, 2012, we had outstanding $5.2 billion under various public senior notes with fixed interest rates. The nature and amount of our long-term debt may vary as a result of market conditions and other factors.

A change in market interest rates will impact the fair market value of fixed rate debt. Our current objectives in managing exposure to interest rate changes are to limit the impact of interest rates on earnings and cash flows. To achieve these objectives, 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. There were no interest rate swaps outstanding as of December 31, 2012.

As of December 31, 2012, the fair value of our outstanding public senior notes was $5.9 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 $515 million as of December 31, 2012.

Foreign Currency Exchange Rates

We transact business globally and are subject to risks associated with changing foreign currency exchange rates. Through December 31, 2012, 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, the Euro and the Brazilian real.

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 content 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. The market value of our foreign currency derivative instruments held at December 31, 2012 was $2 million.

Market Values of Investments

In addition to derivatives, 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 and mutual funds were $1.1 billion and $571 million, respectively at December 31, 2012. 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, 2012.

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ITEM 8. Financial Statements and Supplementary Data.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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, 2012 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, 2012, 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, 2012 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."

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 comprehensive income, 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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, 2012, 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 14, 2013

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DISCOVERY COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except par value)

	December 31, 2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$1,201	$1,048
Receivables, net	1,130	1,042
Content rights, net	122	93
Deferred income taxes	74	73
Prepaid expenses and other current assets	203	175
Total current assets	2,730	2,431
Noncurrent content rights, net	1,555	1,302
Property and equipment, net	388	379
Goodwill	6,399	6,291
Intangible assets, net	611	571
Equity method investments	1,095	807
Other noncurrent assets	152	132
Total assets	$12,930	$11,913
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$71	$53
Accrued expenses and other current liabilities	721	554
Deferred revenues	123	113
Current portion of long-term debt	31	26
Total current liabilities	946	746
Long-term debt	5,212	4,219
Deferred income taxes	272	337
Other noncurrent liabilities	207	92
Total liabilities	6,637	5,394
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	1	1
Series C convertible preferred stock: $0.01 par value; 75 shares authorized; 49 and 57 shares issued	1	1
Series A common stock: $0.01 par value; 1,700 shares authorized; 147 and 142 shares issued	1	1
Series B convertible common stock: $0.01 par value; 100 shares authorized; 7 shares issued	—	—
Series C common stock: $0.01 par value; 2,000 shares authorized; 150 and 142 shares issued	2	2
Additional paid-in capital	6,689	6,505
Treasury stock, at cost	(2,482)	(1,102)
Retained earnings	2,075	1,132
Accumulated other comprehensive income (loss)	4	(23)
Total Discovery Communications, Inc. stockholders' equity	6,291	6,517
Noncontrolling interests	2	2

Total equity	6,293	6,519
Total liabilities and equity	$12,930	$11,913

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

DISCOVERY COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share amounts)

	Year Ended December 31,		
	2012	2011	2010
Revenues:			
Distribution	$2,206	$2,070	$1,832
Advertising	2,037	1,852	1,645
Other	244	246	229
Total revenues	4,487	4,168	3,706
Costs and expenses:			
Costs of revenues, excluding depreciation and amortization	1,218	1,176	1,013
Selling, general and administrative	1,291	1,171	1,174
Depreciation and amortization	117	117	128
Restructuring and impairment charges	6	30	14
Gain on disposition	—	(129)	—
Total costs and expenses	2,632	2,365	2,329
Operating income	1,855	1,803	1,377
Interest expense	(248)	(208)	(203)
Loss on extinguishment of debt	—	—	(136)
Other expense, net	(89)	(32)	(86)
Income from continuing operations before income taxes	1,518	1,563	952
Provision for income taxes	(562)	(427)	(293)
Income from continuing operations, net of taxes	956	1,136	659
(Loss) income from discontinued operations, net of taxes	(11)	(3)	10
Net income	945	1,133	669
Net income attributable to noncontrolling interests	(2)	(1)	(16)
Net income attributable to Discovery Communications, Inc.	943	1,132	653
Stock dividends to preferred interests	—	—	(1)
Net income available to Discovery Communications, Inc. stockholders	$943	$1,132	$652
Income per share from continuing operations available to Discovery Communications, Inc. stockholders:			
Basic	$2.54	$2.83	$1.51
Diluted	$2.51	$2.80	$1.50
(Loss) income per share from discontinued operations available to Discovery Communications, Inc. stockholders:			
Basic	$(0.03)	$(0.01)	$0.02
Diluted	$(0.03)	$(0.01)	$0.02
Net income per share available to Discovery Communications, Inc. stockholders:			
Basic	$2.51	$2.82	$1.53
Diluted	$2.48	$2.80	$1.52
Weighted average shares outstanding:			
Basic	376	401	425
Diluted	380	405	429

Income per share amounts may not sum since each is calculated independently.
The accompanying notes are an integral part of these consolidated financial statements.

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DISCOVERY COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Year Ended December 31,		
	2012	2011	2010
Net income	$945	$1,133	$669
Other comprehensive income (loss), net of tax:			
Currency translation adjustments	28	10	(19)
Derivative and market value adjustments	(1)	—	7
Comprehensive income	972	1,143	657
Comprehensive income attributable to noncontrolling interests	(2)	(1)	(16)
Comprehensive income attributable to Discovery Communications, Inc. stockholders	$970	$1,142	$641

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

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DISCOVERY COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2012	2011	2010
Operating Activities			
Net income	$945	$1,133	$669
Adjustments to reconcile net income to cash provided by operating activities:			
Equity-based compensation expense	154	99	182
Depreciation and amortization	117	119	132
Content amortization and impairment expense	865	846	715
Loss (gains) on dispositions	6	(129)	(9)
Equity in losses and distributions from investee companies	106	65	72
Deferred income tax (benefit) expense	(70)	40	11
Other, net	32	69	47
Changes in operating assets and liabilities:			
Receivables, net			