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Discovery Communications, Inc.
Form 10-Q
May 07, 2013

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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)
(240) 662-2000
(Registrant's telephone number, including area code)

20910
(Zip Code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

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

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

Total number of shares outstanding of each class of the Registrant's common stock as of April 30, 2013:

Series A Common Stock, par value \$0.01 per share	145,988,772
Series B Common Stock, par value \$0.01 per share	6,546,897
Series C Common Stock, par value \$0.01 per share	92,179,415

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

DISCOVERY COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except per share amounts)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,360	\$1,201
Receivables, net	1,148	1,130
Content rights, net	127	122
Deferred income taxes	74	74
Prepaid expenses and other current assets	304	203
Total current assets	4,013	2,730
Noncurrent content rights, net	1,583	1,555
Property and equipment, net	377	388
Goodwill	6,501	6,399
Intangible assets, net	680	611
Equity method investments	1,105	1,095
Other noncurrent assets	162	152
Total assets	\$14,421	\$12,930
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$67	\$71
Accrued expenses and other current liabilities	912	721
Deferred revenues	100	123
Current portion of long-term debt	22	31
Total current liabilities	1,101	946
Long-term debt	6,407	5,212
Deferred income taxes	428	272
Other noncurrent liabilities	210	207
Total liabilities	8,146	6,637
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interest	33	—
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; 45 and 49 shares issued	1	1
Series A common stock: \$0.01 par value; 1,700 shares authorized; 148 and 147 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 shares issued	2	2
Additional paid-in capital	6,716	6,689
Treasury stock, at cost	(2,482)	(2,482)
Retained earnings	2,052	2,075

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Accumulated other comprehensive (loss) income	(51) 4
Total Discovery Communications, Inc. stockholders' equity	6,240	6,291
Noncontrolling interest	2	2
Total equity	6,242	6,293
Total liabilities and equity	\$ 14,421	\$ 12,930

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

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

	Three Months Ended March	
	31,	2012
	2013	
Revenues:		
Distribution	\$583	\$576
Advertising	508	453
Other	65	56
Total revenues	1,156	1,085
Costs and expenses:		
Costs of revenues, excluding depreciation and amortization	342	296
Selling, general and administrative	367	311
Depreciation and amortization	32	29
Restructuring charges	1	1
Total costs and expenses	742	637
Operating income	414	448
Interest expense	(68) (55
Losses from equity investees, net	(2) (48
Other income (expense), net	33	(2
Income from continuing operations before income taxes	377	343
Provision for income taxes	(146) (120
Income from continuing operations, net of taxes	231	223
Loss from discontinued operations, net of taxes	—	(1
Net income	231	222
Net income attributable to noncontrolling interests	—	(1
Net income available to Discovery Communications, Inc. stockholders	\$231	\$221
Basic earnings per share available to Discovery Communications, Inc. stockholders:		
Continuing operations	\$0.64	\$0.58
Discontinued operations	\$—	\$—
Net income	\$0.64	\$0.57
Diluted earnings per share available to Discovery Communications, Inc. stockholders:		
Continuing operations	\$0.63	\$0.57
Discontinued operations	\$—	\$—
Net income	\$0.63	\$0.57
Weighted average shares outstanding:		
Basic	363	386
Diluted	367	390

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

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

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

	Three Months Ended March	
	31,	
	2013	2012
Net income	\$231	\$222
Other comprehensive (loss) income, net of tax:		
Currency translation adjustments	(59) 11
Derivative and market value adjustments	4	—
Comprehensive income	176	233
Comprehensive income attributable to noncontrolling interests	—	(1
Comprehensive income attributable to Discovery Communications, Inc. stockholders	\$176	\$232

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

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

	Three Months Ended March	
	31,	2012
	2013	2012
Operating Activities		
Net income	\$231	\$222
Adjustments to reconcile net income to cash provided by operating activities:		
Equity-based compensation expense	60	41
Depreciation and amortization	32	30
Content amortization and impairment expense	231	207
Remeasurement gain on previously held equity interest	(92)	—
Equity in losses and distributions from investee companies	4	58
Deferred income tax expense (benefit)	134	(22)
Other, net	69	11
Changes in operating assets and liabilities:		
Receivables, net	(20)	(29)
Content rights	(301)	(226)
Accounts payable and accrued liabilities	(70)	(23)
Equity-based compensation liabilities	(59)	(24)
Income tax receivable	(62)	20
Other, net	(26)	(17)
Cash provided by operating activities	131	248
Investing Activities		
Purchases of property and equipment	(26)	(21)
Business acquisition, net of cash acquired	(60)	—
Investments in foreign exchange contracts	(39)	—
Distribution from equity method investee	—	17
Investments in and advances to equity method investees	(25)	(38)
Cash used in investing activities	(150)	(42)
Financing Activities		
Borrowings from long term debt, net of discount and issuance costs	1,186	—
Principal repayments of capital lease obligations	(11)	(10)
Repurchases of common stock	—	(288)
Tax settlements associated with equity-based plans	(22)	(3)
Proceeds from issuance of common stock in connection with equity-based plans	16	58
Excess tax benefits from equity-based compensation	13	30
Cash provided by (used in) financing activities	1,182	(213)
Effect of exchange rate changes on cash and cash equivalents	(4)	3
Net change in cash and cash equivalents	1,159	(4)
Cash and cash equivalents, beginning of period	1,201	1,048
Cash and cash equivalents, end of period	\$2,360	\$1,044
Supplemental Cash Flow Information		
Cash paid for taxes, net	\$(63)	\$(38)
Cash paid for interest	\$(29)	\$(16)
Noncash Investing and Financing Transactions		

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Investment in OWN	\$—	\$6
Repurchases of preferred stock	\$256	—\$—

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DISCOVERY COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited; in millions)

Three Months Ended March 31, 2013			Three Months Ended March 31, 2012	
Discovery	Noncontrolling	Total Equity	Discovery	Noncontrolling
Stockholders	Interests		Stockholders	Interests