GENERAL CABLE CORP /DE/
Form 10-Q
November 06, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2009

OR

o **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: 1-12983

GENERAL CABLE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	06-1398235
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

4 Tesseneer Drive Highland Heights, KY	41076-9753
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: (859) 572-8000

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 þ No o

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 o No o

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	Outstanding at November 2, 2009
Common Stock, $0.01 per value	51,981,058

GENERAL CABLE CORPORATION AND SUBSIDIARIES
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ON FORM 10-Q

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PART I. FINANCIAL STATEMENTS
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

GENERAL CABLE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(in millions, except per share data)
(unaudited)

	Three Fiscal Months Ended		Nine Fiscal Months Ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Net sales	$ 1,081.8	$ 1,626.0	$ 3,256.2	$ 4,937.2
Cost of sales	957.7	1,416.2	2,767.9	4,287.4
Gross profit	124.1	209.8	488.3	649.8
Selling, general and administrative expenses	81.3	96.0	258.0	290.1
Operating income	42.8	113.8	230.3	359.7
Other income (expense)	0.9	(10.9)	11.0	(11.3)
Interest income (expense):				
Interest expense	(21.4)	(26.4)	(66.0)	(75.2)
Interest income	0.9	3.8	2.7	10.1
	(20.5)	(22.6)	(63.3)	(65.1)
Income before income taxes	23.2	80.3	178.0	283.3
Income tax provision	(3.9)	(25.3)	(53.4)	(96.5)
Equity in earnings of affiliated companies	0.1	1.5	0.4	4.3
Net income including noncontrolling interest	19.4	56.5	125.0	191.1
Less: preferred stock dividends	0.1	0.1	0.3	0.3
Less: net income attributable to noncontrolling interest	2.9	5.9	7.1	12.7
Net income attributable to Company common shareholders	$ 16.4	$ 50.5	$ 117.6	$ 178.1

Earnings per share

Earnings per common share-basic	$	0.32	$	0.96	$	2.27	$	3.38
Weighted average common shares-basic		52.0		52.8		51.9		52.7
Earnings per common share-assuming dilution	$	0.31	$	0.94	$	2.23	$	3.27
Weighted average common shares-assuming dilution		52.9		53.7		52.8		54.6

See accompanying Notes to Condensed Consolidated Financial Statements.

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GENERAL CABLE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in millions, except share data)
(unaudited)

	October 2, 2009	December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	$ 452.2	$ 282.6
Receivables, net of allowances of $25.1 million at October 2, 2009 and $19.3 million at December 31, 2008	926.3	1,032.0
Inventories	962.3	953.2
Deferred income taxes	117.2	132.3
Prepaid expenses and other	80.0	71.5
Total current assets	2,538.0	2,471.6
Property, plant and equipment, net	1,003.9	880.9
Deferred income taxes	12.2	56.0
Goodwill	161.6	171.9
Intangible assets, net	196.7	201.8
Unconsolidated affiliated companies	9.1	7.5
Other non-current assets	46.9	46.7
Total assets	$ 3,968.4	$ 3,836.4
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 747.6	$ 757.2
Accrued liabilities	354.0	423.3
Current portion of long-term debt	132.2	230.5
Total current liabilities	1,233.8	1,411.0
Long-term debt	1,084.4	1,023.5
Deferred income taxes	129.9	133.6
Other liabilities	254.5	276.2
Total liabilities	2,702.6	2,844.3
Commitments and Contingencies (Note 16)		
Shareholders Equity:		
Redeemable convertible preferred stock, at redemption value (liquidation preference of $50.00 per share):		

October 2, 2009 76,202 outstanding shares				
December 31, 2008 76,233 outstanding shares		3.8		3.8
Common stock, $0.01 par value, issued and outstanding shares:				
October 2, 2009 51,979,812 (net of 6,186,510 treasury shares)				
December 31, 2008 51,775,200 (net of 6,177,498 treasury shares)		0.6		0.6
Additional paid-in capital		495.8		486.6
Treasury stock		(73.3)		(71.9)
Retained earnings		715.6		597.9
Accumulated other comprehensive loss		18.0		146.0
Total Company shareholders equity		1,124.5		871.0
Noncontrolling interest		141.3		121.1
Total equity		1,265.8		992.1
Total liabilities and equity	$	3,968.4	$	3,836.4

See accompanying Notes to Condensed Consolidated Financial Statements.

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GENERAL CABLE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Nine Fiscal Months Ended	
	October 2, 2009	September 26, 2008
Cash flows of operating activities:		
Net income including noncontrolling interest	$ 125.0	$ 191.1
Adjustments to reconcile net income to net cash flows of operating activities:		
Depreciation and amortization	77.7	73.6
Foreign currency exchange (gain) loss	(11.0)	11.3
Deferred income taxes	17.7	(9.0)
Excess tax benefits from stock-based compensation	(0.7)	(7.0)
Changes in inventory provision	(19.7)	6.3
Convertible debt instruments noncash interest charges	29.5	26.7
Loss on disposal of property	2.3	4.2
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in receivables	147.8	(202.8)
(Increase) decrease in inventories	62.1	(110.9)
Decrease in other assets	6.4	21.5
Increase (decrease) in accounts payable, accrued and other liabilities	(71.8)	123.7
Net cash flows of operating activities	365.3	128.7
Cash flows of investing activities:		
Capital expenditures	(110.3)	(149.5)
Proceeds from properties sold	0.4	5.9
Acquisitions, net of cash acquired	(14.2)	(47.7)
Other, net	4.9	(0.6)
Net cash flows of investing activities	(119.2)	(191.9)
Cash flows of financing activities:		
Preferred stock dividends paid	(0.3)	(0.3)
Excess tax benefits from stock-based compensation	0.7	7.0
Proceeds from revolving credit borrowings	91.5	124.7
Repayments of revolving credit borrowings	(91.5)	(157.7)
Proceeds (repayments) of other debt, net	(82.7)	145.6
Proceeds from exercise of stock options	0.4	2.4
Net cash flows of financing activities	(81.9)	121.7
Effect of exchange rate changes on cash and cash equivalents	5.4	(12.3)

Increase in cash and cash equivalents		169.6		46.2
Cash and cash equivalents beginning of period		282.6		325.7
Cash and cash equivalents end of period	$	452.2	$	371.9
Supplemental Information				
Cash paid during the period for:				
Income tax payments (refunds), net	$	(11.2)	$	66.0
Interest paid	$	36.7	$	29.9
Non-cash investing and financing activities:				
Issuance of nonvested shares	$	3.2	$	2.7

See accompanying Notes to Condensed Consolidated Financial Statements.

GENERAL CABLE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of General Cable Corporation and Subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the three and nine fiscal months ended October 2, 2009, are not necessarily indicative of results that may be expected for the full year. The December 31, 2008, condensed consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures herein required by accounting principles generally accepted in the United States of America.

As discussed below in Note 2, effective January 1, 2009, the Company adopted new accounting standards related to noncontrolling interest, earnings per share computation and convertible debt instruments all of which require retrospective application. On August 12, 2009, a Current Report on Form 8-K was filed with the Securities and Exchange Commission (SEC) to recast prior period annual financial information to reflect certain accounting changes described above with respect to the financial information contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the SEC on March 2, 2009 and subsequently amended on Form 10-K/A which was filed with the SEC on May 8, 2009 (2008 Form 10-K). These financial statements should be read in conjunction with the Current Report on Form 8-K filed on August 12, 2009 and the audited financial statements and notes thereto in the Company s 2008 Form 10-K.

The condensed consolidated financial statements include the accounts of General Cable Corporation and its wholly-owned subsidiaries. Investments in 50% or less owned joint ventures in which the Company has the ability to exercise significant influence are accounted for under the equity method of accounting. All intercompany transactions and balances among the consolidated companies have been eliminated. The Company s fiscal year end is December 31. The Company s fiscal quarters consist of 13-week periods ending on the Friday nearest to the end of the calendar months of March, June and September.

2. New Accounting Standards

Employers Disclosures about Postretirement Benefit Plan Assets referred to in the transition guidance section of FASB Accounting Standards Codification (ASC) *ASC715: Compensation-Retirement Benefits*, provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The additional requirements are designed to enhance disclosures regarding (i) investment policies and strategies, (ii) categories of plan assets, (iii) fair value measurements of plan assets, and (iv) significant concentrations of risk. The guidance is effective for fiscal years ending after December 15, 2009 and is not expected to have an impact on the Company s financial position or results of operations.

During the nine fiscal months ended October 2, 2009, the Company did not change any of its existing accounting policies with the exception of the following accounting standards, all of which were adopted and became effective with respect to the Company on January 1, 2009:

Disclosures about Derivative Instruments and Hedging Activities referred to in the transition guidance located in *ASC815 Derivatives and Hedging* requires qualitative disclosures about the Company s objectives and strategies for using derivatives, quantitative disclosures about the fair value of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. For additional information, see Note 8 to the condensed consolidated financial statements.

The recognition and disclosure of fair value measurements for non-financial assets and non-financial liabilities in the financial statements on a nonrecurring basis referred to in the transition guidance located in *ASC820 Fair Value Measurements and Disclosures* had no impact on the Company s condensed consolidated balance sheet, statement of operations or cash flows. For additional information, see Note 18 to the condensed consolidated

financial statements.

The measurement of identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired referred to in the transition guidance in *ASC805 Business Combinations*, at the time of adoption, had no impact on the Company s condensed consolidated balance sheet, statement of operations or cash flows.

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Noncontrolling Interests in Consolidated Financial Statements referred to in the transition guidance located in *ASC810 Consolidation* establishes new standards governing the accounting for and reporting of noncontrolling interests in partially owned consolidated subsidiaries. Certain provisions of this standard indicate, among other things, that noncontrolling interests (previously referred to as minority interests) should be treated as a separate component of equity and that increases and decreases in the parent s ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the noncontrolling interests even when such allocation might result in a deficit balance. Consolidated net income should include the net income for both the parent and the noncontrolling interest with disclosure of both amounts on the consolidated statement of operations. As a result of the retrospective presentation and disclosure requirements, the condensed consolidated balance sheet has been adjusted to reflect the reclassification of noncontrolling interest to equity, the condensed consolidated statement of operations has been adjusted to include the net income attributable to the noncontrolling interest and the disclosure of condensed consolidated comprehensive income has been adjusted to include comprehensive income attributable to the noncontrolling interest. For additional information, see Note 11 to the condensed consolidated financial statements.

Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities referred to in the transition guidance located in *ASC260 Earnings Per Share* specifies that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends shall be considered participating securities in undistributed earnings along with common shareholders. As a result, the Company retrospectively applied the two-class method of computing basic and diluted earnings per share, resulting in a decrease in earnings per share basic of $0.02 and $0.08 for the three and nine fiscal months ended September 26, 2008, respectively. Historically and for the three and nine fiscal months ended October 2, 2009 and September 26, 2008, the Company did not declare, pay or otherwise accrue a dividend payable to the holders of the Company s common stock or holders of unvested share-based payment awards (restricted stock). There was no impact on the Company s earnings per common share assuming dilution computation. For additional information, see Note 14 to the condensed consolidated financial statements.

Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (including Partial Cash Settlement) referred to in the transition guidance located in *ASC470 Debt* specifies that when issuers of convertible debt instruments recognize interest cost, they should separately account for the liability and equity components of the instrument in a manner that will reflect the entity s non-convertible debt borrowing rate on the instrument s issuance date. As a result, the Company s condensed consolidated balance sheet, statement of operations and cash flows have been adjusted for all periods presented. For additional discussion, see Note 7 to the condensed consolidated financial statements. As of October 2, 2009, the Company s condensed consolidated balance sheet has been adjusted to reflect the reduction in the carrying value of the Company s senior convertible notes of approximately $162.8 million, the increase in additional paid-in capital of approximately $198.2 million and net deferred taxes of approximately $30.6 million. Transaction costs of approximately $21.7 million directly related to the issuance of the Company s convertible debt instruments have been allocated to the liability and equity components in proportion to the allocation of proceeds and accounted for as $13.3 million of debt issuance costs and $8.4 million of equity issuance costs. As a result of the retrospective application, certain amounts in the Company s 2008 consolidated balance sheet were changed and are presented below:

	December 31, 2008		
	As Reported	Adjustments	As Adjusted
Prepaid expenses and other	$ 77.6	$ (6.1)	$ 71.5
Deferred income taxes	53.9	2.1	56.0
Total assets	$ 3,840.4	$ (4.0)	$ 3,836.4
Long-term debt	$ 1,216.1	$ (192.6)	$ 1,023.5

Deferred income taxes	96.4	37.2	133.6
Total liabilities	$ 2,999.7	$ (155.4)	$ 2,844.3
Additional paid-in capital	$ 288.4	$ 198.2	$ 486.6
Retained earnings	644.7	(46.8)	597.9
Total liabilities and equity	$ 3,840.4	$ (4.0)	$ 3,836.4

For the three and nine fiscal months ended October 2, 2009, the Company s condensed consolidated statement of operations reflects the impact of incremental pre-tax noncash interest expense of approximately $10.1 million and $29.5 million, respectively. For the three and nine fiscal months ended October 2, 2009, the Company s condensed consolidated statement of operations includes amortization expense related to debt issuance costs of approximately $0.6 million and $1.8 million. As a result of the retrospective application, certain amounts in the Company s 2008 condensed consolidated statement of operations were changed and are presented below for the three and nine fiscal months ended September 26, 2008:

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	Three Fiscal Months Ended September 26, 2008		
	As Reported	Adjustments	As Adjusted
Interest expense	$ 17.3	$ 9.1	$ 26.4
Income tax provision (benefit)	27.3	(2.0)	25.3
Net income attributable to Company common shareholders	$ 57.6	(7.1)	$ 50.5

	Nine Fiscal Months Ended September 26, 2008		
	As Reported	Adjustments	As Adjusted
Interest expense	$ 48.5	$ 26.7	$ 75.2
Income tax provision (benefit)	102.3	(5.8)	96.5
Net income attributable to Company common shareholders	$ 199.0	(20.9)	$ 178.1

Determining whether an Instrument (or Embedded Feature) is Indexed to an Entity s Own Stock referred to in the transition guidance section of *ASC815 Derivatives and Hedging* specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company s own stock and (b) classified in stockholders equity in the balance sheet would not be considered a derivative financial instrument. This two-step test is to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer s own stock and thus able to qualify for the scope exception. This test was applied to the embedded conversion options contained in the Company s two convertible debt instruments. The Company determined the embedded conversion options are indexed to the Company s own stock and classified in shareholders equity, thereby qualifying for the scope exception.

3. Acquisitions and Divestitures

In the third quarter 2008, the Company acquired and consolidated Phelps Dodge Philippines (PDP) through an increase of its equity investment from 40% to 60%. The Company paid approximately $16.4 million (at prevailing exchange rates) in cash to the sellers in consideration for the additional equity interest in PDP and incurred insignificant fees and expenses related to the transaction. PDP is a joint venture established in 1955 by A Soriano Corporation (Anscor), a Philippine public holding company with diverse investments, and Phelps Dodge International Corporation (PDIC), a subsidiary of the Company which was acquired in the fourth quarter of 2007. PDP employs approximately 277 associates and operates one of the largest wire and cable manufacturing facilities in the Philippines. The investment complements the Company s strategy in the region by providing a platform for further penetration into Southeast Asia markets as well as supporting ongoing operations in Australia, the Middle East and South Africa. In 2007, the last full year before the purchase of additional equity ownership, PDP reported net revenues of approximately $100 million. Net assets and pro forma results of the PDP acquisition are immaterial. The purchase price allocation was finalized in the third quarter of 2009. The results of operations have been included in the condensed consolidated financial statements since the acquisition date.

4. Inventories

General Cable values all of its North American inventories and all of its non-North American metal inventories using the last-in first-out (LIFO) method and all remaining inventories using the first-in first-out (FIFO) method. Inventories are stated at the lower of cost or market value. The Company determines whether a lower of cost or market provision is required on a quarterly basis by computing whether inventory on hand, on a LIFO basis, can be sold at a profit based upon current selling prices less variable selling costs.

Inventories consisted of the following (in millions):

	October 2, 2009	December 31, 2008
Raw materials	$ 169.8	$ 197.4
Work in process	159.4	168.9
Finished goods	633.1	586.9

Total	$	962.3	$	953.2

At October 2, 2009 and December 31, 2008, $599.0 million and $610.1 million, respectively, of inventories were valued using the LIFO method before lower of cost or market provisions. Approximate replacement costs of inventories valued using the LIFO method totaled $732.5 million at October 2, 2009 and $505.9 million at December 31, 2008.

If the Company is not able to recover the LIFO value of its inventory when replacement costs are lower than the LIFO value of the inventory, the Company is required to record a lower of cost or market LIFO inventory adjustment to recognize the charge in its consolidated statement of operations. As of December 31, 2008, a lower of cost or market provision of approximately $36.3 million for copper and aluminum raw material inventory was recorded in which the replacement costs at the end of the year were lower than the LIFO value of the acquired copper and aluminum raw material inventory. Replacement costs for copper and aluminum raw material inventory remained below the Company s LIFO value but increased as compared to replacement costs at the end of the year resulting in a favorable adjustment to the lower of cost or market provision of approximately $5.1 million and $19.7 million for the three and nine fiscal months ended October 2, 2009. The resulting lower of cost or market provision of $16.6 million is attributable to LIFO values exceeding to a lesser extent than at year end the replacement costs for acquired copper and aluminum raw material metal inventory.

5. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Costs assigned to property, plant and equipment relating to acquisitions are based on estimated fair values at the acquisition date. Depreciation is provided using the straight-line method over the estimated useful lives of the assets: buildings, from 15 to 50 years; and machinery, equipment and office furnishings, from 2 to 15 years. Leasehold improvements are depreciated over the life of the lease unless acquired in a business combination, in which case the leasehold improvements are amortized over the shorter of the useful life of the assets or a term that includes the reasonably assured life of the lease.

Property, plant and equipment consisted of the following (in millions):

	October 2, 2009	December 31, 2008
Land	$ 108.2	$ 93.1
Buildings and leasehold improvements	282.1	214.7
Machinery, equipment and office furnishings	943.9	783.3
Construction in progress	81.1	121.0
Total gross book value	1,415.3	1,212.1
Less accumulated depreciation	(411.4)	(331.2)
Total net book value	$ 1,003.9	$ 880.9

Depreciation expense for the three and nine fiscal months ended October 2, 2009 was $21.4 million and $62.0 million, respectively. Depreciation expense for the three and nine fiscal months ended September 26, 2008 was $19.7 million and $57.8 million, respectively.

The Company periodically evaluates the recoverability of the carrying amount of long-lived assets (including property, plant and equipment and intangible assets with determinable lives) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company evaluates events or changes in circumstances based mostly on actual historical operating results, but business plans, forecasts, general and industry trends, and anticipated cash flows are also considered. Impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in earnings. The Company also continually evaluates the estimated useful lives of all long-lived assets and, when warranted, revises such estimates based on current events. There were no material impairment charges incurred during the three and nine fiscal months ended October 2, 2009 and September 26, 2008.

6. Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but are reviewed at least annually for impairment. If the carrying amount of goodwill or an intangible asset with an indefinite life exceeds its fair value, impairment loss is recognized in the amount equal to the excess. Intangible assets that are not deemed to have indefinite lives are amortized over their useful lives.

The amounts of goodwill and indefinite-lived intangible assets were as follows:

	Goodwill				Indefinite-lived assets	Trade names		
(in millions)	North America	Europe and North Africa	ROW	Total	North America	Europe and North Africa	ROW	Total
Balance at December 31, 2008	$ 0.8	$ 22.9	$ 148.2	$ 171.9	$	$ 0.5	$ 122.6	$ 123.1
Acquisitions	6.1	(22.1)	4.6	(11.4)				

Currency translation and other adjustments		(0.8)	1.9	1.1			4.0	4.0
Balance at October 2, 2009	$ 6.9	$	$ 154.7	$ 161.6	$	$ 0.5	$ 126.6	$ 127.1

In the second quarter of 2009, the Company finalized its purchase price allocation related to the acquisition of Enica Biskra in the Company s Europe and North Africa segment. As a result of the fair value of net assets acquired exceeding the purchase price the Company recorded an adjustment of $22.1 million to goodwill in order to allocate the pro rata reduction of amounts that would otherwise be assigned to all of the net assets acquired as a result in the increase in the value of property, plant and equipment. The Company recorded goodwill and trade names of $154.7 million and $126.6 million, respectively, after currency translation adjustments related to the acquisition of PDIC and PDP in the Company s ROW segment.

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The amounts of other intangible assets customer relationships were as follows (in millions):

Amortized intangible assets:	October 2, 2009	December 31 2008
Customer relationships	$ 106.4	$ 106.4
Accumulated amortization	(30.9)	(19.1)
Foreign currency translation adjustment	(5.9)	(8.6)
Total Amortized intangible assets	$ 69.6	$ 78.7

As part of the PDIC acquisition, the Company acquired certain customer relationships for which the fair market value as of October 31, 2007 was $104.9 million, before currency translation adjustments. Amortized intangible assets are stated at cost less accumulated amortization as of October 2, 2009 and December 31, 2008. Customer relationships have been determined to have a useful life in the range of 3.5 to 10 years and the Company has accelerated the amortization expense to align with the historical customer attrition rates. The amortization of intangible assets for the first nine fiscal months of 2009 was $11.8 million. The estimated amortization expense during the twelve-month periods beginning October 2, 2009 through September 30, 2014 are $13.8 million, $11.5 million, $9.1 million, $8.3 million, $7.5 million and $19.4 million thereafter.

7. Long-Term Debt

Long-term debt consists of the following (in millions):

	October 2, 2009	December 31, 2008
1.00% Senior Convertible Notes due 2012	$ 475.0	$ 475.0
Debt discount on 1.00% Senior Convertible Notes due 2012	(81.6)	(99.3)
0.875% Convertible Notes due 2013	355.0	355.0
Debt discount on 0.875% Convertible Notes due 2013	(81.2)	(93.3)
7.125% Senior Notes due 2017	200.0	200.0
Senior Floating Rate Notes	125.0	125.0
PDIC credit facilities	19.1	71.5
Spanish Term Loans	76.8	64.1
Silec credit facilities	34.0	84.9
Amended credit facility		
Other	94.5	71.1
Total debt	1,216.6	1,254.0
Less current maturities	132.2	230.5
Long-term debt	$ 1,084.4	$ 1,023.5
Weighted average interest rates on the above outstanding balances were as follows:		
1.00% Senior Convertible Notes due 2012	7.5%	7.5%
0.875% Convertible Notes due 2013	7.35%	7.35%
7.125% Senior Notes due 2017	7.125%	7.125%
Senior Floating Rate Notes	2.7%	6.3%
PDIC credit facilities	2.5%	5.3%
Spanish Term Loans	4.0%	4.4%
Silec credit facilities	2.3%	4.4%

Amended credit facility	%	%
Other	3.9%	5.8%

1.00% Senior Convertible Notes

The Company s 1.00% Senior Convertible Notes were issued in September 2007 in the amount of $475.0 million. The 1.00% Senior Convertible Notes bear interest at a fixed rate of 1.00%, payable semi-annually in arrears, and mature in 2012. Beginning January 1, 2009, as discussed in Note 2, the Company has separately accounted for the liability and equity components of the instrument, retrospectively, based on the Company s nonconvertible debt borrowing rate on the instrument s issuance date of 7.5%. At issuance, the liability and equity components were $348.2 million and $126.8 million, respectively. The equity component (debt discount) is being amortized to interest expense based on the effective interest method. The net book value as of October 2, 2009 was $393.4 million (net of debt discount of $81.6 million). The estimated fair value of the 1.00% Senior Convertible Notes was approximately $410.9 million at October 2, 2009.

The notes were sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the Securities Act). Subsequently, on April 16, 2008, the notes and the common stock issuable upon conversion of the notes were registered on a Registration Statement on Form S-3. The 1.00% Senior Convertible Notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by the Company s wholly-owned U.S. and Canadian subsidiaries.

The 1.00% Senior Convertible Notes are convertible at the option of the holder into the Company s common stock at an initial conversion price of $83.93 per share (approximating 11.9142 shares per $1,000 principal amount of the 1.00% Senior Convertible Notes), upon the occurrence of certain events, including (i) during any calendar quarter commencing after March 31, 2008 in which the closing price of the Company s common stock is greater than or equal to 130% of the conversion price for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter (establishing a contingent conversion price of $109.11); (ii) during any five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of 1.00% Senior Convertible Notes for each day of that period is less than 98% of the product of the closing sale price of the Company s common stock and the applicable conversion rate; (iii) distributions to holders of the Company s common stock are made or upon specified corporate transactions including a consolidation or merger; and (iv) at any time during the period beginning on September 15, 2012 and ending on the close of business on the business day immediately preceding the stated maturity date. In addition, upon events defined as a fundamental change under the 1.00% Senior Convertible Note indenture, holders of the 1.00% Senior Convertible Notes may require the Company to repurchase the 1.00% Senior Convertible Notes. If upon the occurrence of such events in which the holders of the 1.00% Senior Convertible Notes exercise the conversion provisions, the Company would need to remit the principal balance of the 1.00% Senior Convertible Notes to the holders in cash.

Therefore, in the event of fundamental change or the aforementioned average pricing thresholds, the Company would be required to classify the entire amount outstanding of the 1.00% Senior Convertible Notes as a current liability. The evaluation of the classification of amounts outstanding associated with the 1.00% Senior Convertible Notes will occur every quarter.

Upon conversion, a holder will receive, in lieu of common stock, an amount of cash equal to the lesser of (i) the principal amount of 1.00% Senior Convertible Note, or (ii) the conversion value, determined in the manner set forth in the indenture governing the 1.00% Senior Convertible Notes, of a number of shares equal to the conversion rate. If the conversion value exceeds the principal amount of the 1.00% Senior Convertible Note on the conversion date, the Company will also deliver, at the Company s election, cash or common stock or a combination of cash and common stock with respect to the conversion value upon conversion. If conversion occurs in connection with a fundamental change as defined in the 1.00% Senior Convertible Notes indenture, the Company may be required to repurchase the 1.00% Senior Convertible Notes for cash at a price equal to the principal amount plus accrued but unpaid interest. In addition, if conversion occurs in connection with certain changes in control, the Company may be required to deliver additional shares of the Company s common stock (a make whole premium, not to exceed 15.1906 shares per $1,000 principal amount) by increasing the conversion rate with respect to such notes, under this scenario the maximum aggregate number of shares that the Company would be obligated to issue upon conversion of the 1.00% Senior Convertible Notes is 7,215,535. Under almost all other conditions, the Company may be obligated to issue additional shares up to a maximum of 5,659,245 upon conversion in full of the 1.00% Senior Convertible Notes.

Proceeds from the 1.00% Senior Convertible Notes were used to partially fund the purchase price of $707.6 million related to the PDIC acquisition and to pay transaction costs of approximately $12.3 million directly related to the issuance that have been allocated to the liability and equity components in proportion to the allocation of proceeds.

0.875% Convertible Notes

The Company s 0.875% Convertible Notes were issued in November of 2006 in the amount of $355.0 million. The 0.875% Convertible Notes bear interest at a fixed rate of 0.875%, payable semi-annually in arrears, and mature in 2013. Beginning on January 1, 2009, as discussed in Note 2, the Company has separately accounted for the liability and equity components of the instrument, retrospectively, based on the Company s nonconvertible debt borrowing rate on the instrument s issuance date of 7.35%. At issuance, the liability and equity components were $230.9 million and $124.1 million, respectively. The equity component (debt discount) is being amortized to interest expense based on

the effective interest method. The net book value as of October 2, 2009 was $273.8 million (net of debt discount of $81.2 million). The estimated fair value of the 0.875% Convertible Notes was approximately $347.0 million at October 2, 2009.

At the time of issuance, the notes and the common stock issuable upon conversion of the notes were registered on a Registration Statement on Form S-3ASR and subsequently, on September 30, 2009, the Company filed a Renewal Registration Statement for the underlying common stock on Form S-3ASR. The 0.875% Convertible Notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by the Company s wholly-owned U.S. and Canadian subsidiaries.

The 0.875% Convertible Notes are convertible at the option of the holder into the Company s common stock at an initial conversion price of $50.36 per share (approximating 19.856 shares per $1,000 principal amount of the 0.875% Convertible Notes), upon the occurrence of certain events, including (i) during any calendar quarter commencing after March 31, 2007 in which the closing price of the Company s common stock is greater than or equal to 130% of the conversion price for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter (establishing a contingent conversion price of $65.47 per share); (ii) during any five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of 0.875% Convertible Notes for each day of that period is less than 98% of the product of the closing sale price of the Company s common stock and the applicable conversion rate; (iii) distributions to holders of the Company s common stock are made or upon specified corporate transactions including a consolidation or merger; and (iv) at any time during the period beginning on October 15, 2013 and ending on the close of business on the business day immediately preceding the stated maturity date. In addition, upon events defined as a fundamental change under the 0.875% Convertible Note indenture, holders of the 0.875% Convertible Notes may require the Company to repurchase the 0.875% Convertible Notes. If upon the occurrence of such events in which the holders of the 0.875% Convertible Notes exercise the conversion provisions, the Company would need to remit the principal balance of the 0.875% Convertible Notes to the holders in cash.

Therefore, in the event of fundamental change or the aforementioned average pricing thresholds, the Company would be required to classify the entire amount outstanding of the 0.875% Convertible Notes as a current liability. The evaluation of the classification of amounts outstanding associated with the 0.875% Convertible Notes will occur every quarter.

Upon conversion, a holder will receive, in lieu of common stock, an amount of cash equal to the lesser of (i) the principal amount of 0.875% Convertible Note, or (ii) the conversion value, determined in the manner set forth in the indenture governing the 0.875% Convertible Notes, of a number of shares equal to the conversion rate. If the conversion value exceeds the principal amount of the 0.875% Convertible Note on the conversion date, the Company will also deliver, at the Company s election, cash or common stock or a combination of cash and common stock with respect to the conversion value upon conversion. If conversion occurs in connection with a fundamental change as defined in the 0.875% Convertible Notes indenture, the Company may be required to repurchase the 0.875% Convertible Notes for cash at a price equal to the principal amount plus accrued but unpaid interest. In addition, if conversion occurs in connection with certain changes in control, the Company may be required to deliver additional shares of the Company s common stock (a make whole premium) by increasing the conversion rate with respect to such notes, under this scenario the maximum aggregate number of shares that the Company would be obligated to issue upon conversion of the 0.875% Convertible Notes is 8,987,322. Under almost all other conditions, the Company may be obligated to issue additional shares up to a maximum of 7,048,880 upon conversion in full of the 0.875% Convertible Notes.

Concurrent with the sale of the 0.875% Convertible Notes, the Company purchased note hedges that are designed to mitigate potential dilution from the conversion of the 0.875% Convertible Notes in the event that the market value per share of the Company s common stock at the time of exercise is greater than approximately $50.36. Under the note hedges that cover approximately 7,048,880 shares of the Company s common stock, the counterparties are required to deliver to the Company either shares of the Company s common stock or cash in the amount that the Company delivers to the holders of the 0.875% Convertible Notes with respect to a conversion, calculated exclusive of shares deliverable by the Company by reason of any additional make whole premium relating to the 0.875% Convertible Notes or by reason of any election by the Company to unilaterally increase the conversion rate as permitted by the indenture governing the 0.875% Convertible Notes. The note hedges expire at the close of trading on November 15, 2013, which is also the maturity date of the 0.875% Convertible Notes, although the counterparties will have ongoing obligations with respect to 0.875% Convertible Notes properly converted on or prior to that date as to which the counterparties have been timely notified.

The Company issued warrants to counterparties that could require the Company to issue up to approximately 7,048,880 shares of the Company s common stock in equal installments on each of the fifteen consecutive business days beginning on and including February 13, 2014. The strike price is $76.00 per share, which represents a 92.4%

premium over the closing price of the Company s shares of common stock on November 9, 2006. The warrants are expected to provide the Company with some protection against increases in the common stock price over the conversion price per share.

The note hedges and warrants are separate and legally distinct instruments that bind the Company and the counterparties and have no binding effect on the holders of the 0.875% Convertible Notes. The note hedges and warrants were accounted for as equity transactions. Therefore, the payment associated with the issuance of the note hedges and the proceeds received from the issuance of the warrants were recorded as a charge and an increase, respectively, in additional paid-in capital in shareholders equity as separate equity transactions.

Proceeds from the offering were used to pay down $87.8 million outstanding, including accrued interest, under the Company s Amended Credit Facility, to pay $124.5 million for the cost of the note hedges, and to pay transaction costs of approximately $9.4 million directly related to the issuance that have been allocated to the liability and equity components in proportion to the allocation of proceeds. Additionally, the Company received $80.4 million in proceeds from the issuance of the warrants. At the conclusion of these transactions, the net effect of the receipt of the funds from the 0.875% Convertible Notes and the payments and proceeds mentioned above was an increase in cash of approximately $213.7 million, which is being used by the Company for general corporate purposes including acquisitions.

7.125% Senior Notes and Senior Floating Rate Notes

On March 21, 2007, the Company completed the issuance and sale of $325.0 million in aggregate principal amount of new senior unsecured notes, comprised of $125.0 million of Senior Floating Rate Notes due 2015 (the Senior Floating Rate Notes) and $200.0 million of 7.125% Senior Fixed Rate Notes due 2017 (the 7.125% Senior Notes and together, the Notes). The Notes were offered and sold in private transactions in accordance with Rule 144A and Regulation S under the Securities Act of 1933, as amended (the Securities Act). An exchange offer commenced on June 11, 2007 and was completed on July 26, 2007 to replace the unregistered Notes with registered Notes with like terms pursuant to an effective Registration Statement on Form S-4. The Notes are jointly and severally guaranteed by the Company s wholly-owned U.S. and Canadian subsidiaries. The estimated fair value of the 7.125% Senior Notes and Senior Floating Rate Notes was approximately $195.9 million and $110.2 million, respectively, at October 2, 2009.

The Senior Floating Rate Notes bear interest at an annual rate equal to the 3-month LIBOR rate plus 2.375%, which combine for a rate of 2.7% at October 2, 2009. Interest on the Senior Floating Rate Notes is payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, commencing on July 1, 2007. The 7.125% Senior Notes bear interest at a rate of 7.125% per year and are payable semi-annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2007. The Senior Floating Rate Notes mature on April 1, 2015 and the 7.125% Senior Notes mature on April 1, 2017.

The Notes indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to (i) pay dividends on, redeem or repurchase the Company s capital stock; (ii) incur additional indebtedness; (iii) make investments; (iv) create liens; (v) sell assets; (vi) engage in certain transactions with affiliates; (vii) create or designate unrestricted subsidiaries; and (viii) consolidate, merge or transfer all or substantially all assets. However, these covenants are subject to important exceptions and qualifications, one of which will permit the Company to declare and pay dividends or distributions on the Series A preferred stock so long as there is no default on the Notes and the Company meets certain financial conditions.

The Company may, at its option, redeem the Senior Floating Rate Notes and 7.125% Senior Notes on or after the following dates and at the following percentages plus accrued and unpaid interest:

Senior Floating Rate Notes		**7.125% Senior Notes**	
Beginning Date	**Percentage**	**Beginning Date**	**Percentage**
April 1, 2009	102.000%	April 1, 2012	103.563%
April 1, 2010	101.000%	April 1, 2013	102.375%
April 1, 2011	100.000%	April 1, 2014	101.188%
		April 1, 2015	100.000%

Proceeds from the Notes of $325.0 million, less approximately $7.9 million of cash payments for fees and expenses that will be amortized over the life of the Notes, were used to pay approximately $285.0 million for the 9.5% Senior Notes, $9.3 million for accrued interest on the 9.5% Senior Notes and $20.5 million for tender fees and the inducement premium on the 9.5% Senior Notes, leaving net cash proceeds of approximately $2.3 million which were used for general corporate purposes.

PDIC credit facilities

As of October 2, 2009, PDIC related debt was $19.1 million of which approximately $18.6 million was short-term financing agreements at various interest rates. The weighted average interest rate was 2.5% as of October 2, 2009. The Company has approximately $350.4 million of borrowing availability under the various credit facilities at October 2, 2009.

Spanish Term Loans and Spanish Credit Facility

As of October 2, 2009 and December 31, 2008, the U.S. dollar equivalent of $76.8 million and $64.1 million, respectively, was outstanding under the following term loan facilities. The proceeds of which were used to partially fund the acquisition of Enica Biskra and for general working capital purposes. There is no remaining availability under these Spanish Term Loans. In February 2008, the Company entered into a term loan in the amount of 20 million euros with an interest rate of Euribor plus 0.5%. The term loan is payable in semi-annual installments, due in September and March, maturing in March 2013. Simultaneously, the Company entered into a fixed interest rate swap

to coincide with the terms and conditions of the term loan starting in September 2008 and maturing in March 2013 that will effectively hedge the variable interest rate with a fixed interest rate of 4.2%. In April 2008, the Company entered into a term loan in the amount of 10 million euros with an interest rate of Euribor plus 0.75%. The term loan is payable in semi-annual installments, due in April and October, maturing in April 2013. Simultaneously, the Company entered into a fixed interest rate swap to coincide with the terms and conditions of the term loan starting in October 2008 and maturing in April 2013 that will effectively hedge the variable interest rate with a fixed interest rate of 4.58%. In June 2008, the Company entered into a term loan in the amount of 21 million euros with an interest rate of Euribor plus 0.75%. The term loan is payable in quarterly installments, due in March, June, September and December, maturing in June 2013. Simultaneously, the Company entered into a fixed interest rate swap to coincide with the terms and conditions of the term loan starting in September 2008 and maturing in June 2013 that will effectively hedge the variable interest rate with a fixed interest rate of 4.48%. In September 2009, the Company entered into a term loan in the amount of 15 million euros with an interest rate of Euribor plus 2.0% payable quarterly. The term loan is payable in semi-annual installments, due in February and August, maturing in August 2014. The weighted average interest rate for these term loans was 4.0% as of October 2, 2009.

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Three Spanish Credit Facilities totaling 45 million euros were established in 2008, and mature in 2010, 2011 and 2013 and carry an interest rate of Euribor plus 0.4% to 0.65% depending on certain debt ratios. The Company has currently drawn $14.1 million under these facilities, leaving undrawn availability of approximately the U.S. dollar equivalent of $51.5 million as of October 2, 2009. Commitment fees ranging from 15 to 25 basis points per annum on any unused commitments under these credit facilities are payable on a quarterly basis. The weighted average interest rate as of October 2, 2009 was 4.5%.

The Spanish Term Loans and Spanish Credit Facility are subject to certain financial ratios of the Company s European subsidiaries, which includes minimum net equity and net debt to EBITDA (earnings before interest, taxes, depreciation and amortization). At October 2, 2009 and December 31, 2008, the Company was in compliance with all covenants under these facilities.

Silec credit facilities

As of October 2, 2009, Silec s debt was the U.S. dollar equivalent of $34.0 million. The debt consisted of approximately $20.8 million relating to an uncommitted accounts receivable facility and approximately $13.2 million of short-term financing agreements at a weighted average interest rate of 2.3%. The Company has approximately $79.1 million of excess availability under these short-term financing agreements.

Senior Secured Revolving Credit Facility (Amended Credit Facility)

The Company s current senior secured revolving credit facility (Amended Credit Facility), as amended, is a five-year, $400.0 million asset based revolving credit agreement that includes an approximate $50.0 million sublimit for the issuance of commercial and standby letters of credit and a $20.0 million sublimit for swingline loans. The Company under the Amended Credit Facility has the option (subject to certain limitations and conditions) to elect whether loans under the Amended Credit Facility will be LIBOR loans or alternative base rate loans. Eurodollar loans bear interest at a rate equal to an adjusted LIBOR rate plus an applicable margin percentage (which margin has a range of 1.125% to 1.875%) and alternative base rate loans bear interest at a rate equal to an alternative base rate plus an applicable margin percentage (which margin has a range of 0.00% to 0.625%). The applicable margin percentage is subject to adjustments based upon the excess availability, as defined in the Amended Credit Facility. At October 2, 2009, the Company had no outstanding borrowing and undrawn availability of $306.0 million under the Amended Credit Facility. As of October 2, 2009, the Company had outstanding letters of credit related to this Amended Credit Facility of $28.2 million.

Indebtedness under the Amended Credit Facility is guaranteed by the Company s U.S. and Canadian subsidiaries and is secured by a first priority security interest in tangible and intangible property and assets of the Company s U.S. and Canadian subsidiaries. The lenders have also received a pledge of all of the capital stock of the Company s existing domestic subsidiaries and any future domestic subsidiaries.

The Amended Credit Facility requires that the Company comply with certain financial covenants, the principal covenant of which is a quarterly minimum fixed charge coverage ratio test, which is only applicable when excess availability, as defined, is below a certain threshold. At October 2, 2009, the Company was in compliance with all covenants under the Amended Credit Facility. In addition, the Amended Credit Facility includes negative covenants, which restrict certain acts. However, the Company will be permitted to declare and pay dividends or distributions on the Series A preferred stock so long as there is no default under the Amended Credit Facility and the Company meets certain financial conditions.

The Company pays fees in connection with the issuance of letters of credit and commitment fees equal to 25 basis points, per annum on any unused commitments under the Amended Credit Facility. Both fees are payable quarterly. In connection with the original issuance and related subsequent amendments to the Amended Credit Facility, the Company incurred fees and expenses aggregating $11.1 million, which are being amortized over the term of the Amended Credit Facility.

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Other

As of October 2, 2009 and December 31, 2008, ECN Cable s debt was the U.S. dollar equivalent of $23.0 million and $17.4 million, respectively. As of October 2, 2009 the debt consisted of approximately $0.5 million relating to an uncommitted accounts receivable facility and approximately $22.5 million of various credit facilities. The Company has approximately $46.0 million of excess availability under the uncommitted accounts receivable facility and the credit facilities.

At October 2, 2009, maturities of long-term debt during twelve month periods beginning October 2, 2009 through September 30, 2014 are $132.2 million, $33.3 million, $14.9 million, $408.3 million and $287.6 million, respectively, and $340.3 million thereafter.

As of October 2, 2009 and December 31, 2008, the Company was in compliance with all debt covenants.

8. Derivative and Other Financial Instruments

The Company is exposed to various market risks, including changes in interest rates, foreign currency and raw material (commodity) prices. To manage risks associated with the volatility of these natural business exposures the Company enters into interest rate, commodity and foreign currency derivative agreements, as well as copper and aluminum forward pricing agreements. The Company does not purchase or sell derivative instruments for trading purposes. The Company does not engage in trading activities involving derivative contracts for which a lack of marketplace quotations would necessitate the use of fair value estimation techniques.

Cash Flow Hedges

The Company utilizes interest rate swaps to manage its interest expense exposure by fixing its interest rate on portions of the Company s floating rate debt. The Company has entered into interest rate swaps on the Company s Spanish Term Loans, as discussed above in Note 7. As of October 2, 2009, in addition to the above mentioned Spanish Term Loans related interest rate swaps with a notional value of $55.0 million which provides for a fixed interest rate of 4.4% maturing in October 2011, the Company has one outstanding interest rate swap on $9.0 million of variable rate debt (classified as Other North America debt). The fair value of these financial derivatives which are designated as and qualify as cash flow hedges are based on quoted market prices which reflect the present values of the difference between estimated future variable-rate receipts and future fixed-rate payments.

The Company enters into commodity futures contracts, which are designated and qualify as cash flow hedges, for the purchase of copper, aluminum and lead for delivery in a future month to match certain sales transactions.

The Company enters into foreign currency exchange contracts, which are designated as and qualify as cash flow hedges, principally to manage its foreign currency exposure in certain transactions denominated in foreign currencies, thereby attempting to limit the Company s risk that would otherwise result from changes in exchange rates. Principal transactions hedged during the year were firm sales and purchase commitments. The fair value of foreign currency contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

Fair Value of Derivatives Instruments

The notional amounts and fair values of derivatives designated as cash flow hedges and derivatives not designated as cash flow hedges at October 2, 2009 are shown below (in millions).

	October 2, 2009		
	Notional	Fair Value	
	Amount	Asset (1)	Liability (2)
Derivatives designated as cash flow hedges:			
Interest rate swap	$ 64.0	$ 2.9	$ 0.6
Commodity futures	163.7	6.4	17.9
Foreign currency exchange	314.4	6.3	3.9
		$ 15.6	$ 22.4

Derivatives not designated as cash flow hedges:			
Commodity futures	$	$	$
Foreign currency exchange	24.0	0.2	0.3
		$ 0.2	$ 0.3

(1) Balance recorded in Prepaid expenses and other and Other non-current assets

(2) Balance recorded in Accrued liabilities and Other liabilities

Depending on the extent of an unrealized loss position on a derivative contract held by the Company, certain counterparties may require collateral to secure the Company s derivative contract position. The Company recorded $8.7 million in the prepaid expenses and other line item on the condensed consolidated balance sheet as of December 31, 2008. As of October 2, 2009, there were no contracts held by the Company that required collateral to secure the Company s derivative liability positions.

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For the above derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the unrealized gain and loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings, which generally occurs over periods of less than one year. Gains and loss on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

	Three Fiscal Months Ended October 2, 2009			
(in millions)	Effective Portion recognized in OCI Gain / (Loss)	Reclassified from Accumulated OCI Gain / (Loss)	Ineffective portion and amount excluded from effectiveness testing Gain / (Loss)	Location
Derivatives designated as cash flow hedges:				
Interest rate swap	$ (0.2)	$ (0.1)	$ 0.2	Interest Expense
Commodity futures	11.5	(3.3)		Costs of Sales
Foreign currency exchange	4.5	1.3	(0.3)	Other income /(expense)
Total	$ 15.8	$ (2.1)	$ (0.1)	

	Nine Fiscal Months Ended October 2, 2009			
(in millions)	Effective Portion recognized in OCI Gain / (Loss)	Reclassified from Accumulated OCI Gain / (Loss)	Ineffective portion and amount excluded from effectiveness testing Gain / (Loss)	Location
Derivatives designated as cash flow hedges:				
Interest rate swap	$ 2.2	$ (0.3)	$ 0.1	Interest Expense
Commodity futures	(11.5)	(45.6)		Costs of Sales
Foreign currency exchange	1.6	(2.5)	0.8	Other income /(expense)
Total	$ (7.7)	$ (48.4)	$ 0.9	

For the above derivative instruments that are not designated as cash flow hedges, the unrealized gain or loss on the derivatives is reported in current earnings. For the three and nine fiscal months ended of October 2, 2009, the Company recorded a loss of $0.1 million and $0.7 million, respectively, for derivatives instruments not designated as cash flow hedges in other income/(expense) on the condensed consolidated statement of operations. As of October 2, 2009, foreign currency exchange derivatives not designated as hedges of $24.0 million includes an $8.0 million U.S. dollar to Mexican peso cross currency and interest rate swap agreement related to an intercompany loan among the Company s subsidiaries in its ROW operations, in order to hedge the effects of the changes in spot exchange rates and to exchange floating rate interest with a fixed interest rate of 8.46%. The swap matures in March 2011.

Other Forward Pricing Agreements

In the normal course of business, the Company enters into forward pricing agreements for the purchase of copper and aluminum for delivery in a future month to match certain sales transactions. These forward pricing arrangements are for purchases of copper and aluminum that will be delivered in quantities expected to be used by the Company over a reasonable period of time in the normal course of business and are therefore considered normal purchases and normal sales . For these arrangements, it is probable at the inception and throughout the life of the arrangements that the arrangements will not settle net and will result in physical delivery of the inventory. At October 2, 2009 and December 31, 2008, the Company had $58.3 million and $90.5 million, respectively, of future copper and aluminum purchases that were under forward pricing agreements. At October 2, 2009 and December 31, 2008, the fair value of these arrangements were $60.1 million and $65.4 million, respectively, and the Company had an unrealized gain (loss) of $1.8 million and $(25.1) million, respectively, related to these transactions. The Company believes the unrealized gains (losses) under these agreements to be largely offset as a result of firm sales price commitments with customers.

9. Income Taxes

During the third quarter of 2009, the Company accrued approximately $1.6 million of income tax expense for uncertain tax positions likely to be taken in the current year and for interest and penalties on tax positions taken in prior periods, all of which would have a favorable impact on the effective tax rate, if recognized.

The Company files income tax returns in numerous tax jurisdictions around the world. Due to uncertainties regarding the timing and outcome of various tax audits, appeals and settlements, it is difficult to reliably estimate the amount of unrecognized tax benefits that could change within the next twelve months. The Company believes it is reasonably possible that approximately $27.0 million of unrecognized tax benefits could change within the next twelve months due to the resolution of tax audits and statute of limitations expirations.

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Tax years that are open for examination and assessment by the Internal Revenue Service are 2006 through 2008. With limited exceptions, tax years prior to 2005 are no longer open in major foreign, state or local tax jurisdictions.

10. Employee Benefit Plans

The Company provides retirement benefits through contributory and noncontributory qualified and non-qualified defined benefit pension plans covering eligible domestic and international employees as well as through defined contribution plans and other postretirement benefits.

Defined Benefit Pension Plans

Benefits under the Company s qualified U.S. defined benefit pension plan generally are based on years of service multiplied by a specific fixed dollar amount, and benefits under the Company s qualified non-U.S. defined benefit pension plans generally are based on years of service and a variety of other factors that can include a specific fixed dollar amount or a percentage of either current salary or average salary over a specific period of time. The amounts funded for any plan year for the qualified U.S. defined benefit pension plan are neither less than the minimum required under federal law nor more than the maximum amount deductible for federal income tax purposes. The Company s non-qualified unfunded non-U.S. defined benefit pension plans include plans that provide retirement indemnities to employees within the Company s European business. Pension obligations for the majority of non-qualified unfunded defined benefit pension plans are provided for by book reserves and are based on local practices and regulations of the respective countries. The Company makes cash contributions for the costs of the non-qualified unfunded defined benefit pension plans as the benefits are paid.

The components of net periodic benefit cost for pension benefits were as follows (in millions):

	Three Fiscal Months Ended			
	October 2, 2009		September 26, 2008	
	U.S. Plans	Non-U.S Plans	U.S. Plans	Non-U.S. Plans
Service cost	$ 0.4	$ 0.6	$ 0.4	$ 0.6
Interest cost	2.0	1.2	2.0	1.3
Expected return on plan assets	(1.9)	(0.3)	(2.7)	(0.5)
Amortization of prior service cost	0.1	0.1	0.2	0.1
Amortization of net loss	1.9	0.1	0.6	0.1
Net pension expense	$ 2.5	$ 1.7	$ 0.5	$ 1.6

	Nine Fiscal Months Ended			
	October 2, 2009		September 26, 2008	
	U.S. Plans	Non-U.S Plans	U.S. Plans	Non-U.S. Plans
Service cost	$ 1.2	$ 1.8	$ 1.2	$ 1.8
Interest cost	6.1	3.7	6.0	3.9
Expected return on plan assets	(5.6)	(1.1)	(8.1)	(1.5)
Amortization of prior service cost	0.4	0.1	0.5	0.1
Amortization of net loss	5.4	0.3	1.7	0.4
Net pension expense	$ 7.5	$ 4.8	$ 1.3	$ 4.7

Defined benefit pension plan cash contributions for the three and nine fiscal months ended October 2, 2009 were $6.8 million and $10.4 million, respectively. Defined benefit pension plan cash contributions for the three and nine fiscal months ended September 26, 2008 were $4.4 million and $6.0 million, respectively.

Postretirement Benefits Other Than Pensions

The Company has postretirement benefit plans that provide medical and life insurance for certain retirees and eligible dependents. The Company funds the plans as claims or insurance premiums are incurred.
Net postretirement benefit expense included the following components (in millions):

	Three Fiscal Months Ended		Nine Fiscal Months Ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Service cost	$	$	$ 0.1	$ 0.1
Interest cost	0.2	0.2	0.4	0.4
Net amortization and deferral			0.1	0.1
Net postretirement benefit expense	$ 0.2	$ 0.2	$ 0.6	$ 0.6

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Defined Contribution Plans

Expense under both U.S. and non-U.S. defined contribution plans generally equals up to six percent of each eligible employee s covered compensation based on the location and status of the employee. The net defined contribution plan expense recognized for the three and nine fiscal months ended October 2, 2009 was $2.0 million and $6.9 million, respectively. The net defined contribution plan expense recognized for the three and nine fiscal months ended September 26, 2008 was $2.2 million and $7.0 million, respectively.

11. Shareholders Equity

General Cable is authorized to issue 200 million shares of common stock and 25 million shares of preferred stock. Condensed consolidated statement of changes in equity is presented below for October 2, 2009 and September 26, 2008.

		General Cable shareholders					
	Total	Preferred stock Amount	Common Stock Amount	Add l Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2008	$ 992.1	$ 3.8	$ 0.6	<			

London Uplink Facility

On February 17, 2010, the Company acquired all interests in an uplink facility in London, including its employees and operations, for a payment of $35 million. The uplink facility has been included in the Company s operating results since the date of acquisition.

Dispositions

Discovery Health Network

On January 1, 2011, the Company contributed the domestic Discovery Health network to OWN LLC in connection with the launch of The Oprah Winfrey Network (OWN), which resulted in pretax gain of $129 million (Note 3). As the Company continues to be involved in the operations of the Discovery Health network through its ownership interests in OWN LLC, the Company has not presented the financial position, results of operations, and cash flows of the Discovery Health network as discontinued operations.

Antenna Audio

On September 1, 2010, the Company sold Antenna Audio, which was a component of its International Networks segment. Antenna Audio s operating results for the three and six months ended June 30, 2010 have been reclassified as discontinued operations on the Consolidated Statements of Operations. For the three months ended June 30, 2010, Antenna Audio s revenues, income before income taxes, and net income were $11 million, zero, and zero, respectively. For the six months ended June 30, 2010, Antenna Audio s revenues, income before taxes, and net income were $21 million, zero, and zero, respectively. As the income associated with Antenna Audio is zero, there is no separate line in the Consolidated Statements of Operations for discontinued operations.

NOTE 3. VARIABLE INTEREST ENTITIES

In the normal course of business, the Company enters into joint ventures or makes investments that support its underlying business strategy and provide it the ability to enter new markets for its brands, develop programming, and distribute its existing content. In

certain instances, a joint venture or an investment may qualify as a VIE. As of June 30, 2011 and December 31, 2010, the Company s VIEs primarily consisted of Hub Television Networks LLC and OWN LLC, which are 50-50 joint ventures that operate pay-television networks. The Company previously had ownership interests in joint ventures with BBC Worldwide (the BBC) that were VIEs, substantially all of which were consolidated. On November 12, 2010, the Company acquired the BBC s interests in these joint ventures. The Company now wholly owns these entities and continues to consolidate them.

As of June 30, 2011 and December 31, 2010, the Company accounted for its interests in all other joint venture VIEs using the equity method. The aggregate carrying values of investments in VIEs accounted for using the equity method were $806 million and $453 million as of June 30, 2011 and December 31, 2010, respectively, which were recorded in Investments on the Consolidated Balance Sheets. During the three and six months ended June 30, 2011, the Company recognized equity earnings of $3 million and equity losses of $7 million, respectively, for its portion of net earnings (losses) generated by VIEs accounted for using the equity method, which were recorded in Other income (expense), net on the Consolidated Statements of Operations. During the three and six months ended June 30, 2010, the Company recognized equity losses of $10 million and $16 million, respectively, for its portion of net losses generated by VIEs accounted for using the equity method, which were recorded in Other income (expense), net on the Consolidated Statements of Operations.

The Company s estimated risk of loss for investments in VIEs was approximately $845 million as of June 30, 2011, which includes the carrying value of its investments and the unfunded portion of contractual funding commitments to joint ventures. Actual amounts funded exceed contractual funding commitments. The Company intends to fund significant amounts to OWN. No amounts have been recorded for future funding commitments. The estimated risk of loss excludes the Company s operating performance guarantee to Hub Television Networks LLC disclosed below.

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Hub Television Networks LLC

Hub Television Networks LLC operates The Hub, which is a pay-television network that provides children s and family entertainment and educational programming that launched October 10, 2010. The Company provides the joint venture with funding and services such as distribution, sales, and administrative support. See Note 12 for further discussion. Based upon the level of equity investment at risk, the Company has determined that the joint venture is a VIE. The joint venture partners share equally in voting control, as well as the profits, losses, and funding of the joint venture. The Company has determined that it is not the primary beneficiary of The Hub, because it does not control the activities that are most significant to the joint venture s operating performance and success. Accordingly, the Company accounts for its investment in The Hub using the equity method.

The Company has guaranteed a certain level of operating performance for the joint venture, which is reduced over time as performance targets are achieved. As of June 30, 2011, the remaining maximum exposure to loss under this performance guarantee was below $185 million. The Company believes the likelihood is remote that the performance guarantee will not be achieved and, therefore, the performance guarantee is unlikely to have a material adverse impact on the Company s financial position, operating results, or cash flows. Accordingly, the fair value of the guarantee as of June 30, 2011 was not material. The Company is also committed to fund up to $15 million to the joint venture; none of which has been funded through June 30, 2011.

On May 23, 2011, The Hub revised its arrangement with Hasbro Studios to increase the license fees for animated programming. This change created a trigger event for purposes of intangible asset and goodwill impairment testing. The Hub s management prepared a fair value assessment using a discounted cash flow valuation model, for purposes of performing step one of the goodwill impairment test. The underlying assumptions, such as future cash flows, weighted average costs of capital, and long-term growth rates were generally not observable in the marketplace, and therefore, involved significant judgment. The estimated fair value of The Hub exceeded its carrying value; no impairments were recorded. Given that the early results of The Hub s operations have been below its initial long-term business plan, there is a possibility that future results may vary from the current assumptions in the long-term business plan. The Company will monitor the valuation of its investment in accordance with GAAP, which requires an impairment charge for other-than-temporary decline in value.

The carrying values of the Company s investment in The Hub were $339 million and $344 million as of June 30, 2011 and December 31, 2010, respectively.

OWN LLC

OWN LLC operates OWN, which is a pay-television network and website that provides adult lifestyle content focused on self-discovery and self-improvement that launched on January 1, 2011. In connection with the launch of OWN, the Company contributed the domestic Discovery Health network to the joint venture, which included goodwill and other identifiable assets with carrying values of $136 million and $8 million, respectively. The Company recorded the contribution at fair value, which resulted in a pretax gain of $129

million. The fair value of the Company s retained equity interest in OWN was estimated at $273 million. The gain represents the fair value of the equity investment retained less the carrying values of contributed assets. The gain resulted in $27 million of tax expense.

The fair value of the contribution of the Discovery Health network to OWN was determined utilizing customary valuation methodologies including discounted cash flows. The underlying assumptions, such as future cash flows, weighted average costs of capital, long-term growth rates, marketplace valuation methodologies, and market comparable transactions and multiples were generally not observable in the marketplace, and therefore, involved significant judgment. Given the early stage of OWN s operations compared with its long-term business plan, there is a possibility that results may vary from these initial assumptions. The Company will monitor the valuation of its investment in accordance with GAAP, which requires an impairment charge for other-than-temporary decline in value.

The contribution did not impact the Company s ownership interest, voting control, or governance rights related to OWN. The Company no longer consolidates the domestic Discovery Health network subsequent to the contribution, which was a component of its U.S. Networks segment.

Based upon the level of equity investment at risk, the Company has determined that OWN is a VIE. While the joint venture partners share equally in voting control, Harpo Inc. (Harpo) holds certain operational rights related to programming and marketing. The Company has determined that it is not the primary beneficiary of OWN, because it does not control the activities that are most significant to the joint venture s operating performance and success. Accordingly, the Company accounts for its investment in OWN using the equity method. Following the contribution of the Discovery Health network to OWN, net losses generated by OWN are allocated to both joint venture partners based on their proportionate ownership interests, which are 50-50. Previously, the Company

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recognized 100% of OWN s net losses. Future net income generated by OWN will initially be allocated 100% to the Company up to the amount of pre-launch net losses recognized. After the Company has recouped its losses, any excess net income will be allocated to both joint venture partners based on their proportionate ownership interests.

The Company provides the joint venture funding and services such as distribution, licensing, sales, and administrative support. See Note 12 for further discussion. As the Company has assumed all funding requirements as of June 30, 2011, the Company s total funding to OWN, including interest accrued on outstanding borrowings, was $242 million, which is in excess of its commitment of $189 million. While the Company expects to provide significant additional funding to OWN, the Company also expects to recoup amounts funded. OWN will distribute its initial excess cash to the Company to repay funding then due. Following repayment of funding then due, OWN s subsequent cash distributions will be shared equally between the Company and Harpo.

The carrying value of the Company s investment in OWN, including its equity method investment and note receivable balance, was $390 million and $52 million as of June 30, 2011 and December 31, 2010, respectively.

Pursuant to the joint venture agreement, Harpo has the right to require the Company to purchase its interest in OWN every two and one half years commencing on January 1, 2016. The put arrangement provides that the Company would purchase Harpo s interests at fair market value up to a maximum put amount. The maximum put amount is a range from $100 million on the first put exercise date up to $400 million on the fourth put exercise date. No amounts have been recorded for the put right.

NOTE 4. FAIR VALUE MEASUREMENTS

The Company records certain assets and liabilities at fair value. Fair value measurements are classified according to the following three-level fair value hierarchy established by the FASB.

- Level 1 measurements based on observable inputs such as quoted prices for identical instruments in active markets.
- Level 2 measurements based on inputs such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for the assets or liabilities.
- Level 3 measurements based on valuations derived from present value and other valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Assets and liabilities measured at fair value on a recurring basis consisted of the following (in millions).

Category	Balance Sheet Location	June 30, 2011 Level 1	Level 2	Level 3	Total
Trading securities:					
Mutual funds	Prepaid expenses and other current assets	$ 77	$	$	$ 77
Available-for-sale securities:					
Money market mutual funds	Cash and cash equivalents	654			654
U.S. Treasury securities	Cash and cash equivalents		200		200
Total assets		$ 731	$ 200	$	$ 931
Liabilities:					
Deferred compensation plan	Accrued liabilities	$ 77	$	$	$ 77
Other	Other current liabilities			1	1
Total liabilities		$ 77	$	$ 1	$ 78

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		December 31, 2010			
Category	**Balance Sheet Location**	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities:					
Mutual funds	Prepaid expenses and other current assets	$ 55	$	$	$ 55
Available-for-sale securities:					
Money market mutual funds	Cash and cash equivalents	172			172
U.S. Treasury securities	Cash and cash equivalents		200		200
Other	Cash and cash equivalents		3		3
Total assets		$ 227	$ 203	$	$ 430
Liabilities:					
Deferred compensation plan	Accrued liabilities	$ 55	$	$	$ 55
Other	Accrued liabilities and Other current liabilities		6		6
Total liabilities		$ 55	$ 6	$	$ 61

Trading securities are comprised of investments in mutual funds held in a separate trust, which are owned as part of the Company s deferred compensation plan. The fair value of Level 1 trading securities was determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. The fair value of the related deferred compensation plan liability was determined based on the fair value of the related investments elected by employees.

Available-for-sale securities represent investments in highly liquid instruments with original maturities of 90 days or less. The fair value of Level 1 available-for-sale securities was determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. The fair value of substantially all available-for-sale securities classified in Level 2 was based on quoted prices for similar instruments in active markets multiplied by the number of units held without consideration of transaction costs.

In addition to the financial instruments listed in the tables above, the Company holds other financial instruments, including cash, accounts receivable, accounts payable, and debt. The carrying values for cash, accounts receivable, and accounts payable approximated their fair values. The estimated fair value of the Company s outstanding debt using quoted market prices was $4.4 billion and $3.7 billion as of June 30, 2011 and December 31, 2010, respectively.

NOTE 5. CONTENT RIGHTS

Content rights consisted of the following (in millions).

	June 30, 2011	December 31, 2010
Produced content rights:		
Completed	$ 2,185	$ 1,963
In-production	243	229
Coproduced content rights:		
Completed	481	446
In-production	77	76
Licensed content rights:		
Acquired	348	297
Prepaid	19	19
Content rights, at cost	3,353	3,030
Accumulated amortization	(1,950)	(1,702)
Total content rights, net	1,403	1,328
Current portion	(93)	(83)
Noncurrent portion	$ 1,310	$ 1,245

Content expense was $196 million and $165 million for the three months ended June 30, 2011 and 2010, respectively, and $381 million and $350 million for the six months ended June 30, 2011 and 2010, respectively.

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NOTE 6. DEBT

Outstanding debt consisted of the following (in millions).

	June 30, 2011	December 31, 2010
3.70% Senior Notes, semi-annual interest, due June 2015	$ 850	$ 850
5.625% Senior Notes, semi-annual interest, due August 2019	500	500
5.05% Senior Notes, semi-annual interest, due June 2020	1,300	1,300
4.375% Senior Notes, semi-annual interest, due June 2021	650	
6.35% Senior Notes, semi-annual interest, due June 2040	850	850
Capital lease and other obligations	118	126
Total long-term debt	4,268	3,626
Unamortized discount	(11)	(8)
Long-term debt, net	4,257	3,618
Current portion of long-term debt	(22)	(20)
Noncurrent portion of long-term debt	$ 4,235	$ 3,598

On June 20, 2011, Discovery Communications, LLC (DCL), a wholly-owned subsidiary of the Company, issued $650 million aggregate principal amount of 4.375% Senior Notes due on June 15, 2021 (the 2021 Notes). DCL received net proceeds of approximately $641 million from the offering after the $4 million issuance discount and $5 million of deferred financing costs.

DCL may, at its option, redeem some or all of the 2021 Notes at any time by paying a make-whole premium, plus accrued and unpaid interest, if any, through the date of repurchase. Interest on the 2021 Notes is payable on June 15 and December 15 of each year. The 2021 Notes are unsecured and rank equally in right of payment with all of DCL s other unsecured senior indebtedness and are fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Discovery.

In addition to the debt instruments listed in the table above, the Company also has a $1.0 billion revolving credit facility. There were no amounts drawn under the revolving credit facility as of June 30, 2011 and December 31, 2010. If the Company were to draw on the revolving credit facility, outstanding balances would bear interest at a variable rate determined pursuant to the credit agreement. Balances outstanding under the revolving credit facility would be due on the expiration date, which is October 11, 2013.

The Company was in compliance with all covenants and provisions under its credit agreements as of June 30, 2011 and December 31, 2010. There were no events of default.

NOTE 7. EQUITY

Stock Repurchase Program

On August 3, 2010, the Company implemented a stock repurchase program, with authorization to purchase up to $1.0 billion of its common stock. The repurchase program has no expiration date. During the three and six months ended June 30, 2011, the Company repurchased 5.64 million and 10.37 million shares, respectively, of its Series C common stock for an aggregate purchase price of $210 million and $377 million, respectively, through open market transactions. The repurchases were funded using cash on hand. As of June 30, 2011, the Company had remaining authorization of $518 million for future repurchases of its common stock. The stock repurchases were recorded in a separate account at cost, which was reported as a reduction in equity.

NOTE 8. STOCK-BASED COMPENSATION

The Company has various incentive plans under which unit awards, stock options, performance based restricted stock units (PRSUs), time based restricted stock units (RSUs), and stock appreciation rights (SARs) have been issued. The Company does not intend to grant additional unit awards or SARs, which are cash-settled, except as may be required by contract or to employees in countries in which stock options, PRSUs, or RSUs are not permitted. The vesting and service requirements of stock-based awards granted during the six months ended June 30, 2011 were consistent with the arrangements disclosed in the 2010 Form 10-K.

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Stock-Based Compensation Expense

Stock-based compensation expense was as follows (in millions).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Unit awards	$ 18	$ 39	$ 21	$ 63
Stock options	8	8	18	15
PRSUs and RSUs	6	2	10	3
Other		1		13
Total stock-based compensation expense	$ 32	$ 50	$ 49	$ 94
Tax benefit recognized	$ 12	$ 20	$ 18	$ 35

Compensation expense for all awards was recorded in Selling, general and administrative expense on the Consolidated Statements of Operations. As of June 30, 2011 and December 31, 2010, the Company recorded total liabilities of $52 million and $125 million, respectively, for cash-settled awards.

Stock-Based Award Activity

Unit Awards

Unit award activity for the six months ended June 30, 2011 was as follows (in millions, except years).

	Unit Awards	Weighted-Average Grant Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2010	8.8	$ 21.98	0.79	$ 198
Granted	2.3	$ 41.17		
Settled	(3.7)	$ 18.95		$ 91
Forfeited	(0.1)	$ 21.46		
Outstanding as of June 30, 2011	7.3	$ 29.54	1.19	$ 93
Vested and expected to vest as of June 30, 2011	6.9	$ 29.47	1.18	$ 88

Vested and unpaid as of June 30, 2011	0.5	$ 21.77		$ 12

Unit awards represent the contingent right to receive a cash payment for the amount by which the vesting price exceeds the grant price. The weighted-average grant price of unit awards granted during the six months ended June 30, 2011 was $41.17 per unit award. Because unit awards are cash-settled, the Company remeasures the fair value and compensation expense of outstanding unit awards as of the last day of the most recent fiscal period, until settlement. The weighted-average fair value of unit awards outstanding as of June 30, 2011 was $15.64 per unit award. The Company made cash payments totaling $91 million and $67 million during the six months ended June 30, 2011 and 2010, respectively, to settle vested unit awards. As of June 30, 2011, there was $58 million of unrecognized compensation cost, net of estimated forfeitures, related to unit awards, which is expected to be recognized over a weighted-average period of 2.04 years.

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Stock Options

Stock option activity for the six months ended June 30, 2011 was as follows (in millions, except years).

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2010	15.7	$ 19.26	5.21	$ 350
Granted	1.2	$ 39.14		
Exercised	(2.3)	$ 16.54		$ 62
Forfeited	(0.4)	$ 22.41		
Outstanding as of June 30, 2011	14.2	$ 21.27	5.35	$ 280
Vested and expected to vest as of June 30, 2011	13.8	$ 21.16	5.45	$ 272
Exercisable as of June 30, 2011	4.1	$ 17.16	5.20	$ 98

The weighted-average exercise price and weighted-average grant date fair value of stock options granted during the six months ended June 30, 2011 were $39.14 and $14.45, respectively, per option. The Company received cash payments totaling $38 million and $15 million during the six months ended June 30, 2011 and 2010, respectively, from the exercise of stock options. As of June 30, 2011, there was $63 million of unrecognized compensation cost, net of expected forfeitures, related to stock options, which is expected to be recognized over a weighted-average period of 1.72 years.

PRSUs and RSUs

PRSU and RSU activity for the six months ended June 30, 2011 was as follows (in millions, except years).

	PRSUs and RSUs	Weighted-Average Grant Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Fair Value
Outstanding as of December 31, 2010	1.5	$ 32.66	2.29	$ 61

Granted	1.0	$	38.86			
Converted		$			$	
Forfeited		$				
Outstanding as of June 30, 2011	2.5	$	35.24	2.27	$	99
Vested and expected to vest as of June 30, 2011	2.0	$	34.99	2.25	$	83

PRSUs represent the contingent right to receive shares of the Company s Series A common stock based on continuous service and whether the Company achieves certain operating performance targets. During the six months ended June 30, 2011, the Company granted 0.7 million PRSUs with a weighted-average grant date fair value of $38.78 per PRSU. As of June 30, 2011, there was $33 million of unrecognized compensation cost, net of expected forfeitures, related to PRSUs, which is expected to be recognized over a weighted-average period of 2.0 years based on the Company s current probability assessment of the PRSUs that will vest, which may differ from actual results.

RSUs represent the contingent right to receive shares of the Company s Series A common stock based on continuous service. During the six months ended June 30, 2011, the Company granted 0.3 million RSUs with a weighted-average grant date fair value of $39.01 per RSU. As of June 30, 2011, there was $18 million of unrecognized compensation cost, net of expected forfeitures, related to RSUs, which is expected to be recognized over a weighted-average period of 2.77 years.

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SARs

There were immaterial amounts of SARs outstanding as of June 30, 2011 and December 31, 2010. The Company made cash payments totaling $1 million and $54 million during the six months ended June 30, 2011 and 2010, respectively, to settle exercised SARs.

NOTE 9. INCOME TAXES

The Company s provisions for income taxes were $144 million and $41 million, and the effective tax rates were 36% and 27% for the three months ended June 30, 2011 and 2010, respectively. The effective tax rate for the three months ended June 30, 2011 differed from the U.S. federal statutory income tax rate of 35% due primarily to state taxes partially offset by production activity deductions. The effective tax rate for the three months ended June 30, 2010 differed from the U.S. federal statutory income tax rate of 35% due primarily to a production activity deduction and a $13 million tax benefit for a change in the Company s election to claim foreign tax credits that were previously taken as deductions, which were partially offset by state taxes.

The Company s provisions for income taxes were $290 million and $88 million, and the effective tax rates were 34% and 24% for the six months ended June 30, 2011 and 2010, respectively. The effective tax rate for the six months ended June 30, 2011 differed from the U.S. federal statutory income tax rate of 35% principally because the Company did not record a deferred tax liability of $21 million with respect to the portion of the outside basis in the OWN joint venture attributable to the nondeductible goodwill contributed to OWN and production activity deductions. These items were partially offset by state taxes. The effective tax rate for the six months ended June 30, 2010 differed from the U.S. federal statutory income tax rate of 35% primarily due to the reversal of a $28 million previously established foreign tax reserve recorded in connection with the completion of a tax audit, production activity deductions and a $13 million tax expense reduction for a change in the Company s election to claim foreign tax credits that were previously taken as deductions, which were partially offset by state taxes.

The Company is currently under examination by the Internal Revenue Service (IRS) for its 2009 and 2008 consolidated federal income tax returns. With few exceptions, the Company is no longer subject to audit by the IRS, state tax authorities, or foreign tax authorities for years prior to 2006. Certain of the Company s subsidiaries are currently under examination for the 2006 and 2007 tax years. The Company does not expect any material adjustments.

NOTE 10. NET INCOME PER SHARE

The following table presents a reconciliation of income and weighted average number of shares outstanding between basic and diluted income per share (in millions, except per share amounts).

	Three Months Ended June 30,	Six Months Ended June 30,

	2011	2010	2011	2010
Numerator:				
Net income	$ 254	$ 110	$ 559	$ 283
Less net income attributable to noncontrolling interests		(3)		(7)
Net income attributable to Discovery Communications, Inc.	254	107	559	276
Stock dividends to preferred interests		(1)		(1)
Net income available to Discovery Communications, Inc. stockholders basic and diluted	$ 254	$ 106	$ 559	$ 275
Denominator:				
Weighted average shares outstanding basic	406	426	407	425
Weighted average dilutive effect of equity awards	4	5	5	5
Weighted average shares outstanding diluted	410	431	412	430
Net income per share available to Discovery Communications, Inc. stockholders:				
Basic	$ 0.63	$ 0.25	$ 1.37	$ 0.65
Diluted	$ 0.62	$ 0.25	$ 1.36	$ 0.64

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Basic income per share is calculated by dividing Net income available to Discovery Communications, Inc. stockholders by the weighted average number of shares outstanding. Diluted income per share adjusts basic income per share for the dilutive effect for the assumed exercise of outstanding stock options and stock-settled SARs and the vesting of outstanding service based RSUs, using the treasury stock method. Diluted income per share also adjusts basic income per share for the dilutive effect for the assumed vesting of outstanding PRSUs or other contingently issuable shares that would be issued under the respective arrangements assuming the last day of the most recent fiscal period was the end of the contingency period.

The weighted average number of shares outstanding for the three and six months ended June 30, 2011 and 2010 included the Company s outstanding Series A, Series B, and Series C common shares, as well as its outstanding Series A and Series C convertible preferred shares. All series of the Company s common and preferred shares were included in the weighted average number of shares outstanding when calculating both basic and diluted income per share as the holder of each common and preferred series legally participates equally in any per share distributions.

For both the three and six months ended June 30, 2011, diluted income per share excluded three million options, PRSUs, and contingently issuable preferred shares, because their inclusion would have been anti-dilutive or specific criteria had not yet been achieved.

Diluted income per share for both the three and six months ended June 30, 2010 excluded five million options, PRSUs, and contingently issuable preferred shares, because their inclusion would have been anti-dilutive or specific criteria had not yet been achieved.

NOTE 11. SUPPLEMENTAL DISCLOSURES

Other Income (Expense), Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Unrealized (losses) gains on derivative instruments, net	$ (1)	$ 6	$ 2	$ 5
Realized losses on derivative instruments, net		(33)	(2)	(33)
Earnings (losses) from equity investees, net	3	(10)	(8)	(17)
Other, net			3	4
Total other income (expense), net	$ 2	$ (37)	$ (5)	$ (41)

NOTE 12. RELATED PARTY TRANSACTIONS

The following is a description of the Company s related parties.

DIRECTV, Liberty Global, Inc., Liberty Media Corporation, and Ascent Media Corporation

The Company s Board of Directors includes two members who served as directors of DIRECTV through June 16, 2010, including John C. Malone, the former Chairman of the Board of DIRECTV. Prior to June 16, 2010, Dr. Malone owned approximately 24% of the aggregate voting power of DIRECTV. Effective June 16, 2010, Dr. Malone converted his Class B common stock into DIRECTV Class A common stock, which reduced his voting interest to 3% of DIRECTV, and Dr. Malone and the other member of the Company s Board of Directors who served as a DIRECTV director resigned from the DIRECTV Board. Through June 16, 2010,

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transactions with DIRECTV are reported as related party transactions. Revenues from transactions with DIRECTV were $50 million, or 5% of total revenues, and $104 million, or 6%, of total revenues, for the three and six months ended June 30, 2010. Expenses from transactions with DIRECTV were not material for the three and six months ended June 30, 2010.

Discovery s Board also includes three members who serve as directors of Liberty Global, Inc. (Liberty Global), including Dr. Malone, who is Chairman of the Board of Liberty Global, and three members who serve as directors of Liberty Media Corporation (Liberty Media), also including Dr. Malone, the Chairman of the Board of Liberty Media. Dr. Malone beneficially owns shares representing approximately 42% of the aggregate voting power of Liberty Global and 34% of the aggregate voting power of Liberty Media.

Revenues from transactions with both Liberty Global and Liberty Media totaled $9 million, or 1% of total revenues, and $7 million, or 1% of total revenues, for the three months ended June 30, 2011 and 2010, respectively. Revenues from transactions with both Liberty Global and Liberty Media totaled $18 million, or 1% of total revenues, and $14 million, or 1% of total revenues, for the six months ended June 30, 2011 and 2010, respectively. Expenses from transactions with both Liberty Global and Liberty Media for three and six months ended June 30, 2011 and 2010 were not material. The Company s Receivables, net balances included insignificant amounts due from both Liberty Global and Liberty Media as of June 30, 2011 and December 31, 2010.

Effective January 25, 2010, Dr. Malone joined the Board of Directors of Ascent Media Corporation (AMC). Dr. Malone owns 1% of AMC s Series A common stock and 85% of AMC s Series B common stock, effectively providing him voting equity securities representing approximately 30% of the voting power with respect to the general election of AMC directors.

Beginning January 25, 2010, transactions with AMC are reported as related party transactions as a result of Dr. Malone joining AMC s board. Operating expenses from transactions with AMC were $4 million, or 1% of total operating expenses for the three months ended June 30, 2011 and 2010. Operating expenses from transactions with AMC were $8 million, or 1% of total operating expenses, and $14 million, or 1% of total operating expenses, for the six months ended June 30, 2011 and 2010, respectively. Payable balances as of the periods ended June 30, 2011 and December 31, 2010 and revenues from transactions with AMC for the three and six months ended June 30, 2011 and 2010 were not material.

Dr. Malone serves as a director on Discovery s board and owns shares representing approximately 23% of the aggregate general voting power of Discovery s outstanding stock. At this time, Dr. Malone also controls approximately 31% of the Company s aggregate voting power relating to the election of the eight common stock directors, as the preferred stock held by the Advance/Newhouse Programming Partnership has not been converted into shares of Discovery s common stock.

As a result of this common directorship and ownership, transactions with Liberty Global, Liberty Media, AMC, their respective subsidiaries and equity method investees, and with

DIRECTV through June 2010, are related party transactions. The majority of the amounts received under contractual arrangements with DIRECTV, Liberty Global, and Liberty Media entities relates to multi-year network distribution arrangements. Revenues under these arrangements include annual rate increases and are based on the number of subscribers receiving the related programming. AMC provides services, such as satellite uplink, systems integration, origination, and postproduction to Discovery.

Other Related Parties

Other related parties primarily include unconsolidated equity method investees, including unconsolidated VIEs described in Note 3. The Company provides equity method investees with content and services such as distribution, licensing, sales, and administrative support. Revenues from other related parties were $24 million, or 2% of total revenues, and $16 million, or 2% of total revenues, for the three months ended June 30, 2011 and 2010, respectively. Revenues from other related parties were $45 million, or 2% of total revenues, and $25 million, or 1% of total revenues, for the six months ended June 30, 2011 and 2010, respectively. Operating expenses for services acquired from other related parties were $3 million, or 1% of total operating expenses, for the three months ended June 30, 2011 and 2010. Operating expenses for services acquired from other related parties were $7 million, or 1% of total operating expenses, and $6 million, or 1% of total operating expenses, for the six months ended June 30, 2011 and 2010, respectively. The Company s Receivables, net balances include $15 million and $9 million due from the Company s other related parties as of June 30, 2011 and December 31, 2010, respectively.

The Company s Investments balance includes notes receivable, net of earnings and losses absorbed from equity method investees. See Note 3 for further discussion. The Company records interest earnings from loans to joint ventures as a component of Earnings (losses) from equity investees, which is a component of Other Income (Expense), Net. Interest earnings recorded totaled $4 million and $8 million for the three and six months ended June 30, 2011. Interest earnings recorded totaled $1 million and $2 million for the three and six months ended June 30, 2010.

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DISCOVERY COMMUNICATIONS, INC.

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NOTE 13. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

Commitments

In the normal course of business, the Company enters into various commitments, which primarily include arrangements for the purchase of programming and talent, operating and capital lease arrangements for the use of equipment and facilities, employment contracts, sponsorship commitments, arrangements to purchase various goods and services consumed in the normal course of business, future funding commitments to joint ventures (Note 3), and the obligation to issue additional preferred shares under the anti-dilution provisions of its outstanding preferred stock. Most commitments are payable over several years.

Contingencies

Put Right

Harpo has the right to require the Company to purchase its interest in OWN for fair value at various dates (Note 3). No amounts have been recorded for put right obligations.

Legal Matters

In the normal course of business, the Company experiences routine claims and legal proceedings. It is the opinion of the Company s management, based on information available at this time, that none of the current claims and proceedings will have a material adverse effect on the Company s consolidated financial position, results of operations, or cash flows.

Guarantees

The Company has guaranteed a certain level of operating performance for The Hub joint venture (Note 3) and payment under certain joint venture contracts. There were no material amounts for guarantees to joint ventures recorded as of June 30, 2011 and December 31, 2010.

The Company may provide or receive indemnities intended to allocate certain business transaction risks. Similarly, the Company may remain contingently liable for certain obligations of a divested business in the event that a third party does not fulfill its obligations under an indemnification obligation. The Company records a liability for its indemnification obligations and other contingent liabilities when probable. There were no material amounts for indemnifications or other contingencies recorded as of June 30, 2011 and December 31, 2010.

NOTE 14. REPORTABLE SEGMENTS

The Company s reportable segments are determined based on (i) financial information reviewed by its chief operating decision maker (CODM), the Chief Executive Officer, (ii) internal management and related reporting structure, and (iii) the basis upon which the CODM makes resource allocation decisions.

The accounting policies of the reportable segments are the same as the Company s, except that certain inter-segment transactions that are eliminated at the consolidated level are not eliminated at the segment level as they are treated as third-party sales transactions. Inter-segment transactions, which primarily include the purchase of advertising and content between segments, were not significant for the periods presented.

The Company evaluates the operating performance of its segments based on financial measures such as revenues and adjusted operating income before depreciation and amortization (Adjusted OIBDA). Adjusted OIBDA is defined as revenues less costs of revenues and selling, general and administrative expenses excluding: (i) mark-to-market stock-based compensation, (ii) depreciation and amortization, (iii) amortization of deferred launch incentives, (iv) exit and restructuring charges, (v) certain impairment charges, and (vi) gains (losses) on business and asset dispositions. The Company uses this measure to assess the operating results and performance of its segments, perform analytical comparisons, identify strategies to improve performance, and allocate resources to each segment. The Company believes Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses and also provides investors a measure to analyze the operating

DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

performance of each segment against historical data. The Company excludes mark-to-market stock-based compensation, exit and restructuring charges, certain impairment charges, and gains (losses) on business and asset dispositions from the calculation of Adjusted OIBDA due to their volatility or non-recurring nature. The Company also excludes depreciation of fixed assets and amortization of intangible assets and deferred launch incentives as these amounts do not represent cash payments in the current reporting period. Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income, cash flows provided by operating activities, and other measures of financial performance reported in accordance with GAAP.

The following tables present summarized financial information for each of the Company s reportable segments (in millions).

Revenues by Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
U.S. Networks	$ 660	$ 620	$ 1,247	$ 1,166
International Networks	368	306	691	589
Education and Other	39	33	80	70
Corporate and inter-segment eliminations		4		7
Total revenues	$ 1,067	$ 963	$ 2,018	$ 1,832

Adjusted OIBDA by Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
U.S. Networks	$ 395	$ 379	$ 729	$ 672
International Networks	173	132	317	254
Education and Other	5	1	13	6
Corporate and inter-segment eliminations	(63)	(57)	(122)	(112)
Total adjusted OIBDA	$ 510	$ 455	$ 937	$ 820

Reconciliation of Total Adjusted OIBDA to Consolidated Operating Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010

Total Adjusted OIBDA	$ 510	$ 455	$ 937	$ 820
Amortization of deferred launch incentives	(12)	(10)	(26)	(21)
Mark-to-market stock-based compensation	(19)	(40)	(23)	(76)
Depreciation and amortization	(30)	(33)	(60)	(66)
Restructuring charges	(4)		(5)	(3)
Gains on dispositions			129	
Total operating income	$ 445	$ 372	$ 952	$ 654

Total Assets by Segment

	June 30, 2011	December 31, 2010
U.S. Networks	$ 2,603	$ 2,218
International Networks	1,194	1,127
Education and Other	63	74
Corporate and inter-segment eliminations	7,976	7,600
Total assets	$ 11,836	$ 11,019

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(unaudited)

Total assets allocated to Corporate in the table above include the Company s goodwill balance as the financial information reviewed by the Company s CODM does not include an allocation of goodwill to each reportable segment.

NOTE 15. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Overview

The Senior Notes outstanding as of June 30, 2011 and December 31, 2010 (Note 6) have been issued by DCL, a wholly-owned subsidiary of the Company, pursuant to a Registration Statement on Form S-3 filed with the SEC on June 17, 2009 (the Shelf Registration). The Company fully and unconditionally guarantees the Senior Notes on an unsecured basis. The Company, DCL, and/or Discovery Communications Holding, LLC (DCH), a wholly-owned subsidiary of the Company (collectively the Issuers), may issue additional debt securities under the Shelf Registration that are fully and unconditionally guaranteed by the other Issuers.

Set forth below are condensed consolidating financial statements presenting the financial position, results of operations, and cash flows of (i) the Company, (ii) DCH, (iii) DCL, (iv) the non-guarantor subsidiaries of DCL on a combined basis, (v) the other non-guarantor subsidiaries of the Company on a combined basis, and (vi) reclassifications and eliminations necessary to arrive at the consolidated financial statement balances for the Company. DCL and the non-guarantor subsidiaries of DCL are the primary operating subsidiaries of the Company. DCL primarily includes the Discovery Channel and TLC networks in the U.S. The non-guarantor subsidiaries of DCL include the Animal Planet network and substantially all of the Company s other U.S. and international networks, education businesses, and most of the Company s websites and other digital media services. The non-guarantor subsidiaries of DCL are wholly-owned subsidiaries of DCL with the exception of certain equity method investments. DCL is a wholly-owned subsidiary of DCH. The Company wholly owns DCH through a 33 1/3% direct ownership interest and a 66 2/3% indirect ownership interest through Discovery Holding Company (DHC), a wholly-owned subsidiary of the Company. DHC is included in the other non-guarantor subsidiaries of the Company.

Basis of Presentation

Solely for purposes of presenting the condensed consolidating financial statements, investments in the Company s subsidiaries have been accounted for by their respective parent company using the equity method. Accordingly, in the following condensed consolidating financial statements the equity method has been applied to (i) the Company s interests in DCH and the other non-guarantor subsidiaries of the Company, (ii) DCH s interest in DCL, and (iii) DCL s interests in the non-guarantor subsidiaries of DCL. Inter-company accounts and transactions have been eliminated to arrive at the consolidated financial statement amounts for the Company. The Company s accounting bases in all subsidiaries, including goodwill and recognized intangible assets, have been pushed-down to the applicable subsidiaries.

All direct and indirect subsidiaries are included in the Company s consolidated U.S. tax return. In the condensed consolidating financial statements, tax expense related to permanent differences has been allocated to the entity that created the difference, while tax expense related to temporary differences has been allocated to each entity based on each entity s pretax income relative to consolidated pretax income. Deferred taxes of the Company, DCL, and the non-guarantor subsidiaries have been allocated based upon the temporary differences between the carrying amounts of the respective assets and liabilities of the applicable entities.

As of June 30, 2011 and December 31, 2010, the cash and cash equivalents of the non-guarantor subsidiaries of DCL included $1 million and $12 million, respectively, of cash related to a consolidated joint venture that is only available for use by the joint venture.

The condensed consolidating financial statements should be read in conjunction with the consolidated financial statements of the Company.

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Balance Sheet

June 30, 2011

(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries of DCL	Other Non-Guarantor Subsidiaries of Discovery	Reclassifications and Eliminations	Discovery and Subsidiaries
ASSETS							
Current assets:							
Cash and cash equivalents	$	$	$ 1,000	$ 92	$ 3	$	$ 1,095
Receivables, net			412	486	12	(2)	908
Content rights, net			13	80			93
Prepaid expenses and other current assets	17		119	88	1		225
Total current assets	17		1,544	746	16	(2)	2,321
Investment in and advances to subsidiaries	8,874	6,481	4,539		6,700	(26,594)	
Noncurrent content rights, net			594	716			1,310
Goodwill			3,767	2,535			6,302
Other noncurrent assets		20	859	1,038	6	(20)	1,903
Total assets	$ 8,891	$ 6,501	$ 11,303	$ 5,035	$ 6,722	$ (26,616)	$ 11,836
LIABILITIES AND EQUITY							
Current liabilities:							
Accounts payable and accrued liabilities	$ 11	$ 3	$ 197	$ 198	$ 5	$ (2)	$ 412
Current portion of long-term debt			6	16			22
Other current liabilities			77	102	1		180

Total current liabilities	11	3	280	316	6	(2)	614
Long-term debt			4,156	79			4,235
Other noncurrent liabilities			386	100	7	(20)	473
Inter-company contributions and advances between Discovery Communications, Inc. and subsidiaries	2,367	1,585	(212)	4,651	967	(9,358)	
Equity (deficit) attributable to Discovery Communications, Inc.	6,513	4,913	6,693	(111)	5,742	(17,237)	6,513
Equity and advances attributable to Discovery Communications, Inc.	8,880	6,498	6,481	4,540	6,709	(26,595)	6,513
Noncontrolling interests						1	1
Total equity	8,880	6,498	6,481	4,540	6,709	(26,594)	6,514
Total liabilities and equity	$ 8,891	$ 6,501	$ 11,303	$ 5,035	$ 6,722	$ (26,616)	$ 11,836

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Balance Sheet

December 31, 2010

(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries of DCL	Other Non-Guarantor Subsidiaries of Discovery	Reclassifications and Eliminations	Discovery and Subsidiaries
ASSETS							
Current assets:							
Cash and cash equivalents	$	$	$ 369	$ 93	$ 4	$	$ 466
Receivables, net			391	476	13		880
Content rights, net			8	75			83
Prepaid expenses and other current assets	109	3	105	89	1	(1)	306
Total current assets	109	3	873	733	18	(1)	1,735
Investment in and advances to subsidiaries	8,530	6,091	4,129		6,484	(25,234)	
Noncurrent content rights, net			557	688			1,245
Goodwill			3,876	2,558			6,434
Other noncurrent assets		12	872	726	7	(12)	1,605
Total assets	$ 8,639	$ 6,106	$ 10,307	$ 4,705	$ 6,509	$ (25,247)	$ 11,019
LIABILITIES AND EQUITY							
Current liabilities:							
Accounts payable and accrued liabilities	$	$	$ 216	$ 260	$ 5	$ (1)	$ 480
Current portion of long-term debt			6	14			20
Other current liabilities		1	121	162	1		285

Total current liabilities		1	343	436	6	(1)	785
Long-term debt			3,513	85			3,598
Other noncurrent liabilities			360	47	8	(12)	403
Inter-company contributions and advances between Discovery Communications, Inc. and subsidiaries	2,414	1,777	(57)	4,702	1,143	(9,979)	
Equity (deficit) attributable to Discovery Communications, Inc.	6,225	4,328	6,148	(565)	5,352	(15,263)	6,225
Equity and advances attributable to Discovery Communications, Inc.	8,639	6,105	6,091	4,137	6,495	(25,242)	6,225
Noncontrolling interests						8	8
Total equity	8,639	6,105	6,091	4,137	6,495	(25,234)	6,233
Total liabilities and equity	$ 8,639	$ 6,106	$ 10,307	$ 4,705	$ 6,509	$ (25,247)	$ 11,019

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Statement of Operations

Three Months Ended June 30, 2011

(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries of DCL	Other Non-Guarantor Subsidiaries of Discovery	Reclassifications and Eliminations	Discovery and Subsidiaries
Revenues	$	$	$ 459	$ 593	$ 17	$ (2)	$ 1,067
Costs of revenues, excluding depreciation and amortization listed below			98	178	14	(2)	288
Selling, general and administrative	3		96	198	3		300
Depreciation and amortization			9	21			30
Restructuring charges			4				4
	3		207	397	17	(2)	622
Operating (loss) income	(3)		252	196			445
Equity in earnings of subsidiaries	256	256	121		171	(804)	
Interest expense, net			(49)				(49)
Other income, net			2				2
Income before income taxes	253	256	326	196	171	(804)	398
Benefit from (provision for) income taxes	1		(70)	(75)			(144)
Net income	$ 254	$ 256	$ 256	$ 121	$ 171	$ (804)	$ 254

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidating Statement of Operations

Three Months Ended June 30, 2010

(in millions)

	Discovery	**DCH**	**DCL**	**Non-Guarantor Subsidiaries of DCL**	**Other Non-Guarantor Subsidiaries of Discovery**	**Reclassifications and Eliminations**	**Discovery and Subsidiaries**
Revenues	$	$	$ 431	$ 519	$ 16	$ (3)	$ 963
Costs of revenues, excluding depreciation and amortization listed below			87	155	15	(3)	254
Selling, general and administrative	2		88	212	2		304
Depreciation and amortization			8	24	1		33
	2		183	391	18	(3)	591
Operating (loss) income	(2)		248	128	(2)		372
Equity in earnings of subsidiaries	108	151	88		73	(420)	
Interest expense, net		(18)	(28)	(2)			(48)
Loss of extinguishment of debt		(20)	(116)				(136)
Other (expense) income, net		(28)	(14)	5			(37)
Income before income taxes	106	85	178	131	71	(420)	151
Benefit from (provision for) income taxes	1	24	(27)	(40)	1		(41)
Net income	107	109	151	91	72	(420)	110
Less net income attributable to noncontrolling interests				(1)		(2)	(3)
Net income attributable to Discovery	107	109	151	90	72	(422)	107

Communications, Inc.							
Stock dividends to preferred interests	(1)						(1)
Net income available to Discovery Communications, Inc. stockholders	$ 106	$ 109	$ 151	$ 90	$ 72	$ (422)	$ 106

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidating Statement of Operations

Six Months Ended June 30, 2011

(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries of DCL	Other Non-Guarantor Subsidiaries of Discovery	Reclassifications and Eliminations	Discovery and Subsidiaries
Revenues	$	$	$ 870	$ 1,117	$ 35	$ (4)	$ 2,018
Costs of revenues, excluding depreciation and amortization listed below			194	342	29	(4)	561
Selling, general and administrative	6		179	378	6		569
Depreciation and amortization			19	40	1		60
Restructuring charges			4	1			5
Gains on dispositions				(129)			(129)
	6		396	632	36	(4)	1,066
Operating (loss) income	(6)		474	485	(1)		952
Equity in earnings of subsidiaries	563	564	313		376	(1,816)	
Interest expense, net			(96)	(2)			(98)
Other income (expense), net			3	(8)			(5)
Income before income taxes	557	564	694	475	375	(1,816)	849
Benefit from (provision for) income taxes	2		(130)	(162)			(290)
Net income	$ 559	$ 564	$ 564	$ 313	$ 375	(1,816)	$ 559

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidating Statement of Operations

Six Months Ended June 30, 2010

(in millions)

	Discovery	DHC	DCL	Non-Guarantor Subsidiaries of DCL	Other Non-Guarantor Subsidiaries of Discovery	Reclassifications and Eliminations	Discovery and Subsidiaries
Revenues	$	$	$ 815	$ 988	$ 33	$ (4)	$ 1,832
Costs of revenues, excluding depreciation and amortization listed below			189	306	30	(4)	521
Selling, general and administrative	6		191	386	5		588
Depreciation and amortization			20	45	1		66
Restructuring charges				3			3
	6		400	740	36	(4)	1,178
Operating (loss) income	(6)		415	248	(3)		654
Equity in earnings of subsidiaries	280	346	195		188	(1,009)	
Interest expense, net		(48)	(55)	(3)			(106)
Loss on extinguishment of debt		(20)	(116)				(136)
Other (expense) income, net		(32)	(18)	9			(41)
Income before income taxes	274	246	421	254	185	(1,009)	371
Benefit from (provision for) income taxes	2	36	(75)	(52)	1		(88)
Net income	276	282	346	202	186	(1,009)	283
Less net income attributable to noncontrolling interests				(4)		(3)	(7)
	276	282	346	198	186	(1,012)	276

Net income attributable to Discovery Communications, Inc.							
Stock dividends to preferred interests	(1)						(1)
Net income available to Discovery Communications, Inc. stockholders	$ 275	$ 282	$ 346	$ 198	$ 186	$ (1,012)	$ 275

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2011

(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries of DCL	Other Non - Guarantor Subsidiaries of Discovery	Eliminations	Discovery and Subsidiaries
Operating Activities							
Cash provided by (used in) operating activities	$ 100	$ (2)	$ 71	$ 262	$	$	$ 431
Investing Activities							
Purchases of property and equipment			(9)	(17)	(1)		(27)
Investments in and advances to equity investees				(82)			(82)
Cash used in investing activities			(9)	(99)	(1)		(109)
Financing Activities							
Borrowings from long term debt, net of discount and issuance costs			641				641
Principal repayments of capital leases obligations			(2)	(11)			(13)
Repurchases of common stock	(377)						(377)
Cash distributions to noncontrolling interests						(7)	(7)
Proceeds from stock option exercises	55						55
Inter-company contributions and other financing activities, net	222	2	(70)	(161)		7	
Cash (used in) provided by financing activities	(100)	2	569	(172)			299
Effect of exchange rate changes on cash and cash equivalents				8			8

Net change in cash and cash equivalents			631	(1)	(1)		629
Cash and cash equivalents, beginning of period			369	93	4		466
Cash and cash equivalents, end of period	$	$	$ 1,000	$ 92	$ 3	$	$ 1,095

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2010

(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries of DCL	Other Non-Guarantor Subsidiaries of Discovery	Eliminations	Discovery and Subsidiaries
Operating Activities							
Cash (used in) provided by operating activities	$ (35)	$ (55)	$ (27)	$ 205	$ 2	$	$ 90
Investing Activities							
Purchases of property and equipment			(4)	(15)	(1)		(20)
Business acquisitions, net of cash acquired				(38)			(38)
Investments in and advances to equity investees			(39)	(2)			(41)
Cash used in investing activities			(43)	(55)	(1)		(99)
Financing Activities							
Borrowings from long-term debt, net of discount and issuance costs			2,970				2,970
Principal repayments of long-term debt		(1,948)	(935)				(2,883)
Inter-company contributions and other financing activities, net	35	2,003	(1,844)	(179)	(3)		12
Cash provided by (used in) financing activities	35	55	191	(179)	(3)		99
Net change in cash and cash equivalents			121	(29)	(2)		90
			476	144	3		623

Cash and cash equivalents, beginning of period							
Cash and cash equivalents, end of period	$	$	$ 597	$ 115	$ 1	$	$ 713

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ITEM 2. Management s Discussion and Analysis of Results of Operations and Financial Condition.

Management s discussion and analysis of results of operations and financial condition is a supplement to and should be read in conjunction with the accompanying consolidated financial statements and related notes. This section provides additional information regarding Discovery Communications, Inc. s (Discovery, Company, we, us, or our) businesses, recent developments, results of operations, and financial condition. Additional context can also be found in our Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K).

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, financial prospects, and anticipated sources and uses of capital. Words such as anticipates, estimates, expects, projects, intends, plans, believes, and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated: the inability of advertisers or affiliates to remit payment to us in a timely manner or at all; general economic and business conditions; industry trends, including the timing of, and spending on, feature film, television, and television commercial production; spending on domestic and foreign television advertising, and foreign first-run and existing content libraries; the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate; continued consolidation of the broadband distribution and movie studio industries; uncertainties inherent in the development of new business lines and business strategies; financial performance of our joint ventures and investments; integration of acquired operations; uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies; changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand, internet protocol television, mobile devices and personal tablets and their impact on television advertising revenue; rapid technological changes; future financial performance, including availability, terms, and deployment of capital; fluctuations in foreign currency exchange rates and political unrest in international markets; the ability of suppliers and vendors to deliver products, equipment, software, and services; the outcome of any pending or threatened litigation; availability of qualified personnel; the possibility of an industry-wide strike or other job action affecting a major entertainment industry union, or the duration of any existing strike or job action; changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission and adverse outcomes from regulatory proceedings; changes in the nature of key strategic relationships with partners and joint venture 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 ongoing military action in the Middle East and other parts of the world; reduced access to capital markets or significant increases in costs to borrow; and a failure to secure affiliate agreements or renewal of such agreements on less favorable terms. For additional risk factors, refer to Item 1A, Risk Factors, in our 2010 Form 10-K. These forward-looking statements and such risks, uncertainties, and other factors speak only as of the date of this Quarterly Report and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

BUSINESS OVERVIEW

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

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

Our content spans genres including science, exploration, survival, natural history, sustainability of the environment, technology, docu-series, anthropology, paleontology, history, space, archaeology, health and wellness, engineering, adventure, lifestyles, forensics, civilization, and current events. A significant portion of our programming 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, as well as the creation of local programming tailored to individual market preferences.

We have an extensive library of programming and footage and ongoing content production that provide a source of content for creating new services and launching into new markets and onto new platforms. We own all or most rights to the majority of our programming and footage, which enables us to exploit our library to launch new brands and services into new markets quickly. Our programming can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world.

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

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

U.S. Networks

U.S. Networks generated net revenues of $660 million and $1.2 billion during the three and six months ended June 30, 2011, respectively, which represented 62% of our total consolidated net revenues for both periods. This segment wholly owns and operates nine national television networks, principally throughout the U.S., including prominent television brands such as Discovery Channel, TLC, and Animal Planet. In addition, this segment has interests in OWN: Oprah Winfrey Network (OWN), The Hub, and 3net, which are joint venture operated networks. We account for our interests in the underlying joint ventures using the equity method of accounting.

On January 1, 2011, we contributed the domestic Discovery Health network to OWN. The contribution included affiliate relationships with cable operators and DTH satellite service providers, content licenses, and website user information. The contribution did not impact our ownership interest, voting control, or governance rights related to OWN. We recorded the contribution at fair value, which resulted in a pretax gain of $129 million. The gain resulted in $27 million of tax expense.

Following the contribution, we no longer consolidate the domestic Discovery Health network. Additionally, net losses generated by OWN are allocated to both joint venture partners based on their proportionate ownership interests, which are 50-50. Previously, we recognized 100% of OWN s net losses. Future net income generated by OWN will initially be allocated 100% to us up to the amount of net losses previously recognized by us prior to the contribution. After we have recouped our losses, any excess net income will be allocated to both joint venture partners based on their proportionate ownership interests.

U.S. Networks generates revenues from fees charged to operators who distribute our networks, which primarily include cable and DTH satellite service providers, and from

advertising sold on our television networks, websites, and other digital media services. Distribution fees are based on the number of subscribers receiving our programming. Distribution revenues are recognized net of incentives we provide to operators in exchange for carrying our networks. Incentives typically include cash payments to operators (launch incentives), providing the channel to the distributor for free for a predetermined length of time, or both. Launch incentives are capitalized as assets upon launch of our network by the operator and are amortized on a straight-line basis as a reduction of revenue over the term of the contract, including free periods. Advertising revenues are dependent upon a number of factors including the number of subscribers to our channels, viewership demographics, the popularity of our programming, and our ability to sell commercial time over a group of channels. Our U.S. Networks segment also generates revenues from affiliate and advertising sales representation services for third-party and joint venture networks and the licensing of our brands for consumer products. During the three months ended June 30, 2011, advertising, distribution, and other revenues were 55%, 41%, and 4%, respectively, of total net revenues for this segment. During the six months ended June 30, 2011, advertising, distribution, and other revenues were 52%, 44%, and 4%, respectively, of total net revenues for this segment. The Discovery Channel, TLC, and Animal Planet collectively generated 75% of U.S. Networks total net revenues for the three and six months ended June 30, 2011.

U.S. Networks   largest single cost is the cost of programming, including production costs for original programming. U.S. Networks amortizes the cost of capitalized content rights based on the proportion that current estimated revenues bear to the estimated remaining total lifetime revenues, which results in either an accelerated method or a straight-line method over the estimated useful lives.

International Networks

International Networks generated net revenues of $368 million and $691 million during the three and six months ended June 30, 2011, respectively, which represented 34% of our total consolidated net revenues. International Networks consists of national and pan-regional television networks and a portfolio of websites. International Networks owns and operates a portfolio of television networks, led by Discovery Channel and Animal Planet, which are distributed in virtually every pay-television market in the world through an infrastructure that includes operational centers in London, Singapore, and Miami. This segment has one of the largest international distribution platforms with two to thirteen networks in more than 200 countries and territories around the world. At June 30, 2011, International Networks operated over 140 unique distribution feeds in over 40 languages with channel feeds customized according to language needs and advertising sales opportunities.

The International Networks segment continues to pursue international expansion in select areas. For example, in 2010, we began the international rollout of TLC as a female-targeted global flagship, and have launched TLC in over 30 countries and territories in Europe and Asia, with additional launches planned. In addition, on November 12, 2010, we acquired the remaining 50% interest in substantially all of the international Animal Planet and Liv (formerly People + Arts) networks from our joint venture partner, the BBC, giving us 100% ownership of these networks. Previously, these networks were operated as 50-50 joint ventures between us and the BBC. We determined that we were the primary beneficiary of the joint ventures with the BBC, and therefore, consolidated these joint ventures prior to the acquisition. With this acquisition, we wholly own and operate most of our international television networks, except for channels in Japan and Canada, which are operated by joint ventures with strategically important local partners. We anticipate that international expansion will continue to be an area of focus.

On February 17, 2010, we acquired all interests in an uplink facility in London, including its employees and operations, for a payment of $35 million. The uplink facility has been included in the International Networks segment operating results since the date of acquisition.

On September 1, 2010, we sold Antenna Audio Limited, which was a component of our International Networks segment.

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

Similar to our U.S. Networks segment, the primary sources of revenues for International Networks are fees charged to operators who distribute our networks, which primarily include cable and DTH satellite service providers, and from advertising sold on our television networks and websites. Distribution fees are based on the number of subscribers receiving our programming and are recognized net of launch incentives. International Networks executes a localization strategy by offering shared programming with U.S.

Networks, customized content, and localized schedules via our distribution feeds. International television markets vary in their stages of development. Some, notably the U.K., are more advanced digital multi-channel television markets, while others remain in the analog environment with varying degrees of investment from operators in expanding channel capacity or converting to digital. Advertising revenues are dependent upon a number of factors including the stage of development of pay television markets, number of subscribers to our channels, viewership demographics, the popularity of our programming, and our ability to sell commercial time over a group of channels. In developing pay television markets, we expect advertising revenue growth will result from subscriber growth, our localization strategy, and the shift of advertising spending from broadcast to pay television. In relatively mature markets, such as Western Europe, the growth dynamic is changing. Increased market penetration and distribution are unlikely to drive rapid growth in those markets. Instead, growth in advertising sales will come from increasing viewership and advertising pricing on our existing pay television networks and launching new services, either in pay television or free television environments. During the three months ended June 30, 2011, distribution, advertising, and other revenues were 60%, 36%, and 4%, respectively, of total net revenues for this segment. During the six months ended June 30, 2011, distribution, advertising, and other revenues were 62%, 34%, and 4%, respectively, of total net revenues for this segment.

International Networks largest cost is programming, which is acquired from our U.S. Networks segment or through production, coproduction, or license arrangements with third parties. While our International Networks segment maximizes the use of

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shared programming from our U.S. Networks segment, we also provide local programming that is tailored to individual market preferences. International Networks amortizes the cost of capitalized content rights based on the proportion that current estimated revenues bear to the estimated remaining total lifetime revenues, which results in either an accelerated method or a straight-line method over the estimated useful lives.

Education and Other

Education and Other generated net revenues of $39 million and $80 million during the three and six months ended June 30, 2011, respectively, which represented 4% of our total consolidated net revenues for both periods. Our Education and Other segment is primarily comprised of curriculum-based product and service offerings and postproduction audio services. Our education business generates revenues primarily from subscriptions charged to public and private K-12 schools for access to an online VOD service that includes a suite of curriculum-based tools, professional development services, and to a lesser extent student assessment and publication of hardcopy curriculum-based content. Our education business also participates in corporate partnerships, global brand and content licensing business with leading non-profits, foundations and trade associations. Other businesses primarily include postproduction audio services that are provided to major motion picture studios, independent producers, broadcast networks, cable channels, advertising agencies, and interactive producers.

RESULTS OF OPERATIONS

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 the three and six months ended June 30, 2010, (in millions).

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Revenues:		
Distribution	$ 3	$ 7
Advertising	17	31
Other	1	1
Total revenues	21	39
Costs of revenues	7	14
Selling, general and administrative	4	8
Total operating expenses	11	22
Operating income	$ 10	$ 17

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Consolidated Results of Operations

Our consolidated results of operation were as follows (in millions).

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	% Change Favorable/ (Unfavorable)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	% Change Favorable/ (Unfavorable)
Revenues:						
Distribution	$ 493	$ 449	10%	$ 973	$ 894	9%
Advertising	494	435	14%	886	783	13%
Other	80	79	1%	159	155	3%
Total revenues	1,067	963	11%	2,018	1,832	10%
Costs of revenues, excluding depreciation and amortization	288	254	(13)%	561	521	(8)%
Selling, general and administrative	300	304	1%	569	588	3%
Depreciation and amortization	30	33	9%	60	66	9%
Restructuring charges	4		%	5	3	(67)%
Gains on dispositions			%	(129)		%
	622	591	(5)%	1,066	1,178	10%
Operating income	445	372	20%	952	654	46%
Interest expense, net	(49)	(48)	(2)%	(98)	(106)	8%
Loss on extinguishment of debt		(136)	NM		(136)	NM
Other income (expense), net	2	(37)	NM	(5)	(41)	88%
Income before income taxes	398	151	NM	849	371	NM
Provision for income taxes	(144)	(41)	NM	(290)	(88)	NM
Net income	254	110	NM	559	283	98%
Less net income attributable to noncontrolling interests		(3)	NM		(7)	NM
Net income attributable to Discovery Communications, Inc.	254	107	NM	559	276	NM
Stock dividends to preferred interests		(1)	NM		(1)	NM

Net income available to Discovery Communications, Inc. stockholders	$	254	$	106	NM	$	559	$	275	NM

NM not meaningful.

Revenues

Distribution revenues for the three and six months ended June 30, 2011, increased $44 million and $79 million, respectively. Excluding the impact of foreign currency fluctuations and the effect of no longer consolidating the Discovery Health network, distribution revenues increased 8% for the three and six months ended June 30, 2011. Increases were driven by rate increases and subscriber growth.

Advertising revenues for the three and six months ended June 30, 2011, increased $59 million and $103 million, respectively. Excluding the impact of foreign currency fluctuations and the effect of no longer consolidating the Discovery Health network, advertising revenues increased 16% for the three and six months ended June 30, 2011. Increases were attributable to increased pricing and higher sellouts. Advertising revenues also benefited from an $8 million benefit for non-recurring revenue items in the second quarter of 2011.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, production costs, distribution costs, and sales commissions, increased $34 million and $40 million for the three and six months ended June 30, 2011, respectively. Excluding the impact of foreign currency fluctuations and the effect of no longer consolidating the Discovery Health network, costs of revenues increased 15% and 9% for the three and six months ended June 30, 2011, respectively. The increase in costs of revenues was principally related to higher content expense and higher sales commissions. Content expense and continued consolidated investment in programming increased $31 million for the three and six months ended June 30, 2011, primarily due to continued investment in programming and the international expansion of networks, such as TLC.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, marketing costs, research costs, and occupancy and back office support fees, decreased $4 million and $19 million for the three and six months ended June 30, 2011, respectively. Excluding the impact of foreign currency fluctuations and the effect of no longer consolidating the Discovery Health network, selling, general and administrative expense was flat and decreased 3% for the three and six months ended June 30, 2011, respectively. The decrease in selling, general and administrative expenses was driven by decreases of $18 million and $45 million for stock-based compensation, for the three and six months ended June 30, 2011, respectively. Stock-based compensation expense decreased $22 million and $55 million due to a decline in outstanding unit awards and SARs, which are cash-settled awards, for the three and six months ended June 30, 2011, respectively; partially offset by an increase in expense of $4 million and $10 million for stock options and an increase in the number of outstanding PRSUs and RSUs.

The decreases were partially offset by higher employee costs due to merit based increases in compensation, increased costs related to the international expansion of networks, such as TLC, and greater presence in new territories, such as Eastern Europe, and increased research costs related to obtaining ratings services for additional networks.

Depreciation and Amortization

Depreciation and amortization expense decreased $3 million and $6 million for the three and six months ended June 30, 2011, respectively, due to lower asset balances as a result of certain assets becoming fully depreciated in prior periods.

Restructuring Charges

We incurred restructuring charges of $4 million for the three months ended June 30, 2011, primarily related to various employee terminations and other exit activities. For the six months ended June 30, 2011 and 2010, respectively, we incurred restructuring charges of $5 million and $3 million.

Gains on Dispositions

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

Interest Expense, Net

Interest expense, was relatively flat for the three months ended June 30, 2011, when compared to the same period in 2010. Interest expense, net decreased $8 million for the six months ended June 30, 2011, as compared to prior period due to decreases in interest expense related to interest rate swaps. For the six months ended June 30, 2010, we incurred $20 million in interest expense related to interest rate swaps. 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. Decreases in interest expense attributable to interest rate swaps were partially offset by increases in interest expense on outstanding debt.

Other Income (Expense), Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Unrealized (losses) gains on derivative instruments, net	$ (1)	$ 6	$ 2	$ 5
Realized losses on derivative instruments, net		(33)	(2)	(33)
Earnings (losses) from equity investees, net	3	(10)	(8)	(17)
Other, net			3	4
Total other income (expense), net	$ 2	$ (37)	$ (5)	$ (41)

The decrease in losses from equity method investments was primarily attributable to the change in the proportion of OWN s loss recognized from 100% prior to the launch on January 1, 2011, to 50% subsequent to the launch and an increase in interest earned on the OWN note. The decrease in derivative losses is a result of reducing the derivatives held by the Company as part of the issuance of Senior Notes in 2010.

Provision for Income Taxes

Our tax provisions were $144 million and $41 million, and the effective tax rates were 36% and 27% for the three months ended June 30, 2011 and 2010, respectively. The effective tax rate for the three months ended June 30, 2011 differed from the U.S. federal statutory income tax rate of 35% due primarily to state taxes partially offset by production activity deductions. The effective tax rate for the three months ended June 30, 2010 differed from the U.S. federal statutory income tax rate of 35% due primarily to production activity deduction and a $13 million tax benefit for a change in the Company s election to claim foreign tax credits that were previously taken as deductions, which were partially offset by state taxes.

Our income tax provisions were $290 million and $88 million, and the effective tax rates were 34% and 24% for the six months ended June 30, 2011 and 2010, respectively. The effective tax rate for the six months ended June 30, 2011 differed from the U.S. federal statutory income tax rate of 35% principally because we did not record a deferred tax liability of $21 million with respect to the portion of the outside basis in the OWN joint venture attributable to the nondeductible goodwill contributed to OWN, production activity deductions, which were partially offset by state taxes. The effective tax rate for the six months ended June 30, 2010 differed from the U.S. federal statutory income tax rate of 35% due primarily to the reversal of a $28 million previously established foreign tax reserve recorded in connection with the completion of its tax audit, production activity deductions and a $13 million tax expense reduction for a change in the Company s election to claim foreign tax credits that were previously taken as deductions, which were partially offset by state taxes.

Net Income Attributable to Noncontrolling Interests

The $3 million and $7 million decreases in net income attributable to noncontrolling interests for the three and six months ended June 30, 2011, respectively, were due to the acquisition of the BBC s interests in the international Animal Planet and Liv networks on

November 12, 2010. Following the acquisition, the Company no longer allocates net operating results to noncontrolling interests.

Segment Results of Operations

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

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Additionally, certain corporate expenses are excluded from segment results to enable executive management to evaluate segment performance based upon decisions made directly by segment executives. Additional financial information for our reportable segments is set forth in Note 14 to the consolidated financial statements included in Item 1, Financial Statements, in this Quarterly Report on Form 10-Q.

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

	Three Months Ended June 30,		% Change Favorable/ (Unfavorable)	Six Months Ended June 30,		% Change Favorable/ (Unfavorable)
	2011	2010		2011	2010	
Revenues:						
U.S. Networks	$ 660	$ 620	6%	$ 1,247	$ 1,166	7%
International Networks	368	306	20%	691	589	17%
Education and Other	39	33	18%	80	70	14%
Corporate and inter-segment eliminations		4	NM		7	NM
Total revenues	1,067	963	11%	2,018	1,832	10%
Costs of revenues, excluding depreciation and amortization[1]	(288)	(254)	(13)%	(561)	(521)	(8)%
Selling, general and administrative[1]	(281)	(264)	(6)%	(546)	(512)	(7)%
Add: Amortization of deferred launch incentives[2]	12	10	(20)%	26	21	(24)%
Adjusted OIBDA	$ 510	$ 455	12%	$ 937	$ 820	14%

NM not meaningful.

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

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

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

	Three Months Ended June 30,		% Change Favorable/ (Unfavorable)	Six Months Ended June 30,		% Change Favorable/ (Unfavorable)
	2011	2010		2011	2010	
Adjusted OIBDA:						
U.S. Networks	$ 395	$ 379	4%	$ 729	$ 672	8%
	173	132	31%	317	254	25%

International Networks						
Education and Other	5	1	NM	13	6	NM
Corporate and inter-segment eliminations	(63)	(57)	(11)%	(122)	(112)	(9)%
Total Adjusted OIBDA:	510	455	12%	937	820	14%
Amortization of deferred launch incentives	(12)	(10)	(20)%	(26)	(21)	(24)%
Mark-to-market stock-based compensation	(19)	(40)	53%	(23)	(76)	70%
Depreciation and amortization	(30)	(33)	9%	(60)	(66)	9%
Restructuring charges	(4)		%	(5)	(3)	(67)%
Gains on dispositions			%	129		%
Operating income	$ 445	$ 372	20%	$ 952	$ 654	46%

NM not meaningful.

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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 for all periods discussed.

	Three Months Ended June 30,		% Change Favorable/ (Unfavorable)	Six Months Ended June 30,		% Change Favorable/ (Unfavorable)
	2011	2010		2011	2010	
Revenues:						
Distribution	$ 273	$ 263	4%	$ 547	$ 522	5%
Advertising	361	329	10%	651	595	9%
Other	26	28	(7)%	49	49	%
Total revenues	660	620	6%	1,247	1,166	7%
Costs of revenues, excluding depreciation and amortization	(154)	(131)	(18)%	(301)	(276)	(9)%
Selling, general and administrative	(113)	(112)	(1)%	(221)	(222)	%
Add: Amortization of deferred launch incentives	2	2	%	4	4	%
Adjusted OIBDA	395	379	4%	729	672	8%
Amortization of deferred launch incentives	(2)	(2)	%	(4)	(4)	%
Depreciation and amortization	(4)	(5)	20%	(8)	(11)	27%
Restructuring charges	(2)		%	(3)		%
Gains on dispositions			%	129		%
Operating income	$ 387	$ 372	4%	$ 843	$ 657	28%

Revenues

Distribution revenues for the three and six months ended June 30, 2011, increased $13 million and $32 million, respectively, due to annual contractual distributor rate increases and an increase in paying subscribers, principally for networks carried on the digital tier.

Advertising revenues for the three and six months ended June 30, 2011 increased $49 million and $87 million, respectively, driven by increased pricing in the upfront and scatter markets and higher sellouts, as well as an $8 million increase for nonrecurring revenue items in the second quarter of 2011.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, sales commissions, distribution costs, and production costs, increased $30 million and $39 million during the

three and six months ended June 30, 2011, respectively. The increases in costs of revenues were due primarily to an increase in content expense, which reflects our continued investment in programming, partially offset by $18 million of lower content write-offs for the six months ended June 30, 2011.

Selling, General and Administrative

For the three and six months ended June 30, 2011, selling, general and administrative expenses, which principally comprise employee costs, marketing costs, research costs, and occupancy and back office support fees, were comparable to the same periods in the prior year.

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Adjusted OIBDA

For the three and six months ended June 30, 2011, Adjusted OIBDA increased $26 million and $74 million, respectively, primarily due to increased advertising sales and growth in distribution revenues.

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).

	Three Months Ended June 30,		% Change Favorable/ (Unfavorable)	Six Months Ended June 30,		% Change Favorable/ (Unfavorable)
	2011	2010		2011	2010	
Revenues:						
Distribution	$ 220	$ 186	18%	$ 426	$ 372	15%
Advertising	132	106	25%	234	188	24%
Other	16	14	14%	31	29	7%
Total revenues	368	306	20%	691	589	17%
Costs of revenues, excluding depreciation and amortization	(113)	(97)	(16)%	(218)	(196)	(11)%
Selling, general and administrative	(92)	(85)	(8)%	(178)	(156)	(14)%
Add: Amortization of deferred launch incentives	10	8	25%	22	17	29%
Adjusted OIBDA	173	132	31%	317	254	25%
Amortization of deferred launch incentives	(10)	(8)	(25)%	(22)	(17)	(29)%
Depreciation and amortization	(12)	(11)	(9)%	(22)	(19)	(16)%
Restructuring charges	(2)		%	(2)	(3)	33%
Operating income	$ 149	$ 113	32%	$ 271	$ 215	26%

NM not meaningful.

Revenues

Distribution revenues for the three and six months ended June 30, 2011, increased $34 million and $54 million, respectively. Excluding the impact of foreign currency fluctuations, distribution revenues increased 12% and 10% for the three and six months ended June 30, 2011, respectively. The increase in distribution revenue was attributable to continued expansion of pay television services across all regions and increased rates for fees charged to operators who distribute our networks in Latin America.

Advertising revenues for the three and six months ended June 30, 2011, increased $26 million and $46 million, respectively. Excluding the impact of foreign currency

fluctuations, advertising revenues increased by 17% and 18% for the three and six months ended June 30, 2011, respectively. Increases were attributable to improved pricing and sellouts across all regions.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, distribution costs, sales commissions, and production costs, increased $16 million and $22 million during the three and six months ended June 30, 2011, respectively. Excluding the impact of foreign currency fluctuations, costs of revenues increased 14% and 8% for the three and six months ended June 30, 2011, respectively. The increase in costs of revenues was due to higher content expense across all regions and higher sales commissions in Western Europe. Content expense increased $8 million and $13 million for the three and six months ended June 30, 2011, respectively, as a result of the international rollout of new networks, such as TLC. Sales commissions increased slightly as a result of higher advertising sales.

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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 $7 million and $22 million during the three and six months ended June 30, 2011, respectively. Excluding the impact of foreign currency fluctuations, selling, general and administrative costs increased 10% for the three and six months ended June 30, 2011. Increased selling, general and administrative expenses were attributable to a greater presence in certain regions such as Eastern Europe, expansion of networks, such as TLC, and expenses in Latin America.

Adjusted OIBDA

Adjusted OIBDA for the three and six months ended June 30, 2011, increased $41 million and $63 million, respectively. Excluding the impact of foreign currency fluctuations, Adjusted OIBDA increased 17% and 19% for the three and six months ended June 30, 2011, respectively. The increases were attributable to growth in revenues, partially offset by higher content amortization, sales commissions and personnel costs.

Education and Other

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

	Three Months Ended June 30,		% Change Favorable/ (Unfavorable)	Six Months Ended June 30,		% Change Favorable/ (Unfavorable)
	2011	2010		2011	2010	
Revenues:						
Other	$ 39	$ 33	18%	$ 80	$ 70	14%
Costs of revenues, excluding depreciation and amortization	(20)	(21)	5%	(41)	(42)	2%
Selling, general and administrative	(14)	(11)	(27)%	(26)	(22)	(18)%
Adjusted OIBDA	5	1	NM	13	6	NM
Depreciation and amortization	(1)	(2)	50%	(3)	(3)	%
Operating income	$ 4	$ (1)	NM	$ 10	$ 3	NM

NM not meaningful.

Revenues

Other revenues for the three and six months ended June 30, 2011, increased $6 million and $10 million, respectively, due to continued growth in subscriptions for access to our online streaming service.

Costs of Revenues

Costs of revenues, which consist principally of production costs, royalty payments, and content expense, were relatively flat for the three and six months ended June 30, 2011, when compared to the same period in 2010.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise employee costs, occupancy and back office support fees, and marketing costs, increased $3 million and $4 million during the three and six months ended June 30, 2011, respectively, due to higher employee costs.

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Adjusted OIBDA

Adjusted OIBDA for the three and six months ended June 30, 2011, increased $4 million and $7 million, respectively, due to continued growth in online streaming services and improved performance for our postproduction audio services, which were partially offset by increased employee costs.

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).

	Three Months Ended June 30,		% Change Favorable/ (Unfavorable)	Six Months Ended June 30,		% Change Favorable/ (Unfavorable)
	2011	2010		2011	2010	
Revenues:						
Other	$	4	NM	$	$ 7	NM
Total revenues		4	NM		7	NM
Costs of revenues, excluding depreciation and amortization	(1)	(5)	80%	(1)	(7)	86%
Selling, general and administrative	(62)	(56)	(11)%	(121)	(112)	(8)%
Adjusted OIBDA	(63)	(57)	(11)%	(122)	(112)	(9)%
Mark-to-market stock-based compensation	(19)	(40)	53%	(23)	(76)	70%
Depreciation and amortization	(13)	(15)	13%	(27)	(33)	18%
Operating loss	$ (95)	$ (112)	15%	$ (172)	$ (221)	22%

NM not meaningful.

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

Selling, general and administrative expenses for the three and six months ended June 30, 2011, increased $6 million and $9 million, respectively, due to merit based increases in compensation and $3 million and $8 million increases, respectively, in stock-based compensation expense due to an increase in the number of equity settled awards such as stock options, PRSUs, and RSUs that received fixed accounting.

FINANCIAL CONDITION

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 June 30, 2011, we had $2.1 billion of total capital resources available, comprised of $1.1 billion of cash and cash equivalents on hand, excluding amounts held by consolidated joint ventures, and approximately $1.0 billion available to borrow under our revolving credit facility. As a public company, we may have access to other sources of capital such as the public bond and equity markets. On June 17, 2009, we filed a Registration Statement on Form S-3 (Shelf Registration) with the SEC in which we registered securities, including debt securities, common stock, and preferred stock. On June 20, 2011, DCL, one of our subsidiaries, issued $650 million aggregate principal amount of 4.375% Senior Notes due on June 15, 2021. DCL received net proceeds of $641 million from the offering after deducting underwriting discounts and issuance costs. In total we have issued approximately $4.2 billion of senior notes under the Shelf Registration. Access to sufficient capital from the public market is not assured.

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

On August 3, 2010, we implemented a stock repurchase program, pursuant to which we are authorized to purchase up to $1.0 billion of our common stock. We have been and continue to expect to fund repurchases through a combination of cash on hand, cash generated by operations, borrowings under our revolving credit facility, and future financing transactions. Under the program, management is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to stock price, business conditions, market conditions, and other factors. The repurchase program does not have an expiration date.

We have interests in various joint ventures and provide funding to those joint ventures from time-to-time. From their inception through June 30, 2011, we have provided $253 million in funding, including interest accrued on outstanding borrowings, to our joint ventures that existed as of that date. We expect to provide significant additional funding to our joint ventures and expect to recoup amounts funded.

On July 27, 2011, our Board of Directors approved an additional $1 billion under our stock repurchase program, pursuant to which we were originally authorized to purchase up to $1 billion of our common stock. We expect to fund repurchases through a combination of cash on hand, cash generated by operations, borrowings under our revolving credit facility and future financing transactions. Accordingly, our stock repurchase program is subject to us having available cash to fund repurchases. Under the program, management is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors.

Cash Flows

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

	Six Months Ended June 30, 2011	2010
Cash and cash equivalents, beginning of period	$ 466	$ 623
Cash provided by operating activities	431	90
Cash used in investing activities	(109)	(99)
Cash provided by financing activities	299	99
Effect of exchange rate changes on cash and cash equivalents	8	
Net change in cash and cash equivalents	629	90
Cash and cash equivalents, end of period	$ 1,095	$ 713

Changes in cash and cash equivalents for the six months ended June 30, 2010 include insignificant amounts related to Antenna Audio, which was sold on September 1, 2010.

Operating Activities

Cash provided by operating activities increased $341 million for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. The increase in cash provided by operating activities was driven by increased advertising sales and distribution fees, a decrease in taxes paid, and decreases in stock compensation payments for cash settled equity awards. During 2010, there was a $112 million overpayment of tax (2010 overpayment) resulting primarily from an extension of the tax law in the fourth quarter of 2010 that allowed for the immediate deduction of certain domestic programming costs. During the six months ended June 30, 2011, we received a $39 million tax refund related to the 2010 overpayment and there was a decrease in tax payments of $73 million as a result of the use of the remaining overpayment carry forward from the 2010 overpayment. The $45 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 $31 million increase attributable to investments in programming.

Investing Activities

Cash flows used in investing activities increased $10 million for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010, which was attributable to a $41 million increase in funding to unconsolidated network joint ventures, partially offset by $35 million for cash used for a business acquisition during the six months ended June 30, 2010.

Cash flows used in investing activities for the six months ended June 30, 2011 primarily included $82 million in funding payments to unconsolidated network joint ventures and $27 million for capital expenditures. Cash flows used in investing activities for the six months ended June 30, 2010 primarily included $41 million in funding payments to unconsolidated network joint ventures, $35 million for the acquisition of an uplink facility, and $20 million related to capital expenditures. The increase in funding to unconsolidated network joint ventures was due to continued investments in OWN, which was launched on January 1, 2011.

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Financing Activities

Cash flows from financing activities increased $200 million for the six months ended June 30, 2011 as compared to the same period in 2010. The increase in cash flows from financing activities was principally attributable to the issuance of $650 million of senior notes by the Company in June 2011 for which we received $641 million of net proceeds, as well as an increase of $36 million in cash payments and tax benefits received from employee stock option exercises; partially offset by stock repurchases of $377 million made pursuant to our stock repurchase program implemented on August 3, 2010, and repayments of our capital lease obligations.

Cash provided by financing activities for the six months ended June 30, 2010, principally reflects the issuance of $3.00 billion of senior notes, for which we received $2.97 billion of net proceeds after deducting underwriting discounts and issuance costs. We used the debt offering proceeds and cash on hand to repay $2.88 billion of principal outstanding under our term loans and previously outstanding senior notes.

Capital Resources

As of June 30, 2011, we had approximately $2.1 billion of total capital resources available, which was comprised of the following (in millions).

	June 30, 2011			
	Total Capacity	Outstanding Letters of Credit	Outstanding Indebtedness	Unused Capacity
Cash and cash equivalents	$ 1,094	$	$	$ 1,094
Revolving credit facility	1,000	1		999
Fixed rate public debt:				
3.70% Senior Notes, semi-annual interest, due June 2015	850		850	
5.625% Senior Notes, semi-annual interest, due August 2019	500		500	
5.05% Senior Notes, semi-annual interest, due June 2020	1,300		1,300	
4.375% Senior Notes, Semi-annual interest, due June 2021	650		650	
6.35% Senior Notes, semi-annual interest, due June 2040	850		850	
	4,150		4,150	
Total	$ 6,244	$ 1	$ 4,150	$ 2,093

Cash and cash equivalents exclude $1 million of cash held by consolidated joint ventures as of June 30, 2011.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we enter into various commitments for the purchase of goods or services or that would require us to make payments or provide funding in the event certain circumstances occur. Information regarding our commitments and off-balance sheet arrangements is set forth in Note 13 to the consolidated financial statements included in Item 1, Financial Statements, in this Quarterly Report on Form 10-Q.

RELATED PARTY TRANSACTIONS

In the normal course of business, we enter into transactions with related parties, primarily Liberty Global, Inc., Liberty Media Corporation, Ascent Media Corporation, their respective subsidiaries and affiliates, and companies in which we have an interest accounted for under the equity method. Information regarding transactions and amounts with related parties is set forth in Note 12 to the consolidated financial statements included in Item 1, Financial Statements, in this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates have not changed materially since December 31, 2010. Disclosure about our critical accounting policies and estimates is set forth in Item 7, Management s Discussion and Analysis of Results of Operations and Financial Condition, in our Annual Report on Form 10-K for the year ended December 31, 2010.

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NEW ACCOUNTING AND REPORTING PRONOUNCEMENTS

We adopted certain accounting and reporting standards during the six months ended June 30, 2011. Information regarding our adoption of new accounting and reporting standards is set forth in Note 1 to the consolidated financial statements included in Item 1, Financial Statements, in this Quarterly Report on Form 10-Q.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposures to market risk have not changed materially since December 31, 2010. Quantitative and qualitative disclosures about our existing market risk are set forth in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2011. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2011, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the three months ended June 30, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In the normal course of business, we experience routine claims and legal proceedings. It is our opinion, based on information available at this time, that none of the current claims and proceedings will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

ITEM 1A. Risk Factors

Our risk factors have not changed materially since December 31, 2010. Disclosure about our existing risk factors is set forth in Item A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered securities during the three months ended June 30, 2011.

The following table presents information about our repurchases of common stock that were made through open market transactions during the three months ended June 30, 2011.

Period	Total Number of Shares Purchased	Average Price Paid per Share [(1)]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [(2)]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [(1)(2)]
Series C common stock:				
April 1, 2011 April 30, 2011	1,459,881	$ 35.71	1,459,881	$ 675,933,813
May 1, 2011 May 31, 2011	1,350,000	$ 39.38	1,350,000	$ 622,764,084
June 1, 2011 June 30, 2011	2,828,800	$ 37.06	2,828,800	$ 517,934,453
Total	5,638,681	$ 37.27	5,638,681	$ 517,934,453

(1) The amounts do not give effect to any fees, commissions or other costs associated with repurchases of shares.

(2) On August 3, 2010, we announced a stock repurchase program, pursuant to which we are authorized to purchase up to $1.0 billion of our common stock. We expect to fund repurchases through a combination of cash on hand, cash generated by operations, borrowings under our revolving credit facility and future financing transactions. Under the program, management is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as

permitted by securities laws and other legal requirements, and subject to stock price, business conditions, market conditions, and other factors. The repurchase program does not have an expiration date. The above repurchases were funded using cash on hand. There were no repurchases of our Series A common stock or Series B common stock during the three months ended June 30, 2011.

ITEM 5. Other information

Frequency of Advisory Vote on Executive Compensation

In light of the voting results at the Company s Annual Meeting of Stockholders held on May 17, 2011 (the Annual Meeting) and other factors, the Board of Directors of the Corporation has determined, as was recommended with respect to the proposal on the frequency of future stockholder advisory votes on executive compensation in the proxy statement for the Annual Meeting, to provide stockholders with an advisory vote on future executive compensation every three years, until the Board of Directors decides to hold the next stockholder advisory vote on the frequency of the advisory stockholder vote on executive compensation, which shall be no later than the Corporation s Annual Meeting of Stockholders in 2017.

ITEM 6. Exhibits.

Exhibit No.	Description
4.1	Third Supplemental Indenture, dated as of June 20, 2011, among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on June 21, 2011, SEC File No. 1-34177)
10.1	2011 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on May 19, 2011)
10.2	Amendment No. 2 to Employment Agreement dated as of May 16, 2011 between Peter Liguori and Discovery Communications, LLC (filed herewith)
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	XBRL Instance Document (furnished herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (furnished herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (furnished herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (furnished herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith)

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SIGNATURES

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

DISCOVERY COMMUNICATIONS, INC.

(Registrant)

Date: August 4, 2011	By: /s/ David M. Zaslav David M. Zaslav President and Chief Executive Officer
Date: August 4, 2011	By: /s/ Bradley E. Singer Bradley E. Singer Senior Executive Vice President, Chief Financial Officer and Treasurer

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EXHIBIT INDEX

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