Discovery Communications, Inc.
Form 10-K
February 22, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from ______ to ______

Commission File Number: 1-34177

DISCOVERY COMMUNICATIONS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**35-2333914**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Discovery Place Silver Spring, Maryland	**20910**
(Address of principal executive offices)	**(Zip Code)**

(240) 662-2000

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Series A Common Stock, $0.01 par value	Nasdaq Global Select Market
Series B Common Stock, $0.01 par value	Nasdaq Global Select Market
Series C Common Stock, $0.01 par value	Nasdaq Global Select Market

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

None

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

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

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 x No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of voting and non-voting common stock held by nonaffiliates of the Registrant computed by reference to the last sales price of such stock, as of the last business day of the Registrant s most recently completed second fiscal quarter, which was June 30, 2009, was approximately $5.7 billion.

The number of shares outstanding of each of the Registrant s classes of common stock as of February 11, 2010 was:

Series A Common Stock, $0.01 par value	135,226,377
Series B Common Stock, $0.01 par value	6,589,084
Series C Common Stock, $0.01 par value	141,711,350

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Item 10 through Item 14 of Part III of this Annual Report on Form 10-K is incorporated herein by reference to the Registrant s definitive Proxy Statement for its 2010 Annual Meeting of Stockholders, which shall be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days of the Registrant s fiscal year end.

DISCOVERY COMMUNICATIONS, INC.

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PART I

ITEM 1. Business.
Overview

Discovery Communications, Inc. (Discovery , we , us or our) is a leading global media and entertainment company. We were formed on September 17, 2008, in connection with Discovery Holding Company (DHC) and Advance/Newhouse Programming Partnership (Advance/Newhouse) combining their respective ownership interests in Discovery Communications Holding, LLC (DCH) and exchanging those interests with and into Discovery. Prior to September 17, 2008, DCH was a stand-alone private company, which was owned approximately 66 $^{2}/3$% by DHC and 33 $^{1}/3$% by Advance/Newhouse. As a result of this transaction we became the successor reporting entity to DHC under the Securities Exchange Act of 1934, as amended.

As one of the world s largest nonfiction media companies, we provide original and purchased programming across multiple distribution platforms in the United States (U.S.) and more than 170 other countries. Led by the flagship Discovery Channel, one of the first nonfiction cable networks and our most widely distributed global brand, Discovery enables people to explore the world and satisfy their curiosity through more than 100 worldwide networks offering customized programming in 38 languages. In addition to Discovery Channel, our global portfolio includes prominent television brands such as TLC, Animal Planet, Science Channel, Investigation Discovery, Planet Green, Discovery Travel and Living, Discovery Home and Health and HD Theater, as well as leading consumer and educational products and services, and a diversified portfolio of digital media services including HowStuffWorks.com.

Our media content spans genres including science, exploration, survival, natural history, sustainability of the environment, technology, anthropology, paleontology, history, space, archaeology, health and wellness, engineering, adventure, lifestyles and current events. This type of programming tends to be culturally neutral and maintains its relevance for an extended period of time. As a result, 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.

Our content is designed to target key audience demographics and the popularity of our programming offers a reason for advertisers to purchase time on our channels. Our 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 have an extensive library of programming and footage that provides a source of content for creating new services and launching into new markets and onto new platforms. Generally, we own most or all rights to the majority of this programming and footage, which enables us to exploit our library to launch new brands and services into new markets quickly without significant incremental spending. 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.

In addition to growing distribution and advertising revenue for our branded channels, we are focused on extending content distribution across new distribution platforms, including brand-aligned web properties, mobile devices, video-on-demand and broadband channels, which provide promotional platforms for our television programming and serve as additional outlets for advertising and affiliate sales. We also operate internet sites including HowStuffWorks.com, Petfinder.com, and Treehugger.com that provide supplemental news, information and entertainment aligned with our television programming.

We also are utilizing our programming assets to take advantage of the growing demand for high definition (HD) programming in the U.S. and throughout the world. In 2009, we provided HD simulcasts of six of our U.S. Networks (Discovery Channel, TLC, Animal Planet, Science Channel, Investigation Discovery and Planet Green), in addition to our stand-alone U.S. HD Theater channel. In 2009, we also expanded our international HD operations to include HD channels (Discovery HD, Animal Planet HD and TLC HD) in 61 markets outside of the U.S., making us one of the leading international providers of HD programming, based on the number of markets we serve. We believe we are well positioned to take advantage of the accelerating growth in sales of HD televisions and the expanding distribution of HD channels around the world. Where we operate HD simulcasts of our networks, we also benefit from the ability to aggregate standard and HD audiences for advertising sales purposes. In January 2010, we announced our intent to form a joint venture with Sony Corporation and IMAX Corporation to launch a 24-hours-a-day, 7-days-a-week, three-dimensional (3-D) channel in the U.S., positioning us to capitalize on the recent success of 3-D feature films and projected growth in sales of 3-D television sets.

Our strategy is to deliver sustainable long-term growth through the development of high-quality media brands that build consumer viewership, optimize distribution revenue and capture advertising sales. In addition, we are focused on maximizing the overall efficiency and effectiveness of our global operations through collaboration and innovation across operating units and regions around the world, and across all television and digital media.

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In line with this strategy, our specific priorities include:

- Maintaining our focus on creative excellence in nonfiction programming and expanding the portfolio s brand entitlement by developing compelling content that promotes audience growth, builds advertising relationships and has global utility.

- Leveraging our distribution strength in the U.S. with three channels each reaching more than 95 million subscribers in the U.S. and Canada and five channels each reaching between 50 million and 75 million subscribers in the U.S. and Canada 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.

- Increasing the value of our distribution strength outside of the U.S. with at least two channels in more than 170 countries around the world to maintain a leadership position in nonfiction entertainment in international markets and build additional branded channels and businesses that can sustain long-term growth. This includes expanding local advertising sales capabilities, creating licensing and digital growth opportunities, utilizing broadcast and other additional distribution opportunities in select markets, and leveraging operating efficiencies through development and promotional collaboration between the U.S. Networks and International Networks segments.

- Developing and growing compelling content experiences on new platforms that are aligned with our core branded channels. Specifically, extending ownership of nonfiction entertainment to new platforms and technologies around the world to satisfy viewers curiosity and enhance the consumer entertainment experience, provide new cross-platform sales and promotional opportunities with our television networks, and create additional reach for our content by leveraging the economies realized through programs that can be produced once and used often in both long-term and short-term formats.

Recent Developments

Accounting for Variable Interest Entities

Effective January 1, 2010, we adopted the Financial Accounting Standards Board s (FASB) statement amending the accounting for interests in a variable interest entity (VIE). Pursuant to the adoption of this statement, beginning January 1, 2010, we will no longer consolidate the Oprah Winfrey Network (OWN) and Animal Planet Japan (APJ) joint ventures and will account for our interest in these entities under the equity method of accounting. However, we continued to consolidate OWN and APJ through December 31, 2009. Accordingly, the financial information in this Annual Report on Form 10-K includes the financial position and operating results of OWN and APJ for 2009 and 2008. Beginning in 2010, we will apply the provisions of the new statement retrospectively to financial information for all periods presented by recasting prior period results to conform to the new presentation. Additional financial information related to OWN and APJ as well as the impact of adopting the new statement is set forth in Item 7 and Note 2 to the accompanying consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Reportable Segments

Effective January 1, 2010, we realigned the Discovery Commerce business from the Commerce, Education, and Other reporting segment into the U.S. Networks reporting segment. In connection with this realignment we changed the name of our Commerce, Education, and Other reporting segment to Education and Other. The financial information in this Annual Report on Form 10-K has not been recast to reflect the realignment. Accordingly, the results of operations for the Discovery Commerce business are included in the financial results for the Commerce, Education, and Other segment. Beginning in 2010, we will include the Discovery Commerce business in the financial results for the U.S. Networks segment and will recast prior period results to conform to the new presentation.

Hasbro-Discovery Joint Venture

On May 22, 2009, we formed a 50-50 joint venture with Hasbro, Inc. (Hasbro) that will operate a television network and website dedicated to high-quality children s and family entertainment and educational programming. In connection with the arrangement, Discovery contributed the U.S. Discovery Kids Network (Discovery Kids) to the joint venture. Additionally, Hasbro acquired a 50% ownership interest in the joint venture for a cash payment of $300 million and a tax receivables agreement collectible over 20 years valued at $57 million, which resulted in a total gain of $252 million. The rebranded network, the Hub, is scheduled to premiere in late 2010. Additional information regarding the joint venture is set forth in Note 4 to the accompanying consolidated financial statements.

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Discovery Commerce Business

In April 2009, we completed the transition of our commerce business to a licensing model by outsourcing the commerce direct-to-consumer operations including our commerce website, related marketing, product development and fulfillment to a third party in exchange for royalties. The new structure for our commerce business enables us to continue offering high quality DVD programming as well as many merchandise categories leveraging both licensed and make and sell products.

Segment Information

In 2009, we operated through three segments: (1) U.S. Networks, (2) International Networks, and (3) Commerce, Education, and Other. Financial information related to our operating segments is set forth in Note 23 to our consolidated financial statements found in Item 8 of this Annual Report on Form 10-K.

U.S. Networks

Reaching approximately 724 million cumulative subscribers (defined below) primarily in the U.S. as of December 31, 2009, and having one of the industry s most widely distributed portfolios of brands, U.S. Networks delivers 11 cable and satellite television channels primarily in the U.S. The portfolio includes three channels that each reach more than 95 million subscribers (defined below) and five channels that each reach between 50 and 75 million subscribers.

Our U.S. networks are wholly-owned except for Discovery Kids, which is operated through a 50-50 joint venture between us and Hasbro. Currently, we own and operate the Discovery Health Channel. However, pursuant to our joint venture arrangement for OWN, we will contribute our interest in the Discovery Health Channel to OWN, which is expected to occur in 2011.

Subscriber numbers set forth in this Annual Report on Form 10-K include both wholly-owned networks and networks operated by joint ventures and are according to The Nielsen Company, except for Discovery Kids, Planet Green, FitTV and HD Theater, where Nielsen data is either not available and/or internal data are used. As used herein, a subscriber is a single household that receives the applicable Discovery channel from its cable television operator, DTH satellite operator, or other television provider, including those who receive our networks from pay-television providers without charge pursuant to various pricing plans that include free periods and/or free carriage. The term cumulative subscribers refers to the collective sum of the total number of subscribers to each of our channels. By way of example, two households that each receive five of our networks from their television provider represent two subscribers, but 10 cumulative subscribers.

The networks operated by the U.S. Networks segment include:

Discovery Channel

Discovery Channel reached approximately 100 million subscribers in the U.S. as of December 31, 2009.

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

Programming highlights on Discovery Channel include *Deadliest Catch, MythBusters, Dirty Jobs, Man Vs. Wild, Storm Chasers, Swamp Loggers*, *Pitchmen* and *Colony*. Discovery Channel is also home to specials and mini-series, including the critically acclaimed *Planet Earth, When We Left Earth: The NASA Missions* and *Discovering Ardi*.

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

Discovery Channel is simulcast in HD.

TLC

TLC reached approximately 99 million subscribers in the U.S. as of December 31, 2009. TLC also reached approximately 8 million subscribers in Canada, according to internal data.

TLC features docu-series and reality-based programming about the lives of real-life extraordinary characters.

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Programming highlights on TLC include *Cake Boss, Little Couple, What Not to Wear, Little People, Big World, Police Women of Broward County, Say Yes to the Dress, LA Ink and 18 Kids and Counting.*

Target viewers are adults ages 18-49, particularly women.

TLC is simulcast in HD.

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Animal Planet

Animal Planet reached approximately 96 million subscribers in the U.S. as of December 31, 2009.

Animal Planet provides a full range of programming related to life in the animal kingdom with content that offers animal lovers and pet owners access to a centralized online, television and mobile community for entertainment and information.

Programming highlights on Animal Planet include *Whale Wars, River Monsters*, *I m Alive*, *Monsters Inside Me*, *Pit Bulls and Parolees* and *Dogs 101*.

Target viewers are adults ages 25-54.

Animal Planet is simulcast in HD.

Discovery Health

Discovery Health reached approximately 74 million subscribers in the U.S. as of December 31, 2009.

Discovery Health provides information that helps viewers better understand health and wellness issues. From pregnancy and parenting to diet and disease prevention, Discovery Health delivers real-life stories.

In 2011, Discovery Health will be repositioned as OWN through a 50-50 joint venture between Discovery and Harpo, Inc. OWN will be a multi-platform venture, including the OWN television network and Oprah.com, designed to entertain, inform and inspire people to live their best lives.

OWN will build on Discovery Health s target audience of women ages 25-54.

Discovery Kids

Discovery Kids reached approximately 51 million subscribers in the U.S. as of December 31, 2009.

Discovery Kids allows kids of all ages (from preschoolers to tweens and teens) to explore the world from their point of view. The network provides programming that enables kids to learn about science, adventure, exploration and natural history through documentaries, reality shows, scripted dramas and animated stories.

In late 2010, Discovery Kids will be repositioned as THE HUB through a 50-50 joint venture between Discovery and Hasbro. The network will feature original animation programming, game shows and live-action series and specials, including content drawn from Hasbro s portfolio of entertainment and educational properties, content from Discovery s extensive library of award-winning children s educational programming, and third-party acquisitions.

Target viewers are children ages 3-12 and families.

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Science Channel

Science Channel reached approximately 62 million subscribers in the U.S. as of December 31, 2009.

Science Channel immerses viewers in the possibilities of science, from string theory and futuristic cities to accidental discoveries and outrageous inventions. The network celebrates the trials, errors and moments that change our human experience.

Programming highlights on Science Channel include *How It s Made*, *Space Week*, *Sci Fi Science: Physics of the Impossible*, *How Do They Do It?*, *Build It Bigger*, and *Punkin Chunkin*.

Target viewers are men ages 25-54.

Science Channel is simulcast in HD.

Planet Green

Planet Green reached approximately 48 million subscribers in the U.S. as of December 31, 2009.

Planet Green targets viewers who want to understand how humans impact the planet and how to live a more environmentally sustainable lifestyle. The network offers unique, original and insightful content related to how we can evolve to live a better, brighter future.

Programming highlights on Planet Green include *Operation Wild*, *Living with Ed*, *Conviction Kitchen*, *Blood, Sweat and Takeaways*, *Wasted*, and the *Reel Impact* weekly film series.

Target viewers are adults ages 18-54.

Planet Green is simulcast in HD.

Investigation Discovery

Investigation Discovery reached approximately 55 million subscribers in the U.S. as of December 31, 2009.

Investigation Discovery is a source for fact-based investigative content about culture, history and the human condition, and provides investigative programming focused on stories of human nature from the past to the present, documentaries, and series that challenge viewers on important issues shaping our culture and defining our world.

Programming highlights on Investigation Discovery include *On the Case with Paula Zahn*, *The Bureau*, *Disappeared, I (Almost) Got Away With It,* and *Extreme Forensics*.

Target viewers are adults ages 25-54.

Investigation Discovery is simulcast in HD.

Military Channel

Military Channel reached approximately 55 million subscribers in the U.S. as of December 31, 2009.

Military Channel brings viewers real-world stories of heroism, military strategy, technological breakthroughs and turning points in history. The network takes viewers behind the lines to hear the personal stories of servicemen and women and offers in-depth explorations of military technology, battlefield strategy, aviation and history.

Programming highlights on Military Channel include *At Sea*, *Special Ops Mission*, *Great Planes*, and *Top Sniper*.

Target viewers are men ages 35-64.

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FitTV

FitTV reached approximately 46 million subscribers in the U.S. as of December 31, 2009.

FitTV is designed to inspire viewers to improve their fitness and well-being on their terms. FitTV features approachable experts and shows that help real people learn how to incorporate fitness into their busy lives.

Target viewers are adults ages 25-54.

HD Theater

HD Theater reached approximately 30 million subscribers in the U.S. as of December 31, 2009.

HD Theater was one of the first nationwide 24-hours-a-day, 7-days-a-week high definition networks in the U.S. offering content in virtually all categories of entertainment from across Discovery s family of networks. The network showcases programming about adventure, nature, wildlife, history, travel, science and technology, world culture and more.

Programming highlights on HD Theater include *World Rally Championship* and *Mecum Auto Auctions: Muscle Cars*.

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

U.S. Networks also includes our digital media businesses in the United States, which provide cross-platform sales and promotional opportunities with our television networks and additional reach for our content by leveraging the economies realized through programs that can be produced once and used often in both long-term and short-term formats across multiple platforms. Digital media features three main components:

U.S. brand-aligned channel websites, such as Discovery.com, TLC.com and AnimalPlanet.com, and complementary stand-alone websites: HowStuffWorks.com, an award-winning online source of explanations of how the world actually works; Treehugger.com, an eco-lifestyle website that complements the Planet Green television network; and Petfinder.com, a leading pet adoption destination that provides an additional promotional platform for the Animal Planet brand. Together, these websites attracted an average of more than 36 million cumulative unique monthly visitors in 2009, according to internal data. Discovery also offers content through a variety of online syndication partnerships.

Discovery Mobile, which offers unique made-for-mobile short-form content and long-form episodes of popular titles through distribution arrangements with the majority of mobile carriers in the U.S., as well as a collection of smartphone applications and direct-to-consumer mobile websites for multiple network brands including Discovery Channel, TLC, and Animal Planet.

Discovery on-demand, a free video-on-demand service distributed across most major U.S. affiliates, which features full-length programming and short-form content from Discovery s portfolio of U.S. networks.

International Networks

Reaching approximately 685 million cumulative subscribers (defined below) in more than 170 countries outside the U.S. as of December 31, 2009, International Networks operates one of the largest international multi-channel businesses in the media industry. International Networks distributes a diversified portfolio of 22 brands designed to meet the needs of audiences, affiliates and advertisers across multiple regions and markets. The segment maximizes the use of shared content and our global programming pipeline in order to drive consumer engagement and efficiencies across all core brands, and delivers locally targeted customized programming, on-air content and schedules in 38 languages via more than 100 localized feeds. International Networks encompasses four locally-managed regional operations covering all major foreign pay television markets, including the United Kingdom (U.K.), Europe (excluding the U.K.), Middle East and Africa (EMEA), Asia-Pacific, and Latin America, and has 29 international offices with regional headquarters located in London, Miami and Singapore.

International subscriber statistics include both wholly-owned networks and networks operated by joint ventures and are derived from internal data coupled with external sources when available. As used herein, an international subscriber is a single household that receives the applicable Discovery network or programming service from its cable television operator, DTH satellite operator, or other television provider, including those who receive our networks from pay television providers without charge pursuant to various

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pricing plans that include free periods and/or free carriage. The term cumulative subscribers outside the U.S. refers to the collective sum of the total number of international subscribers to each of our international channels or programming services outside of the U.S. By way of example, two international households that each receive five of our networks from their television provider represent two subscribers, but 10 cumulative subscribers outside the U.S.

In addition to our cumulative subscribers noted above, we provide branded programming blocks in China, which are generally provided without charge to third-party channels and represented approximately 279 million viewers as of December 31, 2009. Such viewers have been excluded from all subscriber amounts in this Annual Report on Form 10-K.

Our international networks are wholly owned by us except (1) the international Animal Planet channels which are generally 50-50 joint ventures with the British Broadcasting Corporation (BBC), (2) People+Arts, which operates in Latin America and Iberia as a 50-50 joint venture with the BBC, and (3) several channels in Canada and Japan, which operate as joint ventures with strategic local partners and which are not consolidated in our financial statements.

International Networks is a leader across international markets in factual multi-channel television. The portfolio consists largely of global brands led by Discovery Channel and Animal Planet, which each reach more than 100 million homes in international markets. Newer global digital brands in the factual portfolio include Discovery Science, which is distributed in more than 90 countries, ID: Investigation Discovery, Discovery Turbo and Discovery World. In addition, International Networks offers HD channels for Discovery, Animal Planet and TLC in 61 international markets and is one of the industry s leading international providers of HD.

The networks operated by the International Networks segment include:

Network Brand	Subscribers	Network Overview
Discovery Channel	187 million subscribers	Discovery Channel s international programming includes documentaries, docudramas and reality formats covering topics and themes, including human adventure and exploration, engineering, science, history and world culture.
Animal Planet	141 million subscribers	Animal Planet is the world s only brand that immerses viewers in content devoted to animals.
Discovery Travel & Living	87 million subscribers	Discovery Travel & Living provides content for adults who want to experience the best the world has to offer by providing an eclectic mix of programming on travel, food, design and décor.
DMAX	43 million subscribers	In Germany, DMAX targets a younger male audience with a mix of fiction and nonfiction content. It has broad distribution throughout the country s cable systems, reaching approximately 85% of cable homes, but does not get subscription fees and is therefore wholly dependent on advertising revenue.
		In the U.K., DMAX is a broad-based service that combines fiction and non-fiction content. It is distributed without a subscription fee by both major distributors in the U.K., but is positioned in the Entertainment section of the electronic program guide of Sky, the largest distributor, and is intended to be a strong advertising sales vehicle because of the concentration of viewership in Entertainment channels.
Discovery Science	41 million subscribers	Discovery Science network features programming that uncovers the impact of science and technology.
Discovery Home & Health	36 million subscribers	Discovery Home & Health targets women who strive to be the very best they can be in all the many demanding roles they play.
Discovery Kids	28 million subscribers	One of the leading channels in Latin America among preschoolers and women, Discovery Kids provides a unique environment that nurtures children s curiosity and encourages life-long learning.

ID: Investigation Discovery	10 million subscribers	ID: Investigation Discovery offers programming that focuses on the science of forensics and uses dramatic, fact-based storytelling to provide in-depth analysis of investigations.
HD Services	6 million subscribers	One of the leading international providers of HD networks, International Networks offers HD services in 61 international markets including Discovery HD, Animal Planet HD, TLC HD and a Discovery Channel HD simulcast service in Japan and Italy.

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International Networks also distributes specialized brands developed for individual regions and markets to 106 million subscribers including Discovery Knowledge, Shed and Quest in the U.K.; Discovery Civilization and People + Arts in Latin America and Iberia; Discovery Real Time in the U.K., Italy and France; and Discovery Historia in Poland. In addition, International Networks distributes two Spanish-language networks, Discovery en Espanol and Discovery Familia, that are distributed to a combined 10 million U.S. subscribers.

International Networks also operates Antenna Audio, which is the leading provider of audio, multimedia and mobile tours for museums, exhibitions, historic sites and visitor attractions around the world. More than 19 million visitors take Antenna Audio tours in various languages at well-known and frequented locations each year, including museums such as the Metropolitan Museum of Art, the Musée du Louvre and Tate; historic and cultural sites including Graceland and Alcatraz; and popular destinations such as the Statue of Liberty and Vatican.

Commerce, Education, and Other

Commerce

Commerce plays an important role in support of our overall strategic objectives by enhancing viewer loyalty through direct interaction with our brands. Commerce is focused on extending our on-air brands and increasing the reach of our products through our e-commerce platform and licensing arrangements. Commerce s platforms include:

Direct-to-Consumer: includes a printed catalog and the *DiscoveryStore.com* e-commerce site where customers can shop for a large assortment of our proprietary merchandise and other products. During the first quarter of 2009, we entered into a licensing agreement with a third party for the direct-to-consumer component of our commerce business that includes a catalog and e-commerce platform. Under the agreement, we receive royalties for merchandise sales and wholesale payments for DVDs sold, while the third party has assumed management and operational responsibility for the *DiscoveryStore.com* website and product development and fulfillment responsibility for merchandise.

Domestic Licensing and Merchandising: includes agreements with key manufacturers and retailers, including Merchsource, Trau & Loevner, GAP Adventures, JAKKS, Toys R Us and others to develop long-term, strategic programs that translate our network brands and signature properties into an array of merchandising opportunities. From Animal Planet toy and pet products, *Mythbusters* books, DVDs and calendars to *LA Ink* apparel and accessories, domestic licensing develops products that capture the look and feel of our core brands and programs.

Domestic home video/DVD licensing and merchandising also includes a strategic partnership with Gaiam, a video distributor. Gaiam distributes Discovery s high-quality on-air content in standard and Blu-ray format to mass and niche retailers, including Walmart, Target and Borders.

Education

Education offers a suite of curriculum-based tools designed to foster student achievement, as well as enhancement resources such as student assessment services, professional development and a nationwide educator community that promotes the integration of digital media and technology in the classroom. Education services include:

Discovery Education Streaming: an online video-on-demand service that features over 10,000 digital videos and over 75,000 content-specific video clips correlated to state K-12 curriculum standards. The service is made available through subscription services to over 55,000 public and private K-12 schools serving teachers nationwide.

Discovery Education Assessment: a service that enables K-12 educators to measure student progress toward meeting state reading/language arts, math and science standards on an ongoing basis, provide differentiated instruction, predict student performance, and improve student learning.

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Education also works with corporate partners to create sponsored supplemental curriculum programs and to support education-based student initiatives, such as the Discovery Education 3M Young Scientist Challenge and the Siemens We Can Change the World Challenge.

Education also publishes and distributes content on DVD and CD-ROM through catalogs, an online teacher store, and a network of distributors, participates in global licensing and sponsorship programs with corporate partners to create supplemental curriculum programs and to support education-based student initiatives and supports our digital initiatives by providing educational content in multiple formats that meet the needs of teachers and students.

Other

Our Creative Sound Services (CSS) business provides post-production sound, music, mixing sound effects and other related services to major motion picture studios, independent producers, broadcast networks, cable channels, advertising agencies and interactive producers. CSS services are marketed under the brand names Todd-AO, Sound One, Soundelux, POP Sound, Modern Music, Soundelux Design Music Group and The Hollywood Edge, with facilities in Los Angeles, New York and London.

Content Development

Our content development strategy is designed to increase viewership, maintain innovation and quality leadership, and provide value for our distributors and advertising customers. Our production agreements fall into three categories: commissions, co-productions and acquisitions. Commissions refer to programming for which we generally own most or all rights for at least 10 years and, in exchange for paying all production costs, retain all editorial control. Co-productions refer to programs where we retain significant (but more limited) rights to exploit the programs. The rights retained by us are generally in proportion to the total project costs we pay or incur, which generally ranges from 35% to 75% of the total project cost. Co-productions are typically high-cost projects for which neither we nor our co-producers wish to bear the entire cost or productions in which the producer has already taken on an international broadcast partner. Acquisitions are license agreements for films or series that have already been produced.

As network distribution and revenues have grown, our program mix has matured from acquired content to sharing in co-productions to full commissions. To minimize programming expense in the early stages, as an audience base begins to form, we use acquired programming to a greater extent and repeat it frequently. The transition from acquired content provides for more customized use of programming for individual networks and broader rights for re-use on television networks and new platforms.

We source content from a wide range of producers, building long-standing relationships with some of the world s leading nonfiction production companies, as well as consistently developing and encouraging young independent producers.

The programming schedule on our most widely distributed networks is mostly a mix of high-cost special event programming combined with miniseries and regular series. Large-scale programming events such as *Planet Earth*, *When We Left Earth: The NASA Missions*, *Nefertiti Resurrected,* and *Walking With Cavemen* bring brand prestige, favorable media coverage and substantial cross-promotional opportunities for other content platforms. Given the success of these global programming tent-poles we will continue to invest in a mix of programs that have the potential to draw larger audiences while also increasing the investment in regularly scheduled series.

We have an extensive library of programming and footage that provides a high-quality source of programming for debuting new services quickly without significant incremental spending. Programming can be re-edited and updated to provide topical versions of subject matter in a cost-effective manner. Library development also provides a mechanism to share content around the world and repurpose for display on new digital and mobile platforms.

Sources of Revenue

We earn revenue principally from (1) the receipt of affiliate fees from the delivery of nonfiction programming pursuant to affiliation agreements with cable television operators, DTH satellite operators, and other distributors of television programming, (2) advertising sales on our television networks and websites, and (3) product, subscription sales and services in the commerce, education and media sound services businesses. No single customer represented more than 10% of our total consolidated revenues for the year ended December 31, 2009.

Distribution Revenues

Distribution revenues represented 49% of our consolidated total revenues in 2009. Distribution revenue in the U.S. represented 46% of U.S. Networks revenue, and international distribution fees represented 61% of International Networks revenue in 2009. Distribution revenue is generated through affiliation agreements with cable operators, DTH satellite operators, and other television distributors, which typically have a term of three to seven years. These affiliation agreements generally provide for the level of carriage our networks will receive, such as channel placement and package inclusion (whether on more widely distributed, broader packages or lesser-distributed, specialized packages), and for payment of a fee to us based on the numbers of subscribers that receive our networks. Upon the launch of a new channel, we may initially pay distributors to carry such channel (such payments are referred to as launch incentives), or may provide the channel to the distributor for free for a predetermined length of time. We have long-term contracts with distributors representing most cable and satellite operators around the world, including the largest operators in the U.S. and major international distributors. In the U.S., over 90% of distribution revenue comes from the top 10 distributors, with whom we have agreements that expire at various times in 2010 through 2017. Outside of the U.S., less than 50% of distribution revenue comes from the top 10 distributors.

Advertising Revenue

Advertising revenues comprised 41% of our consolidated total revenues in 2009. Advertising revenue in the U.S. represented 51% of U.S. Networks revenue, and international advertising revenue represented 29% of International Networks revenue in 2009. We typically build network brands by securing as broad a subscriber base as possible. After obtaining sufficient distribution to provide an attractive platform for advertising, we increase our investment in programming and marketing to build audience share and drive strong ratings performance in order to increase advertising sales opportunities. Advertising revenue depends on the number of subscribers receiving the service, viewership demographics, the ability to sell commercial time over a group of networks, the brand appeal of the network and ratings as determined by third-party research companies such as The Nielsen Company. Revenue from advertising is subject to seasonality, market-based variations, and general economic conditions. Advertising revenue is typically highest in the second and fourth quarters. Revenue can also fluctuate due to the popularity of particular programs and viewership ratings. In some cases, advertising sales are subject to ratings guarantees that may require us to provide additional advertising time or refunds if the guarantees are not met.

We sell advertising time in both the upfront and scatter markets. In the upfront market, advertisers buy advertising time for the upcoming season, and by purchasing in advance, often receive discounted rates. In the scatter market, advertisers buy advertising time close to the time when the commercials will be run, and often pay a premium. The mix between the upfront and scatter markets is based upon a number of factors such as pricing, demand for advertising time and economic conditions.

Our two largest networks, Discovery Channel and TLC, target key demographics that historically have been considered attractive to advertisers, notably viewers in the 18-54 age range who are viewed as having significant spending power. Discovery Channel s target audience skews toward male viewers, while TLC targets female viewers, providing a demographic balance in our portfolio for distribution and advertising clients.

We benefit by having a portfolio of networks appealing to a broad range of demographics. This allows us to create advertising packages that exploit the strength of our large networks to benefit smaller niche or targeted networks and networks on digital tiers. Utilizing the strength of our diverse networks, coupled with our online and digital platforms, we seek to create innovative programming initiatives and multifaceted campaigns for the benefit of a wide variety of companies and organizations who desire to reach key audience demographics unique to each network. We deliver customized, integrated marketing campaigns to clients worldwide by catering to the special needs of multi-regional advertisers who are looking for integrated campaigns that move beyond traditional spot advertising to include sponsorships, product placements and other opportunities.

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

Commerce, Education, and Other Revenue

Commerce, education, and other revenues are principally generated from subscriptions to our educational streaming services, royalty payments on the sale of products online and through catalogs, and other revenue including media sound services and representation services.

Subscription sales to our educational streaming services are primarily sold at the beginning of each school year as school budgets are appropriated and approved. The revenue derived from the subscription agreements is generally recognized ratably over the school year. Sponsored strategic partnership programs are recognized as the campaigns are delivered. Education also provides products that are sold throughout the school year.

In April 2009, we completed the transition of our commerce business to a licensing model by outsourcing the commerce direct-to-consumer operations including our commerce website, related marketing, product development and fulfillment to a third party. As a result, we now receive royalties on merchandise and wholesale payments for DVDs sold based upon a percentage of our licensees wholesale revenues, with an advance against future expected royalties. As part of our commerce business, we also have a domestic consumer products licensing business which licenses our brands in connection with merchandise, DVDs, sponsored strategic partnerships, videogames and publishing. E-commerce and catalog sales are highly seasonal with a majority of the sales occurring in the fourth quarter due to the holiday season. Licensing revenue may vary from period to period depending upon the popularity of the properties available for license and the popularity of licensed products in a particular period.

We have agreements to represent third parties for U.S. affiliate and advertising representation services. The fees for these services are recorded as the services are provided.

Operating Expenditures

Our principal operating costs consist of programming expense, personnel costs, sales and marketing expense, and general and administrative expenses. Content expense is our largest expense category, representing 28% of our 2009 consolidated operating expenses, as investment in maintaining high-quality editorial and production values is a key differentiator for our content. In connection with creating original content, we incur production costs associated with acquiring new show concepts and retaining creative talent, including actors, writers and producers. We incur sales and marketing expense to promote brand recognition and to secure quality distribution channels worldwide.

Regulatory Matters

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

Program Access

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

Effect of Must-Carry Requirements

The Cable Television Consumer Protection and Competition Act of 1992 imposed must-carry regulations on cable systems, requiring them to carry the signals of most local broadcast television stations. Direct broadcast satellite (DBS) systems are also subject to their own must-carry rules. FCC rules require cable systems to carry the digital signals of local television stations that have must-carry status and to carry the same signal in analog format unless all subscribers have the necessary equipment to view the digital broadcast signal. The FCC s implementation of these must-carry obligations requires cable and DBS operators to give broadcasters preferential access to channel space. This reduces the amount of channel space that is available for carriage of our networks by cable television systems and DBS operators.

Closed Captioning and Advertising Restrictions on Children s Programming

Certain of our networks must provide closed-captioning of programming for the hearing impaired, and our programming and Internet websites intended primarily for children 12 years of age and under must comply with certain limits on advertising.

Regulation of the Internet

We operate several Internet websites which we use to distribute information about and supplement our programs and to offer consumers the opportunity to purchase consumer products and services. Internet services are now subject to regulation in the U.S. relating to the privacy and security of personally identifiable user information and acquisition of personal information from children under 13, including the federal Child Online Protection Act (COPA) and the federal Controlling the Assault of Non-Solicited

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Pornography and Marketing Act (CAN-SPAM). In addition, a majority of states have enacted laws that impose data security and security breach obligations. Additional federal and state laws and regulations may be adopted with respect to the Internet or other online services, covering such issues as user privacy, child safety, data security, advertising, pricing, content, copyrights and trademarks, access by persons with disabilities, distribution, taxation and characteristics and quality of products and services. In addition, to the extent we offer products and services to online consumers outside the U.S., the laws and regulations of foreign jurisdictions, including, without limitation, consumer protection, privacy, advertising, data retention, intellectual property, and content limitations, may impose additional compliance obligations on us.

Competition

Cable and satellite network programming is a highly competitive business in the U.S. and worldwide. Our cable and satellite networks and websites generally compete for advertising revenue with other cable and broadcast television networks, online and mobile outlets, radio programming and print media. Our networks and websites also compete for their target audiences with all forms of programming and other media provided to viewers, including broadcast networks, local over-the-air television stations, competitors pay and basic cable television networks, pay-per-view and video-on-demand services, online activities and other forms of news, information and entertainment. Our networks also compete with other television networks for distribution and affiliate fees derived from distribution agreements with cable television operators, satellite operators and other distributors. Our commerce and education divisions also operate in highly competitive industries with our e-commerce and catalogue business competing with brick and mortar and online retailers and our education business competing with other providers of educational products to schools, including providers with long-standing relationships, such as Scholastic.

Employees

As of December 31, 2009, we had approximately 4,400 employees, including full-time and part-time employees of our wholly-owned subsidiaries and consolidated ventures. Approximately 3,200 of our employees were employed in the United States, with the remaining 1,200 employed outside the United States. Over 250 of CSS creative and technical personnel are subject to one of CSS collective bargaining agreements with the International Alliance of Theatrical Stage Employees. There are no active grievances, strikes or work stoppages and we believe our relations with our union and non-union employees are strong.

Intellectual Property

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

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

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

Financial Information about Segments and Geographic Areas

Financial information for segments and geographic areas in which we do business for the three years ended December 31, 2009 is set forth in Note 23 to our consolidated financial statements found in Item 8 of this Annual Report on Form 10-K.

Available Information

All of our filings with the U.S. Securities and Exchange Commission (the SEC), including reports on Form 10-K, Form 10-Q and Form 8-K, and all amendments to those filings are available on our Internet website as soon as reasonably practical after we electronically file such material with the SEC. Our corporate website address is www.discoverycommunications.com.

Our annual report, corporate governance guidelines, code of business conduct and ethics, audit committee charter, compensation committee charter, and nominating and corporate governance committee charter are available on our website. In addition, we will provide a printed copy of any of these documents, free of charge, upon written request or by calling Investor Relations, Discovery Communications, Inc., 850 Third Avenue, 5th Floor, New York, NY 10022-7225, Telephone Number (212) 548-5882.

The information contained on our website is not part of this Annual Report on Form 10-K and is not incorporated by reference herein.

ITEM 1A. Risk Factors.

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

Our business would be adversely affected if general economic conditions further weaken.

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

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

The production and distribution of pay television programs and other entertainment content are inherently risky businesses because the revenue we derive and our ability to distribute our content depend primarily on consumer tastes and preferences that often change in unpredictable ways. Our success depends on our ability to consistently create and acquire content and programming that meet the changing preferences of viewers in general, viewers in special interest groups, viewers in specific demographic categories and viewers in various overseas marketplaces. The commercial success of our programming and other content also depends upon the quality and acceptance of competing programs and other content available in the applicable marketplace at the same time. Other factors, including the availability of alternative forms of entertainment and leisure time activities, general economic conditions, piracy, digital and on-demand distribution and growing competition for consumer discretionary spending may also affect the audience for our content. Audience sizes for our media networks are critical factors affecting both (i) the volume and pricing of advertising revenue that we receive, and (ii) the extent of distribution and the license fees we receive under agreements with our distributors. Consequently, reduced public acceptance of our entertainment content may decrease our audience share and adversely affect all of our revenue streams.

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

Because our networks are licensed on a wholesale basis to distributors such as cable and satellite operators which in turn distribute them to consumers, we are dependent upon the maintenance of affiliation agreements with these operators. These affiliation agreements generally provide for the level of carriage our networks will receive, such as channel placement and programming package inclusion (widely distributed, broader programming packages compared to lesser distributed, specialized programming packages), and for payment of a license fee to us based on the numbers of subscribers that receive our networks. These per-subscriber payments represent a significant portion of our revenue. Our affiliation agreements generally have a limited term which varies from market to market and from distributor to distributor, and there can be no assurance that these affiliation agreements will be renewed in the future, or renewed on terms that are as favorable to us as those in effect today. A reduction in the license fees that we receive per subscriber or in the number of subscribers for which we are paid, including as a result of a loss or reduction in carriage for our networks, could adversely affect our distribution revenue. Such a loss or reduction in carriage could also decrease the potential audience for our programs thereby adversely affecting our advertising revenue.

Consolidation among cable and satellite operators has given the largest operators considerable leverage in their relationships with programmers, including us. The two largest U.S. cable television system operators provide service to approximately 39% of U.S. households receiving television programming from a multi-channel provider and the two largest satellite television operators provide service to an additional 32% of such households. In the U.S., over 90% of distribution revenues come from the top 10 distributors. We currently have agreements in place with the major U.S. cable and satellite operators which expire at various times beginning in 2010 through 2017. A failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on our results of operations and financial position. Our affiliation agreements are complex and individually negotiated. If we were to disagree with one of our counterparties on the interpretation of an affiliation agreement, our relationship with that counterparty could be damaged and our business could be negatively affected. In addition, many of the overseas markets in which we distribute our networks also have a small number of dominant distributors. Continued consolidation within the industry could further reduce the number of distributors available to carry our programming and increase the negotiating leverage of our distributors which could adversely affect our revenue.

We operate in increasingly competitive industries.

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

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

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

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

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Increased programming production and content costs may adversely affect our results of operations and financial condition.

One of our most significant areas of expense is the production and licensing of content. In connection with creating original content, we incur production costs associated with, among other things, acquiring new show concepts and retaining creative talent, including actors, writers and producers. We also incur higher production costs when filming in HD than standard definition. The costs of producing programming have generally increased in recent years. These costs may continue to increase in the future, which may adversely affect our results of operations and financial condition. We recently entered into a non-binding agreement to develop a dedicated 3-D television network. Costs associated with 3-D programming, both in production and in distribution, are expected to be significantly higher than those for both standard and HD television, which may adversely affect our results of operation and financial condition.

Disruption or failure of satellites and facilities, and disputes over supplier contracts on which we depend to distribute our programming, could adversely affect our business.

We depend on transponders on satellite systems to transmit our media networks to cable television operators and other distributors worldwide. The distribution facilities include uplinks, communications satellites and downlinks. We obtain satellite transponder capacity pursuant to long-term contracts and other arrangements with third-party vendors, which expire at various times through 2022. Even with back-up and redundant systems, transmissions may be disrupted as a result of local disasters or other conditions that may impair on-ground uplinks or downlinks, or as a result of an impairment of a satellite. Currently, there are a limited number of communications satellites available for the transmission of programming. If a disruption or failure occurs, we may not be able to secure alternate distribution facilities in a timely manner, which could have a material adverse effect on our business and results of operations.

We must respond to and capitalize on rapid changes in new technologies and distribution platforms, including their effect on consumer behavior, in order to remain competitive and exploit new opportunities.

Technology in the video, telecommunications and data services industry is changing rapidly. We must adapt to advances in technologies, distribution outlets and content transfer and storage to ensure that our content remains desirable and widely available to our audiences while protecting our intellectual property interests. We may not have the right, and may not be able to secure the right, to distribute some of our licensed content across these, or any other, new platforms and must adapt accordingly. The ability to anticipate and take advantage of new and future sources of revenue from these technological developments will affect our ability to expand our business and increase revenue.

Similarly, we also must adapt to changing consumer behavior driven by technological advances such as video-on-demand and a desire for more user-generated and interactive content. Devices that allow consumers to view our entertainment content from remote locations or on a time-delayed basis and technologies which enable users to fast-forward or skip advertisements may cause changes in audience behavior that could affect the attractiveness of our offerings to advertisers and could therefore adversely affect our revenue. If we cannot ensure that our content is responsive to the viewing preferences of our target audiences and capitalize on technological advances, there could be a negative effect on our business.

We continue to develop new products and services for evolving markets. There can be no assurance of the success of these efforts due to a number of factors, some of which are beyond our control.

There are substantial uncertainties associated with our efforts to develop new products and services for evolving markets, and substantial investments may be required. Initial timetables for the introduction and development of new products and services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as the development of competitive alternatives, rapid technological change, regulatory changes and shifting market preferences, may cause new markets to move in unanticipated directions.

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

Our networks are offered worldwide. Inherent economic risks of doing business in international markets include, among other things, longer payment cycles, foreign taxation and currency exchange risk. As we continue to expand the provision of our products and services to overseas markets, we cannot assure you whether these risks and uncertainties will harm our results of operations.

Our international operations may also be adversely affected by export and import restrictions, other trade barriers and acts of disruptions of services or loss of property or equipment that are critical to overseas businesses due to expropriation, nationalization, war, insurrection, terrorism or general social or political unrest or other hostilities.

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

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

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

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

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

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

Substantial leverage and debt service obligations may adversely affect us.

As of December 31, 2009, we had approximately $3.4 billion of consolidated debt, excluding capital leases. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal of, interest on, or other amounts due with respect to our indebtedness. In addition, we have the ability to draw down our revolving credit facility in the ordinary course, which has the effect of increasing our indebtedness. We are also permitted, subject to certain restrictions under our existing indebtedness, to obtain additional long-term debt and working capital lines of credit to meet future financing needs. This would have the effect of increasing our total leverage.

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

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

- increasing our vulnerability to general adverse economic and market conditions;

- limiting our ability to obtain additional debt or equity financing;

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

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

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

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

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Restrictive covenants in the loan agreements for our revolving credit facility and term loans, and the note purchase agreements governing our private placement notes, could adversely affect our business by limiting flexibility.

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

In addition, reporting and information covenants in our loan agreements and note purchase agreements require that we provide financial and operating information within certain time periods. If we are unable to timely provide the required information, we would be in breach of these covenants.

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

Our ability to meet our financial obligations and other contractual commitments will depend upon our ability to access cash. We are a holding company, and our sources of cash include our available cash balances, net cash from the operating activities of our subsidiaries, any dividends and interest we may receive from our investments, availability under any credit facilities that we may obtain in the future and proceeds from any asset sales we may undertake in the future. The ability of our operating subsidiaries, including Discovery Communications, LLC, to pay dividends or to make other payments or advances to us will depend on their individual operating results and any statutory, regulatory or contractual restrictions, including restrictions in our credit facility, to which they may be or may become subject.

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

Our eleven-person board of directors includes three persons who are currently members of the board of directors of Liberty Media Corporation (Liberty), including John C. Malone, the Chairman of the board of Liberty, three persons who are currently members of the board of directors of Liberty Global, Inc. (Liberty Global), also including Mr. Malone, who is Chairman of the board of Liberty Global, and three designees of Advance/Newhouse, including Robert J. Miron, the Chairman of Advance/Newhouse, and Steven A. Miron, the Chief Executive Officer of Advance/Newhouse. Both Liberty and the parent company of Advance/Newhouse own interests in a range of media, communications and entertainment businesses. Liberty does not own any interest in us. Mr. Malone beneficially owns stock of Liberty representing approximately 35% of the aggregate voting power of its outstanding stock, owns shares representing approximately 40% of the aggregate voting power of Liberty Global and owns shares representing approximately 23% of the aggregate voting power (other than with respect to the election of the common stock directors) of our outstanding stock. Mr. Malone controls approximately 32% of our aggregate voting power relating to the election of the eight common stock directors, assuming that the preferred stock awarded by Advance/Newhouse has not been converted into shares of our common stock. Those of our directors who are also directors of Liberty or Liberty Global own Liberty or Liberty Global stock and stock incentives and own our stock and stock incentives. Advance/Newhouse will elect three directors annually for so long as it owns a specified minimum amount of our Series A convertible preferred stock, and two of its directors are Chairman, Robert J. Miron, and its Chief Executive Officer, Steven A. Miron. The Advance/Newhouse Series A convertible preferred stock, which votes with our common stock on all matters other than the election of directors, represents approximately 26% of the voting power of our outstanding shares. The Series A convertible preferred stock also grants Advance/Newhouse consent rights over a range of our corporate actions, including fundamental changes to our business, the issuance of additional capital stock, mergers and business combinations and certain acquisitions and dispositions. These ownership interests and/or business positions could create, or appear to create, potential conflicts of interest when these individuals are faced with decisions that could have different implications for us, Liberty, Liberty Global, and/or Advance/Newhouse. For example, there may be the potential for a conflict of interest when we, on the one hand, or Liberty, Liberty Global, and/or Advance/Newhouse, on the other hand, look at acquisitions and other corporate opportunities that may be suitable for the other.

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

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We may compete with Liberty for business opportunities.

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

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

Our Founder, John S. Hendricks, manages his non-Discovery, personal business investments through Hendricks Investment Holdings LLC (HIH), a Delaware limited liability company of which he is the sole owner and member. HIH owns a travel club and travel-related properties including a resort in Gateway, Colorado with plans to create a learning academy for guests that includes online and advanced media offerings in the area of informal and lifelong learning. Certain video productions and offerings of this academy may compete with our educational media offerings. We and the academy may enter into a business arrangement for the offering of our video products for sale by the academy and/or for the joint-production of new educational media products or co-production agreements for programming to be aired on our networks, such as the *Curiosity* series.

Through HIH, Mr. Hendricks owns a number of business interests in the automotive field, some of which are involved in programming offered by us, in particular the Turbo programming series.

From time to time, HIH or its subsidiaries may enter into transactions with us or our subsidiaries. Although the terms of any such transactions or agreements will be established based upon negotiations between employees of the companies involved, there can be no assurance that the terms of any such transactions will be as favorable to us or our subsidiaries as would be the case where the parties are at arms length.

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

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

- authorizing a capital structure with multiple series of common stock: a Series B that entitles the holders to ten votes per share, a Series A that entitles the holders to one vote per share and a Series C that, except as otherwise required by applicable law, entitles the holders to no voting rights;
- authorizing the Series A convertible preferred stock with special voting rights, which prohibits us from taking any of the following actions, among others, without the prior approval of the holders of a majority of the outstanding shares of such stock:
  - increasing the number of members of the Board of Directors above 11;
  - making any material amendment to our charter or bylaws;
  - engaging in a merger, consolidation or other business combination with any other entity;

appointing or removing our Chairman of the Board or our CEO;

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

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- classifying our common stock directors with staggered three year terms and having three directors elected by the holders of the Series A convertible preferred stock, which may lengthen the time required to gain control of our board of directors;
- limiting who may call special meetings of stockholders;
- prohibiting stockholder action by written consent (subject to certain exceptions), thereby requiring stockholder action to be taken at a meeting of the stockholders;
- establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- requiring stockholder approval by holders of at least 80% of our voting power or the approval by at least 75% of our board of directors with respect to certain extraordinary matters, such as a merger or consolidation, a sale of all or substantially all of our assets or an amendment to our charter;
- requiring the consent of the holders of at least 75% of the outstanding Series B common stock (voting as a separate class) to certain share distributions and other corporate actions in which the voting power of the Series B common stock would be diluted by, for example, issuing shares having multiple votes per share as a dividend to holders of Series A common stock; and
- the existence of authorized and unissued stock which would allow our board of directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us.

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

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

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

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The exercise by Advance/Newhouse of its registration rights could adversely affect the market price of our common stock.

As part of the Newhouse Transaction, Advance/Newhouse has been granted registration rights covering all of the shares of common stock issuable upon conversion of the convertible preferred stock issued to Advance/Newhouse in the Newhouse Transaction. Advance/Newhouse s preferred stock is convertible into a number of shares equal to one-half of the number of shares of common stock that were issued to former DHC stockholders in the merger, subject to anti-dilution adjustments. The registration rights, which are immediately exercisable, are transferrable with the sale or transfer by Advance/Newhouse of blocks of shares representing 10% or more of the preferred stock it received in the Newhouse Transaction. The exercise of the registration rights, and subsequent sale of possibly large amounts of our common stock in the public market, could materially and adversely affect the market price of our common stock.

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

John C. Malone and Advance/Newhouse beneficially own shares of our stock representing approximately 23% and 26%, respectively, of the aggregate voting power represented by our outstanding stock (other than voting power relating to the election of directors). With respect to the election of directors, Mr. Malone is expected to control approximately 32% of the aggregate voting power relating to the election of the eight common stock directors (assuming that the convertible preferred stock owned by Advance/Newhouse (the A/N Preferred Stock) has not been converted into shares of our common stock). The A/N Preferred Stock carries with it the right to designate the three preferred stock directors to our board (subject to certain conditions), but will not vote with respect to the election of the eight common stock directors. Also, under the terms of the A/N Preferred Stock, Advance/Newhouse has special voting rights with respect to certain enumerated matters, including material amendments to the restated charter and bylaws, fundamental changes in our business, mergers and other business combinations, certain acquisitions and dispositions and future issuances of capital stock. Although there is no stockholder agreement, voting agreement or any similar arrangement between Mr. Malone and Advance/Newhouse, by virtue of their respective holdings, each of Mr. Malone and Advance/Newhouse likely will have significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders.

ITEM 1B. Unresolved Staff Comments.

None.

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ITEM 2. Properties.

We own and lease over 1.5 million square feet of building space at more than 40 locations throughout the world, which are utilized in the conduct of our businesses. In the U.S. alone, we own and lease approximately 597,000 and 850,000 square feet of building space, respectively, at 21 locations. Principal locations in the U.S. include: (i) our world headquarters located at One Discovery Place, Silver Spring, Maryland, where approximately 543,000 square feet is used for executive offices and general office space by our U.S. Networks, International Networks, and Commerce, Education, and Other segments, (ii) general office space at 850 Third Avenue, New York, New York, where approximately 132,000 square feet is primarily used for sales by our U.S. Networks operating segment, (iii) general office space and a production and post production facility located at 8045 Kennett Street, Silver Spring, Maryland, where approximately 145,000 square feet is primarily used by our U.S. Networks operating segment, (iv) general office space and a production and post production facility at 1619 Broadway, New York, New York, where approximately 85,000 square is used by our Commerce, Education, and Other operating segment, (v) general office space located at 10100 Santa Monica Boulevard, Los Angeles, California, where approximately 55,000 square feet is primarily used for sales by our U.S. Networks operating segment, (vi) general office space at 6505 Blue Lagoon Drive, Miami, Florida, where approximately 91,000 square feet is primarily used by our International Networks Operating Segment, and (vii) an origination facility at 45580 Terminal Drive, Sterling, Virginia, where approximately 53,000 square feet of space is used to manage the distribution of domestic network television programming by our U.S. Networks operating segment.

We also own and lease over 250,000 square feet of building space at more than 20 locations outside of the U.S. Principal locations outside the U.S. include the U.K., Germany and Singapore.

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

ITEM 3. Legal Proceedings.

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

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

Executive Officers of Discovery Communications, Inc.

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

The following table sets forth the name and date of birth of each of our executive officers and the office held by such officer as of February 11, 2010.

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Name	Position
John S. Hendricks Born March 29, 1952	Chairman and a common stock director. Mr. Hendricks is our Founder and has served as Chairman of Discovery since September 1982. Mr. Hendricks served as our Chief Executive Officer from September 1982 to June 2004; and our Interim Chief Executive Officer from December 2006 to January 2007. Mr. Hendricks continues to provide leadership vision for our major content initiatives that reinforce and enhance brand and value, have long shelf life, and have global appeal.
David M. Zaslav Born January 15, 1960	President, Chief Executive Officer and a common stock director. Mr. Zaslav has served as our President and Chief Executive Officer since January 2007. Mr. Zaslav served as President, Cable & Domestic Television and New Media Distribution of NBC Universal, Inc., a media and entertainment company (NBC), from May 2006 to December 2006. Mr. Zaslav served as Executive Vice President of NBC, and President of NBC Cable, a division of NBC, from October 1999 to May 2006. Mr. Zaslav is a director of TiVo Inc.
Bradley E. Singer Born July 11, 1966	Senior Executive Vice President, Chief Financial Officer and Treasurer. Mr. Singer has served as our Senior Executive Vice President, Chief Financial Officer since July 2008. Mr. Singer served as Chief Financial Officer and Treasurer of American Tower Corporation, a wireless and broadcast communications infrastructure company, from December 2001 to June 2008.
Peter Ligouri Born July 6, 1960	Senior Executive Vice President, Chief Operating Officer. Mr. Ligouri joined the Company as Senior Executive Vice President, Chief Operating Officer in January 2010. From March 2009 to December 2009, Mr. Ligouri was a consultant to Comcast Corp. Prior to that, Mr. Ligouri served as Chairman, Entertainment for Fox Broadcasting Company from July 2007 until March 2009 and had served as President, Entertainment for Fox since 2005. Prior to that, Mr. Ligouri served as the President and Chief Executive Officer of FX Networks from 1998 until 2005.
Mark G. Hollinger Born August 26, 1959	President and Chief Executive Officer of Discovery Networks International. Mr. Hollinger became President and CEO of Discovery Networks International in December 2009. Prior to that, Mr. Hollinger served as our Chief Operating Officer and Senior Executive Vice President, Corporate Operations from January 2008 through December 2009; and as our Senior Executive Vice President, Corporate Operations from January 2003 through December 2009. Mr. Hollinger served as our General Counsel from 1996 to January 2008, and as President of our Global Businesses and Operations from February 2007 to January 2008.
Joseph A. LaSala, Jr. Born November 5, 1954	Senior Executive Vice President, General Counsel and Secretary. Mr. LaSala has served as our Senior Executive Vice President, General Counsel and Secretary since January 2008. Mr. LaSala served as Senior Vice President, General Counsel and Secretary for Novell, Inc., a provider of enterprise software and related services, from January 2003 to January 2008.
Adria Alpert-Romm Born March 2, 1955	Senior Executive Vice President, Human Resources. Ms. Romm has served as our Senior Executive Vice President of Human Resources since March 2007. Ms. Romm served as Senior Vice President of Human Resources of NBC from 2004 to 2007. Prior to 2004, Ms. Romm served as a Vice President in Human Resources for the NBC TV network and NBC staff functions.
Bruce L. Campbell Born November 26, 1967	President, Digital Media & Corporate Development. Mr. Campbell has served as our President of Digital Media & Corporate Development since March 2007. Mr. Campbell served as Executive Vice President, Business Development of NBC from December 2005 to March 2007, and Senior Vice President, Business Development of NBC from January 2003 to November 2005.
Thomas R. Colan Born July 21, 1955	Executive Vice President, Chief Accounting Officer. Mr. Colan has served as our Executive Vice President, Chief Accounting Officer since March 2008. Mr. Colan served as Senior Vice President Controller and Treasurer at America Online/Time Warner from September 2001 to March 2008.

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PART II

ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

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

	Series A Common Stock		Series B Common Stock		Series C Common Stock	
	High	Low	High	Low	High	Low
2009						
Fourth quarter	$ 32.69	$ 26.64	$ 33.99	$ 27.00	$ 28.48	$ 23.33
Third quarter	$ 29.85	$ 21.42	$ 30.44	$ 20.10	$ 26.75	$ 19.54
Second quarter	$ 24.08	$ 16.00	$ 25.09	$ 14.37	$ 21.95	$ 14.41
First quarter	$ 17.29	$ 12.46	$ 18.19	$ 10.11	$ 15.68	$ 12.03
2008						
Fourth quarter	$ 15.29	$ 10.02	$ 20.89	$ 9.50	$ 15.25	$ 8.50
September 18, 2008 through September 30, 2008	$ 22.75	$ 13.59	$ 31.30	$ 18.96	$ 20.00	$ 12.80

Holders

As of February 11, 2010, there were approximately 2,325, 109, and 2,427 record holders of our Series A, Series B, and Series C common stock, respectively (which amounts do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each institution as one shareholder).

Dividends

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

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Stock Performance Graph

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

	September 18, 2008	December 31, 2008	December 31, 2009
DISCA	$ 100.00	$ 102.53	$ 222.09
DISCB	$ 100.00	$ 78.53	$ 162.82
DISCK	$ 100.00	$ 83.69	$ 165.75
S&P 500	$ 100.00	$ 74.86	$ 92.42
Peer Group	$ 100.00	$ 68.79	$ 100.70

ITEM 6. Selected Financial Data.

The table set forth below presents our selected financial information for each of the past five years. The selected statement of operations information for each of the three years during the period ended December 31, 2009 and the selected balance sheet information as of December 31, 2009 and 2008 have been derived from and should be read in conjunction with the audited consolidated financial statements and other financial information included elsewhere in this Annual Report on Form 10-K. The selected statement of operations information for the years ended December 31, 2006 and 2005 and the selected balance sheet information as of December 31, 2007, 2006 and 2005 have been derived from audited consolidated financial statements not included in the Annual Report on Form 10-K.

The selected financial information set forth below reflects the Newhouse Transaction, including the spin-off of Ascent Media Corporation (AMC), as though it was consummated on January 1, 2008. Accordingly, the selected financial information includes the results of operations and financial

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position of both DHC and DCH since January 1, 2008. The selected financial information for years prior to 2008 reflect only the results of operations and financial position of DHC, as our predecessor. Prior to the Newhouse Transaction, DHC accounted for its ownership interest in DCH using the equity method. Because the Newhouse Transaction is presented as of January 1, 2008, the selected financial information for years prior to 2008 include DCH s results of operations as a component of *Equity in earnings of Discovery Communications Holding, LLC*. Information regarding the Newhouse Transaction and DHC s investment in DCH prior to Newhouse Transaction is disclosed in Note 1 and Note 3, respectively, to the audited consolidated financial statements included in this Annual Report on Form 10-K. The selected financial information also reflects certain reclassifications of each company s financial information to conform to the combined Company s financial statement presentation, as follows:

The consolidated financial statements for 2008 have been adjusted to eliminate the separate presentation of DHC s investment in DCH and the portion of DCH s earnings recorded by DHC using the equity method during the period January 1, 2008 through September 17, 2008.

Advance/Newhouse s interest in DCH s earnings for the period January 1, 2008 through September 17, 2008 has been recorded as a component of *Net income attributable to non-controlling interests* in the Consolidated Statements of Operations.

All DHC share and per share data have been adjusted for all periods presented to reflect the exchange into our shares.

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	Years Ended December 31,				
	2009 (1)(2)(3)	2008 (1)	2007	2006	2005
	(in millions, except per share amounts)				
Selected Statement of Operations Information:					
Revenues	$ 3,516	$ 3,443	$ 76	$ 80	$ 82
Costs of revenues, excluding depreciation and amortization	1,065	1,024	60	63	64
Restructuring and impairment charges	66	61		2	
Gains on dispositions	(252)		(1)		
Operating income (loss)	1,235	1,057	(8)	(11)	(8)
Equity in earnings of Discovery Communications Holding, LLC			142	104	80
Equity in earnings (loss) of unconsolidated affiliates	8	(61)			
Income from continuing operations, net of taxes	559	402	86	52	25
Income (loss) from discontinued operations, net of taxes		43	(154)	(98)	8
Net income (loss)	559	445	(68)	(46)	33
Less net loss (income) attributable to non-controlling interests	1	(128)			
Net income (loss) attributable to Discovery Communications, Inc.	560	317	(68)	(46)	33
Stock dividends to preferred interests (3)	(8)				
Net income (loss) available to Discovery Communications, Inc. stockholders	552	317	(68)	(46)	33
Income per share from continuing operations available to Discovery Communications, Inc. stockholders:					
Basic	$ 1.30	$ 0.85	$ 0.31	$ 0.19	$ 0.09
Diluted	$ 1.30	$ 0.85	$ 0.31	$ 0.19	$ 0.09
Income (loss) per share from discontinued operations available to Discovery Communications, Inc. stockholders:					
Basic	$	$ 0.13	$ (0.55)	$ (0.35)	$ 0.03
Diluted	$	$ 0.13	$ (0.55)	$ (0.35)	$ 0.03
Net income (loss) per share available to Discovery Communications, Inc. stockholders:					
Basic	$ 1.30	$ 0.99	$ (0.24)	$ (0.16)	$ 0.12
Diluted	$ 1.30	$ 0.98	$ (0.24)	$ (0.16)	$ 0.12
Weighted average number of shares outstanding:					
Basic	423	321	281	280	280
Diluted	425	322	281	280	280
Selected Balance Sheet Information:					
Cash and cash equivalents	$ 623	$ 100	$ 8	$	$ 1
Investment in Discovery Communications Holding, LLC			3,272	3,129	3,019
Goodwill	6,433	6,891	1,782	1,782	1,782
Intangible assets, net	643	716	1	592	592
Total assets	10,965	10,484	5,866	5,871	5,819
Long-term debt:					
Current portion	38	458			
Long-term portion	3,457	3,331			
Total liabilities	4,697	4,874	1,371	1,322	1,244
Redeemable non-controlling interests in subsidiaries	49	49			
Equity attributable to Discovery Communications, Inc.	6,208	5,536	4,495	4,549	4,575
Equity attributable to non-controlling interests	11	25			
Total equity	6,219	5,561	4,495	4,549	4,575

(1) During fiscal 2008, the Company concluded the spin-off of AMC and as a result reports AMC as discontinued operations for all periods presented. See Note 5 in the accompanying consolidated financial statements for further discussion. In addition, the Discovery Kids network was deconsolidated in May 22, 2009 but the financial position, results of operations, and cash flows of Discovery Kids recorded through May 21, 2009 was not presented as discontinued operations. See Note 4 of the accompanying consolidated financial statements for further discussion.

(2) The fiscal 2009 results include a non-cash gain related to the formation of the Hasbro-Discovery Joint Venture. See Note 4 in the accompanying consolidated financial statements for further discussion.

(3) During fiscal 2009, the Company recognized approximately $8 million of non-cash stock dividends for the release of shares of preferred stock from escrow. Additional information regarding dividends is set forth in Note 13 in the accompanying consolidated financial statements.

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

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

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, financial prospects, and anticipated sources and uses of capital. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated: continued deterioration in the macroeconomic environment; the inability of advertisers or affiliates to remit payment to us in a timely manner or at all; general economic and business conditions and industry trends including the timing of, and spending on, feature film, television and television commercial production; spending on domestic and foreign television advertising and spending on domestic 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; 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 and Internet protocol television 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 FCC, and adverse outcomes from regulatory proceedings; changes in the nature of key strategic relationships with partners and joint venturers; 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 1A. Risk Factors. These forward-looking statements and such risks, uncertainties, and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

BUSINESS OVERVIEW

We are a leading global media and entertainment company that provides original and purchased programming across multiple distribution platforms in the U.S. and over 170 other countries, including over 100 television networks offering customized programming in 38 languages. Our strategy is to optimize the distribution, ratings and profit potential of each of our branded channels. Additionally, we own and operate a diversified portfolio of website properties and other digital services and develop and sell consumer and educational products as well as media sound services in the U.S. and internationally.

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.

In addition to growing distribution and advertising revenue for our branded channels, we are focused on extending content distribution across new distribution platforms, including brand-aligned web properties, mobile devices, video-on-demand and broadband channels, which provide promotional platforms for our television programming and serve as additional outlets for advertising and affiliate sales. We also operate websites including HowStuffWorks.com, Petfinder.com and Treehugger.com that provide supplemental news, information and entertainment aligned with our television programming.

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We were formed in connection with Discovery Holding Company (DHC) and Advance/Newhouse Programming Partnership (Advance/Newhouse) combining their respective ownership interests in Discovery Communications Holding, LLC (DCH) and exchanging those interests with and into Discovery, which was consummated on September 17, 2008 (the Newhouse Transaction). Prior to the Newhouse Transaction, DCH was a stand-alone private company, which was owned approximately 66 $^{2}/_{3}$% by DHC and 33 $^{1}/_{3}$% by Advance/Newhouse. The Newhouse Transaction was completed as follows:

- On September 17, 2008, DHC completed the spin-off to its shareholders of Ascent Media Corporation (AMC), a subsidiary holding the cash and businesses of DHC except for certain businesses that provide sound, music, mixing, sound effects, and other related services (the AMC spin-off). Such businesses remain with us following the completion of the Newhouse Transaction.

- On September 17, 2008, immediately following the AMC spin-off, DHC merged with a transitory merger subsidiary of Discovery, with DHC s existing shareholders receiving common stock of Discovery; and

- On September 17, 2008, immediately following the exchange of shares between Discovery and DHC, Advance/Newhouse contributed its interests in DCH and Animal Planet to Discovery in exchange for shares of Discovery s Series A and Series C convertible preferred stock that are convertible at any time into our common stock, which at the transaction date represented one-third of the outstanding shares of our common stock.

As a result of the Newhouse Transaction, DHC and DCH became wholly-owned subsidiaries of Discovery, with Discovery becoming the successor reporting entity to DHC under the Securities Exchange Act of 1934, as amended (the Exchange Act). Pursuant to guidance from the Financial Accounting Standards Board (FASB) on issues relating to accounting for business combinations, for accounting purposes the Newhouse Transaction was treated as a non-substantive merger, and therefore, the Newhouse Transaction was recorded at the investors historical bases. Refer to Note 1 to the accompanying consolidated financial statements for further description of the Newhouse Transaction.

We manage and report our operations in three segments: U.S. Networks; International Networks; and Commerce, Education, and Other.

U.S. Networks

U.S. Networks is our largest segment, which owns and operates 11 cable and satellite channels primarily throughout the U.S. including Discovery Channel, TLC, and Animal Planet, as well as a portfolio of website properties and other digital services. The segment s channels are wholly-owned except for Discovery Kids, which is operated through a 50-50 joint venture between us and Hasbro, Inc. Currently, we own and operate the Discovery Health Channel. However, pursuant to our joint venture arrangement with Harpo, Inc. for the Oprah Winfrey Network (OWN), we will contribute our interest in the Discovery Health Channel to OWN, which is expected to occur in 2011.

U.S. Networks derives revenues primarily from distribution fees and advertising sales, which comprised 46% and 51%, respectively, of revenues for this segment for the year ended December 31, 2009. During the year ended December 31, 2009, Discovery Channel, TLC, and Animal Planet collectively generated 77% of U.S. Networks total revenues. U.S. Networks earns distribution fees under multi-year affiliation agreements with cable operators, DTH satellite operators, and other distributors of television programming. Distribution fees are based on the number of subscribers receiving our programming. Upon the launch of a new channel, we may initially pay distributors to carry such channel (such payments are referred to as launch incentives), or may provide the channel to the distributor for free for a predetermined length of time. Launch incentives are amortized on a straight-line basis as a reduction of revenues over the term of the affiliation agreement. U.S. Networks generates advertising revenues by selling commercial time on our networks and websites. 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 are key drivers of advertising revenue.

U.S. Networks largest single cost is the cost of programming, including production costs for original programming. U.S. Networks amortizes the cost of original or purchased programming based on the expected realization of revenue, resulting in an accelerated amortization method for Discovery Channel, TLC, and Animal Planet content and straight-line amortization method over a maximum of four years for the remaining networks.

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International Networks

International Networks manages a portfolio of channels, led by the Discovery Channel and Animal Planet brands that are distributed in virtually every pay-television market in the world through an infrastructure that includes major operational centers in London, Singapore, and Miami. International Networks regional operations cover most major markets and are organized into four locally-managed regional operations: the United Kingdom (U.K.); Europe (excluding the U.K.), Middle East and Africa (EMEA); Asia-Pacific; and Latin America. International Networks currently operates over 100 unique distribution feeds in 38 languages with channel feeds customized according to language needs and advertising sales opportunities. Most of the segment s channels are wholly-owned with the exception of the international Animal Planet channels, which are generally joint ventures in which the British Broadcasting Corporation (BBC) owns 50%, People+Arts, which operates in Latin America and Iberia as a 50-50 joint venture with the BBC, and several channels in Japan and Canada, which operate as joint ventures with strategically important local partners.

Similar to our U.S. Networks segment, the primary sources of revenues for International Networks are distribution fees and advertising sales, and the primary cost is programming. International Networks executes a localization strategy by offering shared programming with U.S. Networks, customized content, and localized schedules via our distribution feeds. For the year ended December 31, 2009, distribution revenues represented approximately 61% of the segment s operating revenues.

Advertising sales are increasingly important to the segment s financial success, representing 29% of the segment s total revenues for the year ended December 31, 2009. 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.

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 the U.K., 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.

Commerce, Education, and Other

Our commerce business engages with licensees, manufacturers, publishers and retailers to design, develop, publish, promote and sell a wide variety of products based on our intellectual property. We primarily engage in catalog sales and online distribution of products through DiscoveryStore.com. In April 2009, we completed the transition of our commerce business to a licensing model by outsourcing the commerce direct-to-consumer operations including our commerce website, related marketing, product development and fulfillment to a third party in exchange for royalties. The new structure for our commerce business enables us to continue offering high quality DVD programming as well as many merchandise categories leveraging both licensed and make and sell products. We expect a reduction in our year over year top-line revenue contribution, as well as a reduction in direct operating expenses through the first fiscal quarter of 2010.

Our education business is focused on our domestic and international direct-to-school K-12 online streaming distribution subscription services, as well as our professional development services for teachers, benchmark student assessment services, and publishing hardcopy content through a network of distribution channels including online, catalog and dealers. Our education business also participates in a growing sponsorship, global brand, and content licensing business with leading non-profits, foundations, trade associations, and Fortune 500 companies.

Other businesses primarily include sound, music, mixing sound effects, and other related services to major motion picture studios, independent producers, broadcast networks, cable channels, advertising agencies, and interactive producers.

Recent Developments

Accounting for Variable Interest Entities

Effective January 1, 2010, we adopted the Financial Accounting Standards Board s (FASB) statement amending the accounting for interests in a variable interest entity (VIE). Pursuant to the adoption of this statement, beginning January 1, 2010 we will no longer consolidate the Oprah Winfrey Network (OWN) and Animal Planet Japan (APJ) joint ventures and will account for our interest in these entities under the equity method of accounting. However, we continued to consolidate OWN and APJ through December 31, 2009. Accordingly, for the periods in which we were required to consolidate OWN and APJ under the existing accounting standards, the financial information in this Annual Report on Form 10-K includes the financial position and operating results of these entities. Beginning in 2010, we will apply the provisions of the new statement retrospectively to financial information for all periods presented.

In accordance with the existing accounting guidance that required us to consolidate OWN, half of the operating losses generated during 2009 by OWN were allocated to Harpo, Inc. (Harpo), our joint venture partner, as a component of *Loss (income) attributable to non-controlling interests*. In connection with the change in our method of accounting for our interest in OWN from consolidation to the equity method, because of our obligation to fund OWN s operations up to $100 million we will absorb all of the joint venture s losses up to our funding commitment. Similarly, upon adoption we will record $17 million of OWN s 2009 operating losses that were previously allocated to Harpo as a component of *Other non-operating income (expense), net*.

Reportable Segments

Effective January 1, 2010, we realigned the Discovery Commerce business from the Commerce, Education, and Other reporting segment into the U.S. Networks reporting segment. In connection with this realignment, we changed the name of our Commerce, Education, and Other reporting segment to Education and Other. The financial information in this Annual Report on Form 10-K has not been recast to reflect the realignment. Accordingly, the results of operations for the Discovery Commerce business are included in the financial results for the Commerce, Education, and Other segment. Beginning in 2010, we will include the Discovery Commerce business in the financial results for the U.S. Networks segment and will recast prior period results to conform to the new presentation.

Hasbro-Discovery Joint Venture

On May 22, 2009, we formed a 50-50 joint venture with Hasbro, Inc. (Hasbro) that will operate a television network and website dedicated to high-quality children s and family entertainment and educational programming. In connection with the arrangement, Discovery contributed the U.S. Discovery Kids Network (Discovery Kids) to the joint venture. Additionally, Hasbro acquired a 50% ownership interest in the joint venture for a cash payment of $300 million and a tax receivables agreement collectible over 20 years valued at $57 million, which resulted in a total gain of $252 million. The rebranded network is scheduled to premiere in late 2010. Additional information regarding the joint venture is disclosed in Note 4 to the accompanying consolidated financial statements.

RESULTS OF OPERATIONS

Items Impacting Comparability

Beginning May 22, 2009, we ceased to consolidate the operating results of Discovery Kids. However, as we continue to be involved in the operations of the joint venture, we have not presented the financial position, results of operations, and cash flows of Discovery Kids recorded through May 21, 2009 as discontinued operations. Our interest in the joint venture is accounted for using the equity method of accounting. Accordingly, our consolidated results of operations and our U.S. Networks segment include the operating results of Discovery Kids through May 21, 2009, whereas for subsequent periods we record only our proportionate share of the joint venture s net operating results. The following table presents total revenues and operating expenses recognized by Discovery for Discovery Kids prior to deconsolidation (in millions).

	January 1, 2009 through May 21, 2009	Year Ended December 31, 2008
Revenues	$ 19	$ 42
Operating costs and expenses	$ 7	$ 24

Our results of operations were also impacted by the effects of consolidating OWN, beginning in July 2008, and to a lesser extent the change in our commerce business model to a licensing model in April 2009. For the years ended December 31, 2009 and 2008, OWN incurred operating expenses of $26 million and $6 million, respectively.

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Results of Operations 2009 vs. 2008

The following table presents our consolidated results of operation for the years ended December 31, 2009 and 2008 (in millions):

	Years Ended December 31,		% Change
	2009	2008	Favorable/ (Unfavorable)
Revenues:			
Distribution	$ 1,713	$ 1,640	4%
Advertising	1,428	1,396	2%
Other	375	407	(8)%
Total revenues	3,516	3,443	2%
Costs of revenues, excluding depreciation and amortization listed below	1,065	1,024	(4)%
Selling, general and administrative	1,247	1,115	(12)%
Depreciation and amortization	155	186	17%
Restructuring and impairment charges	66	61	(8)%
Gains on disposition	(252)		
	2,281	2,386	4%
Operating income	1,235	1,057	17%
Interest expense, net	(250)	(256)	2%
Other non-operating income (expense), net	46	(47)	NM
Income from continuing operations before income taxes	1,031	754	37%
Provision for income taxes	(472)	(352)	(34)%
Income from continuing operations, net of taxes	559	402	39%
Income from discontinued operations, net of taxes		43	(100)%
Net income	559	445	26%
Less net loss (income) attributable to non-controlling interests	1	(128)	NM
Net income attributable to Discovery Communications, Inc.	560	317	77%
Stock dividends to preferred interests	(8)		
Net income available to Discovery Communications, Inc. stockholders	$ 552	$ 317	74%

NM = not meaningful.

Revenues

Distribution revenues increased $73 million for 2009 as compared to distribution revenues for 2008 due primarily to contractual rate increases, subscriber growth, and a reduction in amortization for launch incentives at our U.S. Networks segment and subscriber growth at our International Networks segment. These increases were partially offset by the deconsolidation of Discovery Kids in May 2009, which resulted in a decline of $20 million, and the absence of a one-time revenue correction recorded in 2008 that increased revenues $8 million. Distribution revenues were also adversely affected by unfavorable impacts of foreign currency exchange rates of $37 million for the year ended

December 31, 2009. Excluding the unfavorable impacts of foreign currency exchange rates, the deconsolidation of Discovery Kids, and the one-time revenue correction in 2008, distribution revenues increased 9% or $138 million.

Advertising revenues for 2009 increased $32 million over advertising revenues for 2008. The increase in advertising revenues was principally due to higher ratings and overall price increases at our U.S. Networks segment and increased viewership and subscriber growth at our International Networks segment. Advertising revenues in 2009 also benefited from a $6 million settlement of a prior contract dispute at our U.K. operations. The increases were partially offset by unfavorable impacts of foreign currency exchange rates of $26 million for the year ended December 31, 2009. Excluding the unfavorable impacts of foreign currency exchange rates and the contract dispute settlement, advertising revenues grew 4% or $52 million.

Other revenues, which primarily consist of sales of educational services and content, distribution and advertising sales services, license fees, DVDs, merchandise, and sound and music services, decreased $32 million for 2009 as compared with 2008. The decline is attributable to decreasing merchandise sales as a result of changing our business model from direct-to-consumer to a licensing model where we receive royalties, lower sales of hard copy educational content as purchasers migrate to online distribution, a decline in sales of the *Planet Earth* DVD series, and a $6 million unfavorable impact from foreign currency exchange rates. These decreases were partially offset by an increase in online streaming distribution revenues from our education business and $6 million recorded in 2009 in connection with renegotiating our agreements to provide programming to a joint venture. We expect a reduction in our year over year commerce revenues and direct operating costs through the first fiscal quarter of 2010 due to the transition of our commerce business to a licensing model.

Costs of Revenues

Costs of revenues, which consist primarily of content amortization expense, production costs, distribution costs, and sales commissions, increased $41 million for 2009 when compared to costs of revenues for 2008. The increase was primarily due to higher content amortization expense and write-offs primarily at our U.S. Networks and Internal Networks segments as well as higher distribution costs at our International Networks segment. Total content amortization increased $53 million, of which $17 million was attributable to a higher content asset balance while a $36 million was due to an increase in write-offs was due to the decision not to proceed with certain programs or lower than expected revenues. These increases were partially offset by the effect of deconsolidating Discovery Kids, which resulted in a decline of $12 million, a $6 million reduction in our music rights accrual at the International Networks segment, the reduction in costs of goods sold as a result of transitioning our commerce business to a license model, and a $30 million favorable impact from foreign currency exchange rates. Excluding the unfavorable impacts of foreign currency exchange rates, programming write-offs, the deconsolidation of Discovery Kids, and the music rights accrual reduction, costs of revenues increased 6% or $53 million.

Selling, General and Administrative

Selling, general and administrative expenses, which are principally comprised of employee costs, marketing costs, research costs, and occupancy and back office support fees, increased $132 million for 2009 as compared to 2008 due primarily to a $294 million increase in employee costs related to share-based compensation programs and the impact of consolidating OWN beginning in July 2008, which increased costs by $19 million. The increase was partially offset by lower marketing costs, consulting fees, non-share-based employee costs, all of which reflect targeted cost savings initiatives and improvements in operating efficiencies, and a $5 million reduction due to the deconsolidation of Discovery Kids in May 2009. Additionally, selling, general, and administrative expenses were down as a result of favorable impacts of foreign currency exchange rates of $25 million.

Employee costs include share-based compensation expense arising from equity awards to employees under our incentive plans. Total share-based compensation expense was $228 million for 2009 as compared to a net benefit of $66 million for 2008. The increase in share-based compensation primarily reflects an increase in the fair value of outstanding cash-settled equity awards and to a lesser extent an increase in stock options outstanding. A portion of our equity awards are cash-settled and, therefore, the value of such awards outstanding must be remeasured at fair value each reporting date based on changes in the price of our Series A common stock. Compen