

Discovery Holding CO
Form 10-Q
August 08, 2007

Table of Contents

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007**
- 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 000-51205

DISCOVERY HOLDING COMPANY
(Exact name of Registrant as specified in its charter)

State of Delaware
*(State or other jurisdiction of
incorporation or organization)*

20-2471174
*(I.R.S. Employer
Identification No.)*

12300 Liberty Boulevard
Englewood, Colorado
(Address of principal executive offices)

80112
(Zip Code)

Registrant's telephone number, including area code:
(720) 875-4000

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer as defined in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of outstanding shares of Discovery Holding Company's common stock as of July 31, 2007 was:

Series A common stock 268,587,277 shares; and
Series B common stock 11,874,196 shares.

TABLE OF CONTENTS

DISCOVERY HOLDING COMPANY AND SUBSIDIARIES Condensed Consolidated Balance Sheets (unaudited)

DISCOVERY HOLDING COMPANY AND SUBSIDIARIES Condensed Consolidated Statements of Operations and Comprehensive Earnings (unaudited)

DISCOVERY HOLDING COMPANY AND SUBSIDIARIES Condensed Consolidated Statements of Cash Flows (unaudited)

DISCOVERY HOLDING COMPANY AND SUBSIDIARIES Condensed Consolidated Statement of Stockholders Equity Six months ended June 30, 2007 (unaudited)

DISCOVERY HOLDING COMPANY AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

DISCOVERY HOLDING COMPANY

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits

SIGNATURES

EXHIBIT INDEX

Rule 13a-14(a)/15d-14(a) Certification

Rule 13a-14(a)/15d-14(a) Certification

Rule 13a-14(a)/15d-14(a) Certification

Section 1350 Certification

Table of Contents**DISCOVERY HOLDING COMPANY AND SUBSIDIARIES****Condensed Consolidated Balance Sheets
(unaudited)**

	June 30, 2007	December 31, 2006
	amounts in thousands	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 174,663	154,775
Trade receivables, net	140,505	147,436
Prepaid expenses	12,904	11,522
Other current assets	4,086	3,629
Total current assets	332,158	317,362
Investments in marketable securities	53,508	51,837
Investment in Discovery Communications Holding, LLC (Discovery) (note 7)	3,282,062	3,129,157
Property and equipment, net	282,294	280,775
Goodwill (note 6)	2,075,288	2,074,789
Other assets, net	16,234	17,062
Total assets	\$ 6,041,544	5,870,982
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 30,970	43,656
Accrued payroll and related liabilities	30,173	32,292
Other accrued liabilities	30,991	29,924
Deferred revenue	27,777	16,015
Total current liabilities	119,911	121,887
Deferred income tax liabilities	1,237,066	1,174,594
Other liabilities	30,539	25,237
Total liabilities	1,387,516	1,321,718
Commitments and contingencies (notes 8 and 9)		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 50,000,000 shares; no shares issued		
Series A common stock, \$.01 par value. Authorized 600,000,000 shares; issued and outstanding 268,580,700 shares at June 30, 2007 and 268,194,966 shares at December 31, 2006	2,686	2,682
Series B common stock, \$.01 par value. Authorized 50,000,000 shares; issued and outstanding 11,877,196 shares at June 30, 2007 and 12,025,088 shares at	119	120

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December 31, 2006

Series C common stock, \$.01 par value. Authorized 600,000,000 shares; no shares issued

Additional paid-in capital	5,718,860	5,714,379
Accumulated deficit	(1,090,410)	(1,183,831)
Accumulated other comprehensive earnings	22,773	15,914
Total stockholders' equity	4,654,028	4,549,264
Total liabilities and stockholders' equity	\$ 6,041,544	5,870,982

See accompanying notes to condensed consolidated financial statements.

I-1

Table of Contents**DISCOVERY HOLDING COMPANY AND SUBSIDIARIES****Condensed Consolidated Statements of Operations and Comprehensive Earnings
(unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	amounts in thousands, except per share amounts			
Net revenue	\$ 177,220	165,789	351,102	319,357
Operating expenses:				
Cost of services	121,609	109,623	239,635	207,222
Selling, general, and administrative, including stock-based compensation (notes 2 and 10)	41,333	46,281	82,853	89,452
Gain on sale of operating assets	(208)	(167)	(242)	(167)
Depreciation and amortization	17,415	16,304	32,986	31,959
	180,149	172,041	355,232	328,466
Operating loss	(2,929)	(6,252)	(4,130)	(9,109)
Other income:				
Share of earnings of Discovery (note 7)	125,797	30,345	147,354	51,518
Other income, net	2,318	2,523	11,615	4,473
	128,115	32,868	158,969	55,991
Earnings before income taxes	125,186	26,616	154,839	46,882
Income tax expense	(50,969)	(12,882)	(60,158)	(21,533)
Net earnings	74,217	13,734	94,681	25,349
Other comprehensive earnings, net of taxes:				
Foreign currency translation adjustments	3,349	6,451	4,703	9,088
Unrealized holding gains (losses) arising during the period	1,700	(103)	2,156	684
Other comprehensive earnings	5,049	6,348	6,859	9,772
Comprehensive earnings	\$ 79,266	20,082	101,540	35,121
Basic and diluted earnings per common share (note 3)	\$.26	.05	.34	.09

See accompanying notes to condensed consolidated financial statements.

Table of Contents**DISCOVERY HOLDING COMPANY AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows
(unaudited)**

	Six Months Ended June 30,	
	2007	2006
	amounts in thousands (note 4)	
Cash flows from operating activities:		
Net earnings	\$ 94,681	25,349
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	32,986	31,959
Stock-based compensation	1,308	987
Share of earnings of Discovery	(147,354)	(51,518)
Gain on lease buyout	(6,992)	
Deferred income tax expense	58,660	20,176
Other non-cash charges (credits), net	(776)	165
Changes in assets and liabilities, net of acquisitions:		
Trade receivables	7,244	(162)
Prepaid expenses and other current assets	(1,839)	33
Payables and other liabilities	(2,539)	5,054
Net cash provided by operating activities	35,379	32,043
Cash flows from investing activities:		
Capital expenditures	(25,093)	(32,400)
Proceeds from lease buyout	7,138	
Net purchases of marketable securities	(1,671)	(50,661)
Cash paid for acquisitions, net of cash acquired		(46,793)
Other investing activities, net	366	256
Net cash used in investing activities	(19,260)	(129,598)
Cash flows from financing activities:		
Net cash from option exercises	4,083	
Other financing activities, net	(314)	(4)
Net cash provided (used) by financing activities	3,769	(4)
Net increase (decrease) in cash and cash equivalents	19,888	(97,559)
Cash and cash equivalents at beginning of period	154,775	250,352
Cash and cash equivalents at end of period	\$ 174,663	152,793

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DISCOVERY HOLDING COMPANY AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements
June 30, 2007
(unaudited)**

(1) Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Discovery Holding Company and its consolidated subsidiaries (DHC or the Company). DHC s two wholly-owned operating subsidiaries are Ascent Media Group, LLC (Ascent Media) and AccentHealth, LLC (AccentHealth). DHC also has a 66²/₃% ownership interest in Discovery, previously a 50% interest through May 14, 2007, which it accounts for as an equity method investment. All significant intercompany accounts and transactions have been eliminated in consolidation.

Ascent Media is comprised of two operating segments. Ascent Media s creative services group provides services necessary to complete the creation of original content, including feature films, mini-series, television shows, television commercials, music videos, promotional and identity campaigns, and corporate communications programming. The group manipulates or enhances original visual images or audio captured in principal photography or creates new three dimensional images, animation sequences, or sound effects. In addition, the creative services group provides a full complement of facilities and services necessary to optimize, archive, manage, and repurpose completed media assets for global distribution via freight, satellite, fiber and the Internet. The network services group provides the facilities and services necessary to assemble and distribute programming content for cable and broadcast networks via fiber, satellite and the Internet to viewers in North America, Europe and Asia. Additionally, the network services group provides systems integration, design, consulting, engineering and project management services.

Substantially all of the assets of AccentHealth were acquired by a subsidiary of DHC in January 2006, and are included as part of the network services group for financial reporting purposes. AccentHealth operates an advertising-supported captive audience television network in doctor office waiting rooms nationwide.

Discovery is a global media and entertainment company that provides original and purchased cable and satellite television programming across multiple platforms in the United States and over 170 other countries. Discovery also develops and sells branded commerce and educational product lines in the United States.

The accompanying interim condensed consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses for each reporting period. The significant estimates made in preparation of the Company s consolidated financial statements primarily relate to valuation of goodwill, other intangible assets, long-lived assets, deferred tax assets, and the amount of the allowance for doubtful accounts. Actual results could differ from the estimates upon which the carrying values were based.

(2) Stock Options and Other Long-Term Incentive Compensation

Stock Options