CITY NATIONAL CORP
Form 10-K
March 02, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to
Commission file number 1-10521

CITY NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-2568550** (I.R.S. Employer Identification No.)
City National Center 400 North Roxbury Drive, Beverly Hills, California (Address of principal executive offices)	**90210** (Zip Code)

Registrant's telephone number, including area code (310) 888-6000

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $1.00 par value	New York Stock Exchange

No securities are registered pursuant to Section 12(g) of the Act

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No ý

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. o

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.

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

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

As of June 30, 2008, the aggregate market value of the registrant's common stock ("Common Stock") held by non-affiliates of the registrant was approximately $1,676,255,338 based on the June 30, 2008 closing sale price of Common Stock of $42.07 per share as reported on the New York Stock Exchange.

As of January 31, 2009, there were 48,180,442 shares of Common Stock outstanding.

Documents Incorporated by Reference

The information required to be disclosed pursuant to Part III of this report either shall be (i) deemed to be incorporated by reference from selected portions of City National Corporation's definitive proxy statement for the 2009 annual meeting of stockholders, if such proxy statement is filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

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PART I

Item 1. Business

General

City National Corporation (the "Corporation"), a Delaware corporation organized in 1968, is a bank holding company and a financial holding company under the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "GLB Act"). The Corporation provides a wide range of banking, investing and trust services to its clients through its wholly-owned banking subsidiary, City National Bank (the "Bank" and together with the Corporation, its subsidiaries and its asset management affiliates the "Company"). The Bank, which has conducted business since 1954, is a national banking association headquartered in Beverly Hills, California and operating through 62 offices, including 15 full-service regional centers, in Southern California, the San Francisco Bay area, Nevada and New York City. As of December 31, 2008, the Corporation had a majority ownership interest in eight asset management affiliates and a minority interest in one other asset management firm. At December 31, 2008, the Company had consolidated total assets of $16.46 billion, loan balances of $12.44 billion, and assets under management or administration (excluding the minority-owned asset manager) of $47.52 billion. The Company focuses on providing affluent individuals and entrepreneurs, their businesses and their families with complete financial solutions. The organization's mission is to provide this banking and financial experience through an uncommon dedication to extraordinary service, proactive advice and total financial solutions.

On February 28, 2007, the Company completed its acquisition of Business Bank Corporation ("BBC"), the parent of Business Bank of Nevada ("BBNV") and an unconsolidated subsidiary, Business Bancorp Capital Trust I, in a cash and stock transaction valued at $167 million. BBNV operated as a wholly owned subsidiary of City National Corporation until after the close of business on April 30, 2007, at which time it was merged into the Bank. Refer to the "Management's Discussion and Analysis" section of this report for further details regarding this acquisition.

On May 1, 2007, the Corporation completed its acquisition of Lydian Wealth Management in an all-cash transaction. The wealth and investment advisory firm is headquartered in Rockville, Maryland and currently manages or advises on client assets totaling $10.17 billion. Lydian Wealth Management changed its name to Convergent Wealth Advisors ("Convergent Wealth") and became a subsidiary of Convergent Capital Management LLC, the Chicago-based asset management holding company that the Company acquired in 2003. Refer to the "Management's Discussion and Analysis" section of this report for further details regarding this acquisition.

On November 21, 2008, the Corporation entered into a letter agreement with the United States Department of the Treasury ("Treasury") pursuant to which the Corporation agreed to issue and sell 400,000 shares of the Corporation's Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value $1.00 per share and a warrant to purchase 1,128,668 shares of the Corporation's common stock, par value $1.00 per share at an exercise price of $53.16 per share, for an aggregate purchase price of $400 million in cash. See below under "Supervision and Regulation" and "Management's Discussion and Analysis" for further details regarding this investment,

The Company has three reportable segments, Commercial and Private Banking, Wealth Management, and Other. All investment advisory affiliates and the Bank's Wealth Management Services are included in the Wealth Management segment. All other subsidiaries, the unallocated portion of corporate departments and inter-segment eliminations are included in the Other segment. Information about the Company's segments is provided in Note 22 to the Consolidated Financial Statements beginning on page A-58 of this report as well as in the "Management's Discussion and

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Analysis" beginning on page 34 of this report. In addition, the following information is provided to assist the reader in understanding the Company's business segments:

The Bank's principal client base consists of small to mid-sized businesses, entrepreneurs, professionals, and affluent individuals. The Bank serves its clients through relationship banking. The Bank's value proposition is to provide the ultimate banking experience through depth of expertise, breadth of resources, focus and location, dedication to complete solutions, a relationship banking model and an integrated team approach. Through the use of private and commercial banking teams, product specialists and investment advisors, the Bank facilitates the use by the client, where appropriate, of multiple services and products offered by the Company. The Company offers a broad range of lending, deposit, cash management, international banking, equipment financing, and other products and services. The Company also lends, invests, and provides services in accordance with its Community Reinvestment Act ("CRA") commitments.

The Bank's wealth management division and the Corporation's asset management subsidiaries make available the following investment advisory and wealth management resources and expertise to the Company's clients:

- investment management and advisory services and brokerage services, including portfolio management, securities trading and asset management;
- personal and business trust and investment services, including employee benefit trust services, 401(k) and defined benefit plans; and
- estate and financial planning and custodial services.

The Bank also advises and makes available mutual funds under the name of CNI Charter Funds. The Corporation's asset management subsidiaries and the Bank's wealth management division provide both proprietary and nonproprietary products to offer a full spectrum of asset classes and investment styles, including fixed-income instruments, mutual funds, domestic and international equities and alternative investments, such as hedge funds. Investment services are provided to institutional as well as individual clients.

At December 31, 2008, the Company had 2,989 full-time equivalent employees.

Competition

There is significant competition among commercial banks and other financial institutions in the Company's market areas. California, New York and Nevada are highly competitive environments for banking and other financial organizations providing private and business banking and wealth management services. The Bank faces competitive credit and pricing pressure as it competes with other banks and financial organizations. The Company's performance is also significantly influenced by California's economy. As a result of the GLB Act, the Company also competes with other providers of financial services such as money market mutual funds, securities firms, credit unions, insurance companies and other financial services companies. Furthermore, interstate banking legislation has promoted more intense competition by eroding the geographic constraints on the financial services industry.

Our ability to compete effectively is due to our provision of personalized services resulting from management's knowledge and awareness of its clients' needs and its market areas. We believe this relationship banking approach and knowledge provide a business advantage in providing high client satisfaction and serving the small to mid-sized businesses, entrepreneurs, professionals and other affluent individuals that comprise the Company's client base. Our ability to compete also depends on our ability to continue to attract and retain our senior management and other key colleagues. Further, our ability to compete depends in part on our ability to continue to develop and market new and

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innovative products and services and to adopt or develop new technologies that differentiate our products and services.

Economic Conditions, Government Policies, Legislation, and Regulation

The Company's earnings and profitability, like most financial institutions, are highly sensitive to general business and economic conditions. These conditions include the yield curve, inflation, available money supply, the value of the U.S. dollar as compared to foreign currencies, fluctuations in both debt and equity markets, and the strength of the U.S. economy and the local economies in which we conduct business. The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the States of California, Nevada, and New York and in the United States as a whole. Since mid-2007 and particularly during the second half of 2008, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to nearly all asset classes, including mortgages and real estate asset classes, leveraged bank loans and equities. The Company is subject to the effects of the economic downturn. In particular, a continued decline in home values and other real estate asset classes in the Company's markets could have a further negative effect on the results of operations.

In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on its interest-earning assets, such as loans extended to its clients and securities held in its investment portfolio, comprise the major portion of the Company's earnings. These rates are highly sensitive to many factors that are beyond the Company's control, such as inflation, recession, and unemployment. Energy and commodity prices and the value of the dollar are additional primary sources of risk and volatility. The impact that future changes in domestic and foreign economic conditions might have on the Company cannot be predicted. See Item 1A Risk Factors.

The Company's business and earnings are affected by the monetary and fiscal policies of the federal government and its agencies, particularly the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Federal Reserve regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve are its open-market operations in U.S. Government securities, including adjusting the required level of reserves for depository institutions subject to its reserve requirements, and varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest-earning assets and paid on interest-bearing liabilities. Changes in the policies of the Federal Reserve may have an effect on the Company's business, results of operations and financial condition.

Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, and other financial institutions and financial services providers are frequently introduced in the U.S. Congress, in the state legislatures, and before various regulatory agencies. The likelihood and timing of any proposals or legislation and the impact they may have on the Company cannot be determined at this time.

Supervision and Regulation

General

The Corporation, the Bank and the Corporation's non-banking subsidiaries are subject to extensive regulation under both federal and state law. This regulation is intended primarily for the protection of

depositors, the deposit insurance fund, and the banking system as a whole, and not for the protection of shareholders of the Corporation. Set forth below is a summary description of the significant laws and regulations applicable to the Corporation and the Bank. The description is qualified in its entirety by reference to the applicable laws and regulations.

Regulatory Agencies

The Corporation is a legal entity separate and distinct from the Bank and its other subsidiaries. As a financial holding company and a bank holding company, the Corporation is regulated under the Bank Holding Company Act of 1956 (the "BHC Act"), and is subject to supervision, regulation and inspection by the Federal Reserve. The Corporation is also under the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to the disclosure and regulatory requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934, each administered by the SEC. The Corporation is listed on the New York Stock Exchange ("NYSE") under the trading symbol "CYN" and is subject to the rules of the NYSE for listed companies.

The Bank, as a national banking association, is subject to broad federal regulation and oversight extending to all its operations by the Office of the Comptroller of the Currency ("OCC"), its primary regulator, and also by the Federal Reserve and the Federal Deposit Insurance Corporation.

The Corporation's non-bank subsidiaries are also subject to regulation by the Federal Reserve and other federal and state agencies, including for those non-bank subsidiaries that are investment advisors, the SEC under the Investment Advisors Act of 1940. City National Securities, Inc. ("CNS") is regulated by the SEC, the Financial Industry Regulatory Authority ("FINRA") and state securities regulators.

On November 21, 2008, as part of the Troubled Asset Relief Program's ("TARP") Capital Purchase Program ("CPP"), the Corporation entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the Treasury, pursuant to which the Corporation sold (i) 400,000 shares of the Corporation's Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 1,128,668 shares of the Corporation's common stock ("the "Common Stock"), par value $1.00 per share, at an exercise price of $53.16 per share, for an aggregate purchase price of $400 million in cash. The Treasury has certain supervisory and oversight duties and responsibilities under the Emergency Economic Stabilization Act of 2008 ("EESA") and the CPP and pursuant to the Purchase Agreement, Treasury is empowered to unilaterally amend any provision of the Purchase Agreement to the extent required to comply with any changes in applicable federal statutes. The Special Inspector General for the TARP was established pursuant to EESA and has the duty, among other things, to conduct, supervise, and coordinate audits and investigations of the purchase, management and sale of assets by the Treasury under TARP and the CPP, including the shares of non-voting preferred shares purchased from the Corporation. See below under *Recent Legislative and Regulatory Initiatives to Address Financial and Economic Crisis.*

The Corporation

The Corporation is a bank holding company and a financial holding company. In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. As a result of the GLB Act, which amended the BHC Act, bank holding companies that are financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve in consultation with the OCC) or (ii) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as determined solely by the Federal Reserve). Activities

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that are financial in nature include securities underwriting and dealing, insurance underwriting and agency, and making merchant banking investments.

If a bank holding company seeks to engage in the broader range of activities that are permitted under the BHC Act for financial holding companies, (i) all of its depository institution subsidiaries must be "well capitalized" and "well managed" and (ii) it must file a declaration with the Federal Reserve that it elects to be a financial holding company. A depository institution subsidiary is considered to be "well capitalized" if it satisfies the requirements for this status discussed in the section captioned "Capital Adequacy and Prompt Corrective Action," included elsewhere in this item. A depository institution subsidiary is considered "well managed" if it received a composite rating and management rating of at least "satisfactory" in its most recent examination. In addition, the subsidiary depository institution must have received a rating of at least "satisfactory" in its most recent examination under the Community Reinvestment Act. (See the section captioned "Community Reinvestment Act" included elsewhere in this item.)

Financial holding companies that do not continue to meet all of the requirements for such status will, depending on which requirement they fail to meet, face not being able to undertake new activities or acquisitions that are financial in nature, or losing their ability to continue those activities that are not generally permissible for bank holding companies. In addition, failure to satisfy conditions prescribed by the Federal Reserve to comply with any such requirements could result in orders to divest banking subsidiaries or to cease engaging in activities other than those closely related to banking under the BHC Act.

The BHC Act, the Federal Bank Merger Act, and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the Federal Reserve for the direct or indirect acquisition of control of a commercial bank or its parent holding company, whether by (i) the acquisition of 25 percent or more of any class of voting securities; (ii) controlling the election of a majority of the directors; or (iii) the exercise of a controlling influence over the management or policies of the banking organization, which can include the acquisition of as little as 5 percent of any class of voting securities together with other factors. Under the Federal Bank Merger Act, the prior approval of the OCC is required for a national bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant's performance record under the Community Reinvestment Act (see the section captioned "Community Reinvestment Act" included elsewhere in this item), fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Source of Strength Doctrine

Federal Reserve policy requires a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks and does not permit a bank holding company to conduct its operations in an unsafe or unsound manner. Under this "source of strength doctrine," a bank holding company is expected to stand ready to use its available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity, and to maintain resources and the capacity to raise capital that it can commit to its subsidiary banks. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment of deposits and to certain other indebtedness of such subsidiary banks. The BHC Act provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment. In addition, under the National Bank Act, if the capital stock of the Bank is impaired by losses or otherwise, the OCC is authorized to require payment of the

deficiency by assessment upon the Corporation. If the assessment is not paid within three months, the OCC could order a sale of the Bank stock held by the Corporation to make good the deficiency. Furthermore, the Federal Reserve has the right to order a bank holding company to terminate any activity that the Federal Reserve believes is a serious risk to the financial safety, soundness or stability of any subsidiary bank.

The Bank

The OCC has extensive examination, supervision and enforcement authority over all national banks, including the Bank. If, as a result of an examination of a bank, the OCC determines that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, various remedies are available to the OCC. These remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate the Bank's deposit insurance.

The OCC, as well as other federal banking agencies, has adopted regulations and guidelines establishing safety and soundness standards, including but not limited to such matters as loan underwriting and documentation, risk management, internal controls and audit systems, interest rate risk exposure, asset quality and earnings and compensation and other employee benefits.

Various other requirements and restrictions under the laws of the United States affect the operations of the Bank. Statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, ownership of deposit accounts, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, and capital requirements.

Recent Legislative and Regulatory Initiatives to Address Financial and Economic Crisis

The Congress, Treasury and the federal banking regulators, including the FDIC, have taken broad action since early September 2008 to address volatility in the U.S. financial system.

In October 2008, EESA was enacted. EESA authorizes Treasury to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies under TARP. The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. Treasury has allocated $250 billion towards the TARP's CPP. Under the CPP, Treasury will purchase debt or equity securities from participating institutions. The TARP also will include direct purchases or guarantees of troubled assets of financial institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications. The American Recovery and Reinvestment Act of 2009 ("ARRA"), as described below, has further modified TARP and the CPP.

On November 21, 2008, as part of the TARP CPP, the Corporation entered into the Purchase Agreement with Treasury, pursuant to which the Corporation sold the Series B Preferred Stock and the Warrant to purchase 1,128,668 shares of the Common Stock for an aggregate purchase price of $400 million in cash. The Series B Preferred Stock will qualify as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The effective pre-tax cost to the Company for participating in the TARP CPP is approximately 9.5 percent, consisting of 8.6 percent for dividends and 0.9 percent for the accretion on preferred stock, and is

based on the statutory tax rate. The Series B Preferred Stock may be redeemed by the Corporation after three years. Prior to the end of three years, subject to the provisions of ARRA described below, the Series B Preferred Stock may be redeemed by the Corporation only with proceeds from the sale of qualifying equity securities of the Corporation which results in aggregate gross proceeds to the Corporation of not less than 25% of the issue price of the Series B Preferred. The Warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to $53.16 per share of the common stock. If the Company receives aggregate proceeds of at least $400 million from sales of Tier 1 qualifying perpetual preferred stock prior to December 31, 2009, the number of shares to be delivered upon settlement of the Warrant will be reduced by 50 percent. Please see our Current Report on Form 8-K filed on November 24, 2008, for additional information.

ARRA was signed into law on February 17, 2009. ARRA contains a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including the Corporation, until the institution has repaid the Treasury, which is now permitted under ARRA without the need to raise new capital, subject to the Treasury's consultation with the recipient's appropriate regulatory agency. When the institution has repaid the Treasury, the Treasury is to liquidate the Warrant at the current market price.

EESA also increased FDIC deposit insurance on most accounts from $100,000 to $250,000 through 2009.

Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program ("TLGP") on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program ("TAGP"), which provides unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (including all demand deposit checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of $250,000, while the extra deposit insurance is in place. The TLGP also includes the Debt Guarantee Program ("DGP"), under which the FDIC guarantees certain senior unsecured debt of FDIC-insured institutions and their holding companies. The unsecured debt must be issued on or after October 14, 2008 and not later than June 30, 2009, and the guarantee is effective through the earlier of the maturity date or June 30, 2012. The DGP coverage limit is generally 125% of the eligible entity's eligible debt outstanding on September 30, 2008 and scheduled to mature on or before June 30, 2009 or, for certain insured institutions, 2% of their liabilities as of September 30, 2008. Depending on the term of the debt maturity, the nonrefundable DGP fee ranges from 50 to 100 basis points (annualized) for covered debt outstanding until the earlier of maturity or June 30, 2012. The TAGP and DGP are in effect for all eligible entities, unless the entity opted out on or before December 5, 2008. The Corporation and the Bank participate in the TAGP and did not opt out of the DGP. As of February 23, 2009, the Company had not utilized the DGP by issuing senior unsecured debt.

In late September 2008, the Treasury opened its Temporary Guarantee Program for Money Market Mutual Funds (the "Temporary Guarantee Program"). The Treasury will guarantee the share price of any publicly-offered eligible money market fund that satisfies certain conditions and applies for and pays a fee to participate in the Temporary Guarantee Program. The Temporary Guarantee Program provides coverage to shareholders for amounts that they held in participating money market funds at the close of business on September 19, 2008. The guarantee will be triggered if the market value of assets held in a participating fund falls below $0.995, the fund's sponsor chooses not to maintain the $1.00 share price, and the fund's board determines to liquidate the fund. The Temporary Guarantee Program is designed to address temporary dislocations in credit markets and is currently set to expire on April 30, 2009. The Secretary of the Treasury may further extend the Temporary Guarantee Program

up to September 18, 2009, and continued insurance protection is contingent upon funds renewing their coverage and paying any additional required fee.

The CNI Charter Funds participate in Treasury's Temporary Guarantee Program for Money Market Mutual Funds.

Anti-Money Laundering and OFAC Regulation

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act of 1970 ("BSA") and subsequent laws and regulations require the Bank to take steps to prevent the use of the Bank or its systems from facilitating the flow of illegal or illicit money and to file suspicious activity reports. Those requirements include ensuring effective Board and management oversight, establishing policies and procedures, developing effective monitoring and reporting capabilities, ensuring adequate training and establishing a comprehensive internal audit of BSA compliance activities. The USA Patriot Act of 2001 ("Patriot Act") significantly expanded the anti-money laundering ("AML") and financial transparency laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Regulations promulgated under the Patriot Act impose various requirements on financial institutions, such as standards for verifying client identification at account opening and maintaining expanded records (including "Know Your Customer" and "Enhanced Due Diligence" practices) and other obligations to maintain appropriate policies, procedures and controls to aid the process of preventing, detecting, and reporting money laundering and terrorist financing. The Patriot Act also applies BSA procedures to broker-dealers. An institution subject to the Patriot Act must provide AML training to employees, designate an AML compliance officer and annually audit the AML program to assess its effectiveness. The OCC continues to issue regulations and new guidance with respect to the application and requirements of BSA and AML. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. Based on their administration by Treasury's Office of Foreign Assets Control ("OFAC"), these are typically known as the "OFAC" rules. The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC.

Failure of a financial institution to maintain and implement adequate BSA, AML and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Dividends and Other Transfers of Funds

The Corporation is a legal entity separate and distinct from the Bank. Dividends from the Bank constitute the principal source of cash revenues to the Corporation. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Corporation. The prior approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year would exceed the sum of the bank's net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends that would be greater than the bank's undivided profits after deducting statutory bad debt in excess of the bank's allowance for loan and lease losses. In addition,

federal bank regulatory authorities can prohibit the Bank from paying dividends, depending upon the Bank's financial condition and compliance with capital and non-capital safety and soundness standards established under the Federal Deposit Insurance Act, as described below. Federal regulatory authorities have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. See Note 20 of Notes to Consolidated Financial Statements for additional information.

The terms of the Series B Preferred Stock include a restriction against increasing the Corporation's Common Stock dividends from levels at the time of the initial investment by the Treasury and prevents the Corporation from redeeming, purchasing or otherwise acquiring its Common stock or any trust preferred securities issued by the Corporation other than for certain stated exceptions. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Series B Preferred Stock and (b) the date on which the Series B Preferred Stock has been redeemed in whole or Treasury has transferred all of the Series B Preferred Stock to third parties. In addition, the Corporation will be unable to declare or pay dividends or distributions on, or repurchase, redeem or otherwise acquire for consideration, shares of its Common Stock and other stock ranking junior to, or in parity with, the Series B Preferred Stock if the Corporation fails to declare and pay full dividends (or declare and set aside a sum sufficient for payment thereof) on its Series B Preferred Stock. Under ARRA, the Company may repay the Treasury without penalty, and without the need to raise new capital, subject to Treasury's consultation with the appropriate regulating agency, in which event these restrictions would no longer apply.

Federal law limits the ability of the Bank to extend credit to the Corporation or its other affiliates, to invest in stock or other securities thereof, to take such securities as collateral for loans, and to purchase assets from the Corporation or other affiliates. These restrictions prevent the Corporation and such other affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments by the Bank to or in the Corporation or to or in any other affiliate are limited individually to 10 percent of the Bank's capital stock and surplus and in the aggregate to 20 percent of the Bank's capital stock and surplus. See Note 20 of Notes to Consolidated Financial Statements on page A-54 of this report.

Federal law also provides that extensions of credit and other transactions between the Bank and the Corporation or one of its non-bank subsidiaries must be on terms and conditions, including credit standards, that are substantially the same or at least as favorable to the Bank as those prevailing at the time for comparable transactions involving other non-affiliated companies, or, in the absence of comparable transactions, on terms and conditions, including credit standards, that in good faith would be offered to, or would apply to, non-affiliated companies. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services.

Capital Adequacy and Prompt Corrective Action

Each federal banking regulatory agency has adopted risk-based capital regulations under which a banking organization's capital is compared to the risk associated with its operations for both transactions reported on the balance sheet as assets as well as transactions which are off-balance sheet items, such as letters of credit and recourse arrangements. Under the capital regulations, the nominal dollar amounts of assets and the balance sheet equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0 percent for asset categories with low credit risk, such as certain Treasury securities, to 100 percent for asset categories with relatively high credit risk, such as commercial loans.

In addition to the risk-based capital guidelines, federal banking regulatory agencies require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the

leverage ratio. For a banking organization rated composite 1 under the "Composite Uniform Financial Institutions Rating System ("CAMELS")" for banks, which indicates the lowest level of supervisory concern of the five categories used by the federal banking agencies to rate banking organizations ("5" being the highest level of supervisory concern), the minimum leverage ratio is 3 percent. For all banking organizations other than those rated composite 1 under the CAMELS system, the minimum leverage ratio is 4 percent. Banking organizations with supervisory, financial, operational, or managerial weaknesses, as well as organizations that are anticipating or experiencing significant growth, are expected to maintain capital ratios above the minimum levels. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the federal banking agencies have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

At December 31, 2008, the Corporation and the Bank each exceeded the required risk-based capital ratios for classification as "well capitalized" as well as the required minimum leverage ratios. See "Management's Discussion and Analysis Balance Sheet Analysis Capital" on page 79 of this report.

The Federal Deposit Insurance Act (FDICIA) requires federal bank regulatory agencies to take "prompt corrective action" with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution's treatment for purposes of the prompt corrective action provisions will depend on how its capital levels compare to various capital measures and certain other factors, as established by regulation. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An "undercapitalized" bank must develop a capital restoration plan and its parent holding company must guarantee that bank's compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank's assets at the time it become "undercapitalized" or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The existing U.S. federal bank regulatory agencies' risk-based capital guidelines are based upon the 1988 capital accord ("Basel I") of the Basel Committee on Banking Supervision ("BIS"). The BIS is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply.

For several years, the U.S. bank regulators have been preparing to implement a new framework for risk-based capital adequacy developed by the Basel Committee on Banking Supervision, sometimes referred to as "Basel II." In July 2007, the U.S. bank regulators announced an agreement reflecting their current plan for implementing the most advanced approach under Basel II for the largest, most internationally active financial institutions. The agreement also provides that the regulators will propose rules permitting other financial institutions, such as the Corporation, to choose between the current method of calculating risked-based capital ("Basel I") and the "standardized" approach under Basel II. The standardized approach under Basel II would lower risk weightings for certain categories of assets (including mortgages) from the weightings reflected in Basel I, but would also require an explicit capital charge for operational risk, which is not required by Basel I. In connection with comments received on the prior proposal, in July 2008, the U.S. bank regulators proposed a new rule, which includes the previously mentioned methods to calculate risked-based capital, but for institutions using the "standardized" framework, modifies the method for determining the leverage ratio requirement.

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At this time, the Corporation cannot predict the final form the Basel II standardized framework will take, when it will be implemented, the effect that it might have on the Bank's financial condition or results of its operations, or how these effects might impact the Corporation.

Premiums for Deposit Insurance

The Bank's deposit accounts are insured by the Deposit Insurance Fund ("DIF"), as administered by the Federal Deposit Insurance Corporation (the "FDIC"), up to the maximum permitted by law. The Bank is also participating in the FDIC's TAGP, as discussed above. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC or the institution's primary regulator.

The FDIC charges an annual assessment for the insurance of deposits, which as of December 31, 2008 ranged from 5 to 43 cents per $100 of insured deposits. The FDIC has announced new risk-based interim rates for the first quarter of 2009 that range from 12 to 50 cents per $100 of insured deposits, and proposed rates expected to take effect beginning April 1, 2009 that range from 8 to 77.5 cents per $100 of insured deposits, The FDIC's rates are based on the risk a particular institution poses to the DIF, based on an institution's capital group and supervisory subgroup assignment. An institution's capital group is based on the FDIC's determination of whether the institution is well capitalized, adequately capitalized, or less than adequately capitalized. An institution's supervisory subgroup assignment is based on the FDIC's assessment of the financial condition of the institution and the probability that FDIC intervention or other corrective action will be required. Starting in April 2009, the FDIC's rates may also be reduced up to 2 cents per $100 of insured deposits for an unsecured debt adjustment and increased up to 22.5 cents per $100 of insured deposits for a secured liability adjustment and up to 10 cents per $100 of insured deposits for a brokered deposit adjustment. In addition to its normal deposit insurance premium as a member of the DIF, the Bank must pay an additional premium toward the retirement of the Financing Corporation bonds ("FICO Bonds") issued in the 1980s to assist in the recovery of the savings and loan industry. In 2008, this premium was approximately $1.3 million, determined at the blended rate of 1.12 cents per $100 of insured deposits. This rate has increased to 1.14 cents per $100 of deposits effective January 1, 2009. Further increase in the assessment rates in future years could have an adverse effect on the Company's earnings, depending on the amount of the increase.

Depositor Preference

The Federal Deposit Insurance Act provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institutions, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Act permits banks and bank holding companies from any state to acquire banks located in any other state, subject to certain conditions, including certain nationwide and state-imposed concentration limits. The Company also has the ability, subject to certain restrictions, to acquire branches outside its home state by acquisition or merger. The establishment of new interstate branches is also possible in those states with laws that expressly permit

de novo branching. The Corporation has established or acquired banking operations outside its home state of California in the states of New York and Nevada.

Community Reinvestment Act

Under the Community Reinvestment Act of 1977 ("CRA"), the Bank has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with CRA. CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities and to take that record into account in its evaluation of certain applications by such institution, such as applications for charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions or engage in certain activities pursuant to the GLB Act. An unsatisfactory rating may be the basis for denying the application. Based on its most recent examination report from January 2006, the Bank received an overall rating of "satisfactory." In arriving at the overall rating, the OCC rated the Bank's performance levels under CRA with respect to lending (high satisfactory), investment (outstanding) and service (high satisfactory).

Consumer Protection Laws

The Company is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and various state law counterparts.

In addition, federal law and certain state laws (including California) currently contain client privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose non-public information about consumers to affiliated companies and non-affiliated third parties. These rules require disclosure of privacy policies to clients and, in some circumstance, allow consumers to prevent disclosure of certain personal information to affiliates or non-affiliated third parties by means of "opt out" or "opt in" authorizations. Pursuant to the GLB Act and certain state laws (including California) companies are required to notify clients of security breaches resulting in unauthorized access to their personal information.

Securities and Exchange Commission

The Sarbanes-Oxley Act of 2002 ("SOX") imposed significant new requirements on publicly-held companies such as the Corporation, particularly in the area of external audits, financial reporting and disclosure, conflicts of interest, and corporate governance at public companies. The Company, like other public companies, has reviewed and reinforced its internal controls and financial reporting procedures in response to the various requirements of SOX and implementing regulations issued by the SEC and the New York Stock Exchange. The Company emphasized best practices in corporate governance before SOX and has continued to do so in compliance with SOX.

The SEC regulations applicable to the Company's investment advisers cover all aspects of the investment advisory business, including compliance requirements, limitations on fees, record-keeping, reporting and disclosure requirements and general anti-fraud prohibitions.

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Executive Officers of the Registrant

Shown below are the names and ages of all executive officers of the Corporation and officers of the Bank who are deemed to be executive officers of the Corporation as of February 2, 2009, with indication of all positions and offices with the Corporation and the Bank.

Name	Age	Present principal occupation and principal occupation during the past five years
Russell Goldsmith (1)	58	President, City National Corporation since May 2005; Chief Executive Officer, City National Corporation and Chairman of the Board and Chief Executive Officer, City National Bank since October 1995; Vice Chairman of City National Corporation October 1995 to May 2005.
Bram Goldsmith	85	Chairman of the Board, City National Corporation
Christopher J. Carey	54	Executive Vice President and Chief Financial Officer, City National Corporation and City National Bank since July 2004; Executive Vice President and Chief Financial Officer, Provident Financial Group, November 1998 to June 2004.
Christopher J. Warmuth	54	Executive Vice President, City National Corporation and President, City National Bank since May 2005; Executive Vice President and Chief Credit Officer, City National Bank June 2002 to May 2005.
Michael B. Cahill	55	Executive Vice President, Corporate Secretary and General Counsel, City National Bank and City National Corporation since June 2001; Manager, Legal and Compliance Division since 2005.
Brian Fitzmaurice	48	Executive Vice President and Chief Credit Officer, City National Bank since February 2006; Senior Risk Manager, Citibank West, FSB successor to California Federal Bank, FSB, November 2002 to February 2006.
Olga Tsokova	35	Senior Vice President and Chief Accounting Officer, City National Corporation and City National Bank since July 2008 and SOX 404 Manager since March 2005; Controller, City National Bank, July 2008 to September 2008; Ernst & Young LLP, Assurance and Advisory Business Services, Financial Services Group, Senior Manager from October 2003 to March 2005.

(1) Russell Goldsmith is the son of Bram Goldsmith.

Available Information

The Company's home page on the Internet is www.cnb.com. The Company makes its web site content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K.

The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statement for its annual shareholder meetings, as well as any amendment to those reports, available free of charge through the Investor Relations page of its web site as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. More information about the Company can be obtained by reviewing the Company's SEC filings on its web site. Information about the Corporation's Board of Directors (the "Board") and its committees and the Company's corporate governance policies and practices is available on the

Corporate Governance section of the Investor Relations page of the Company's web site. The SEC also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including the Corporation.

Item 1A Risk Factors

Forward-Looking Statements

This report and other reports and statements issued by the Company and its officers from time to time contain forward-looking statements that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of our management, and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, and statements preceded by, followed by, or that include the words "will," "believes," "expects," "anticipates," "intends," "plans," "estimates," or similar expressions.

Our management believes these forward-looking statements are reasonable. However, you should not place undue reliance on the forward-looking statements, since they are based on current expectations. Actual results may differ materially from those currently expected or anticipated. Forward-looking statements are not guarantees of performance. By their nature, forward-looking statements are subject to risks, uncertainties, and assumptions. These statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements are made or to update earnings guidance including the factors that influence earnings. A number of factors, many of which are beyond the Company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include, without limitation, the significant factors set forth below.

Factors That May Affect Future Results

General business and economic conditions may significantly affect our earnings. Our business and earnings are sensitive to general business and economic conditions. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in volatility, inflation or interest rates; natural disasters; or a combination of these or other factors.

Since December 2007, the United States has been in a recession. Business activity across a wide range of industries and regions is greatly reduced and local governments and many businesses are in serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. Unemployment has increased significantly. It is expected that the business environment will continue to deteriorate for the foreseeable future. There can be no assurance when these conditions will improve. The resulting economic pressure on consumers and lack of confidence in the financial market could adversely affect our business, financial condition and results of operations.

Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of real estate related loans and resulted in significant write-downs of asset values by financial institutions, including government sponsored entities. These write-downs, initially of asset-backed securities but spreading to other securities and loans, have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutions investors have reduced or ceased providing

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funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally.

The Corporation's financial performance generally, and the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Corporation operates and in the United States as a whole. Declines in home values in the Company's markets in California, Nevada and New York, has adversely impacted results of operations. A continued decline in home values in the Company's markets could have a further negative effect on results of operations, and a significant decline in home values would likely lead to increased delinquencies and credit quality issues in the Company's residential mortgage loan portfolio and home-equity loan portfolio. In addition, a prolonged economic downturn coupled with increased unemployment and decreased consumer spending could have a further negative effect on results of the Company's operations through higher credit losses in the commercial loan, commercial real estate loan and commercial real estate construction loan portfolios. A continued slowdown in real estate can also adversely affect title and escrow deposit balances, a relatively low-cost source of funds.

Current levels of market volatility are unprecedented. The capital and credit markets have been experiencing volatility and disruption for more than 12 months. Recently, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Significant changes in banking laws or regulations and federal monetary policy could materially affect our business. The banking industry is subject to extensive federal and state regulations, and significant new laws or changes in, or repeals of, existing laws may cause results to differ materially. Also, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects our credit conditions, primarily through open market operations in U.S. government securities, the discount rate for member bank borrowing, and bank reserve requirements. A material change in these conditions would affect our results. Parts of our business are also subject to federal and state securities laws and regulations. Significant changes in these laws and regulations would also affect our business. For further discussion of the regulation of financial services, including a description of significant recently-enacted legislation and other regulatory initiatives taken in response to the recent financial crisis, see "Supervision and Regulation" and the discussion under Item 1, Business, "Economic Conditions, Government Policies, Legislation and Regulation."

These banking laws and regulations, including the recently-enacted legislation and other regulatory initiatives taken in response to the recent financial crisis, may have adverse effects upon us. We may face increased regulation of our industry. Compliance with such regulation may increase our costs. Also, participation in specific programs may subject us to additional restrictions. For example, our participation in the TARP Capital Purchase Program limits (without the consent of Treasury) our ability to increase our dividend and to repurchase our common stock for so long as any securities issued under such program remain outstanding. It also subjects us to additional executive compensation restrictions. Similarly, programs established by the FDIC may have an adverse effect on us. Expansion of FDIC deposit insurance coverage and participation in the FDIC Temporary Liquidity Guarantee Program are expected to require the payment of significant additional insurance premiums to the FDIC.

There can be no assurance that recently enacted legislation will stabilize the U.S. financial system. The failure of recently-enacted legislation and other regulatory initiatives taken in response to the

recent financial crisis to stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock. There can be no assurance as to the actual impact this legislation, these regulatory initiatives and any other governmental programs will have on the financial markets.

Changes in interest rates affect our profitability. We derive our income mainly from the difference or "spread" between the interest we earn on loans, securities, and other interest-earning assets, and interest we pay on deposits, borrowings, and other interest-bearing liabilities. In general, the wider this spread, the more we earn. When market rates of interest change, the interest we earn on our assets and the interest we pay on our liabilities fluctuate. This causes our spread to increase or decrease and affects our net interest income. We expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" would work against us, and our earnings may be negatively affected. In addition, interest rates affect how much money we lend, and changes in interest rates may negatively affect deposit growth.

Our results would be adversely affected if we suffered higher than expected losses on our loans due to a slowing economy, real estate cycles or other economic events which could require us to increase our allowance for loan and lease losses. We assume credit risk from the possibility that we will suffer losses because borrowers, guarantors, and related parties fail to perform under the terms of their loans. We try to minimize and monitor this risk by adopting and implementing what we believe are effective underwriting and credit policies and procedures, including how we establish and review the allowance for loan and lease losses. We assess the likelihood of nonperformance, track loan performance, and diversify our credit portfolio. Those policies and procedures may still not prevent unexpected losses that could adversely affect our results. The Company continually monitors changes in the economy, particularly housing prices and unemployment rates. There are inherent risks in our lending activities, including flat or volatile interest rates and changes in the economics conditions in the markets in which we operate. Continuing weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of collateral securing those loans. If the value of real estate in the Company's market declines materially, a significant portion of the loan portfolio could become under-collateralized which could have a further negative effect on results of operations. We monitor the value of collateral, such as real estate, for loans made by us. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan and lease losses. See the section captioned "Loan Portfolio" and "Asset Quality" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to our loan portfolio and our process for determining the appropriate level of the allowance for possible loan losses.

A portion of the income generated by our wealth management division and asset management affiliates is subject to market valuation risks. A substantial portion of trust and investment fee income is based on equity, fixed income and other market valuations. As a result, volatility in these markets can positively or negatively impact noninterest income. In addition, because of the low interest rate environment, the off-balance sheet money market funds managed by our wealth management business may be at a greater risk of being moved by our clients to another company or to the Bank's on-balance sheet money market funds. As a result, this may have an unfavorable impact overall on our earnings. However, this could enhance the Company's overall liquidity position.

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We may experience further write downs of our financial instruments and other losses related to volatile and illiquid market conditions. Market volatility, illiquid market conditions and disruptions in the credit markets have made it extremely difficult to value certain of our securities. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these securities in future periods. In addition, at the time of any sales and settlements of these securities, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could require us to take further write downs in the value of our securities portfolio, which may have an adverse impact on our results of operations in future periods.

Bank clients could move their money to alternative investments causing us to lose a lower cost source of funding. Demand deposits can decrease when clients perceive alternative investments, such as those available in our wealth management business, as providing a better risk/return tradeoff. Technology and other changes have made it more convenient for bank customers to transfer funds into alternative investments or other deposit accounts offered by other financial institutions or non-bank service providers. When clients move money out of bank demand deposits and into other investments, we lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income.

Increased competition from financial service companies and other companies that offer banking and wealth management services could negatively impact our business. Increased competition in our market may result in reduced loans, deposits and/or assets under management. Many competitors offer the banking services and wealth management services that we offer in our service area. These competitors, both domestic and foreign, include national, regional, and community banks. We also face intense competition from many other types of financial institutions, including, without limitation, savings and loans, finance companies, brokerage firms, insurance companies, credit unions, private equity funds, mortgage banks, and other financial intermediaries. Banks, trust companies, investment advisors, mutual fund companies, multi-family offices and insurance companies compete with us for trust and asset management business. In addition, technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that were traditionally offered only by banks.

We also face intense competition for talent. Our success depends, in large part, on our ability to hire and retain key people. Competition for the best people in most businesses in which we engage can be intense. If we are unable to attract and retain talented people, our business could suffer. Pursuant to the terms of the TARP CPP described above, among other things, we agreed to institute certain restrictions on the compensation of certain senior executive management positions, which could have an adverse effect on our ability to hire or retain the most qualified senior management. As described above, the terms of the Purchase Agreement allowed the Treasury to impose additional requirements on us. The adoption of ARRA on February 17, 2009 imposed certain new executive compensation and corporation expenditure limits on all current and future TARP recipients, including the Company, until the institution has repaid the Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the Treasury's consultation with the recipient's appropriate regulatory agency. The executive compensation standards are more stringent than those currently in effect under the CPP or those previously proposed by the Treasury, but it is yet unclear how these executive compensation standards will relate to the similar standards announced by the Treasury in its guidelines on February 4, 2009, or whether the standards will be considered effective immediately or only after implementing regulations are issued by the Treasury. The resulting uncertainty and/or further restrictions could adversely affect our ability to hire or retain our talent.

Our controls and procedures could fail or be circumvented. Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and

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procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of our controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect our business, results of operations and financial condition.

Changes in accounting standards or tax legislation. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time the Financial Accounting Standards Board ("FASB") and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements or elected representatives approve changes to tax laws. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations.

Acquisition risks. We have in the past and may in the future seek to grow our business by acquiring other businesses. We cannot predict the frequency, size or timing of our acquisitions, and we typically do not comment publicly on a possible acquisition until we have signed a definitive agreement. There can be no assurance that our acquisitions will have the anticipated positive results, including results related to: the total cost of integration; the time required to complete the integration; the amount of longer-term cost savings; continued growth; or the overall performance of the acquired company or combined entity. Integration of an acquired business can be complex and costly. If we are not able to integrate successfully past or future acquisitions, there is a risk that results of operations could be adversely affected.

Impairment of goodwill or amortizable intangible assets associated with acquisitions would result in a charge to earnings. Goodwill is evaluated for impairment at least annually, and amortizable intangible assets are evaluated for impairment annually or when events or circumstances indicate that the carrying value of those assets may not be recoverable. We may be required to record a charge to earnings during the period in which any impairment of goodwill or intangibles is determined.

Operational risks. The potential for operational risk exposure exists throughout our organization. Integral to our performance is the continued efficacy of our technology and information systems, operational infrastructure, and relationships with third parties and our colleagues in our day-to-day and ongoing operations. Failure by any or all of these resources subjects us to risks that may vary in size, scale and scope. This includes but is not limited to operational or systems failures, disruption of client operations and activities, ineffectiveness or exposure due to interruption in third party support as expected, as well as, the loss of key colleagues or failure on the part of key colleagues to perform properly.

Negative public opinion could damage our reputation and adversely affect our earnings. Reputational risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from the actual or perceived manner in which we conduct our business activities, including activities in our private and business banking operations and investment and trust operations; our management of actual or potential conflicts of interest and ethical issues; and our protection of confidential client information. Negative public opinion can adversely affect our ability to keep and attract clients and can expose us to litigation and regulatory action. We take steps to minimize reputation risk in the way we conduct our business activities and deal with our clients, communities and vendors.

The soundness of other financial institutions could adversely affect us. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment

banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. Any such losses could have a material adverse effect on our financial condition and results of operations.

Item 1B Unresolved Staff Comments

The Company has no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of its 2008 fiscal year and that remain unresolved.

Item 2. Properties

The Bank leases approximately 391,000 rentable square feet of commercial office space in downtown Los Angeles in the office tower located at 555 S. Flower Street ("City National Tower" including the branch adjacent to City National Tower at 525 S. Flower Street, "City National Plaza"). City National Tower serves as the Bank's administrative center, bringing together more than 24 departments. In addition, City National Plaza houses the Company's Downtown Los Angeles Regional Center, offering extensive private and business banking and wealth management capabilities.

The principal offices of the Company are located at City National Center, 400 North Roxbury Drive, Beverly Hills, California 90210, which the Company owns and occupies. The property has a market value in excess of its depreciated value included in the Company's financial statements. As of December 31, 2008, the Bank owned four other banking office properties in Riverside and Sun Valley, California and in Cheyenne and Carson Valley, Nevada. In addition to the properties owned, the Company actively maintains operations in 62 banking offices and certain other properties.

The remaining banking offices and other properties are leased by the Bank. Total annual rental payments (exclusive of operating charges and real property taxes) are approximately $26 million, with lease expiration dates for office facilities ranging from 2009 to 2022, exclusive of renewal options.

The wealth management affiliates lease a total of 15 offices. Total annual rental payments (exclusive of operating charges and real property taxes) for all affiliates are approximately $3.5 million.

Item 3. Legal Proceedings

The Corporation and its subsidiaries are defendants in various pending lawsuits. Based on present knowledge, management, including in-house counsel, does not believe that the outcome of such lawsuits will have a material adverse effect upon the Company.

The Corporation is not aware of any material proceedings to which any director, officer, or affiliate of the Corporation, any owner of record or beneficially of more than 5 percent of the voting securities of the Corporation as of December 31, 2008, or any associate of any such director, officer, affiliate of the Corporation, or security holder is a party adverse to the Corporation or any of its subsidiaries or has a material interest adverse to the Corporation or any of its subsidiaries.

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

There was no submission of matters to a vote of security holders during the fourth quarter of the year ended December 31, 2008.

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PART II

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

The Corporation's common stock is listed and traded principally on the New York Stock Exchange under the symbol "CYN." Information concerning the range of high and low sales prices for the Corporation's common stock, and the dividends declared, for each quarterly period within the past two fiscal years is set forth below.

Quarter Ended	High	Low	Dividends Declared
2008			
March 31	$ 60.00	$ 48.57	$ 0.48
June 30	51.75	40.98	0.48
September 30	65.35	37.60	0.48
December 31	57.56	34.97	0.48
2007			
March 31	$ 75.39	$ 68.00	$ 0.46
June 30	78.39	72.30	0.46
September 30	78.00	69.00	0.46
December 31	72.97	59.10	0.46

As of January 30, 2009, the closing price of the Corporation's stock on the New York Stock Exchange was $34.61 per share. As of that date, there were approximately 2,087 holders of record of the Corporation's common stock. On January 21, 2009, the Board of Directors authorized a regular quarterly cash dividend on its common stock at a rate of $0.25 per share payable on February 18, 2009 to all shareholders of record on February 4, 2009.

For a discussion of dividend restrictions on the Corporation's common stock, see Note 20 of the Notes to Consolidated Financial Statements on page A-54 of this report.

On January 24, 2008, the Board of Directors authorized the Corporation to repurchase 1 million additional shares of the Corporation's stock following the completion of its previously approved initiative. Unless terminated earlier by resolution of the Board of Director, the program will expire when the Corporation has repurchased all shares authorized for repurchase thereunder. There were no issuer repurchases of the Corporation's common stock in the fourth quarter of the year ended December 31, 2008. There are 1,140,400 shares remaining to be purchased as of December 31, 2008. The Corporation received no shares in payment for the exercise price of stock options.

Item 6. Selected Financial Data

The information required by this item appears on page 33, under the caption "Selected Financial Information," and is incorporated herein by reference.

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

The information required by this item appears on pages 34 through 80, under the caption "Management's Discussion and Analysis," and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this item appears on pages 56 through 61, under the caption "Management's Discussion and Analysis," and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The information required by this item appears on page 82 under the captions "2008 Quarterly Operating Results" and "2007 Quarterly Operating Results," and on page A-4 through A-64 and is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

Internal Control over Financial Reporting

Management's Report on Internal Control over Financial Reporting.

Management's Report on Internal Control Over Financial Reporting appears on page A-1 of this report. The Company's independent registered public accounting firm, KPMG LLP, has issued an audit report on the effectiveness of the Company's internal control over financial reporting. That report appears on page A-2.

Changes in Internal Controls

There was no change in the Company's internal control over financial reporting that occurred during the Company's fourth fiscal quarter that has materially affected, or was reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G (3).

The additional information required by this item will appear in the Corporation's definitive proxy statement for the 2009 Annual Meeting of Stockholders (the "2009 Proxy Statement"), and such information either shall be (i) deemed to be incorporated herein by reference from that portion of the 2009 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Item 11. Executive Compensation

The information required by this item will appear in the 2009 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2009 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table summarizes information, as of December 31, 2008, relating to equity compensation plans of the Company pursuant to which equity securities of the Company are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	4,225,474(1)(2)	$ 52.05(2)	4,130,250(3)
Equity compensation plans not approved by security holders	638,608	$ 45.41	
Total	4,864,082(2)	$ 51.09(2)	4,130,250(3)

(1) Includes 8,382 shares assumed in the acquisition of Business Bank Corporation ("BBC") with a weighted-average exercise price of $10.12. BBC shareholders had approved these stock option plans.

(2) Includes 437,360 shares of outstanding restricted stock and restricted stock units. The weighted-average exercise price does not take into account awards that have no exercise price such as restricted stock and restricted stock units.

(3) For every share subject to awards of restricted stock or restricted stock units under the 2008 Omnibus Plan ("Plan"), the shares available for grant under the Plan is required to be reduced by 3.3 shares (including the one share of restricted stock issued).

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In March 2001, the Board of Directors adopted the 2001 Stock Option Plan (the "2001 Plan"), which is a broadly-based stock option plan under which options were only granted to employees of the Corporation and subsidiaries who are neither directors or executive officers. The 2001 Plan contains a change of control provision similar to other stockholder approved plan. The 2001 Plan was not submitted to the stockholders for their approval. No further awards can be issued under the 2001 Plan.

Other information required by this item will appear in the 2009 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2009 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Item 13. Certain Relationships and Related Transactions

The information required by this item will appear in the 2009 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2009 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period. Also see Note 7 to Notes to Consolidated Financial Statements on page A-31 of this report.

Item 14. Principal Accountant Fees and Services.

The information required by this item will appear in the 2009 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2009 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)

The following documents are filed as part of this report:

1. Financial Statements:

Management's Report on Internal Control Over Financial Reporting	A-1
Report of Independent Registered Public Accounting Firm	A-2
Report of Independent Registered Public Accounting Firm	A-3
Consolidated Balance Sheets at December 31, 2008 and 2007	A-4
Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2008	A-5
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2008	A-6
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for each of the years in the three-year period ended December 31, 2008	A-7
Notes to Consolidated Financial Statements	A-8

2. All other schedules and separate financial statements of 50 percent or less owned companies accounted for by the equity method have been omitted because they are not applicable.
3. Exhibits

3.1	Restated Certificate of Incorporation (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).
3.2	Form of Certificate of Designations of Series A Junior Participating Cumulative Preferred Stock (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).
3.3	Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series B (This Exhibit is incorporated by reference from the Registrant's Current Report on Form 8-K filed November 24, 2008).
3.4	Bylaws, as amended to date (This Exhibit is incorporated by reference from the Registrant's Current Report on Form 8-K filed December 22, 2008).
4.1	Specimen Common Stock Certificate for Registrant. (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
4.2	6.75 percent Subordinated Notes Due 2011 in the principal amount of $150.0 million (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006).
4.3	Indenture dated as of February 13, 2003 between Registrant and U.S. Bank National Association, as Trustee pursuant to which Registrant issued its 5.125 percent Senior Notes due 2013 in the principal amount of $225.0 million and form of 5.125 percent Senior Note due 2013 (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
4.4	Certificate of Amendment of Articles of Incorporation of CN Real Estate Investment Corporation Articles of Incorporation (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
4.5	CN Real Estate Investment Corporation Bylaws (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006).

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4.6	CN Real Estate Investment Corporation Servicing Agreement (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006).
4.7	CN Real Estate Investment Corporation II Articles of Amendment and Restatement (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
4.8	CN Real Estate Investment Corporation II Amended and Restated Bylaws (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
4.9	Form of Warrant to Purchase Common Stock issued by Registrant to the U.S. Treasury (This Exhibit is incorporated by reference from the Registrant's Current Report on Form 8-K filed November 24, 2008).
10.1*	Employment Agreement made as of May 15, 2003, by and between Bram Goldsmith, and the Registrant and City National Bank.
10.2*	Amendment to Employment Agreement dated as of May 15, 2005 by and between Bram Goldsmith, Registrant, and City National Bank (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.3*	Second Amendment to Employment Agreement for Bram Goldsmith dated as of May 15, 2007, among Bram Goldsmith, Registrant and City National Bank (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).
10.4*	Third Amendment to Employment Agreement, dated as of March 3, 2008, by and between Bram Goldsmith, Registrant and City National Bank (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).
10.5*	Fourth Amendment to Employment Agreement, dated as of December 22, 2008, by and between Bram Goldsmith, Registrant and City National Bank.
10.6*	Amended and Restated Employment Agreement made as of December 22, 2008 by and between Russell Goldsmith, the Registrant and City National Bank (This Exhibit is incorporated by reference from the Registrant's Current Report on Form 8-K filed December 23, 2008).
10.7*	1995 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).
10.8*	Amendment to 1995 Omnibus Plan regarding Section 7.6(a).
10.9*	Amended and Restated Section 2.8 of 1995 Omnibus Plan. (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
10.10*	Amendment to City National Corporation 1995 Omnibus Plan dated December 31, 2008.
10.11*	1999 Omnibus Plan (This Exhibit is incorporated by reference from the Registrants Annual Report on Form 10-K for the year ended December 31, 2004).
10.12*	Amended and Restated 2002 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Proxy Statement filed with the SEC for the Annual Meeting of Shareholders held on April 28, 2004).
10.13*	First Amendment to the City National Corporation Amended and Restated 2002 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.14*	Amendment to City National Corporation Amended and Restated 2002 Omnibus Plan dated December 31, 2008.

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10.15*	Amended and Restated 1999 Variable Bonus Plan (This Exhibit is incorporated by reference from the Registrant's Proxy Statement filed with the SEC for the Annual Meeting of Shareholders held on April 28, 2004).
10.16*	City National Corporation 2008 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Proxy Statement filed with the SEC for the Annual Meeting of Stockholders held on April 23, 2008).
10.17*	Amendment to City National Corporation 2008 Omnibus Plan dated December 31, 2008.
10.18*	Form of Indemnification Agreement for directors and executive officers of the Company (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).
10.19*	2000 City National Bank Executive Deferred Compensation Plan. (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005.)
10.20*	Amendment Number 3 to 2000 City National Bank Executive Deferred Compensation Plan. (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
10.21*	Amendment Number 4 to 2000 City National Bank Executive Deferred Compensation Plan (As in Effect Immediately Prior to January 1, 2009).
10.22*	2000 City National Bank Executive Deferred Compensation Plan (Amended and Restated for Plan Years 2004/05 and Later Effective on January 1, 2009).
10.23*	City National Corporation Strategy and Planning Committee Change in Control Severance Plan.
10.24*	City National Corporation Executive Committee Change in Control Severance Plan.
10.25*	2000 City National Bank Director Deferred Compensation Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).
10.26*	Amendment Number 2 to 2000 City National Bank Director Deferred Compensation Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
10.27*	Amendment Number 3 to 2000 City National Bank Director Deferred Compensation Plan (As In Effect Immediately Prior to January 1, 2009).
10.28*	2000 City National Bank Director Deferred Compensation Plan (Amended and Restated for Plan Years 2005 and Later Effective on January 1, 2009).
10.29*	Executive Management Incentive Compensation Plan (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
10.30*	Key Officer Incentive Compensation Plan (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.).
10.31*	City National Corporation 2001 Stock Option Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).
10.32*	Form of Restricted Stock Unit Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.33*	Form of Stock Option Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan (Compensation Committee and Board Approval) (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).

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10.34*	Form of Stock Option Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan (Compensation Committee Approval)) (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.35*	Form of Restricted Stock Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan) (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.36*	Form of Director Stock Option Agreement Under the City National Corporation Amended and Restated 2002 Omnibus plan (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.37*	Form of Stock Option Award Agreement Under the City National Corporation Amended and Restated 2002 Omnibus Plan (2006 and later grants) (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
10.38*	Form of Restricted Stock Award Agreement Under the City National Corporation Amended and Restated 2002 Omnibus Plan and Restricted Stock Unit Award Agreement Addendum (2006 and later grants) (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
10.39*	Form of Restricted Stock Unit Award Agreement Under the City National Corporation Amended and Restated 2002 Omnibus Plan and Restricted Stock Unit Award Agreement Addendum (2006 and later grants). (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
10.40*	Form of Restricted Stock Unit Award Agreement (Cash Only Award) Under the City National Corporation Amended and Restated 2002 Omnibus Plan and Restricted Stock Unit Award Agreement (Cash Only Award) Addendum (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006).
10.41*	Form of Restricted Stock Award Agreement Under the City National Corporation 2008 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
10.42*	Form of Restricted Stock Unit Award Agreement and Restricted Stock Unit Award Agreement Addendum under the City National Corporation 2008 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
10.43*	Form of Stock Option Award Agreement Under the City National Corporation 2008 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
10.44	Lease dated September 30, 1996 between Citinational-Buckeye Building Co. and City National Bank, as amended by that certain First Lease Addendum dated as of May 1, 1998, by that certain Second Lease Addendum dated as of November 13, 1998, by that certain Third Lease Addendum dated as of November 1, 2002 and the 2003 Lease Supplement (as herein defined).
10.45	Lease dated August 1, 2000, between Citinational-Buckeye Building Co. and City National Bank, as amended by that certain First Lease Addendum dated as of November 1, 2002, and the 2003 Lease Supplement (as herein defined).
10.46	Lease Supplement, dated May 28, 2003 (the "2003 Lease Supplement"), by and between Citinational Buckeye Building Co and City National Bank).

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10.47	Lease dated November 19, 2003 between TPG Plaza Investments and City National Bank (Portions of this exhibit have been omitted pursuant to a request for confidential treatment).
10.48	Letter Agreement dated November 21, 2008 by and between the Registrant and the U.S. Treasury (This Exhibit is incorporated by reference from the Registrant's Current Report on Form 8-K filed on November 24, 2008).
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements
21	Subsidiaries of the Registrant
23	Consent of KPMG LLP
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14 (a) or 15d-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14 (a) or 15d-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.0	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Management contract or compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITY NATIONAL CORPORATION
(Registrant)

By: /s/ RUSSELL GOLDSMITH

Russell Goldsmith
President and Chief Executive Officer

February 25, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RUSSELL GOLDSMITH Russell Goldsmith (Principal Executive Officer)	President/Chief Executive Officer/Director	February 25, 2009
/s/ CHRISTOPHER J. CAREY Christopher J. Carey (Principal Financial Officer)	Executive Vice President and Chief Financial Officer	February 25, 2009
/s/ OLGA TSOKOVA Olga Tsokova (Principal Accounting Officer)	Senior Vice President and Chief Accounting Officer	February 25, 2009
/s/ BRAM GOLDSMITH Bram Goldsmith	Chairman of the Board/Director	February 25, 2009
/s/ CHRISTOPHER J. WARMUTH Christopher J. Warmuth	Executive Vice President/Director	February 25, 2009
/s/ RICHARD L. BLOCH Richard L. Bloch	Director	February 25, 2009

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Signature	Title	Date
/s/ KENNETH L. COLEMAN Kenneth L. Coleman	Director	February 25, 2009
/s/ ASHOK ISRANI Ashok Israni	Director	February 25, 2009
/s/ LINDA M. GRIEGO Linda M. Griego	Director	February 25, 2009
/s/ MICHAEL L. MEYER Michael L. Meyer	Director	February 25, 2009
/s/ RONALD L. OLSON Ronald L. Olson	Director	February 25, 2009
/s/ BRUCE ROSENBLUM Bruce Rosenblum	Director	February 25, 2009
/s/ PETER M. THOMAS Peter M. Thomas	Director	February 25, 2009
/s/ KENNETH ZIFFREN Kenneth Ziffren	Director	February 25, 2009

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FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts)	2008	2007	Percent change
FOR THE YEAR			
Net income	$ 104,956	$ 222,713	(53)%
Net income available to common shareholders	102,511	222,713	(54)
Net income per common share, basic	2.14	4.62	(54)
Net income per common share, diluted	2.11	4.52	(53)
Dividends per common share	1.92	1.84	4
AT YEAR END			
Assets	$ 16,455,515	$ 15,889,290	4
Securities	2,440,468	2,756,010	(11)
Loans and leases	12,444,259	11,630,638	7
Deposits	12,652,124	11,822,505	7
Common shareholders' equity	1,653,925	1,655,607	(0)
Total shareholders' equity	2,044,014	1,655,607	23
Book value per common share	34.33	34.61	(1)
AVERAGE BALANCES			
Assets	$ 16,028,821	$ 15,370,764	4
Securities	2,398,285	2,833,489	(15)
Loans and leases	12,088,715	11,057,411	9
Deposits	11,899,642	12,236,383	(3)
Common shareholders' equity	1,683,081	1,599,488	5
Total shareholders' equity	1,726,989	1,599,488	8
SELECTED RATIOS			
Return on average assets	0.65%	1.45%	(55)
Return on average common shareholders' equity	6.09	13.92	(56)
Corporation's tier 1 leverage	10.44	7.97	31
Corporation's tier 1 risk-based capital	11.71	9.31	26
Corporation's total risk-based capital	13.40	11.27	19
Period-end tangible common shareholders' equity to period-end tangible assets	7.23	7.39	(2)
Period-end common shareholders' equity to period-end assets	10.05	10.42	(4)
Period-end shareholders' equity to period-end assets	12.42	10.42	19
Dividend payout ratio, per common share	88.50	40.13	121
Net interest margin	4.20	4.45	(6)
Expense to revenue ratio (1)	66.77	58.21	15
ASSET QUALITY RATIOS			
Nonaccrual loans to total loans and leases	1.70%	0.65%	162
Nonaccrual loans and OREO to total loans and leases and OREO	1.79	0.65	175
Allowance for loan and lease losses to total loans and leases	1.80	1.45	24
Allowance for loan and lease losses to nonaccrual loans	106.11	223.03	(52)
Net charge-offs to average loans	(0.57)	(0.08)	613
AT YEAR END			
Assets under management (2)	$ 30,781,865	$ 37,268,529	(17)
Assets under management or administration (2)	47,519,777	58,506,256	(19)

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(1) The expense to revenue ratio is defined as noninterest expense excluding other real estate owned ("OREO") expense divided by total revenue (net interest income on a taxable-equivalent basis and noninterest income).

(2) Excludes $4.67 billion and $12.44 billion of assets under management for an asset manager in which the Company held a minority ownership interest as of December 31, 2008 and December 31, 2007, respectively.

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SELECTED FINANCIAL INFORMATION

	As of or for the year ended December 31,				
(in thousands, except per share data)	2008	2007	2006	2005	2004
Statement of Income Data:					
Interest income	$ 784,688	$ 894,101	$ 826,315	$ 716,166	$ 602,180
Interest expense	184,792	285,829	220,405	106,125	58,437
Net interest income	599,896	608,272	605,910	610,041	543,743
Provision for credit losses	127,000	20,000	(610)		
Noninterest income	266,984	303,202	242,370	210,368	186,410
Noninterest expense	582,141	529,245	476,046	438,178	395,410
Minority interest	5,378	8,856	5,958	5,675	4,992
Income before taxes	152,361	353,373	366,886	376,556	329,751
Income taxes	47,405	130,660	133,363	141,821	123,429
Net income	$ 104,956	$ 222,713	$ 233,523	$ 234,735	$ 206,322
Less: Dividends on preferred stock	2,445				
Net income available to common shareholders	$ 102,511	$ 222,713	$ 233,523	$ 234,735	$ 206,322
Per Common Share Data:					
Net income per share, basic	2.14	4.62	4.82	4.77	4.21
Net income per share, diluted	2.11	4.52	4.66	4.60	4.04
Dividends per share	1.92	1.84	1.64	1.44	1.28
Book value per share	34.33	34.61	31.39	29.55	27.39
Shares used to compute net income per share, basic	47,930	48,234	48,477	49,159	48,950
Shares used to compute net income per share, diluted	48,570	49,290	50,063	51,062	51,074
Balance Sheet Data At Period End:					
Assets	$ 16,455,515	$ 15,889,290	$ 14,884,309	$ 14,581,809	$ 14,231,500
Securities	2,440,468	2,756,010	3,101,154	4,010,757	4,142,430
Loans and leases	12,444,259	11,630,638	10,386,005	9,265,602	8,481,277
Interest-earning assets	15,104,199	14,544,176	13,722,062	13,520,922	13,333,792
Deposits	12,652,124	11,822,505	12,172,816	12,138,472	11,986,915
Common shareholders' equity	1,653,925	1,655,607	1,490,843	1,457,957	1,348,522
Total shareholders' equity	2,044,014	1,655,607	1,490,843	1,457,957	1,348,522
Balance Sheet Data Average Balances:					
Assets	$ 16,028,821	$ 15,370,764	$ 14,715,512	$ 14,161,241	$ 13,395,993
Securities	2,398,285	2,833,489	3,488,005	4,028,332	3,641,615
Loans and leases	12,088,715	11,057,411	9,948,363	8,875,358	8,106,657
Interest-earning assets	14,670,167	14,054,123	13,568,255	13,047,244	12,322,193
Deposits	11,899,642	12,236,383	11,869,927	11,778,839	11,275,017
Common shareholders' equity	1,683,081	1,599,488	1,460,792	1,389,700	1,262,560
Total shareholders' equity	1,726,989	1,599,488	1,460,792	1,389,700	1,262,560
Asset Quality:					
Nonaccrual loans	$ 211,142	$ 75,561	$ 20,883	$ 14,400	$ 34,638
OREO	11,388				
Total nonaccrual loans and OREO	$ 222,530	$ 75,561	$ 20,883	$ 14,400	$ 34,638
Performance Ratios:					
Return on average assets	0.65%	1.45%	1.59%	1.66%	1.54%
Return on average common shareholders' equity	6.09	13.92	15.99	16.89	16.34
Net interest spread	3.27	2.91	3.18	3.99	4.12
Net interest margin	4.20	4.45	4.58	4.79	4.54
	10.05	10.42	10.02	10.00	9.48

Period-end common shareholders' equity to period-end assets					
Period-end tangible common shareholders' equity to period-end tangible assets	7.23	7.39	8.24	8.21	7.56
Period-end shareholders' equity to period-end assets	12.42	10.42	10.02	10.00	9.48
Dividend payout ratio, per common share	88.50	40.13	34.31	30.03	30.50
Expense to revenue ratio	66.77	58.21	55.97	53.29	53.83
Asset Quality Ratios:					
Nonaccrual loans to total loans and leases	1.70%	0.65%	0.20%	0.16%	0.41%
Nonaccrual loans and OREO to total loans and leases and OREO	1.79	0.65	0.20	0.16	0.41
Allowance for loan and lease losses to total loans and leases	1.80	1.45	1.50	1.66	1.75
Allowance for loan and lease losses to nonaccrual loans	106.11	223.03	743.88	1,069.33	428.91
Net (charge-offs)/recoveries to average total loans and leases	(0.57)	(0.08)	0.03	0.10	(0.07)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

City National Corporation, through its primary subsidiary, City National Bank (the "Bank"), provides private and business banking services, including investment and trust services to mid-size businesses, entrepreneurs, professionals and affluent individuals. The Bank is the largest independent commercial bank headquartered in Los Angeles. For over 50 years, the Bank has served clients through relationship banking. The Bank seeks to build client relationships with a high level of personal service and tailored products through private and commercial banking teams, product specialists and investment advisors to facilitate clients' use, where appropriate, of multiple services and products offered by the Company. The Company offers a broad range of lending, deposit, cash management, international banking and other products and services. The Company also lends, invests and provides services in accordance with its Community Reinvestment Act commitment. Through the Company's asset management firms, subsidiaries of the Corporation, and Wealth Management Services, a division of the Bank, the Company offers 1) investment management and advisory services and brokerage services, including portfolio management, securities trading and asset management; 2) personal and business trust and investment services, including employee benefit trust services; 401(k) and defined benefit plan administration, and; 3) estate and financial planning and custodial services. The Bank also advises and markets mutual funds under the name of CNI Charter Funds.

City National Corporation ("the Corporation") is the holding company for the Bank. References to the "Company" mean the Corporation and its subsidiaries including the Bank. The financial information presented herein includes the accounts of the Corporation, its non-bank subsidiaries, the Bank, and the Bank's wholly owned subsidiaries. All material transactions between these entities are eliminated.

See "Cautionary Statement for Purposes of the 'Safe Harbor' Provision of the Private Securities Litigation Reform Act of 1995," on page 81 in connection with "forward-looking" statements included in this report.

Over the last three years, the Company's total assets and loans have grown by 13 percent and 34 percent, respectively. The growth in loans occurred primarily in commercial and residential mortgage loans, and includes the acquisition of Business Bank of Nevada in the first quarter of 2007. Deposit balances grew 4 percent for the same period.

On February 28, 2007, the Company completed the acquisition of Business Bank Corporation ("BBC"), the parent of Business Bank of Nevada ("BBNV") and an unconsolidated subsidiary, Business Bancorp Capital Trust I, in a cash and stock transaction valued at $167 million. BBNV operated as a wholly owned subsidiary of City National Corporation until after the close of business on April 30, 2007, at which time it was merged into the Bank. BBC had assets of $496 million, loans of $395 million and deposits of $441 million on the date of acquisition.

On May 1, 2007, the Corporation completed the acquisition of Lydian Wealth Management in an all-cash transaction. The investment advisory firm is headquartered in Rockville, Maryland and now manages or advises on client assets totaling $10.17 billion. Lydian Wealth Management changed its name to Convergent Wealth Advisors ("Convergent Wealth") and became a subsidiary of Convergent Capital Management LLC, the Chicago-based asset management holding company that the Company acquired in 2003. All of the senior executives of Convergent Wealth signed employment agreements and acquired a significant minority ownership interest in Convergent Wealth.

CAPITAL ACTIVITY

On April 26, 2006, the Board of Directors authorized the repurchase of 1.5 million additional shares of City National Corporation stock, following the completion of the March 24, 2004 buyback

initiative. The buyback was completed in August 2006 at an average cost of $69.04. On July 6, 2006, the Board of Directors authorized the repurchase of 1.5 million additional shares of City National Corporation stock, following the completion of the April 26, 2006 buyback initiative. In 2006, 442,300 shares were repurchased under this program at an average cost of $66.24. On August 7, 2007, the Company's Board of Directors authorized the Company to repurchase 1 million additional shares of the Company's stock following completion of its previously approved stock buyback initiative. The Company repurchased an aggregate of 1,495,800 shares of common stock in 2007 at an average price of $69.47. On January 24, 2008, the Board of Directors authorized the repurchase of an additional 1 million shares of City National Corporation stock, following the completion of the August 7, 2007 buyback initiative. The Company repurchased an aggregate of 421,500 shares of common stock in 2008 at an average price of $48.41. The shares purchased under the buyback programs may be reissued for acquisitions, upon the exercise of stock options, and for other general corporate purposes. At January 30, 2009, 1,140,400 additional shares could be repurchased under the existing authority.

The Corporation paid dividends of $1.92 per share of common stock in 2008 and $1.84 per share of common stock in 2007. On January 21, 2009, the Board of Directors authorized a regular quarterly cash dividend on common stock at a rate of $0.25 per share (or $1.00 per common share for the year) to shareholders of record on February 4, 2009, payable on February 18, 2009.

On November 21, 2008, City National Corporation received aggregate proceeds of $400 million from the United States Department of the Treasury ("Treasury") under the Troubled Asset Relief Program ("TARP") Capital Purchase Program in exchange for 400,000 shares of cumulative perpetual preferred stock and a 10-year warrant to purchase up to 1,128,668 shares of the Company's common stock at an exercise price of $53.16 per share. The preferred stock and warrant were recorded in equity on a relative fair value basis at the time of issuance. The preferred stock was valued by calculating the present value of expected cash flows and the warrant was valued using an option valuation model. The allocated values of the preferred stock and warrant were approximately $389.9 million and $10.1 million, respectively. The preferred stock will be accreted to the redemption price of $400 million over five years. Cumulative dividends on the preferred stock are payable quarterly at the rate of 5 percent for the first five years and increasing to 9 percent thereafter. The effective pre-tax cost to the Company for participating in the TARP Capital Purchase Program is approximately 9.5 percent, consisting of 8.6 percent for dividends and 0.9 percent for the accretion on preferred stock, and is based on the statutory tax rate. The preferred stock may be redeemed by the Corporation after three years. Prior to the end of three years, subject to the provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA") described below, the preferred stock may be redeemed by the Corporation only with proceeds from the sale of qualifying equity securities of the Corporation which results in aggregate gross proceeds to the Corporation of not less than 25% of the issue price of the preferred stock. The warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to $53.16 per share of the common stock. If the Company receives aggregate proceeds of at least $400 million from sales of Tier 1 qualifying perpetual preferred stock prior to December 31, 2009, the number of shares to be delivered upon settlement of the warrant will be reduced by 50 percent.

ARRA was signed into law on February 17, 2009. ARRA contains a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including the Corporation, until the institution has repaid the Treasury, which is now permitted under ARRA without the need to raise new capital, subject to the Treasury's consultation with the recipient's appropriate regulatory agency. When the institution has repaid the Treasury, the Treasury is to liquidate the warrant at the current market price.

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Dividends on preferred stock will be paid on a quarterly basis, with the first payment scheduled on February 15, 2009. The Corporation accrued dividends of $2.2 million and accreted $0.2 million of discount on preferred stock as of December 31, 2008.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles. The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified seven policies as being critical because they require management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, contingent assets and liabilities, and revenues and expenses included in the consolidated financial statements. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Circumstances and events that differ significantly from those underlying the Company's estimates, assumptions and judgments could cause the actual amounts reported to differ significantly from these estimates.

The Company's critical accounting policies include those that address accounting for financial assets and liabilities reported at fair value, securities, allowance for loan and lease losses and reserve for off-balance sheet credit commitments, share-based compensation plans, goodwill and other intangible assets, derivatives and hedging activities and income taxes. The Company, with the concurrence of the Audit and Risk Committee, has reviewed and approved these critical accounting policies, which are further described in Management's Discussion and Analysis and Note 1 of the Notes to Consolidated Financial Statements included in this Form 10-K. Management has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

Fair Value Measurements

The Company adopted Financial Accounting Standards Board ("FASB") Statement No. 157, *Fair Value Measurements* ("SFAS 157") effective January 1, 2008 on a prospective basis. SFAS 157 defines fair value for financial reporting purposes as the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction between market participants at the measurement date (reporting date). Under the statement, fair value is based on an exit price in the principal market or most advantageous market in which the reporting entity could transact.

The Company records securities available-for-sale, trading securities and derivative contracts at fair value on a recurring basis. Certain other assets such as impaired loans and OREO are recorded at fair value on a nonrecurring basis. Nonrecurring fair value measurements typically involve assets that are evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed. The value of assets and liabilities reported at fair value is based on an exit price (amount received to sell an asset or paid to transfer a liability at the reporting date) in the principal market or most advantageous market in which the Company could transact. The Company measures its assets and liabilities on a standalone basis, then aggregates assets and liabilities with similar characteristics for disclosure purposes. Management employs market standard valuation techniques in determining the fair value of assets and liabilities. Inputs used in valuation techniques are

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based on assumptions that market participants would use in pricing an asset or liability and are prioritized in the fair value hierarchy as follows:

Level 1 Quoted market prices in an active market for identical assets and liabilities.

Level 2 Observable inputs including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.

Level 3 Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

If the determination of fair value measurement for a particular asset or liability is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability measured.

A description of the valuation techniques applied the Company's major categories of assets and liabilities measured at fair value follows.

Securities Fair values for U.S. Treasury securities, marketable equity securities and trading securities, with the exception of agency securities held in the trading account, are based on quoted market prices. Securities with fair values based on quoted market prices are classified in Level 1 of the fair value hierarchy. Level 2 securities include the Company's portfolio of federal agency, mortgage-backed, state and municipal securities for which fair values are calculated with models using quoted prices and other inputs directly or indirectly observable for the asset or liability. Prices for 99 percent of these securities are obtained through a third-party valuation source. Management reviewed the valuation techniques and assumptions used by the provider and determined that the provider utilizes widely accepted valuation techniques based on observable market inputs appropriate for the type of security being measured. Prices for the remaining securities are obtained from dealer quotes. Securities classified in Level 3 include collateralized debt obligation instruments for which the market has become inactive. Fair values for these securities were determined using internal models based on assumptions that are not observable in the market.

Loans The Company does not record loans at fair value with the exception of impaired loans, which are measured for impairment in accordance with FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* ("SFAS 114"). Under SFAS 114, loans measured for impairment based on the fair value of collateral or observable market prices are within the scope of SFAS 157. Loans reported at fair value were measured for impairment by valuing the underlying collateral based on third-party appraisals. These loans are classified in Level 2 of the fair value hierarchy.

Derivatives The Company uses interest rate swaps to manage its interest rate risk. The fair value of these swaps is obtained through third-party valuation sources that use conventional valuation algorithms. The pricing model is a discounted cash flow model that relies on inputs, such as interest rate futures, from highly liquid and active markets. The Company also enters into interest rate risk protection products with certain clients. These contracts are offset by paired trades with derivative dealers. The fair value of these derivatives is obtained from a third-party valuation source that uses conventional valuation algorithms.

To comply with the provisions of SFAS 157, the Company incorporates credit valuation adjustments to appropriately reflect nonperformance risk for both the Company and counterparties in the fair value measurements. Although the Company has determined that the majority of the inputs used to value derivative contracts fall within Level 2 of the fair value hierarchy, the credit valuation adjustments utilize Level 3 inputs, such as estimates of credit spreads. The Company has determined that the impact of the credit valuation adjustments is not significant to the overall valuation of these derivatives. As a result, the Company has classified the derivative contract valuations in their entirety in Level 2 of the fair value hierarchy.

The fair value of foreign exchange options and transactions are derived from market spot and/or forward foreign exchange rates and are classified in Level 1 of the fair value hierarchy.

Other Real Estate Owned ("OREO") The fair value of OREO is based on the appraised value of the properties performed in accordance with professional appraisal standards and Bank regulatory requirements under the Financial Institutions Reform Recovery and Enforcement Act of 1989. Appraisals are conducted, reviewed and approved by the Company's appraisal department. OREO is classified in Level 2 of the fair value hierarchy.

Securities

All securities other than trading securities are classified as available-for-sale and are valued at fair value. Unrealized gains or losses on securities available-for-sale are excluded from net income but are included as separate components of comprehensive income, net of taxes. Premiums or discounts on securities available-for-sale are amortized or accreted into income using the interest method over the expected lives of the individual securities. Realized gains or losses on sales of securities available-for-sale are recorded using the specific identification method. Trading securities are valued at fair value with any unrealized gains or losses included in income.

For the significant majority of the Company's debt securities, fair values are obtained from a third party pricing service. The prices provided by the pricing service are based on quoted market prices, where available, or on observable market inputs appropriate for the type of security. The fair value for certain debt securities for which the market has become inactive is determined using an internal cash flow model based on current anticipated cash flows. The discount rate used in the model is based on the long-term rate for similar securities when the markets were active adjusted for increases in credit and liquidity spreads reflecting current market conditions. The fair values of equity securities and mutual funds are based upon quoted prices.

Impairment exists when the fair value of a security is less than its cost. Cost includes adjustments made to the cost basis of a security for accretion, amortization and previous other-than-temporary impairments. The Company performs a quarterly assessment of the debt and equity securities in its investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their cost is other-than-temporary. Impairment is considered other-than-temporary when it becomes probable that an investor will be unable to recover the cost of an investment. The Company's impairment assessment takes into consideration factors such as the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer including events specific to the issuer or industry; defaults or deferrals of scheduled interest, principal or dividend payments; external credit ratings and recent downgrades; and the Company's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value. If a decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value which then becomes the new cost basis. The amount of the write down is included in Impairment loss on securities in the consolidated statements of income. The new cost basis is not adjusted for subsequent recoveries in fair value. See

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Note 5 of Notes to Consolidated Financial Statements for discussion of impairments on securities available-for-sale.

Allowance for loan and lease losses and reserve for off-balance sheet credit commitments

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses, reserve for off-balance sheet credit commitments and provision for credit losses. The provision is the expense recognized in the consolidated statements of income to adjust the allowance and reserve to the levels deemed appropriate by management, as determined through application of the Company's allowance methodology procedures. The provision for credit losses reflects management's judgment of the adequacy of the allowance for loan and lease losses and the reserve for off-balance sheet credit commitments. It is determined through quarterly analytical reviews of the loan and commitment portfolios and consideration of such other factors as the Company's loan and lease loss experience, trends in problem loans, concentrations of credit risk, underlying collateral values, and current economic conditions, as well as the results of the Company's ongoing credit review process. As conditions change, our level of provisioning and the allowance for loan and lease losses and reserve for off-balance sheet credit commitments may change.

Nonperforming loans greater than $500,000 are individually evaluated for impairment based upon the borrower's overall financial condition, resources, and payment record, and the prospects for support from any financially responsible guarantors. In addition, the allowance for loan and lease losses attributed to these impaired loans considers all available evidence, including as appropriate, the probability that a specific loan will default, the expected exposure of a loan at default, an estimate of loss given default, the present value of the expected future cash flows discounted using the loan's contractual effective rate, the secondary market value of the loan and the fair value of collateral.

For commercial, non-homogenous loans that are not impaired, the bank derives loss factors via a process that begins with estimates of probable losses inherent in the portfolio based upon various statistical analyses. These include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, as well as analyses that reflect current trends and conditions. Each portfolio of smaller balance homogeneous loans including residential first mortgages, installment, revolving credit and most other consumer loans is collectively evaluated for loss potential. Management also establishes a qualitative reserve that considers overall portfolio indicators, including current and historical credit losses; delinquent, nonperforming and criticized loans; trends in volumes and terms of loans; and an evaluation of overall credit quality and the credit process, including lending policies and procedures, economic, geographical, product and other environmental factors. Management also considers trends in internally risk-rated exposures, criticized exposures, cash-basis loans, and historical and forecasted write-offs; as well as a review of industry, geographic, and portfolio concentrations, including current developments within those segments. In addition, management considers the current business strategy and credit process, including credit-limit setting and compliance, credit approvals, loan underwriting criteria and loan workout procedures.

The quantitative portion of the allowance for loan and lease losses is supplemented by qualitative factors to account for model imprecision and to incorporate the range of probable outcomes inherent in the estimates used for the allowance. The qualitative portion of the allowance attempts to incorporate the risks inherent in the portfolio, economic uncertainties, competition, regulatory requirements and other subjective factors including industry trends, changes in underwriting standards, decline in the value of collateral for collateral dependent loans and existence of concentrations. The reserve for off-balance sheet credit commitments is established by converting the off-balance sheet exposures to a loan equivalent amount and then applying the methodology used for loans described above.

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Goodwill and other intangible assets

The Company accounts for acquisitions using the purchase method of accounting. Under the purchase method, assets acquired and liabilities assumed are recorded at their estimated fair values at the date of acquisition. Management utilizes various valuation techniques including discounted cash flow analyses to determine these fair values. Any excess of the purchase price over amounts allocated to acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill.

Goodwill and intangible assets are evaluated at least annually for impairment or more frequently if events or circumstances, such as changes in economic or market conditions, indicate that impairment may exist or that the carrying amount of an intangible asset may not be recoverable. Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and regularly reviewed by management. If the fair value of the reporting unit including goodwill is determined to be less than the carrying amount of the reporting unit, a further test is required to measure the amount of impairment. If an impairment loss exists, the carrying amount of the goodwill is adjusted to a new cost basis. For purposes of the goodwill impairment test, fair value techniques based on multiples of earnings or book value are used to determine the fair value of the Company's reporting units. The multiples used in these calculations are consistent with current industry practice for valuing similar types of companies.

Intangible assets include core deposit intangibles and client advisory contract intangibles (combined, customer-relationship intangibles) originating from acquisitions of financial services firms. These assets are amortized over their estimated useful lives. Impairment testing of these assets is performed at the individual asset level. Impairment exists when the carrying amount of an intangible asset is not recoverable and exceeds its fair value. The carrying amount of an intangible asset is not recoverable when the carrying amount of the asset exceeds the sum of undiscounted cash flows (cash inflows less cash outflows) associated with the use and/or disposition of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. The fair value of core deposit intangibles is determined using market-based core deposit premiums from recent deposit sale transactions. The fair value of client advisory contracts is based on discounted expected future cash flows. Management makes certain estimates and assumptions in determining the expected future cash flows from customer-relationship intangibles including account attrition, expected lives, discount rates, interest rates, servicing costs and other factors. Significant changes in these estimates and assumptions could adversely impact the valuation of these intangible assets. If an impairment loss exists, the carrying amount of the intangible asset is adjusted to a new cost basis. The new cost basis is amortized over the remaining useful life of the asset. See Note 10 of Notes to Consolidated Financial Statements for further discussion.

Derivatives and hedging

As part of its asset and liability management strategies, the Company uses interest-rate swaps to reduce cash flow variability and to moderate changes in the fair value of financial instruments. In accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended ("SFAS 133"), the Company recognizes derivatives as assets or liabilities on the consolidated balance sheets at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction.

In accordance with SFAS 133, the Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction at the time the derivative contract is executed. This includes designating each derivative contract as either (i) a "fair value hedge" which is a hedge of a recognized asset or liability, (ii) a "cash flow hedge" which hedges a forecasted transaction

or the variability of the cash flows to be received or paid related to a recognized asset or liability or (iii) an "undesignated hedge", a derivative contract not designated as a hedging instrument whose change in fair value is recognized directly in the consolidated statements of income. All derivatives designated as fair value or cash flow hedges are linked to specific hedged items or to groups of specific assets and liabilities on the consolidated balance sheets.

Both at inception and at least quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in SFAS 133) in offsetting changes in either the fair value or cash flows of the hedged item. Retroactive effectiveness is assessed, as well as the continued expectation that the hedge will remain effective prospectively.

For cash flow hedges, in which derivatives hedge the variability of cash flows (interest payments) on loans that are indexed to U.S. dollar LIBOR or the Bank's prime interest rate, the effectiveness is assessed prospectively at the inception of the hedge, and prospectively and retrospectively at least quarterly thereafter. Ineffectiveness of the cash flow hedges is measured using the hypothetical derivative method described in Derivatives Implementation Group Issue G7, *"Measuring the Ineffectiveness of a Cash Flow Hedge of Interest Rate Risk under Paragraph 30(b) When the Shortcut Method is not Applied."* For cash flow hedges, the effective portion of the changes in the derivatives' fair value is not included in current earnings but is reported as Accumulated other comprehensive income (loss). When the cash flows associated with the hedged item are realized, the gain or loss included in Accumulated other comprehensive income (loss) is recognized on the same line in the consolidated statements of income as the hedged item, i.e., included in Interest income on loans and leases. Any ineffective portion of the changes of fair value of cash flow hedges is recognized immediately in Other noninterest income in the consolidated statements of income.

For fair value hedges, the Company uses interest-rate swaps to hedge the fair value of certain certificates of deposits, subordinated debt and other long-term debt. The certificates of deposit are single maturity, fixed-rate, non-callable, negotiable certificates of deposit that pay interest only at maturity and contain no compounding features. The certificates cannot be redeemed early except in the case of the holder's death or under penalty. The interest-rate swaps are executed at the time the deposit transactions are negotiated. Interest-rate swaps are structured so that all key terms of the swaps match those of the underlying deposit or debt transactions, therefore ensuring there is no hedge ineffectiveness at inception. The Company ensures that the interest-rate swaps meet the requirements for utilizing the short cut method in accordance with paragraph 68 of SFAS 133 and maintains appropriate documentation for each interest-rate swap. On a quarterly basis, fair value hedges are analyzed to ensure that the key terms of the hedged items and hedging instruments remain unchanged, and the hedging counterparties are evaluated to ensure that there are no adverse developments regarding counterparty default, thus ensuring continuous effectiveness. For fair value hedges, the effective portion of the changes in the fair value of derivatives is reflected in current earnings, on the same line in the consolidated statements of income as the related hedged item. For both fair value and cash flow hedges, the periodic accrual of interest receivable or payable on interest rate swaps is recorded as an adjustment to net interest income for the hedged items.

The Company discontinues hedge accounting prospectively when (i) a derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) a derivative expires or is sold, terminated or exercised, (iii) a derivative is un-designated as a hedge, because it is unlikely that a forecasted transaction will occur or (iv) the Company determines that designation of a derivative as a hedge is no longer appropriate. If a fair value hedge derivative instrument is terminated or the hedge designation removed, the previous adjustments to the carrying amount of the hedged asset or liability would be subsequently accounted for in the same manner as other components of the carrying amount of that asset or liability. For interest-earning assets and interest-bearing liabilities, such adjustments would be amortized into earnings over the remaining life of the respective asset or liability. If a cash flow derivative instrument is terminated or the hedge designation is removed, related amounts

reported in other comprehensive income are reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

The Company also offers various derivatives products to clients and enters into derivatives transactions in due course. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in an accounting hedge relationship and, therefore, do not qualify for hedge accounting. They are carried at fair value with changes in fair value recorded as part of Other noninterest income in the consolidated statements of income.

Fair values are determined from verifiable third-party sources that have considerable experience with the derivative markets. The credit component of the fair value of the client derivative contracts is calculated using an internal model.

Share-based compensation

The Company accounts for stock options and restricted stock in accordance with FASB Statement No. 123 (revised), *Share Based Payment*, ("SFAS 123R"). SFAS 123R requires the Company to measure the cost of employee services received in exchange for an award of equity instruments, such as stock options or restricted stock, based on the fair value of the award on the grant date. This cost must be recognized in the consolidated statements of income over the vesting period of the award.

The Company grants stock options, restricted stock and restricted stock units to employees in order to leverage the success of the Company by providing a means of aligning employees' interests with the interests of shareholders in increasing shareholder value, and by attracting, motivating, retaining, and rewarding key employees. The share-based compensation plans are authorized and administered by the Compensation, Nominating & Governance Committee of the Board of Directors. Awards may be granted to eligible employees and non-employee directors. Stock option awards are granted with an exercise price equal to the market price of the Company's stock on the grant date. The options vest in four years, beginning on the first anniversary of the grant date, and have 10-year contractual terms. Certain options and stock awards provide for accelerated vesting if there is a change of control (as defined in the City National Corporation 2008 Omnibus Plan) or a termination of service, which may include disability or death. Unvested options are forfeited upon termination of employment, except for those instances noted above, and in the case of the retirement of a retirement-age employee for options granted prior to January 31, 2006. All unexercised options expire 10 years from the grant date.

Since 2003, share-based compensation performance awards granted to colleagues of the Company have included grants of restricted stock or restricted stock units and fewer stock options. This reduced the total number of shares awarded but better aligned the interests of shareholders and colleagues. Restricted stock awards vest over a five-year period during which time the holder receives dividends and has full voting rights. Twenty-five percent of the restricted stock awards vest two years from the date of grant, then twenty-five percent vests on each of the next three consecutive grant anniversary dates. Restricted stock is valued at the closing price of the Company's stock on the date of award. The portion of the market value of the restricted stock related to the current service period is recognized as compensation expense.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses certain assumptions. The Company evaluates exercise behavior and values options separately for executive and non-executive employees. Expected volatilities are based on the historical volatility of the Company's stock. The Company uses historical data to predict option exercise and employee termination behavior. The expected term of options granted is derived from the actual historical exercise activity over the past 20 years and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is equal to the

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dividend yield of the Company's stock at the time of the grant. As a practice, the exercise price of the Company's stock option grants equals the closing market price of the common stock on the date of the grant.

The actual value, if any, which a grantee may realize will depend upon the difference between the option exercise price and the market price of the Company's common stock on the date of exercise.

Income Taxes

The calculation of the Company's income tax provision and related tax accruals requires the use of estimates and judgments. The provision for income taxes is based on amounts reported in the consolidated statements of income which are adjusted to reflect the permanent and temporary differences in the tax and financial accounting for certain assets and liabilities.

Deferred income taxes represent the tax effect of the differences in tax and financial reporting basis arising from temporary differences in accounting treatment. On a quarterly basis, management evaluates its deferred tax assets to determine if these tax benefits are expected to be realized in future periods. This determination is based on facts and circumstances, including the Company's current and future tax outlook. To the extent a deferred tax asset is no longer considered "more likely than not" to be realized, a valuation allowance is established.

Accrued income taxes represent the estimated amounts due or received from the various taxing jurisdictions where the Company has established a business presence. The balance also includes a contingent reserve for potential taxes, interest and penalties related to uncertain tax positions. On a quarterly basis, management evaluates the contingent tax accruals to determine if they are sufficient based on a probability assessment of potential outcomes. The determination is based on facts and circumstances, including the interpretation of existing law, new judicial or regulatory guidance and the status of tax audits. If a tax position which was previously recognized on the financial statements is no longer "more likely than not" to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense.

RECENT DEVELOPMENTS

Continued upheaval in the credit markets has negatively affected the nation's economy with significant impact on the commercial and for-sale housing sectors. Declines in the housing market, with falling home prices, increasing foreclosures and rising unemployment, will continue to have a negative impact on the credit performance of real estate loans. Market volatility and illiquid market conditions during 2008 resulted in the Company recognizing impairments in its securities available-for-sale portfolio. If these disruptions in the financial markets persist, the Company may take additional impairment charges. Refer to "Item 1A Risk Factors" for further discussion of business and economic conditions.

2008 HIGHLIGHTS

- Consolidated net income available to common shareholders for 2008 was $105.0 million, or $2.11 per diluted common share, compared with $222.7 million, or $4.52 per diluted common share, in 2007. Net income available to common shareholders reflects net income less dividends on preferred stock related to the Company's participation in the Treasury's Capital Purchase Program. The decrease in net income available to common shareholders is largely due to a $127.0 million, or $73.9 million after tax, provision for credit losses recorded during 2008 and $49.3 million, or $28.7 million after tax, of other-than-temporary impairments recognized on securities available-for-sale.

Full-year revenue, which consists of net interest income and noninterest income, decreased to $866.9 million, a decrease of 5 percent from $911.5 million for 2007.

Fully taxable-equivalent net interest income amounted to $616.4 million in 2008, down slightly from $625.0 million for 2007. The Company's prime lending rate averaged 5.09 percent for 2008 compared with 8.05 percent for 2007.

Noninterest income was $267.0 million for 2008, a decrease from $303.2 million for 2007. Excluding securities impairment charges, noninterest income totaled $316.3 million, an increase of 4 percent from 2007. Management believes that it is useful for investors to understand the impact of the impairment charges on the Company's results of operations. Noninterest income accounted for 31 percent of the Company's revenue in 2008, slightly down from 33 percent in 2007.

The Company's effective tax rate was 31.1 percent for the year, lower than the 36.9 percent rate in 2007. The decrease in effective tax rate is due to lower pre-tax income in the current year.

Total assets at December 31, 2008 reached $16.46 billion, up 4 percent from $15.89 billion at the end of 2007 due to strong loan growth that was partly offset by a decline in the securities portfolio.

Total average assets increased to $16.03 billion for 2008 from $15.37 billion for 2007, an increase of 4 percent.

The return on average assets was 0.65 percent for 2008 compared with 1.45 percent for 2007. The return on average common shareholders' equity was 6.09 percent for 2008 compared with 13.92 percent for the prior year.

Average loan balances grew by 9 percent to $12.09 billion for 2008 compared with $11.06 billion for 2007.

In the fourth quarter alone, the Company renewed approximately $1 billion of loans and made approximately $340 million of new loans to new and existing clients, including consumers, homeowners, entrepreneurs, and small and mid-size businesses.

The allowance for loan and lease losses increased to $224.0 million for 2008 from $168.5 million for 2007. The Company's allowance amounts to 1.80 percent of total loans and leases, compared with 1.45 percent at the end of 2007.

Nonaccrual loans totaled $211.1 million as of December 31, 2008, compared with $75.6 million at December 31, 2007. Net loan charge-offs were $68.5 million in 2008, compared with $8.5 million in 2007. The increase in nonaccruals and net charge-offs occurred primarily in the Company's for-sale housing construction portfolio and commercial loan portfolio.

Average securities for 2008 totaled $2.40 billion, a decrease of 15 percent from $2.83 billion for 2007. The average duration of the total available-for-sale securities portfolio at December 31, 2008 was 2.7 years, compared with 3.4 years at December 31, 2007.

Average deposits totaled $11.90 billion for 2008, a 3 percent decrease from average deposits of $12.24 billion in 2007. Average core deposits totaled $10.60 billion for 2008, a 2 percent increase from the prior year.

The Company is well capitalized. At December 31, 2008, its ratio of shareholders' equity to total assets was 12.4 percent, compared to 10.4 percent at the same time in 2007. This increase reflects the Treasury's $400 million Capital Purchase Program investment.

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OUTLOOK

The Company remains well-capitalized, adequately reserved and profitable. The Company has significant liquidity and is well-positioned to profitably weather current economic conditions and return to increased profitability when conditions improve. In the short-term, however, net income available to common shareholders and earnings per common share will continue to be significantly affected by a weak economy, low revenue growth, historically low interest rates, somewhat higher credit costs, declining equity values, higher FDIC premiums and the additional costs of participating in the Treasury's TARP Capital Purchase Program. Excluding the higher FDIC premiums, which all banks are bearing in 2009, noninterest expense will show virtually no growth in 2009.

In spite of today's challenging business climate, management expects the Company to remain profitable in 2009, though earnings in 2009 are anticipated to be lower than they were in 2008.

RESULTS OF OPERATIONS

Summary

A summary of the Company's results of operations on a fully taxable-equivalent basis for each of the last five years ended December 31 follows:

(in thousands, except per share amounts)	Year Ended 2008	Increase (Decrease) Amount	%	Year Ended 2007	Increase (Decrease) Amount	%	Year Ended December 31, 2006	2005	2004
Interest income (1)	$801,176	$(109,678)	(12)	$910,854	$ 69,099	8	$841,755	$730,937	$618,060
Interest expense	184,792	(101,037)	(35)	285,829	65,424	30	220,405	106,125	58,437
Net interest income	616,384	(8,641)	(1)	625,025	3,675	1	621,350	624,812	559,623
Provision for credit losses	127,000	107,000	535	20,000	20,610	NM	(610)		
Noninterest income	266,984	(36,218)	(12)	303,202	60,832	25	242,370	210,368	186,410
Noninterest expense:									
Staff expense	357,015	25,924	8	331,091	35,940	12	295,151	263,398	239,583
Other expense	225,126	26,972	14	198,154	17,259	10	180,895	174,780	155,827
Total	582,141	52,896	10	529,245	53,199	11	476,046	438,178	395,410
Minority interest expense	5,378	(3,478)	(39)	8,856	2,898	49	5,958	5,675	4,992
Income before income taxes	168,849	(201,277)	(54)	370,126	(12,200)	(3)	382,326	391,327	345,631
Income taxes	47,405	(83,255)	(64)	130,660	(2,703)	(2)	133,363	141,821	123,429
Less: adjustments (1)	16,488	(265)	(2)	16,753	1,313	9	15,440	14,771	15,880
Net income	$104,956	$(117,757)	(53)	$222,713	$(10,810)	(5)	$233,523	$234,735	$206,322
Less: Dividends on preferred stock	2,445	2,445	NM			NM			
Net income available to common shareholders	$102,511	$(120,202)	(54)	$222,713	$(10,810)	(5)	$233,523	$234,735	$206,322
Net income per common share, diluted	$ 2.11	$ (2.41)	(53)	$ 4.52	$ (0.14)	(3)	$ 4.66	$ 4.60	$ 4.04

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(1) Includes amounts to convert nontaxable income to a fully taxable-equivalent yield. To compare tax-exempt asset yields to taxable yields, amounts are adjusted to pre-tax equivalents based on the marginal corporate federal tax rate of 35 percent.

NM Not Meaningful

Net Interest Income

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets.

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The following table shows average balances, interest income and yields for the last five years:

Net Interest Income Summary

	2008			2007		
(in thousands)	**Average Balance**	**Interest income/ expense (1)(4)**	**Average interest rate**	**Average Balance**	**Interest income/ expense (1)(4)**	**Average interest rate**
Assets (2)						
Interest-earning assets						
Loans and leases						
Commercial	$ 4,662,641	$ 252,911	5.42%	$ 4,279,523	$ 310,869	7.26%
Commercial real estate mortgages	2,057,459	134,511	6.54	1,878,671	136,446	7.26
Residential mortgages	3,293,166	184,818	5.61	3,020,316	166,823	5.52
Real estate construction	1,406,181	76,039	5.41	1,291,708	110,483	8.55
Equity lines of credit	503,428	22,340	4.44	404,493	30,456	7.53
Installment	165,840	9,841	5.93	182,700	13,539	7.41
Total loans and leases (3)	12,088,715	680,460	5.63	11,057,411	768,616	6.95
Due from banks interest-bearing	96,872	1,896	1.96	88,787	2,604	2.93
Federal funds sold and securities purchased under resale agreements	10,037	161	1.61	13,066	686	5.25
Securities available-for-sale	**(recast)**					

U.S. Networks	$ 379	$ 340	$ 672	$ 621
International Networks	132	91	254	189
Education and Other	1	1	6	7
Corporate and inter-segment eliminations	(57)	(46)	(112)	(94)
Total Adjusted OIBDA	$ 455	$ 386	$ 820	$ 723

Reconciliation of Total Adjusted OIBDA to Total Operating Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009 (recast)**	**2010**	**2009 (recast)**
Total Adjusted OIBDA	$ 455	$ 386	$ 820	$ 723
Amortization of deferred launch incentives	(10)	(13)	(21)	(27)
Mark-to-market stock-based compensation	(40)	(54)	(76)	(86)
Depreciation and amortization	(33)	(39)	(66)	(76)
Restructuring and impairment charges		(35)	(3)	(38)
Gains on dispositions		252		252
Total operating income	$ 372	$ 497	$ 654	$ 748

Total Assets by Segment

As of	**As of December 31,**

	June 30, 2010	2009 (recast)
U.S. Networks	$ 2,142	$ 2,078
International Networks	1,106	1,157
Education and Other	76	97
Corporate	7,750	7,620
Total assets	$ 11,074	$ 10,952

DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Total assets allocated to Corporate in the above table include substantially all of the Company s goodwill balance as the financial reports reviewed by the Company s CODM do not include an allocation of goodwill to each reportable segment. Goodwill by reportable segment is disclosed in the following table.

Total Goodwill by Segment

	As of June 30, 2010	As of December 31, 2009 (recast)
U.S. Network	$ 5,138	$ 5,135
International Networks	1,277	1,271
Education and Other	27	27
Total goodwill	$ 6,442	$ 6,433

NOTE 17. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

DCL has issued public senior notes pursuant to a Registration Statement on Form S-3 filed with the U.S. Securities and Exchange Commission (the SEC) on June 17, 2009 (the Shelf Registration). The Company fully and unconditionally guarantees the senior notes issued by DCL. DCL or Discovery Communications Holding, LLC (DCH) may in the future issue additional securities that are fully and unconditionally guaranteed by the Company under the Shelf Registration. Accordingly, set forth below is condensed consolidating financial information presenting the financial position, results of operations and cash flows of (i) the Company, (ii) DCL, (iii) DCH, (iv) non-guarantor subsidiaries of DCL on a combined basis, (v) other non-guarantor subsidiaries of the Company on a combined basis and (vi) the eliminations and reclassifications necessary to arrive at the financial information for the Company on a consolidated basis.

DCL and the non-guarantor subsidiaries of DCL are the primary operating subsidiaries of the Company. DCL s primary operations are the Discovery Channel and TLC in the U.S. The non-guarantor subsidiaries of DCL include the Animal Planet channel and most of the other U.S. networks, the international networks, the education businesses, and most of the Company s digital businesses.

The non-guarantor subsidiaries of DCL are wholly-owned subsidiaries of DCL with the exception of certain joint ventures and equity method investments. DCL is a wholly-owned subsidiary of DCH. The Company wholly owns DCH through a 33 1/3% direct ownership interest and a 66 2/3% ownership interest through Discovery Holding Company (DHC). DHC is included in other non-guarantor subsidiaries of the Company.

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

As of June 30, 2010 and December 31, 2009, the cash and cash equivalents of the non-guarantor subsidiaries of DCL included $43 million and $40 million, respectively, of cash related to consolidated joint ventures that is only available for use by the ventures.

In accordance with the rules and regulations of the SEC, the equity method has been applied to (i) the Company s interest in DCH and other non-guarantor subsidiaries, (ii) DCH s interest in DCL and (iii) DCL s interest in non-guarantor subsidiaries. Inter-company accounts and transactions have been eliminated. The Company s bases in all subsidiaries, including goodwill and recognized intangible assets, have been pushed-down to the applicable subsidiaries.

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

As of June 30, 2010

(in millions)

	Discovery Communications, Inc.	Discovery Communications Holding, LLC	Discovery Communications, LLC	Non-Guarantor Subsidiaries of Discovery Communications, LLC	Other Non-Guarantor Subsidiaries of Discovery Communications, Inc.	Reclassifications and Eliminations	Discovery Communications, Inc. and Subsidiaries
ASSETS							
Current assets:							
Cash and cash equivalents	$	$	$ 597	$ 115	$ 1	$	$ 713
Receivables, net			378	446	12		836
Content rights, net			14	67			81
Prepaid expenses and other current assets	10		112	62	1		185
Total current assets	10		1,101	690	14		1,815
Investment in and advances to subsidiaries	8,894	6,456	4,179		6,729	(26,258)	
Noncurrent content rights, net			544	662			1,206
Goodwill			3,878	2,553	11		6,442
Other noncurrent assets		20	918	752	7	(86)	1,611
Total assets	$ 8,904	$ 6,476	$ 10,620	$ 4,657	$ 6,761	$ (26,344)	$ 11,074
LIABILITIES AND EQUITY							
Current liabilities:							
Accounts payable and accrued liabilities	$ 1	$ 3	$ 178	$ 169	$ 5	$	$ 356
Current portion of long-term debt			6	11			17
Other current liabilities			115	119	1		235
Total current liabilities	1	3	299	299	6		608
Long-term debt			3,515	79			3,594
Other noncurrent liabilities	4		350	23	18	(86)	309
Redeemable noncontrolling interests				49			49
Inter-company contributions and advances between Discovery Communications, Inc. and subsidiaries	2,413	2,531	722	4,935	1,643	(12,244)	
Equity (deficit) attributable to Discovery Communications, Inc.	6,486	3,942	5,734	(733)	5,094	(14,037)	6,486
	8,899	6,473	6,456	4,202	6,737	(26,281)	6,486

Equity and advances attributable to Discovery Communications, Inc.							
Noncontrolling interests				5		23	28
Total equity	8,899	6,473	6,456	4,207	6,737	(26,258)	6,514
Total liabilities and equity	$ 8,904	$ 6,476	$ 10,620	$ 4,657	$ 6,761	$ (26,344)	$ 11,074

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

As of December 31, 2009

(in millions)

(recast)

	Discovery Communications, Inc.	Discovery Communications Holding, LLC	Discovery Communications, LLC	Non-Guarantor Subsidiaries of Discovery Communications, LLC	Other Non-Guarantor Subsidiaries of Discovery Communications, Inc.	Reclassifications and Eliminations	Discovery Communications, Inc. and Subsidiaries
ASSETS							
Current assets:							
Cash and cash equivalents	$	$	$ 476	$ 144	$ 3	$	$ 623
Receivables, net			371	431	14	(4)	812
Content rights, net			15	60			75
Prepaid expenses and other current assets	1		100	60			161
Total current assets	1		962	695	17	(4)	1,671
Investment in and advances to subsidiaries	8,633	8,138	4,062		6,552	(27,385)	
Noncurrent content rights, net			541	674		(8)	1,207
Goodwill			3,876	2,546	11		6,433
Other noncurrent assets		42	909	755	7	(72)	1,641
Total assets	$ 8,634	$ 8,180	$ 10,350	$ 4,670	$ 6,587	$ (27,469)	$ 10,952
LIABILITIES AND EQUITY							
Current liabilities:							
Accounts payable and accrued liabilities	$ 23	$ 4	$ 206	$ 220	$ 5	$ (12)	$ 446
Current portion of long-term debt		20	5	13			38
Other current liabilities		21	108	170			299
Total current liabilities	23	45	319	403	5	(12)	783
Long-term debt		1,928	1,460	69			3,457
Other noncurrent liabilities		1	433	64	17	(72)	443
Redeemable noncontrolling interests				49			49
Inter-company contributions and advances between Discovery Communications, Inc. and subsidiaries	2,414	2,534	2,705	4,970	1,644	(14,267)	
Equity (deficit) attributable to Discovery Communications, Inc.	6,197	3,672	5,433	(893)	4,921	(13,133)	6,197

Equity and advances attributable to Discovery Communications, Inc.	8,611	6,206	8,138	4,077	6,565	(27,400)	6,197
Noncontrolling interests				8		15	23
Total equity	8,611	6,206	8,138	4,085	6,565	(27,385)	6,220
Total liabilities and equity	$ 8,634	$ 8,180	$ 10,350	$ 4,670	$ 6,587	$ (27,469)	$ 10,952

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended June 30, 2010

(in millions)

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

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended June 30, 2009

(in millions)

(recast)

	Discovery Communications, Inc.	Discovery Communications Holding, LLC	Discovery Communications, LLC	Non-Guarantor Subsidiaries of Discovery Communications, LLC	Other Non-Guarantor Subsidiaries of Discovery Communications, Inc.	Reclassifications and Eliminations	Discovery Communications, Inc. and Subsidiaries
Revenues	$	$	$ 410	$ 440	$ 19	$ (4)	$ 865
Costs of revenues, excluding depreciation and amortization listed below			84	153	16	(2)	251
Selling, general and administrative	2		108	182	5	(2)	295
Depreciation and amortization			13	26			39
Restructuring and impairment charges			3	32			35
Gains on dispositions			(252)				(252)
	2		(44)	393	21	(4)	368
Operating (loss) income	(2)		454	47	(2)		497
Equity in earnings of subsidiaries	181	203	44		123	(551)	
Interest expense, net		(31)	(27)	(2)			(60)
Other (expense) income, net		(1)	8	1			8
Income before income taxes	179	171	479	46	121	(551)	445
Benefit from (provision for) income taxes		12	(276)				(264)
Net income	179	183	203	46	121	(551)	181
Less net income attributable to noncontrolling interests				(2)			(2)
Net income attributable to Discovery Communications, Inc.	179	183	203	44	121	(551)	179
Stock dividends to preferred interests	(2)						(2)
Net income available to Discovery Communications, Inc. stockholders	$ 177	$ 183	$ 203	$ 44	$ 121	$ (551)	$ 177

DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Six Months Ended June 30, 2010

(in millions)

	Discovery Communications, Inc.	Discovery Communications Holding, LLC	Discovery Communications, LLC	Non-Guarantor Subsidiaries of Discovery Communications, LLC	Other Non-Guarantor Subsidiaries of Discovery Communications, Inc.	Reclassifications and Eliminations	Discovery Communications, Inc. and Subsidiaries
Revenues	$	$	$ 815	$ 988	$ 33	$ (4)	$ 1,832
Costs of revenues, excluding depreciation and amortization listed below			189	306	30	(4)	521
Selling, general and administrative	6		191	386	5		588
Depreciation and amortization			20	45	1		66
Restructuring charges				3			3
	6		400	740	36	(4)	1,178
Operating (loss) income	(6)		415	248	(3)		654
Equity in earnings of subsidiaries	280	346	195		188	(1,009)	
Interest expense, net		(48)	(55)	(3)			(106)
Loss on extinguishment of debt		(20)	(116)				(136)
Other (expense) income, net		(32)	(18)	9			(41)
Income before income taxes	274	246	421	254	185	(1,009)	371
Benefit from (provision for) income taxes	2	36	(75)	(52)	1		(88)
Net income	276	282	346	202	186	(1,009)	283
Less net income attributable to noncontrolling interests				(4)		(3)	(7)
Net income attributable to Discovery Communications, Inc.	276	282	346	198	186	(1,012)	276
Stock dividends to preferred interests	(1)						(1)
Net income available to Discovery Communications, Inc. stockholders	$ 275	$ 282	$ 346	$ 198	$ 186	$ (1,012)	$ 275

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Six Months Ended June 30, 2009

(in millions)

(recast)

	Discovery Communications, Inc.	Discovery Communications Holding, LLC	Discovery Communications, LLC	Non-Guarantor Subsidiaries of Discovery Communications, LLC	Other Non-Guarantor Subsidiaries of Discovery Communications, Inc.	Reclassifications and Eliminations	Discovery Communications, Inc. and Subsidiaries
Revenues	$	$	$ 784	$ 859	$ 36	$ (8)	$ 1,671
Costs of revenues, excluding depreciation and amortization listed below			180	295	29	(4)	500
Selling, general and administrative	4		191	363	7	(4)	561
Depreciation and amortization			25	52	(1)		76
Restructuring and impairment charges			5	33			38
Gains on dispositions			(252)				(252)
	4		149	743	35	(8)	923
Operating (loss) income	(4)		635	116	1		748
Equity in earnings of subsidiaries	301	336	85		201	(923)	
Interest expense, net		(56)	(58)	(3)			(117)
Other income, net			7	1			8
Income before income taxes	297	280	669	114	202	(923)	639
Benefit from (provision for) income taxes	1	21	(333)	(23)	(1)		(335)
Net income	298	301	336	91	201	(923)	304
Less net income attributable to noncontrolling interests				(5)		(1)	(6)
Net income attributable to Discovery Communications, Inc.	298	301	336	86	201	(924)	298
Stock dividends to preferred interests	(2)						(2)
Net income available to Discovery Communications, Inc. stockholders	$ 296	$ 301	$ 336	$ 86	$ 201	$ (924)	$ 296

DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2010

(in millions)

	Discovery Communications, Inc.	Discovery Communications Holding, LLC	Discovery Communications, LLC	Non-Guarantor Subsidiaries of Discovery Communications, LLC	Other Non-Guarantor Subsidiaries of Discovery Communications, Inc.	Eliminations	Discovery Communications, Inc. and Subsidiaries
Operating Activities							
Cash (used in) provided by operating activities	$ (35)	$ (55)	$ (27)	$ 205	$ 2	$	$ 90
Investing Activities							
Purchases of property and equipment			(4)	(15)	(1)		(20)
Business acquisitions, net of cash acquired				(38)			(38)
Investments in and advances to equity method investees			(39)	(2)			(41)
Cash used in investing activities			(43)	(55)	(1)		(99)
Financing Activities							
Borrowings from long-term debt, net of discount and issuance costs			2,970				2,970
Principal repayments of long-term debt		(1,948)	(935)				(2,883)
Inter-company contributions and other financing activities, net	35	2,003	(1,844)	(179)	(3)		12
Cash provided by (used in) financing activities	35	55	191	(179)	(3)		99
Net change in cash and cash equivalents			121	(29)	(2)		90
Cash and cash equivalents, beginning of period			476	144	3		623
Cash and cash equivalents, end of period	$	$	$ 597	$ 115	$ 1	$	$ 713

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DISCOVERY COMMUNICATIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2009

(in millions)

(recast)

	Discovery Communications, Inc.	Discovery Communications Holding, LLC	Discovery Communications, LLC	Non-Guarantor Subsidiaries of Discovery Communications, LLC	Other Non-Guarantor Subsidiaries of Discovery Communications, Inc.	Eliminations	Discovery Communications, Inc. and Subsidiaries
Operating Activities							
Cash provided by (used in) operating activities	$ 214	$ (14)	$ (28)	$ 167	$ (2)	$	$ 337
Investing Activities							
Proceeds from dispositions			300				300
Other investing activities, net			(10)	(11)	(2)		(23)
Cash provided by (used in) investing activities			290	(11)	(2)		277
Financing Activities							
Net repayments of revolver loans			(315)				(315)
Borrowings from long-term debt, net of discount and debt issuance costs		478					478
Principal repayments of long-term debt		(9)	(509)				(518)
Principal repayments of capital lease obligations			(2)	(3)			(5)
Cash distributions to non-controlling interest				(8)			(8)
Inter-company contributions and other financing activities, net	(214)	(455)	800	(136)	2		(3)
Cash (used in) provided by financing activities	(214)	14	(26)	(147)	2		(371)
Effect of exchange rate changes on cash and cash equivalents				2			2
Net change in cash and cash equivalents			236	11	(2)		245
Cash and cash equivalents, beginning of period			13	78	3		94
Cash and cash equivalents, end of period	$	$	$ 249	$ 89	$ 1	$	$ 339

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

Management s discussion and analysis of results of operations and financial condition is a supplement to and should be read in conjunction with the accompanying condensed consolidated financial statements and related notes. This section provides additional information regarding Discovery Communications, Inc. s (Discovery, Company, we, us or our) businesses, recent developments, results of operations, cash flow financial condition. Additional context can also be found in our Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K).

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, financial prospects and anticipated sources and uses of capital. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated: 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 Federal Communications Commission and adverse outcomes from regulatory proceedings; changes in the nature of key strategic relationships with partners and joint venture partners; competitor responses to our products and services and the products and services of the entities in which we have interests; threatened terrorist attacks and ongoing military action in the Middle East and other parts of the world; reduced access to capital markets or significant increases in costs to borrow; and a failure to secure affiliate agreements or renewal of such agreements on less favorable terms. For additional risk factors, refer to PART I, ITEM 1A, Risk Factors, in our 2009 Form 10-K. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

BUSINESS OVERVIEW

We are a leading global nonfiction media and entertainment company that provides original and purchased programming across multiple distribution platforms in the U.S. and over 180 other countries, including over 100 television networks offering customized programming in 40 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 and services 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.

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

U.S. Networks

U.S. Networks, which is our largest segment, owns and operates 10 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 and our commerce business. 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, at which time the network will be operated by the joint venture and no longer consolidated in our operating results. Additionally, U.S. Networks owns an interest in the Discovery Kids Network, a 50-50 joint venture between us and Hasbro, Inc. (Hasbro), which operates the Discovery Kids Network. The Discovery Kids Network will be rebranded as The Hub , which will launch in 2010.

U.S. Networks derives revenues primarily from distribution fees and advertising sales, which comprised 42% and 53% of revenues for this segment for the three months ended June 30, 2010, respectively, and 45% and 51% of this segment s revenues for the six months ended June 30, 2010, respectively. 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 over four years for developed networks such as Discovery Channel, TLC and Animal Planet, and straight-line amortization method over a maximum of five years for the remaining networks.

International Networks

International Networks operates 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 120 unique distribution feeds in 40 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 three and six months ended June 30, 2010, distribution revenues represented approximately 61% and 63%, respectively, of the segment s operating revenues.

Advertising sales remain important to the segment s financial success, representing 35% and 32% of the segment s total revenues for the three and six months ended June 30, 2010, respectively. 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.

Education and Other

Our education business is focused on our 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 growing corporate partnerships, global brand and content licensing business with leading non-profits, foundations, trade associations and Fortune 500 companies.

Other businesses primarily include 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.

RESULTS OF OPERATIONS

Changes in Basis of Presentation Recast

Our 2009 financial information has been recast so that the basis of presentation is consistent with that of our 2010 financial information. This recast reflects (i) the adoption of the recent accounting guidance that amends the model for determining whether an entity should consolidate a variable interest entity (VIE), which resulted in the deconsolidation of the OWN and Animal Planet Japan (APJ) joint ventures for all periods presented (Note 2 to the accompanying condensed consolidated financial statements), (ii) the results of operations of our Antenna Audio business as discontinued operations (Note 3 to the accompanying condensed consolidated financial statements), and (iii) the realignment of our commerce business, which is now reported as a component of our U.S. Networks segment for all periods presented whereas it was previously reported as a component of our Commerce, Education and Other segment (Note 16 to the accompanying condensed consolidated financial statements).

Items Impacting Comparability

As previously reported, on May 22, 2009, we formed a 50-50 joint venture with Hasbro, to which we contributed the Discovery Kids Network. As a result of this transaction we ceased to consolidate the gross operating results of the Discovery Kids Network effective May 22, 2009. Our interest in the joint venture subsequent to the transaction is accounted for using the equity method of accounting. As we continue to be involved in the operations of the joint venture, we have not recast the 2009 results of operations to present the Discovery Kids Network as discontinued operations. Accordingly, our results of operations include 100% of the gross revenues and expenses of the Discovery Kids Network through May 21, 2009, whereas beginning May 22, 2009 our results of operations only include our 50% interest in the joint venture s net operating results, which is recorded as a component of Other (expense) income, net. The following table presents the gross operating results for the Discovery Kids Network for the period January 1, 2009 through May 21, 2009 included in our consolidated operating results for the three and six months ended June 30, 2009 (in millions).

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Revenues:		
Distribution	$ 6	$ 18
Advertising	1	1
Total revenues	7	19
Costs of revenues	3	7
Selling, general and administrative		1
Operating income	$ 4	$ 11

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Consolidated Results of Operations

The following table presents our consolidated results of operations (in millions).

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (recast)	% Change Favorable / (Unfavorable)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 (recast)	% Change Favorable / (Unfavorable)
Revenues:						
Distribution	$ 449	$ 422	6%	$ 894	$ 844	6%
Advertising	435	367	19%	783	668	17%
Other	79	76	4%	155	159	(3)%
Total revenues	963	865	11%	1,832	1,671	10%
Costs of revenues, excluding depreciation and amortization listed below	254	251	(1)%	521	500	(4)%
Selling, general and administrative	304	295	(3)%	588	561	(5)%
Depreciation and amortization	33	39	15%	66	76	13%
Restructuring and impairment charges		35	100%	3	38	92%
Gains on dispositions		(252)	(100)%		(252)	(100)%
	591	368	(61)%	1,178	923	(28)%
Operating income	372	497	(25)%	654	748	(13)%
Interest expense, net	(48)	(60)	20%	(106)	(117)	9%
Loss on extinguishment of debt	(136)		%	(136)		%
Other (expense) income, net	(37)	8	NM	(41)	8	NM
Income before income taxes	151	445	(66)%	371	639	(42)%
Provision for income taxes	(41)	(264)	84%	(88)	(335)	74%
Net income	110	181	(39)%	283	304	(7)%
Less net income attributable to noncontrolling interests	(3)	(2)	(50)%	(7)	(6)	(17)%
Net income attributable to Discovery Communications, Inc.	107	179	(40)%	276	298	(7)%
Stock dividends to preferred interests	(1)	(2)	50%	(1)	(2)	50%
Net income available to Discovery Communications, Inc. stockholders	$ 106	$ 177	(40)%	$ 275	$ 296	(7)%

NM = Not meaningful

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Revenues

Distribution revenues for the three and six months ended June 30, 2010 increased $27 million and $50 million, respectively, as compared to distribution revenues for the similar 2009 periods, driven by our U.S. Networks and International Networks segments. The increase in distribution revenues at our U.S. Networks segment was primarily attributable to contractual rate increases, subscriber growth and reductions in amortization for launch incentives. These increases were partially offset by the deconsolidation of the Discovery Kids Network in May 2009, which resulted in declines of $6 million and $18 million for the three and six months ended June 30, 2010, respectively. Increased distribution revenues at our International Networks segment for the three and six month periods reflect growth in paying subscribers, which was partially offset by changes in our channel mix and a decrease in average contractual rates. Distribution revenues for the six months ended June 30, 2010 benefited $8 million from favorable changes in foreign currency exchange rates. Excluding the deconsolidation of the Discovery Kids Network and favorable impacts of foreign currency exchange rates, distribution revenues increased 8%, or $33 million, for the three month period and 7%, or $60 million, for the six month period.

For the three and six months ended June 30, 2010, advertising revenues increased $68 million and $115 million, respectively, as compared to advertising revenues for the corresponding periods in 2009. Advertising revenues at our U.S. Networks segment increased principally as a result of increased pricing and higher cash sellouts. In addition, for the six month period advertising revenues at our U.S. Networks segment benefited from higher ratings. Increased advertising revenues were also driven by increases at our International Networks segment due primarily to higher cash sellouts, increased viewership and subscriber growth.

Other revenues, which primarily consist of sales of educational services and content, distribution and advertising sales services, merchandise sales and post production sound and music services, increased $3 million for the three months ended June 30, 2010 and decreased $4 million for the six months ended June 30, 2010 as compared to the same 2009 periods. The increase for the three month period was attributable to increased DVD sales at our Corporate operations. The decrease in other revenues for the year-to-date period was primarily due to a decline in merchandise sales as a result of changing our business model in early 2009 from direct-to-consumer to a licensing model where we receive royalties.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, production costs, distribution costs and sales commissions, increased $3 million and $21 million for the three and six months ended June 30, 2010, respectively, as compared to costs of revenues for the same periods in 2009.

For the three months ended June 30, 2010, the increase in costs of revenues was driven by increases in content costs at our Corporate operations and increased content amortization and sales commissions at our U.S. Networks segment. These increases were partially offset by an $11 million decline in write-offs of capitalized content costs at our International Networks segment and a $3 million decrease as a result of deconsolidating the Discovery Kids Network. Excluding the write-offs of capitalized content costs, the deconsolidation of the Discovery Kids Network, costs of revenues for the three months ended June 30, 2010 increased 7%, or $16 million.

Costs of revenues for the six months ended June 30, 2010 increased as a result of higher costs at our U.S. Networks segment, International Networks segment and Corporate operations. The increased costs of revenues at our U.S. Networks segment were driven by additional content write-offs of $15 million and sales commissions, which were partially offset by decreases of $8 million in production and distribution costs as a result of the transition of our commerce business to a licensing model in early 2009 and a decline of $7 million due to the effect of deconsolidating the Discovery Kids Network. At our Corporate operations costs of revenues increased due to higher content costs and costs of DVD sales. For our International Networks segment, costs of revenues grew as a result of higher sales commissions and $4 million as a result of unfavorable changes in foreign currency exchange rates, which were partially offset by a $10 million decline in amortization of capitalized content costs. Excluding the unfavorable impacts of foreign currency exchange rates, write-offs of capitalized content costs, the deconsolidation of the Discovery Kids Network and changes in our commerce business model, costs of revenues for the six months ended June 30, 2010 increased 6%, or $27 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 $9 million and $27 million for the three and six months ended June 30, 2010, respectively, as compared to selling, general and administrative expenses for the same 2009 periods. The growth in our selling, general and administrative costs was attributable to higher marketing costs at our U.S. Networks and higher personnel costs at our International Networks segment. The increases for the three and six months ended June 30, 2010 were partially offset by lower stock-based compensation costs.

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Employee costs include stock-based compensation expense arising from equity awards granted to employees under our incentive plans. Total stock-based compensation expense for the three months ended June 30, 2010 and 2009 was $50 million and $61 million, respectively, and $94 million and $98 million for the six months ended June 30, 2010 and 2009, respectively. The decrease in stock-based compensation for the three and six month periods reflects a decrease in the number of outstanding cash-settled equity awards, partially offset by an increase in the fair value of outstanding cash-settled equity awards and an increase in the number of outstanding stock options and restricted stock units (RSUs). 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. For the three months ended June 30, 2010 and 2009, compensation expense for cash-settled equity awards, including changes in fair value, was $40 million and $54 million, respectively, and for the six months ended June 30, 2010 and 2009 was $76 million and $86 million, respectively.

The most significant portion of our stock-based compensation expense for the three and six months ended June 30, 2010 and 2009 related to cash-settled equity awards. We do not intend to grant additional cash-settled equity awards, except as may be required by contract or to employees in countries in which stock option awards are not permitted. Therefore, stock options and RSUs that vest based on continuous service have become a more significant portion of our outstanding equity awards. We record expense for service based stock options and RSUs ratably during the vesting period based on the fair value that is determined on the grant date. Expense for stock options and RSUs is not remeasured at each reporting date. Additionally, in March 2010 we granted RSUs that vest based on the achievement of operating performance targets. While compensation expense for performance based RSUs (PRSUs) has not been significant, it may become a more significant portion of our stock-based compensation expense in future periods. We record expense for performance based awards at the time we determine that it is probable that the performance targets will be achieved, which we evaluate each quarter. For most PRSUs, we measure the fair value and related compensation cost based on the closing price of our Series A common stock on the grant date. For certain PRSUs, our Compensation Committee has discretion in determining the final amount of units that vest. For such awards, we remeasure compensation cost at each reporting date based on the closing price of our Series A common stock. There were no PRSUs outstanding during the three and six months ended June 30, 2009. For additional disclosures regarding our stock-based compensation, refer to Note 9 to the accompanying condensed consolidated financial statements.

Depreciation and Amortization

Depreciation and amortization expense decreased $6 million and $10 million for the three and six months ended June 30, 2010, respectively, as compared to the same periods in 2009, due to a decline in amortization expense resulting from lower intangible asset balances.

Restructuring and Impairment Charges

During the six months ended June 30, 2010, we recorded $3 million of restructuring charges as part of our continued efforts to reduce our cost structure. The charges, which included severance and contract termination costs, were incurred by our International Networks segment.

We recorded $9 million and $12 million of exit and restructuring charges during the three and six months ended June 30, 2009, respectively, in connection with a reorganization of portions of our operations to better align our organizational structure with our strategic priorities and to reduce our cost structure. The charges include severance costs and contract termination costs and were incurred primarily by our U.S. Networks and International Networks segments, as well as our Corporate operations.

During the three and six months ended June 30, 2009, we recorded $26 million of impairment charges related to intangible assets and capitalized software, primarily for certain asset groups at our Other U.S. Networks reporting unit due to declines in expected operating performance.

Gains on Dispositions

In connection with the formation of the Discovery Kids Network joint venture in May 2009, we recorded a $252 million gain, which included $127 million as a result of stepping up our basis for the 50% retained interest in the Discovery Kids Network and $125 million for the sale of 50% of our ownership interest to Hasbro.

Interest Expense, Net

Interest expense, net for the three and six months ended June 30, 2010 decreased $12 million and $11 million, respectively, as compared to interest expense for the similar periods in 2009, primarily due to changes in the designation and termination of interest rate swaps as a result of refinancing most of our debt in June 2010.

Loss on Extinguishment of Debt

In June 2010, we recognized a $136 million loss on extinguishment of debt in connection with the repayment of $2.88 billion outstanding under our term loans and private senior notes, consisting of $114 million of make-whole premiums, $12 million of non-cash write-offs of unamortized deferred financing costs and $10 million for the repayment of the original issue discount on our term loans.

Other (Expense) Income, Net

Other (expense) income, net primarily includes realized and unrealized gains and losses from derivative instruments that are not designated as hedging instruments, our portion of income and losses from equity method investments and other non-operating expenses and income. During the three and six months ended June 30, 2010, we recorded total other expenses of $37 million and $41 million, respectively, which included $27 million and $28 million, respectively, of net realized and unrealized losses on derivative instruments primarily due to discontinuing hedge accounting on certain interest rate derivatives as a result of refinancing our debt in June 2010. In addition, we recorded $10 million and $17 million, respectively, of losses from equity method investments.

For both the three and six months ended June 30, 2009, we recorded total other income of $8 million. During the three months ended June 30, 2009, we sold securities which resulted in a pre-tax gain of $13 million. Other income for the three and six months ended June 30, 2009 also included net realized and unrealized gains of $4 million and $9 million, respectively, on derivative instruments, which were offset by $9 million and $14 million, respectively, of losses from equity method investments.

Provision for Income Taxes

Our provisions for income taxes were $41 million and $264 million and the effective tax rates were 27% and 59% for the three months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010 and 2009, our provisions for income taxes were $88 million and $335 million, respectively, and the effective tax rates were 24% and 52%, respectively. Our effective tax rates for the three and six months ended June 30, 2010 differed from the federal statutory rate of 35% due primarily to a $13 million tax expense reduction for a change in our election to claim foreign tax credits that were previously taken as deductions and production activity deductions, which were partially offset by state taxes. We may file additional amended returns in the future to claim foreign tax credits that were previously taken as deductions based on the ability to currently use additional foreign tax credits. Additionally, our effective tax rate for the six months ended June 30, 2010 differed from the statutory rate due to the reversal of a $28 million foreign tax reserve. In February 2010, a foreign tax authority completed its tax audit and provided us notification that certain tax years will not be adjusted for a matter for which we previously recorded a reserve for uncertain tax positions.

The effective tax rates for the three and six months ended June 30, 2009 differed from the federal income tax rate of 35% due primarily to a permanent difference on the $252 million gain from the sale and deconsolidation of our ownership interest in the Discovery Kids Network in May 2009, state income taxes, and to a lesser extent, deduction for domestic production activities. The increases were partially offset by the release of a valuation allowance of $12 million on a previously recorded capital loss.

The tax law that allows for the immediate deduction of certain domestic programming costs expired in 2009. If the tax law is extended, we would immediately deduct certain programming costs, which would decrease our current tax liability for 2010 with a corresponding increase to our deferred tax liability.

Net Income Attributable to Noncontrolling Interests

The increase in net income attributable to noncontrolling interests was due to higher operating results at consolidated entities that are not wholly owned.

Stock Dividends to Preferred Interests

During the three and six months ended June 30, 2010 and 2009, we recognized $1 million and $2 million, respectively, of non-cash stock dividends for the release of preferred stock from escrow. Payment of such dividends is contingent upon the issuance of our common stock to settle the exercise of certain stock options and stock appreciation rights that we assumed in connection with our formation on September 17, 2008.

Discontinued Operations

During the second quarter of 2010, we committed to a plan to sell our Antenna Audio business within the next year with no significant continuing involvement in the operations or cash flows from the business subsequent to the sale. Antenna Audio, which provides audio, multimedia and mobile tours for museums, exhibitions, historic sites and visitor attractions around the world, is a

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component of our International Networks segment. The results of operations of Antenna Audio, which were not significant for the three and six months ended June 30, 2010 and 2009, have been reflected as discontinued operations with the net operating results included in Other (expense) income, net on the Condensed Consolidated Statements of Operations.

Segment Results of Operations

As noted above, we manage and report our operations in three segments: U.S. Networks, International Networks and Education and Other. Additional financial information related to our segments is set forth in Note 16 to the accompanying condensed consolidated financial statements.

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

The following table presents our revenues by segment and certain consolidated operating expenses, contra revenue amounts and Adjusted OIBDA (in millions):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (recast)	% Change Favorable / (Unfavorable)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 (recast)	% Change Favorable / (Unfavorable)
Revenues:						
U.S. Networks	$ 620	$ 562	10%	$ 1,166	$ 1,084	8%
International Networks	306	267	15%	589	511	15%
Education and Other	33	35	(6)%	70	71	(1)%
Corporate and inter-segment eliminations	4	1	NM	7	5	40%
Total revenues	963	865	11%	1,832	1,671	10%
Costs of revenues [1]	(254)	(251)	(1)%	(521)	(500)	(4)%
Selling, general and administrative [1]	(264)	(241)	(10)%	(512)	(475)	(8)%
Add: Amortization of deferred launch incentives [2]	10	13	(23)%	21	27	(22)%
Adjusted OIBDA	$ 455	$ 386	18%	$ 820	$ 723	13%

NM = Not meaningful

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

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

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (recast)	% Change Favorable / (Unfavorable)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 (recast)	% Change Favorable / (Unfavorable)
Adjusted OIBDA:						
U.S. Networks	$ 379	$ 340	11%	$ 672	$ 621	8%
International Networks	132	91	45%	254	189	34%
Education and Other	1	1	%	6	7	(14)%
Corporate and inter-segment eliminations	(57)	(46)	(24)%	(112)	(94)	(19)%
Total Adjusted OIBDA	455	386	18%	820	723	13%
Amortization of deferred launch incentives	(10)	(13)	23%	(21)	(27)	22%
Mark-to-market stock-based compensation	(40)	(54)	26%	(76)	(86)	12%
Depreciation and amortization	(33)	(39)	15%	(66)	(76)	13%
Restructuring and impairment charges		(35)	100%	(3)	(38)	92%
Gains on dispositions		252	(100)%		252	(100)%
Operating income	$ 372	$ 497	(25)%	$ 654	$ 748	(13)%

U.S. Networks

The following table presents, for our U.S. Networks segment, revenues by type, certain operating expenses, contra revenue amounts, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating income (in millions).

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (recast)	% Change Favorable / (Unfavorable)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 (recast)	% Change Favorable / (Unfavorable)
Revenues:						
Distribution	$ 263	$ 247	6%	$ 522	$ 495	5%
Advertising	329	290	13%	595	534	11%
Other	28	25	12%	49	55	(11)%
Total revenues	620	562	10%	1,166	1,084	8%
Costs of revenues	(131)	(127)	(3)%	(276)	(267)	(3)%
Selling, general and administrative	(112)	(100)	(12)%	(222)	(207)	(7)%
Add: Amortization of deferred launch incentives	2	5	(60)%	4	11	(64)%
Adjusted OIBDA	379	340	11%	672	621	8%
Amortization of deferred launch incentives	(2)	(5)	60%	(4)	(11)	64%
		(2)	100%		(1)	100%

Mark-to-market stock-based compensation						
Depreciation and amortization	(5)	(8)	38%	(11)	(16)	31%
Restructuring and impairment charges		(22)	100%		(22)	100%
Gains on dispositions		252	(100)%		252	(100)%
Operating income	$ 372	$ 555	(33)%	$ 657	$ 823	(20)%

Revenues

Total revenues for the three and six months ended June 30, 2010 increased $58 million and $82 million, respectively, as compared to total revenues for the corresponding periods in 2009. These increases were due to increased advertising and distribution revenues. Other revenues contributed to the increase in total revenues for the three months ended June 30, 2010; however, the increase in total revenues for the six months ended June 30, 2010 was partially offset by a decline in other revenues.

Distribution revenues for the three and six months ended June 30, 2010 increased $16 million and $27 million, respectively, as compared to distribution revenues for the corresponding periods in 2009, due primarily to annual contractual rate increases, an increase in paying subscribers, principally for networks carried on the digital tier and declines of $3 million and $7 million, respectively, for the amortization of deferred launch incentives. The increases in distribution revenues were partially offset by the effect of deconsolidating the Discovery Kids Network in May 2009, which resulted in declines of $6 million and $18 million for the three and six month periods, respectively.

For the three and six months ended June 30, 2010, advertising revenues increased $39 million and $61 million, respectively, as compared to advertising revenues for the corresponding periods in 2009, which reflects higher scatter pricing and higher cash sellouts due to improvements in the advertising market. Advertising revenues for the year-to-date period also benefited from improved ratings.

Other revenues for the three months ended June 30, 2010 increased $3 million as compared to other revenues for the same period in 2009 due primarily to increased advertising sales representation services and content licensing revenues. For the six months ended June 30, 2010, other revenues declined $6 million as compared to the same prior year period as a result of the transition of our commerce business to a licensing model in early 2009.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, sales commissions, distribution costs and production costs, increased $4 million and $9 million for the three and six months ended June 30, 2010, respectively, as compared to costs of revenues for the similar periods in 2009. Increased costs of revenues for the three month period were attributable primarily to growth in content amortization expense due to a higher content asset balance, reflecting our continued investment in original content production, and higher sales commissions due to improved advertising sales, partially offset by a decline of $3 million due to the effect of deconsolidating the Discovery Kids Network. For the six month period, costs of revenues increased due to an additional $15 million in write-offs of capitalized content costs and higher sales commissions, which were partially offset by decreases of $8 million in production and distribution costs as a result of the transition of our commerce business to a licensing model in early 2009 and a decline of $7 million due to the effect of deconsolidating the Discovery Kids Network.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise of employee costs, marketing costs, research costs and occupancy and back office support fees, increased $12 million and $15 million for the three and six months ended June 30, 2010, respectively, as compared to selling, general and administrative expenses for the similar periods in 2009. The increases were attributable primarily to higher marketing costs, which were partially offset by lower overhead costs from cost reduction efforts.

Adjusted OIBDA

Adjusted OIBDA for the three and six months ended June 30, 2010 increased $39 million and $51 million, respectively, as compared to the corresponding periods in 2009. For the three month period, the increase in Adjusted OIBDA was driven by higher revenues as noted above, which was partially offset by a the deconsolidation of the Discovery Kids Network. For the six months ended June 30, 2010, Adjusted OIBDA increased as a result of improved revenues as noted above and the change in our commerce business model, which were partially offset by an increase in content write-offs due to management s decision not to proceed with certain programs and the deconsolidation of the Discovery Kids Network. Excluding content write-offs, the change in our commerce business and the deconsolidation of the Discovery Kids Network, Adjusted OIBDA for the six months ended June 30, 2010 increased 13%, or $78 million.

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International Networks

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

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2010	2009 (recast)	Favorable / (Unfavorable)	2010	2009 (recast)	Favorable / (Unfavorable)
Revenues:						
Distribution	$ 186	$ 175	6%	$ 372	$ 349	7%
Advertising	106	77	38%	188	134	40%
Other	14	15	(7)%	29	28	4%
Total revenues	306	267	15%	589	511	15%
Costs of revenues	(97)	(102)	5%	(196)	(190)	(3)%
Selling, general and administrative	(85)	(82)	(4)%	(156)	(148)	(5)%
Add: Amortization of deferred launch incentives	8	8	%	17	16	6%
Adjusted OIBDA	132	91	45%	254	189	34%
Amortization of deferred launch incentives	(8)	(8)	%	(17)	(16)	(6)%
Depreciation and amortization	(11)	(10)	(10)%	(19)	(19)	%
Restructuring and impairment charges		(9)	100%	(3)	(10)	70%
Operating income	$ 113	$ 64	77%	$ 215	$ 144	49%

Revenues

Total revenues for the three and six months ended June 30, 2010 increased $39 million and $78 million, respectively, as compared to total revenues for the corresponding periods in 2009, driven by increases in advertising and distribution revenues. The increase in total revenues for the six months ended June 30, 2010 includes an $11 million benefit for favorable changes in foreign currency exchange rates. Excluding the impacts from changes in foreign currency exchange rates, total revenues increased 12%, or $67 million, for the six months ended June 30, 2010.

For the three and six months ended June 30, 2010, distribution revenues increased $11 million and $23 million as compared to total revenues for the corresponding quarterly and year-to-date periods in 2009. Increased distribution revenues were driven by growth in the number of paying subscribers primarily in Latin America, which was attributable to growth in pay television services. This increase was partially offset by changes in our channel mix in certain regions as well as declines in average contractual rates. Additionally, distribution revenues for the six months ended June 30, 2010 benefited $8 million from favorable changes in foreign currency exchange rates. Excluding the impact of foreign currency exchange rates, distribution revenues increased 4%, or $15 million, for the six month period.

Advertising revenues for the three and six months ended June 30, 2010 increased $29 million and $54 million, respectively, as compared to advertising revenues for the similar periods in 2009 driven by improvements in substantially all regions in which we operate. The increase in advertising revenues was due principally to higher cash sellouts as a result of improvements in the advertising market and higher viewership combined with an increased subscriber base. Increased viewership was attributable to growth in pay television in certain markets and expanded distribution of our networks. Additionally, advertising revenues for the six months ended June 30, 2010 benefited $4 million from favorable changes in foreign currency exchange rates. Excluding the impact of foreign currency exchange rates, advertising revenues increased 35%, or $50 million, for the six month period.

Costs of Revenues

Costs of revenues, which consist primarily of content expense, distribution costs, sales commissions and production costs, decreased $5 million for the three months ended June 30, 2010 while costs of revenues increased $6 million for the six months ended

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June 30, 2010 as compared to the same periods in 2009. Decreased costs of revenues for the three months ended June 30, 2010 were driven by lower content expense. The increase in costs of revenues for the six months ended June 30, 2010 was driven by higher sales commissions, overhead costs and $4 million of unfavorable impacts from foreign currency exchange rates, which were partially offset by a decline in content write-offs. Content expense for the three and six months ended June 30, 2010 decreased $12 million and $6 million, respectively, primarily due to declines of $11 million and $10 million, respectively, for write-offs of capitalized content costs. Decreased write-offs for the six month period were partially offset by higher content amortization reflecting a higher content asset balance. Sales commissions increased as a result of improved advertising and distribution sales. Excluding content write-offs and the impacts of foreign currency exchange rates, costs of revenues for the three and six months ended June 30, 2010 increased 8%, or $7 million, and 6%, or $12 million, respectively.

Selling, General and Administrative

Selling, general and administrative expenses, which principally comprise of employee costs, marketing costs, occupancy and back office support fees, increased $3 million and $8 million for the three and six months ended June 30, 2010, respectively, as compared to the corresponding periods in 2009 due to higher employee costs. Higher employee costs for the six months ended June 30, 2010 were partially offset by favorable impacts of foreign currency exchanges rates of $4 million. Excluding the favorable impacts of foreign currency exchange rates, selling, general and administrative expenses increased 8%, or $12 million, for the six month period.

Adjusted OIBDA

Adjusted OIBDA for the three and six months ended June 30, 2010 increased $41 million and $65 million, respectively, as compared to Adjusted OIBDA for the corresponding periods in 2009. The improved performance was primarily attributable to higher revenues and a decrease in content write-offs as noted above. Additionally, Adjusted OIBDA for the six months ended benefited $11 million from favorable impacts of changes in foreign currency exchange rates. These improvements were partially offset by higher personnel costs and commissions due to improved revenues. Excluding content write-offs and favorable impacts of foreign currency exchange rates, Adjusted OIBDA increased 27%, or $30 million, and 20%, or $44 million for the three and six month periods, respectively.

Education and Other

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

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2010	2009 (recast)	Favorable / (Unfavorable)	2010	2009 (recast)	Favorable / (Unfavorable)
Revenues:						
Other	$ 33	$ 35	(6)%	$ 70	$ 71	(1)%
Total revenues	33	35	(6)%	70	71	(1)%
Costs of revenues	(21)	(23)	9%	(42)	(42)	%
Selling, general and administrative	(11)	(11)	%	(22)	(22)	%
Adjusted OIBDA	1	1	%	6	7	(14)%
Depreciation and amortization	(2)	(1)	(100)%	(3)	(2)	(50)%
Restructuring and impairment charges		(1)	100%		(1)	100%
Operating (loss) income	$ (1)	$ (1)	%	$ 3	$ 4	(25)%

Revenues

Total revenues for the three and six months ended June 30, 2010 decreased $2 million and $1 million, respectively, as compared to total revenues for the same periods in 2009. Decreased revenues were principally driven by a decline in DVD production services due to the overall decline in the DVD market. This decline was partially offset by growth in our education online streaming distribution due to the continued migration from hardcopy to online distribution of our education content.

Costs of Revenues

Costs of revenues, which consist principally of production costs, royalty payments and content amortization expense, decreased $2 million for the three months ended June 30, 2010 and remained consistent for the six months ended June 30, 2010 as compared to the corresponding periods in 2009. The decrease in costs for the three month period was primarily due to lower costs for post-production sound and music services as a result of closing a facility in the U.K.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, which principally comprise employee costs, occupancy expenses and marketing costs, for the three and six months ended June 30, 2010 remained consistent as compared to the same periods in 2009.

Adjusted OIBDA

Adjusted OIBDA remained consistent for the three months ended June 30, 2010 as compared to the corresponding period in 2009 as the decline in DVD production sales was offset by decreased costs as a result of closing a facility in the U.K. Adjusted OIBDA for the six months ended June 30, 2010 decreased $1 million reflecting the decrease in DVD production sales.

Corporate and Inter-segment Eliminations

The following table presents, for our unallocated corporate amounts, revenues, certain operating expenses, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating loss (in millions).

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2010	2009	Favorable / (Unfavorable)	2010	2009	Favorable / (Unfavorable)
Revenues:						
Other	$ 4	$ 1	NM	$ 7	$ 5	40%
Total revenues	4	1	NM	7	5	40%
Costs of revenues	(5)	1	NM	(7)	(1)	NM
Selling, general and administrative	(56)	(48)	(17)%	(112)	(98)	(14)%
Adjusted OIBDA	(57)	(46)	(24)%	(112)	(94)	(19)%
Mark-to-market stock-based compensation	(40)	(52)	23%	(76)	(85)	11%
Depreciation and amortization	(15)	(20)	25%	(33)	(39)	15%
Restructuring and impairment charges		(3)	100%		(5)	100%
Operating loss	$ (112)	$ (121)	7%	$ (221)	$ (223)	1%

NM = Not meaningful

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

Adjusted OIBDA for the three and six months ended June 30, 2010 decreased as compared to the similar periods in 2009 due primarily to increases in selling, general and administrative expenses and costs of revenues, which were partially offset by increases in revenues. Increased selling, general and administrative expenses was driven by increases of $3 million and $6 million for the three and six months ended June 30, 2010, respectively, for employee stock-based compensation expense related to stock options, PRSUs, and RSUs due to increases in the number of awards outstanding and our stock price. Costs of revenues increased as a result of higher content costs and costs related to DVD sales. Increased revenues were attributable to the release of the Life DVD series.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table presents a summary of changes in our cash flows for the six months ended June 30, 2010 and 2009 (in millions).

	Six Months Ended June 30, 2010	2009 (recast)
Cash provided by operating activities	$ 90	$ 337
Cash (used in) provided by investing activities	(99)	277
Cash provided by (used in) financing activities	99	(371)
Effect of exchange rate changes on cash and cash equivalents		2
Net change in cash and cash equivalents	$ 90	$ 245

Operating Activities

For the six months ended June 30, 2010, cash provided by operating activities was $90 million as compared to $337 million for the six months ended June 30, 2009. The decrease in cash provided by operating activities was due to $114 million of make-whole premiums paid in connection with the refinancing of our debt, a $108 million increase in payments for cash-settled stock-based awards, an $89 million increase in tax payments and a $70 million reduction in our operating liabilities. The increases in the uses of cash were partially offset by increased earnings, reflecting increased distribution and advertising revenues at our U.S. Networks and International Networks segments.

Investing Activities

Cash used in investing activities for the six months ended June 30, 2010 was $99 million as compared to cash provided by investing activities of $277 million during the similar 2009 period. Cash used in investing activities during 2010 primarily reflects $41 million in funding to our unconsolidated joint ventures, a $35 million payment for the acquisition of an uplink facility and $20 million for capital expenditures. Cash provided by investing activities during 2009 includes a one-time payment of $300 million from Hasbro in exchange for a 50% ownership interest in the Discovery Kids Network joint venture and $22 million in proceeds for the sale of equity investments, which were partially offset by $32 million in capital expenditures and $13 million in funding to unconsolidated joint ventures. The increase in funding to our unconsolidated joint ventures reflects additional costs incurred for content development and the decrease in capital expenditures reflects cost savings initiatives.

Financing Activities

During the six months ended June 30, 2010, $99 million of cash was provided by financing activities as compared to $371 million used for the six months ended June 30, 2009. Cash provided by financing activities for the six months ended June 30, 2010 principally reflects the issuance of $3.00 billion of public senior notes for which we received $2.97 billion of net proceeds after deducting underwriting discounts and issuance costs and $15 million of proceeds from stock option exercises. We used the debt offering proceeds and cash on hand to repay $2.88 billion of principal outstanding under our term loans and private senior notes.

Cash used in financing activities for the six months ended June 30, 2009 primarily reflects the repayment of $315 million of borrowings under our revolving credit loans and $518 million of principal outstanding under our term loans, which were partially offset by $500 million in borrowings from banks for which we received net proceeds of $478 million.

Sources and Uses of Cash

Our principal sources of liquidity are cash and cash equivalents on hand, cash flows from operations, available borrowing capacity under our revolving credit facility and access to capital markets. Our primary uses of cash include the creation and acquisition of new content, commitments to equity affiliates, business acquisitions and debt and related interest payments. We anticipate that our existing cash and cash equivalents on hand and cash generated by or available to us should be sufficient to meet our anticipated cash operating requirements for at least the next twelve months.

As of June 30, 2010, we had approximately $2.26 billion of total liquidity, comprised of $713 million of cash and cash equivalents on hand and the ability to borrow approximately $1.55 billion under our revolving credit facility. Our revolving credit facility expires in October 2010. We are currently assessing our options to enter into a new facility.

On June 17, 2009, we filed a Registration Statement on Form S-3 (Shelf Registration) with the U.S. Securities and Exchange Commission in which we registered securities, including debt securities, common stock and preferred stock. We have issued $3.50 billion of public senior notes under this Shelf Registration. While we are not required to issue additional securities under this Shelf Registration, we may issue additional securities at a future date.

On June 3, 2010, Discovery Communications, LLC (DCL), one of our subsidiaries, issued $850 million aggregate principal amount of 3.70% Senior Notes maturing on June 1, 2015 (the 2015 Notes), $1.30 billion aggregate principal amount of 5.05% Senior Notes maturing on June 1, 2020 (the 2020 Notes) and $850 million aggregate principal amount of 6.35% Senior Notes maturing on June 1, 2040 (the 2040 Notes and together with the 2015 Notes and the 2020 Notes, the Public Senior Notes Issued in 2010). DCL received net proceeds of $2.97 billion from the offering after deducting underwriting discounts and issuance costs.

DCL may, at its option, redeem some or all of the Public Senior Notes Issued in 2010 at any time by paying a make-whole premium, plus accrued and unpaid interest, if any, to the date of repurchase. Interest on these notes is payable on June 1 and December 1 of each year, beginning on December 1, 2010. The Public Senior Notes Issued in 2010 are unsecured and rank equally in right of payment with all of our other unsecured senior indebtedness and are fully and unconditionally guaranteed on an unsecured and unsubordinated basis by Discovery.

We used the net proceeds of the offering plus cash on hand to repay $1.46 billion outstanding under our Term Loan B, $487 million outstanding under our Term Loan C, net of the original issue discount, $220 million outstanding under our 8.37% Senior Notes due March 2011, $235 million outstanding under our 8.13% Senior Notes due September 2012, $90 million outstanding under our Floating Rate Senior Notes due December 2012, $390 million outstanding under our 6.01% Senior Notes due December 2015 and $114 million for make-whole premiums. These transactions resulted in a loss on extinguishment of debt of $136 million, which included the $114 million for make-whole premiums, $12 million of non-cash write-offs of unamortized deferred financing costs and $10 million for the repayment of the original issue discount on our term loans.

Our revolving line of credit and the indentures governing all of the public senior notes contain certain covenants, restrictions on certain transactions, events of default and other customary provisions. We were in compliance with all covenants as of June 30, 2010 and December 31, 2009.

In 2010, we expect our uses of cash to include $2.88 billion for debt repayments, all of which has been paid as of June 30, 2010, between $200 to $205 million for interest expense related to our debt, periodic derivative payments, and capital lease obligations, and approximately $50 million for capital expenditures. Additionally, we expect to make payments for cash-settled equity awards. Actual amounts expensed and payable for cash-settled equity awards are dependent on future calculations of fair value which are primarily affected by changes in our stock price, changes in the number of awards outstanding and changes to the plan. During the six months ended June 30, 2010, we paid $123 million for cash-settled equity awards. As of June 30, 2010, we accrued $96 million for outstanding cash-settled equity awards, of which $94 million was classified as current.

We have formed several cable and satellite television network joint ventures with the BBC to develop and distribute programming content. Under the terms of our agreements, the BBC has the right every three years commencing December 31, 2002, to require us to purchase its ownership interests in those joint ventures. Due to the complexities of the redemption formula, we have accrued the value of the redemption, or put right, at approximately $49 million as of June 30, 2010 and December 31, 2009. We are currently discussing with the BBC potential revisions to all of our contractual relationships, including the ownership of the joint ventures. While there can be no assurance that these or other negotiations would result in a definitive agreement, we expect that the cost of a negotiated acquisition of the BBC s interests in the joint ventures could substantially exceed the value of the put right.

We have interests in joint ventures pursuant to which Discovery is committed to fund up to $145 million to the ventures as of June 30, 2010, of which $76 million has been funded as of June 30, 2010. We anticipate that sufficient funds will be available to meet funding needs under our obligation in 2010. We expect to recoup the amounts funded in future periods provided that the joint ventures are profitable and have sufficient funds to repay us. We are currently discussing a number of matters regarding the OWN Network with the joint venture partner, including the programming and development pipeline and a likely increase in the Company s funding commitment.

On July 28, 2010, our Board of Directors approved a stock repurchase program, pursuant to which we are authorized to purchase up to $1 billion of our common stock. We expect to fund repurchases through a combination of cash on hand, cash generated by operations, borrowings under

our revolving credit facility and future financing transactions. Accordingly, our stock repurchase program is subject to us having available cash to fund repurchases. Under the program, management is authorized to purchase shares from time to time through open market purchases or privately negotiated transactions at prevailing prices as permitted by securities laws and other legal requirements, and subject to market conditions and other factors.

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Factors Affecting Liquidity and Capital Resources

Our $1.55 billion revolving credit facility expires in October 2010. If we were to experience a significant decline in operating performance, or have to meet an unanticipated need for additional liquidity beyond our available commitments, there is no certainty that we would be able to access the needed liquidity. While we have established relationships with U.S. and international banks and investors under our revolving credit facility, the current state of the credit markets may cause some lenders to have to reduce or withdraw their commitments if we were to seek to negotiate a refinancing or an increase in our total commitments. We have no indication that any of our lenders would be unable to perform under the requirements of our revolving credit facility should we seek additional funding.

Covenants in our revolving credit facility may constrain our capacity for additional debt or there may be significant increases in costs to access additional liquidity. Although our leverage and interest coverage covenants limit the total amount of debt we might incur relative to our operating cash flow, we expect we would continue to maintain compliance with our borrowing covenants with a 45% reduction in our current operating performance. We were compliant with all debt covenants as of June 30, 2010 and December 31, 2009 and have sufficient excess capacity to draw on our existing revolving credit facility commitment or incur additional debt.

As a public company, we may have access to other sources of capital such as the public bond and equity markets. However, access to sufficient liquidity in these markets is not assured given our substantial debt outstanding and the continued volatility in the equity and credit markets. Our access to capital markets can be affected by factors outside of our control. In addition, our cost to borrow is impacted by market conditions and our financial performance as measured by certain credit metrics defined in our credit agreements, including interest coverage and leverage ratios.

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

Contractual Obligations

For disclosures about our contractual obligations, refer to Note 15 to the accompanying condensed consolidated financial statements.

Guarantees

We have guaranteed a certain level of operating performance for the Discovery Kids Network joint venture. For disclosures about our guarantee, refer to Note 4 to the accompanying condensed consolidated financial statements.

RELATED PARTY TRANSACTIONS

In the ordinary course of business we enter into transactions with related parties, primarily Liberty Global, Inc., Liberty Media Corporation, and Ascent Media Corporation and their respective subsidiaries and affiliates, and companies in which we have an interest accounted for under the equity method. For additional information regarding transactions with related parties, refer to Note 14 to the accompanying condensed consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates have not changed materially since December 31, 2009. For disclosures about our critical accounting policies and estimates, refer to ITEM 7, Management s Discussion and Analysis of Results of Operations and Financial Condition, in our 2009 Form 10-K.

NEW ACCOUNTING AND REPORTING PRONOUNCEMENTS

During the six months ended June 30, 2010, we adopted certain accounting and reporting pronouncements. For disclosures about our adoption of certain pronouncements and pending adoption of other pronouncements, refer to Note 2 to the accompanying condensed consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Our earnings and cash flows are exposed to market risks and can be affected by, among other things, economic conditions, interest rate changes, foreign currency fluctuations and changes in the market values of investments. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks. We may use derivative financial instruments to modify our exposure to market risks from changes in interest rates and foreign exchange rates. We do not hold or enter into financial instruments for speculative trading purposes.

Interest Rates

The nature and amount of our long-term debt are expected to vary as a result of future requirements, market conditions and other factors. As of December 31, 2009, our committed debt facilities included two term loans, a revolving credit facility and various senior notes. Total commitments under these facilities were $4.94 billion as of December 31, 2009, of which $3.39 billion of indebtedness was outstanding. At December 31, 2009, $2.05 billion of indebtedness had variable interest rates and $1.34 billion carried fixed interest rates. In June 2010, we refinanced approximately $2.88 billion of our outstanding indebtedness, including the two term loans and certain private senior notes. As of June 30, 2010, our committed debt facilities included a revolving credit facility and various public senior notes. Total commitments under these facilities were $5.05 billion at June 30, 2010, of which $3.50 billion of indebtedness was outstanding. Substantially all of our outstanding indebtedness at June 30, 2010 carries fixed interest rates. As of June 30, 2010 and December 31, 2009, no amounts were outstanding under our revolving credit facility. If we were to draw on the revolving credit facility, interest would be variable based on either LIBOR plus a margin or the prime lending rate.

Fixed and variable rate debts are impacted differently by changes in interest rates. A change in the interest rate or yield of fixed rate debt will impact the fair market value of such debt, while a change in the interest rate of variable debt will impact interest expense, as well as the amount of cash required to service such debt. Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate volatility on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we may use interest rate swaps to manage our net exposure to interest rate changes related to our outstanding indebtedness. As of December 31, 2009, for variable rate debt we had outstanding $1.84 billion notional of fixed interest rate swaps with a weighted average interest rate of 4.27% to effectively fix the amount of interest paid. At December 31, 2009, for fixed rate debt we had outstanding $50 million notional amount of variable interest rate swaps with a weighted average interest rate of 4.67% effectively converting fixed rate borrowings to variable rate borrowings indexed to LIBOR in order to reduce the amount of interest paid. In June 2010, substantially all of our fixed and variable interest rate swaps matured or were settled prior to maturity.

As of June 30, 2010, the fair value of our debt was $3.68 billion. The potential change in fair market value for these financial instruments from an adverse 100 basis-point change in quoted interest rates across all maturities, often referred to as a parallel shift in the yield curve, would be approximately $363 million at June 30, 2010.

Refer to Note 7 and Note 8 to the accompanying consolidated financial statements for additional information regarding our outstanding indebtedness and derivative instruments.

Foreign Currency Exchange Rates

We transact business globally and are subject to risks associated with changing foreign currency exchange rates. Substantially all of our foreign transactions are denominated in foreign currencies, including the liabilities of our foreign subsidiaries. The majority of our foreign currency exposure is to the British pound and the Euro. Although our foreign transactions are not generally subject to significant foreign exchange transaction gains or losses, the financial statements of our foreign subsidiaries are translated into U.S. dollars as part of our consolidated financial reporting. As a result, fluctuations in exchange rates affect our financial position and results of operations.

We continually monitor our economic exposure to changes in foreign currency exchange rates and may enter into spot, forward and option contracts that change in value as foreign currency exchange rates change to hedge forecasted foreign currency transactions in order to mitigate fluctuations in our earnings and cash flows associated with changes in foreign currency exchange rates. Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flows. We did not hold any foreign currency derivative instruments at June 30, 2010.

Market Values of Investments

We invest our excess cash in highly liquid instruments such as money market mutual funds and U.S. Treasury securities, which totaled $591 million at June 30, 2010. Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate

securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our income from investments may decrease in the future. A hypothetical 100 basis-point increase in interest rates would not materially impact the fair value of our marketable securities as of June 30, 2010.

ITEM 4. Controls and Procedures.

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There have been no changes to the Company s internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the three months ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

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

ITEM 1A. Risk Factors.

Our risk factors have not changed materially since December 31, 2009. For disclosures about our existing risk factors, refer to ITEM 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009.

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ITEM 6. Exhibits.

Exhibit No.	Description
4.1	Second Supplemental Indenture, dated as of June 3, 2010, among Discovery Communications, LLC, Discovery Communications, Inc. and U.S. Bank National Association, as trustee, incorporated by reference to the Current Report on Form 8-K (SEC File No. 0-34177) filed on June 3, 2010
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	XBRL Instance Document (furnished herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (furnished herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (furnished herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (furnished herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith)

SIGNATURES

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

	DISCOVERY COMMUNICATIONS, INC.
	(Registrant)
Date: August 3, 2010	By: /s/ David M. Zaslav David M. Zaslav President and Chief Executive Officer
Date: August 3, 2010	By: /s/ Bradley E. Singer Bradley E. Singer Senior Executive Vice President and Chief Financial Officer

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