

Edgar Filing: Discovery Communications, Inc. - Form 10-Q

Discovery Communications, Inc.
Form 10-Q
May 05, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 001-34177

Discovery Communications, Inc.
(Exact name of Registrant as specified in its charter)

Delaware 35-2333914
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

One Discovery Place 20910
Silver Spring, Maryland
(Address of principal executive offices) (Zip Code)
(240) 662-2000
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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

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

Edgar Filing: Discovery Communications, Inc. - Form 10-Q

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

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

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

Total number of shares outstanding of each class of the Registrant's common stock as of April 28, 2016:

Series A Common Stock, par value \$0.01 per share	150,480,876
Series B Common Stock, par value \$0.01 per share	6,514,584
Series C Common Stock, par value \$0.01 per share	248,724,491

DISCOVERY COMMUNICATIONS, INC.
FORM 10-Q
TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION.</u>	
<u>ITEM 1. Unaudited Financial Statements.</u>	
Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015.	<u>4</u>
Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015.	<u>5</u>
Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015.	<u>6</u>
Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015.	<u>7</u>
Consolidated Statement of Equity for the three months ended March 31, 2016.	<u>8</u>
<u>Notes to Consolidated Financial Statements.</u>	<u>9</u>
<u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>43</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	<u>57</u>
<u>ITEM 4. Controls and Procedures.</u>	<u>57</u>
<u>PART II. OTHER INFORMATION.</u>	
<u>ITEM 1. Legal Proceedings.</u>	<u>58</u>
<u>ITEM 1A. Risk Factors.</u>	<u>58</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	<u>58</u>
<u>ITEM 6. Exhibits.</u>	<u>59</u>
<u>SIGNATURES.</u>	<u>60</u>

PART I. FINANCIAL INFORMATION

ITEM 1. Unaudited Financial Statements.

DISCOVERY COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except par value)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 333	\$ 390
Receivables, net	1,520	1,479
Content rights, net	352	313
Deferred income taxes	91	68
Prepaid expenses and other current assets	371	346
Total current assets	2,667	2,596
Noncurrent content rights, net	2,029	2,030
Property and equipment, net	466	488
Goodwill	8,207	8,164
Intangible assets, net	1,718	1,730
Equity method investments	529	567
Other noncurrent assets	262	289
Total assets	\$ 15,878	\$ 15,864
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 171	\$ 282
Accrued liabilities	974	988
Deferred revenues	205	190
Current portion of debt	25	119
Total current liabilities	1,375	1,579
Noncurrent portion of debt	7,965	7,616
Deferred income taxes	510	556
Other noncurrent liabilities	414	421
Total liabilities	10,264	10,172
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	248	241
Equity:		
Discovery Communications, Inc. stockholders' equity:		
Series A convertible preferred stock: \$0.01 par value; 75 shares authorized; 71 shares issued	1	1
Series C convertible preferred stock: \$0.01 par value; 75 shares authorized; 35 and 38 shares issued	1	1
Series A common stock: \$0.01 par value; 1,700 shares authorized; 153 shares issued	1	1
Series B convertible common stock: \$0.01 par value; 100 shares authorized; 7 shares issued	—	—
Series C common stock: \$0.01 par value; 2,000 shares authorized; 377 and 376 shares issued	4	4
Additional paid-in capital	7,027	7,021
Treasury stock, at cost	(5,675)	(5,461)
Retained earnings	4,621	4,517
Accumulated other comprehensive loss	(614)	(633)
Total equity	5,366	5,451
Total liabilities and equity	\$ 15,878	\$ 15,864

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

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

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Distribution	\$ 801	\$ 758
Advertising	687	687
Other	73	92
Total revenues	1,561	1,537
Costs and expenses:		
Costs of revenues, excluding depreciation and amortization	592	565
Selling, general and administrative	408	400
Depreciation and amortization	79	81
Restructuring and other charges	6	9
Gain on disposition	(13)	—
Total costs and expenses	1,072	1,055
Operating income	489	482
Interest expense	(85)	(89)
(Loss) income from equity investees, net	(8)	1
Other expense, net	(16)	(19)
Income before income taxes	380	375
Income tax expense	(111)	(125)
Net income	269	250
Net income attributable to redeemable noncontrolling interests	(6)	—
Net income available to Discovery Communications, Inc.	\$ 263	\$ 250
Net income per share available to Discovery Communications, Inc. Series A, B and C common stockholders:		
Basic	\$ 0.42	\$ 0.38
Diluted	\$ 0.42	\$ 0.37
Weighted average shares outstanding:		
Basic	413	439
Diluted	630	667

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

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

	Three Months Ended March 31,	
	2016	2015
Net income	\$269	\$250
Other comprehensive income (loss), net of tax:		
Currency translation adjustments	58	(248)
Market value adjustments	(21)	—
Derivative adjustments	(17)	12
Comprehensive income	289	14
Comprehensive (income) loss attributable to redeemable noncontrolling interests	(7)	35
Comprehensive income attributable to Discovery Communications, Inc.	\$282	\$49

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

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

	Three Months Ended March 31,	
	2016	2015
Operating Activities		
Net income	\$269	\$250
Adjustments to reconcile net income to cash provided by operating activities:		
Equity-based compensation expense	24	2
Depreciation and amortization	79	81
Content amortization and impairment expense	441	407
Gain on disposition	(13)	—
Remeasurement gain on previously held equity interest	—	(2)
Equity in earnings of investee companies, net of cash distributions	9	1
Deferred income taxes	(58)	(48)
Realized loss from derivative instruments	—	11
Other, net	15	9
Changes in operating assets and liabilities, net of business combinations:		
Receivables, net	(7)	(10)
Content rights, net	(488)	(445)
Accounts payable and accrued liabilities	(148)	(134)
Equity-based compensation liabilities	(5)	(25)
Income taxes receivable and prepaid income taxes	28	3
Other, net	(84)	(37)
Cash provided by operating activities	62	63
Investing Activities		
Purchases of property and equipment	(15)	(34)
Business acquisitions, net of cash acquired	—	(16)
Payments for derivative instruments, net	—	(11)
Distributions from equity method investees	15	15
Investments in equity method investees, net	4	(26)
Investments in cost method investments	(4)	—
Other investing activities, net	(1)	(6)
Cash used in investing activities	(1)	(78)
Financing Activities		
Commercial paper (repayments) borrowings, net	(93)	199
Borrowings under revolving credit facility	95	123
Principal repayments of revolving credit facility	(252)	(13)
Borrowings from debt, net of discount	498	936
Principal repayments of debt	—	(849)
Principal repayments of capital lease obligations	(12)	(12)
Repurchases of stock	(373)	(317)
Distributions to redeemable noncontrolling interests	(2)	—
Equity-based plan payments, net	(5)	(17)
Hedge of borrowings from debt instruments	—	(29)
Other financing activities, net	(11)	(9)

Edgar Filing: Discovery Communications, Inc. - Form 10-Q

Cash (used in) provided by financing activities	(155)	12
Effect of exchange rate changes on cash and cash equivalents	37	(43)
Net change in cash and cash equivalents	(57)	(46)
Cash and cash equivalents, beginning of period	390	367
Cash and cash equivalents, end of period	\$333	\$321

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

7

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

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) / Income	Total Equity		
	Shares	Par Value	Shares	Par Value					
December 31, 2015	109	\$ 2	536	\$ 5	\$ 7,021	\$(5,461)	\$4,517	\$ (633)	\$5,451
Net income available to Discovery Communications, Inc.	—	—	—	—	—	—	263	—	263
Other comprehensive income	—	—	—	—	—	—	—	19	19
Repurchases of stock	(3)	—	—	—	—	(214)	(159)	—	(373)
Equity-based compensation	—	—	—	—	11	—	—	—	11
Tax settlements associated with equity-based compensation	—	—	—	—	(11)	—	—	—	(11)
Issuance of common stock in connection with equity-based plans	—	—	1	—	6	—	—	—	6
March 31, 2016	106	\$ 2	537	\$ 5	\$ 7,027	\$(5,675)	\$4,621	\$ (614)	\$5,366

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

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Discovery Communications, Inc. ("Discovery" or the "Company") is a global media company that provides content across multiple distribution platforms, including pay-TV, free-to-air and broadcast television networks, websites, digital distribution arrangements and content licensing agreements. The Company also develops and sells curriculum-based education products and services and operates production studios. The Company classifies its operations in two reportable segments: U.S. Networks, consisting principally of domestic television networks and websites, and International Networks, consisting principally of international television networks and websites; and two combined operating segments referred to as Education and Other, consisting principally of curriculum-based product and service offerings and production studios. Financial information for Discovery's reportable segments is discussed in Note 16.

Basis of Presentation

The consolidated financial statements include the accounts of Discovery and its majority-owned subsidiaries in which a controlling interest is maintained. For each non-wholly owned subsidiary, the Company evaluates its ownership and other interests to determine whether it should consolidate the entity or account for its ownership interest as an investment. As part of its evaluation, the Company makes judgments in determining whether the entity is a variable interest entity ("VIE") and, if so, whether it is the primary beneficiary of the VIE and is thus required to consolidate the entity. (See Note 3.) Inter-company accounts and transactions between consolidated entities have been eliminated in consolidation.

Unaudited Interim Financial Statements

These consolidated financial statements are unaudited; however, in the opinion of management, they reflect all adjustments consisting only of normal recurring adjustments necessary to state fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles ("GAAP") applicable to interim periods. The results of operations for the interim periods presented are not necessarily indicative of results for the full year or future periods. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Discovery's Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K").

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Management continually re-evaluates its estimates, judgments and assumptions, and management's evaluation could change. These estimates are sometimes complex, sensitive to changes in assumptions and require fair value determinations using Level 3 fair value measurements. Actual results may differ materially from those estimates.

Estimates inherent in the preparation of the consolidated financial statements include accounting for asset impairments, revenue recognition, allowances for doubtful accounts, content rights, depreciation and amortization, business combinations, equity-based compensation, income taxes, other financial instruments, contingencies and the determination of whether the Company is the primary beneficiary of entities in which it holds variable interests.

Accounting and Reporting Pronouncements Adopted

Business Consolidation

In February 2015, the Financial Accounting Standards Board ("FASB") issued guidance that amends the analysis that a reporting entity performs to determine whether it should consolidate certain legal entities. The changes in this guidance include how related parties and de facto agents are considered in the primary beneficiary determination and the analysis for determining whether a fee paid to a decision maker or service provider is a variable interest. The new standard is effective for reporting periods beginning after December 15, 2015 and can be adopted either

retrospectively or using a modified retrospective approach by recording a cumulative-effect adjustment to stockholders' equity as of the beginning of the fiscal year of adoption. The Company adopted this guidance effective January 1, 2016, and there was no effect on the consolidated financial statements.

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Business Combinations

In September 2015, the FASB issued new guidance on adjustments to provisional amounts recognized in a business combination, which are currently recognized on a retrospective basis. Under the new requirements, adjustments will be recognized in the reporting period in which the adjustments are determined. The effects of changes in depreciation, amortization, or other income arising from changes to the provisional amounts, if any, are included in earnings of the reporting period in which the adjustments to the provisional amounts are determined. An entity is also required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The Company adopted this guidance effective January 1, 2016, and there was no effect on the consolidated financial statements.

Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued explicit guidance on the recognition of fees paid by a customer for cloud computing arrangements as either the acquisition of a software license or a service contract. The Company adopted this guidance effective October 1, 2015, and there was no material effect on the consolidated financial statements.

Presentation of Debt Issuance Costs

In April 2015, the FASB issued guidance requiring all debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the debt instead of being presented as an asset on the balance sheet. The Company retrospectively adopted the new guidance effective April 1, 2015 and reclassified its unamortized debt issuance costs related to the Company's debt from other noncurrent assets to noncurrent portion of debt on the consolidated balance sheet for the year ended December 31, 2014.

Accounting and Reporting Pronouncements Not Yet Adopted

Share-Based Payments

In March 2016, the FASB issued guidance that simplifies how share-based payments are accounted for and presented in the financial statements. The new guidance includes requirements to record all of the tax effects related to share-based payments at settlement through the income statement, allows for tax withholdings up to maximum statutory rates before precluding equity accounting, and allows the Company to make an accounting policy election for the impact of forfeitures on the recognition of expense. The new standard is effective for reporting periods beginning after December 15, 2016 and can be adopted early in any interim period, with any adjustments reflected as of the beginning of the fiscal year of adoption in retained earnings. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Leases

In February 2016, the FASB issued guidance on leases that will require lessees to recognize almost all of their leases on the balance sheet by recording a right-of-use asset and liability. The new standard will be effective for reporting periods beginning after December 15, 2018, and requires application of the new accounting guidance at the beginning of the earliest comparative period presented in the year of adoption. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued guidance regarding the classification and measurement of financial instruments, which significantly revises the classification and measurement of investments in equity securities. This standard supersedes the guidance to classify equity securities with readily determinable fair values into different categories and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. Investments accounted for under the equity method of accounting or that result in consolidation are not included within the scope of this update. The new standard will be effective for reporting periods beginning after

December 15, 2017. This pronouncement is expected to impact the Company's accounting for changes in the fair value of available-for-sale ("AFS") securities.

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued guidance to simplify the presentation of deferred income taxes, which removes the requirement to separate deferred tax liabilities and assets into current and noncurrent amounts and instead requires all such amounts be classified as noncurrent on the Company's consolidated balance sheets. The new requirement will be effective for financial statements issued for annual periods beginning after December 15, 2016 and can be adopted on either a retrospective or prospective basis. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Presentation of Financial Statements - Going Concern

In August 2014, the FASB issued guidance requiring management to perform interim and annual assessments regarding conditions or events that raise substantial doubt about the Company's ability to continue as a going concern and to provide related disclosures, if applicable. The new standard is effective for reporting periods ending after December 15, 2016, with early adoption permitted. The adoption of this standard is not expected to have a material effect on the consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting pronouncement related to revenue recognition, which applies a single, comprehensive revenue recognition model for all contracts with customers. This standard contains principles with respect to the measurement of revenue and timing of recognition. The Company will recognize revenue to reflect the transfer of goods or services to customers at an amount that it expects to be entitled to receive in exchange for those goods or services. In August 2015, the FASB deferred the pronouncement's effective date to annual reporting periods beginning after December 15, 2017. However, reporting entities may choose to adopt the standard as of the original effective date of annual reporting periods beginning after December 15, 2016. The Company is required to apply the new revenue standard beginning in the first interim period within the year of adoption. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Concentrations Risk

Customers

The Company has long-term contracts with distributors around the world. For the U.S. Networks segment, more than 90% of distribution revenue comes from the Company's top 10 distributors in the U.S. For the International Networks segment, approximately 44% of distribution revenue comes from the Company's top 10 distributors outside of the U.S. Agreements in place with the major cable and satellite operators in the U.S. expire at various times beginning in 2016 through 2021. Although the Company seeks to renew its agreements with its distributors, a delay in securing a renewal that results in a service disruption, a failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on the Company's financial condition and results of operations. Not only could the Company experience a reduction in distribution revenue, but it could also experience a reduction in advertising revenue, as viewership is impacted by affiliate subscriber levels.

No individual customer accounted for more than 10% of total consolidated revenues for the three months ended March 31, 2016 or 2015. As of March 31, 2016 and December 31, 2015, the Company's trade receivables did not represent a significant concentration of credit risk as the customers and markets in which the Company operates are varied and dispersed across many geographic areas.

Financial Institutions

Cash and cash equivalents are maintained with several financial institutions. The Company has deposits held with banks that exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and, therefore, bear minimal credit risk. Additionally, the Company has cash and cash equivalents held by its foreign subsidiaries that would result in U.S. tax consequences should the Company decide it needs to repatriate these funds to the U.S.

Lender Counterparties

There is a risk that the counterparties associated with the Company's revolving credit facility will not be available to fund as obligated under the terms of the facility and that the Company may, at the time of such unavailability to fund, have limited or no access to the commercial paper market. If funding under the revolving credit facility is unavailable, the Company may have to acquire a replacement credit facility from different counterparties at a higher cost or may be unable to find a suitable replacement. Typically, the Company seeks to manage such risks from its revolving credit facility by contracting with experienced large

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

financial institutions and monitoring the credit quality of its lenders. As of March 31, 2016, the Company did not anticipate nonperformance by any of its counterparties.

NOTE 2. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Eurosport

On December 21, 2012, the Company acquired a 20% equity method investment in Eurosport France. On March 31, 2015, the Company acquired an additional 31% interest in Eurosport France for €36 million (\$38 million). This transaction gave the Company a 51% controlling stake in Eurosport France. The Company recognized a gain of \$2 million during the three months ended March 31, 2015, to account for the difference between the carrying value and the fair value of the previously held 20% equity method investment in Eurosport France in the Company's consolidated statements of operations. (See Note 13.) On October 1, 2015, the Company acquired the remaining 49% of Eurosport France. (See Note 8.)

Eurosport France is part of Eurosport, a leading pan-European sports media platform. The flagship Eurosport network focuses on regionally popular sports, such as tennis, skiing, cycling and motor sports. Eurosport's brands and platforms also include Eurosport HD (high definition simulcast), Eurosport 2, Eurosport 2 HD (high definition simulcast) and Eurosportnews. The acquisition is intended to increase the growth of Eurosport and enhance the Company's pay-TV offerings in Europe.

The Company used a discounted cash flow ("DCF") analysis, which represents a Level 3 fair value measurement, to assess certain components of the Eurosport France purchase price allocation. The fair value of the assets acquired, liabilities assumed, noncontrolling interest recognized and the remeasurement gain recorded on the previously held equity interest is presented in the table below (in millions).

	March 31, 2015
Goodwill	\$ 69
Intangible assets	40
Other assets acquired	25
Cash	35
Removal of TF1 put right	2
Currency translation adjustment	(6)
Remeasurement gain on previously held equity interest	(2)
Liabilities assumed	(30)
Deferred tax liabilities	(14)
Redeemable noncontrolling interest (Note 8)	(60)
Carrying value of previously held equity interest	(21)
Net assets acquired	\$ 38

The goodwill reflects the workforce and synergies expected from increased pan-European market penetration as the operations of Eurosport and the Company are combined. The goodwill recorded as part of this acquisition is included in the International Networks reportable segment and is not amortizable for tax purposes. Intangible assets primarily consist of distribution and advertising customer relationships, advertiser backlog and trademarks with a weighted average estimated useful life of 10 years.

Other

In 2015, the Company acquired several other unrelated businesses for total cash and contingent consideration of \$91 million, net of cash acquired. Total consideration, net of cash acquired, included contingent consideration of \$13 million as of December 31, 2015, of which \$1 million was paid during the three months ended March 31, 2016. The Company recorded \$54 million and \$43 million of goodwill and intangible assets, respectively, in connection with

these acquisitions. The acquisitions included free-to-air ("FTA") networks in Italy and Turkey, cable networks in Denmark and a pay-TV sports channel in Asia. The goodwill reflects the synergies and regional market penetration from combining the operations of these acquisitions with the Company's operations.

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

Impact of Business Combinations

The operations of each of the business combinations in 2015 discussed above were included in the consolidated financial statements as of each of their respective acquisition dates. These business combinations had insignificant revenues and earnings as reported within the consolidated financial statements for the three months ended March 31, 2015. The following table presents their revenue and earnings as reported within the consolidated financial statements for the current period (in millions).

	Three Months Ended March 31, 2016
Revenues:	
Distribution	\$ 21
Advertising	13
Other	1
Total revenues	\$ 35
Net income	\$ 7

Dispositions

Russia

On October 7, 2015, Discovery recorded a loss of \$5 million upon deconsolidation of its Russian business following its contribution to a joint venture (the "New Russian Business") with a Russian media company, National Media Group ("NMG"). The New Russian Business was established to comply with changes in Russian legislation that limit foreign ownership of media companies in Russia. No cash consideration was exchanged in the transaction. NMG contributed a FTA license which enables advertising for the New Russian Business. As part of the transaction, Discovery obtained a 20% ownership interest in the New Russian Business, which is accounted for under the equity method of accounting. The loss on contribution of the Russian business included \$15 million of goodwill allocated to the transaction based on the relative fair values of the Russian business disposed of and the portion of the reporting unit that was retained. Although Discovery no longer consolidates the Russian business, Discovery earns revenue by providing content and brands to the New Russian Business under long-term licensing arrangements. The Russian business was included in the International Networks reportable segment; the licensing arrangements are reported as distribution revenue in the International Networks reportable segment. (See Note 16.)

Radio

On June 30, 2015, Discovery sold its radio business in Northern Europe to Bauer Media Group ("Bauer") for total consideration, net of cash disposed, of €72 million (\$80 million), which included €54 million (\$61 million) in cash and €18 million (\$19 million) of potential contingent consideration. The cumulative gain on the disposal is \$1 million and includes \$26 million of goodwill allocated to the transaction based on the relative fair values of the radio business disposed of and the portion of the reporting unit that was retained. Based on a change in estimate of the fair value of contingent consideration, Discovery recorded a pre-tax gain of \$13 million for the three months ended March 31, 2016. For the year-ended December 31, 2015, the Company recorded an estimated loss on disposal of \$12 million using then available projected results.

The Company determined that the disposal did not meet the definition of a discontinued operation because it does not represent a strategic shift that has a significant impact on the Company's operations and consolidated financial results.

The impact to income before income taxes for the Company's radio businesses was a loss of \$4 million for the three months ended March 31, 2015. The Company's radio businesses were part of the International Networks reportable segment.

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

NOTE 3. INVESTMENTS

The Company's investments consisted of the following (in millions).

Category	Balance Sheet Location	March 31, December 31,	
		2016	2015
Trading securities:			
Mutual funds	Prepaid expenses and other current assets	\$ 153	\$ 149
Equity method investments	Equity method investments	529	567
Available-for-sale securities:			
Common stock	Other noncurrent assets	55	81
Common stock - pledged	Other noncurrent assets	55	81
Cost method investments	Other noncurrent assets	47	43
Total investments		\$ 839	\$ 921

Trading Securities

Trading securities include investments in mutual funds held in a separate trust which are owned as part of the Company's supplemental retirement plan. (See Note 4.)

Equity Method Investments

In the normal course of business, the Company makes investments that support its underlying business strategy and enable it to enter new markets and develop programming. All equity method investees are privately owned. The carrying values of the Company's equity method investments are consistent with its ownership in the underlying net assets of the investees, except for Oprah Winfrey Network ("OWN"), because the Company has recorded losses in excess of its ownership interest. Certain of the Company's equity method investments are VIEs, for which the Company is not the primary beneficiary. As of March 31, 2016, the Company's estimated risk of loss for all its VIEs including the investment carrying values, unfunded contractual commitments, and guarantees made on behalf of VIEs was approximately \$416 million. The Company's estimated risk of loss excludes the non-contractual future funding of VIEs. The aggregate carrying values of these VIE investments were \$410 million and \$423 million as of March 31, 2016 and December 31, 2015, respectively. The Company recognized its portion of net income and losses generated by VIE's of \$8 million and \$13 million for the three months ended March 31, 2016 and 2015, respectively.

OWN

OWN is a pay-TV network and website that provides adult lifestyle content, which is focused on self-discovery, self-improvement and entertainment. Since the initial equity was not sufficient to fund OWN's activities without additional subordinated financial support in the form of a note receivable held by the Company, OWN is a VIE. While the Company and Harpo, Inc. ("Harpo") are partners who share equally in voting control, power is not shared because Harpo holds operational rights related to programming and marketing, as well as selection and retention of key management personnel, that significantly impact OWN's economic performance. Accordingly, the Company has determined that it is not the primary beneficiary of OWN and accounts for its investment in OWN using the equity method. However, the Company provides OWN content licenses and services, such as distribution, sales and administrative support, for a fee and has provided OWN funding. (See Note 14.)

The Company's combined advances to and note receivable from OWN, including accrued interest, were \$369 million and \$384 million as of March 31, 2016 and December 31, 2015, respectively. On April 30, 2015, Oprah Winfrey agreed to extend her exclusivity agreement with OWN and the note receivable agreement was modified to reduce its interest rate, compounded annually, from 7.5% to 5.0%, retroactive to January 1, 2014. During the three months ended March 31, 2016, the Company received net repayments of \$20 million from OWN and accrued interest on the note receivable of \$5 million.

The note receivable is secured by the net assets of OWN. While the Company has no further funding commitments, the Company will provide additional funding to OWN, if necessary, and expects to recoup amounts funded. There can

be no event of default on the borrowing until 2023. However, borrowings are scheduled for repayment four years after the borrowing date to the extent that OWN has excess cash to repay the borrowings then due. Following such repayment, OWN's subsequent cash distributions will be shared equally between the Company and Harpo. In accordance with the venture agreement, losses generated by OWN are generally allocated to both investors based on their proportionate ownership interests. However, the Company has recorded its portion of OWN's losses based upon accounting policies for equity method investments. Prior to the contribution of the Discovery Health network to OWN at its launch, the

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

Company had recognized \$104 million, or 100%, of OWN's net losses. During the three months ended March 31, 2012, accumulated operating losses at OWN exceeded the equity contributed to OWN, and Discovery began again to record 100% of OWN's net losses. Although OWN has become profitable, the Company will record 100% of any net losses to the extent they occur resulting from OWN's operations as long as Discovery has provided all funding to OWN and OWN's accumulated losses continue to exceed the equity contributed. All of OWN's net income has been and will continue to be recorded by the Company until the Company recovers losses absorbed in excess of the Company's equity ownership interest. The carrying value of the Company's investment in OWN of \$363 million and \$373 million as of March 31, 2016 and December 31, 2015, respectively, includes the Company's note receivable and accumulated investment losses. The Company monitors the financial results of OWN along with other relevant business information to assess the recoverability of the OWN note receivable. There has been no impairment of the OWN note receivable.

Based on the joint venture agreement, as amended on April 1, 2016, Harpo has the right to conditionally require the Company to purchase all or part of Harpo's interest in OWN at fair market value up to a maximum put amount during 90-day windows beginning on April 1, 2017 and every two and a half years commencing July 1, 2018 through January 1, 2026. The maximum put amount ranges from \$100 million on the first put exercise date up to a cumulative cap of \$400 million on the fifth put exercise date. The Company has not recorded amounts for the put right because the fair value of this put right was zero as of March 31, 2016 and December 31, 2015.

Other Equity Method Investments

Other equity method investments include equity ownership interests in unconsolidated entities other than OWN. At March 31, 2016 and December 31, 2015, these equity method investments included the Company's investments in the New Russian Business, All3Media and certain joint ventures in Canada.

Available-for-Sale Securities

On November 12, 2015, the Company acquired 5 million shares, or 3.4%, of Lions Gate Entertainment Corp. ("Lionsgate"), an entertainment company, for \$195 million. As the shares have a readily determinable fair value and the Company has the intent to retain the investment, the shares are classified as AFS securities.

In connection with this transaction, the Company hedged 50% of the shares with an equity collar (the "Lionsgate Collar") and pledged those shares as collateral to the derivative counter party. In the application of hedge accounting, when the share price of Lionsgate is within the boundaries of the collar and the hedge has no intrinsic value, the Company records the gains or losses on the Lionsgate AFS securities as a component of other comprehensive income (loss). When the share price of the Lionsgate AFS is outside the boundaries of the collar and the hedge has intrinsic value, the Company records a gain or loss for the change in the fair value of the hedged portion of Lionsgate shares that correspond to the change in intrinsic value of the hedge as a component of other expense, net. For the three months ended March 31, 2016, the Company recorded a temporary unrealized loss of \$52 million related to this investment, of which \$26 million was recorded as a component of other comprehensive income (loss) and \$26 million was recorded as a component of other expense, net. The Company also recorded a gain of \$26 million for the increase in intrinsic value of the Lionsgate collar during the period. (See Note 7.)

The components of the Company's AFS securities, which are included in other non-current assets, are summarized in the table below (in millions).

	March 31, 2016	December 31, 2015
Cost	\$195	\$ 195
Unrealized losses	(85)	(33)
Fair Market Value	\$110	\$ 162

If declines in the value of AFS securities are determined to be other-than-temporary, a loss is recorded in earnings in the current period as a component of other expense, net on the consolidated statements of operations. Impairments are determined based on, among other factors, the length of time the fair value of the investment has been less than the carrying value, future business prospects for the investee, and information regarding market and industry trends for the investee's business, if available. Unrealized losses related to our investment in Lionsgate shares represent 44% of our cost. The Company has owned the Lionsgate stock for a short period of time. Lionsgate share prices have historically been volatile, and the Company continues to believe in the long-term value of the investment. The Company does not intend to dispose of its Lionsgate shares for the foreseeable future. Based on current information, the Company anticipates that the fair value of its investment in Lionsgate will recover. Accordingly, the Company concluded that there were no unrealized losses that were other-than-temporary as of March 31, 2016. However, the Company continues to carefully monitor this investment.

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

Cost Method Investments

Cost method investments include ownership rights in entities that do not provide the Company with control or significant influence in these investments and that have no readily determinable fair values. The Company's cost method investments as of March 31, 2016 primarily include an educational website and an electric car racing series.

NOTE 4. FAIR VALUE MEASUREMENTS

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants. Assets and liabilities carried at fair value are classified in the following three categories:

Level 1-Quoted prices for identical instruments in active markets.

Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in

Level 2 markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3-Valuations derived from techniques in which one or more significant inputs are unobservable.

The tables below present assets and liabilities measured at fair value on a recurring basis (in millions).

Category	Balance Sheet Location	March 31, 2016			Total
		Level 1	Level 2	Level 3	
Assets:					
Trading securities - mutual funds	Prepaid expenses and other current assets	\$ 153	\$ —	\$ —	—\$153
Available-for-sale securities:					
Common stock	Other noncurrent assets	55	—	—	55
Common stock - pledged	Other noncurrent assets	55	—	—	55
Derivatives:					
Foreign exchange	Prepaid expenses and other current assets	—	23	—	23
Foreign exchange	Other noncurrent assets	—	4	—	4
Equity (Lionsgate Collar)	Other noncurrent assets	—	33	—	33
Total		\$263	\$ 60	\$ —	—\$323
Liabilities:					
Deferred compensation plan	Accrued liabilities	\$ 153	\$ —	\$ —	—\$153
Derivatives:					
Foreign exchange	Accrued liabilities	—	28	—	28
Foreign exchange	Other noncurrent liabilities	—	4	—	4
Total		\$153	\$ 32	\$ —	—\$185

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Category	Balance Sheet Location	December 31, 2015			Total
		Level 1	Level 2	Level 3	
Assets:					
Trading securities - mutual funds	Prepaid expenses and other current assets	\$ 149	\$ —	\$ —	-\$ 149
Available-for-sale securities:					
Common stock	Other noncurrent assets	81	—	—	81
Common stock - pledged	Other noncurrent assets	81	—	—	81
Derivatives:					
Foreign exchange	Prepaid expenses and other current assets	—	21	—	21
Foreign exchange	Other noncurrent assets	—	2	—	2
Equity (Lionsgate Collar)	Other noncurrent assets	—	15	—	15
Total		\$ 311	\$ 38	\$ —	-\$ 349
Liabilities:					
Deferred compensation plan	Accrued liabilities	\$ 149	\$ —	\$ —	-\$ 149
Derivatives:					
Foreign exchange	Accrued liabilities	—	4	—	4
Total		\$ 149	\$ 4	\$ —	-\$ 153

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

AFS securities represent equity investments with readily determinable fair values. The fair value of Level 1 AFS securities was determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. (See Note 3).

Derivative financial instruments are comprised of foreign exchange contracts and equity used by the Company to modify its exposure to market risks from foreign exchange rates and changes in the fair value of AFS securities. Periodically, interest rate contracts are used to modify exposure to market risks from interest rates for forecasted issuances of debt. The fair value of Level 2 derivative financial instruments was determined using a market-based approach.

In addition to the financial instruments listed in the tables above, the Company holds other financial instruments, including cash deposits, accounts receivable, accounts payable, commercial paper, borrowings under the revolving credit facility, capital leases and senior notes. The carrying values for such financial instruments, other than the senior notes, each approximated their fair values as of March 31, 2016. The estimated fair value of the Company's outstanding senior notes using quoted prices from over the counter markets, considered Level 2 inputs, was \$7.4 billion and \$6.6 billion as of March 31, 2016 and December 31, 2015, respectively.

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

NOTE 5. CONTENT RIGHTS

The table below presents the components of content rights (in millions).

	March 31, December 31,	
	2016	2015
Produced content rights:		
Completed	\$ 3,711	\$ 3,624
In-production	386	376
Coproduced content rights:		
Completed	707	691
In-production	39	62
Licensed content rights:		
Acquired	1,099	1,078
Prepaid	120	96
Content rights, at cost	6,062	5,927
Accumulated amortization	(3,681)	(3,584)
Total content rights, net	2,381	2,343
Current portion	(352)	(313)
Noncurrent portion	\$ 2,029	\$ 2,030

Content expense is included in costs of revenues on the consolidated statements of operations and consisted of the following (in millions).

	Three months ended March 31,	
	2016	2015
Content amortization	\$435	\$403
Other production charges	59	53
Content impairments	6	4
Total content expense	\$500	\$460

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 6. DEBT

The table below presents the components of outstanding debt (in millions).

	March 31, December 31,	
	2016	2015
5.625% Senior notes, semi-annual interest, due August 2019	\$ 500	\$ 500
5.05% Senior notes, semi-annual interest, due June 2020	1,300	1,300
4.375% Senior notes, semi-annual interest, due June 2021	650	650
2.375% Senior notes, euro denominated, annual interest, due March 2022	339	328
3.30% Senior notes, semi-annual interest, due May 2022	500	500
3.25% Senior notes, semi-annual interest, due April 2023	350	350
3.45% Senior notes, semi-annual interest, due March 2025	300	300
4.90% Senior notes, semi-annual interest, due March 2026	500	—
1.90% Senior notes, euro denominated, annual interest, due March 2027	678	656
6.35% Senior notes, semi-annual interest, due June 2040	850	850
4.95% Senior notes, semi-annual interest, due May 2042	500	500
4.875% Senior notes, semi-annual interest, due April 2043	850	850
Revolving credit facility	614	782
Commercial paper	—	93
Capital lease obligations	130	142
Total debt	8,061	7,801
Unamortized discount and debt issuance costs	(71)	(66)
Debt, net	7,990	7,735
Current portion of debt	(25)	(119)
Noncurrent portion of debt	\$ 7,965	\$ 7,616

Senior Notes

On March 11, 2016, Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of the Company, issued \$500 million principal amount of 4.90% senior notes due March 11, 2026 (the "2016 USD Notes"). The proceeds received by DCL from the offering were net of a \$2 million issuance discount and \$3 million of debt issuance costs. Interest on the 2016 USD Notes is payable semi-annually on March 11 and September 11 of each year.

Revolving Credit Facility

On February 4, 2016, DCL amended its \$1.5 billion revolving credit facility to allow DCL and certain designated foreign subsidiaries of DCL to borrow up to \$2.0 billion, including a \$100 million sublimit for the issuance of standby letters of credit and a \$50 million sublimit for swingline loans. Borrowing capacity under this agreement is reduced by any outstanding borrowings under the commercial paper program discussed below. The revolving credit facility agreement provides for a maturity date of February 4, 2021 and the option for up to two additional 364-day renewal periods.

As of March 31, 2016, the Company had outstanding borrowings under the revolving credit facility of \$614 million at a weighted average interest rate of 2.00%, of which \$14 million was denominated in foreign currencies. As of December 31, 2015, the Company had outstanding borrowings under the revolving credit facility of \$782 million at a weighted average interest rate of 1.55% of which \$14 million was denominated in foreign currencies. The interest rate on borrowings under the revolving credit facility is variable based on DCL's then-current credit ratings for its publicly traded debt and changes in financial index rates. For dollar-denominated borrowings, the interest rate is based, at the Company's option, on either adjusted LIBOR plus a margin, or an alternate base rate plus a margin. For borrowings denominated in foreign currencies, the interest rate is based on adjusted LIBOR, plus a margin. The current margins are 1.10% and 0.10%, respectively, per annum for adjusted LIBOR and alternate base rate borrowings. A monthly

facility fee is charged based on the total capacity of the facility, and interest is charged based on the amount borrowed on the facility. The current facility fee rate is 0.15% per annum and subject to change based on DCL's then-current credit ratings. All obligations of DCL and the other borrowers under the revolving credit facility are unsecured and are fully and unconditionally guaranteed by Discovery.

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The credit agreement governing the revolving credit facility contains customary representations, warranties and events of default, as well as affirmative and negative covenants. As of March 31, 2016, the Company, DCL and the other borrowers were in compliance with all covenants, and there were no events of default under the revolving credit facility.

Commercial Paper

The Company's commercial paper program is supported by the revolving credit facility described above. The Company did not have any outstanding commercial paper borrowings as of March 31, 2016. As of December 31, 2015, the Company had outstanding commercial paper borrowings of \$93 million with a weighted average interest rate of approximately 1.10%.

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to modify its exposure to market risks from changes in foreign currency exchange rates, interest rates and the fair value of investments classified as AFS securities. The Company does not enter into or hold derivative financial instruments for speculative trading purposes.

The Company designates foreign currency forward and option contracts as cash flow hedges to mitigate foreign currency risk arising from third-party revenue and inter-company licensing agreements. The Company also designates interest rate contracts used to hedge the pricing for certain senior notes as cash flow hedges. Gains and losses on the effective portion of designated cash flow hedges are initially recorded in accumulated other comprehensive loss on the consolidated balance sheets and reclassified into the statements of operations in the same line item in which the hedged item is recorded in the same period as the hedged item affects earnings. If it becomes probable that a forecasted transaction will not occur, any related gains and losses recorded in accumulated other comprehensive loss on the consolidated balance sheets are reclassified to other expense, net on the consolidated statements of operations in that period.

During the three months ended March 31, 2015, the Company terminated and settled its interest rate cash flow hedges following the pricing of its 3.45% Senior Notes due March 15, 2015 (the "2015 USD Notes"). The total notional value of the interest rate forward contracts at the termination date was \$490 million, which exceeded the \$300 million principal amount of the 2015 USD Notes. Of the \$40 million pretax loss recorded in accumulated other comprehensive loss at the termination date, \$29 million was an effective cash flow hedge that will be amortized as an adjustment to interest expense over the ten year term of the 2015 USD Notes consistent with amortization of the debt discount. The remaining \$11 million was reclassified into other expense, net on the consolidated statements of operations during the three months ended March 31, 2015, because the forecasted borrowing transaction was no longer probable.

The Company designates derivative instruments used to mitigate the risk of changes in the fair value of its AFS securities as fair value hedges. On November 12, 2015 the Company entered into the Lionsgate Collar, designed to mitigate the risk of market fluctuations with respect to 50% of the Lionsgate shares held by the Company. (See Note 3.) The collar, which qualifies for hedge accounting, settles in three tranches starting in 2019 and ending in 2022. The Company records gains and losses from the Lionsgate Collar in other expense, net on the consolidated statement of operations.

The Company records all unsettled derivative contracts at their gross fair values on the consolidated balance sheets. (See Note 4.) There were no amounts eligible to be offset under master netting agreements as of March 31, 2016 and December 31, 2015.

The cash flows from the effective portion of derivative instruments used as hedges are classified in the consolidated statements of cash flows in the same section as the cash flows from the hedged item. For example, the cash paid or received to settle the effective portion of foreign exchange derivatives intended to hedge distribution revenue earned during the three months ended March 31, 2016 is reported as an operating activity in the consolidated statements of cash flows consistent with the classification of cash received from customers. The cash flows from the ineffective

portion of derivative instruments used as hedges and derivative contracts not designated as hedges are reported as investing activities in the consolidated statements of cash flows.

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following table summarizes the notional amount and fair value of the Company's derivative positions (in millions).

Category	Balance Sheet Location	March 31, 2016		December 31, 2015	
		Notional	Fair Value	Notional	Fair Value
Derivatives designated as hedges:					
Foreign exchange	Prepaid expenses and other current assets	\$408	\$ 23	\$ 523	\$ 21
Foreign exchange	Other noncurrent assets	90	4	55	2
Foreign exchange	Accrued liabilities	405	28	290	4
Foreign exchange	Other noncurrent liabilities	89	4	—	—
Equity	Other noncurrent assets	97	33	97	15
Derivatives not designated as hedges:					
Foreign exchange	Prepaid expenses and other current assets	4	—	—	—

The following table presents the pretax impact of derivatives designated as cash flow hedges on income and other comprehensive income (loss) (in millions).

	Three Months Ended March 31, 2016		2015	
(Losses) gains recognized in accumulated other comprehensive loss:				
Foreign exchange		\$(21)		\$26
Interest rate		—		(12)
Gains (losses) reclassified into income from accumulated other comprehensive loss (effective portion):				
Foreign exchange - distribution revenue		1		3
Foreign exchange - costs of revenues		4		2
Foreign exchange - other expense, net		1		1
Interest rate - interest expense		(1)		—
Losses reclassified into income from accumulated other comprehensive loss (ineffective portion):				
Interest rate - other expense, net		—		(11)
Fair value excluded from effectiveness assessment:				
Foreign exchange - other expense, net		(1)		—

If current fair values as of March 31, 2016 remained static over the next twelve months, the Company would reclassify \$12 million of net deferred losses from accumulated other comprehensive loss into income in the next twelve months.

The following table presents the pretax impact of derivatives designated as fair value hedges on income, including offsetting changes in fair value of the hedged items and amounts excluded from the assessment of effectiveness (in millions). There were no amounts of ineffectiveness recognized on fair value hedges for the three months ended March 31, 2016. The Company had no outstanding fair value hedges during the three months ended March 31, 2015.

Three
Months
Ended
March
31,

Edgar Filing: Discovery Communications, Inc. - Form 10-Q

	2016
Losses on changes in fair value of hedged AFS	\$ (26)
Gains on changes in the intrinsic value of equity contracts	26
Fair value of equity contracts excluded from effectiveness assessment	(8)
Total in other expense, net	\$ (8)

21

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

The pre-tax impact of derivatives not designated as hedges was immaterial to the Company's statement of operations for the three months ended March 31, 2016. There were no derivatives not designated as hedges outstanding during the three months ended March 31, 2015.

NOTE 8. REDEEMABLE NONCONTROLLING INTERESTS

Redeemable noncontrolling interests reflected as of the balance sheet date are the greater of the noncontrolling interest balances adjusted for comprehensive income items and distributions or the redemption values remeasured at the period end foreign exchange rates (i.e., the "floor"). Adjustments to the carrying amount of redeemable noncontrolling interests to redemption value as a result of changes in exchange rates are reflected in currency translation adjustments, a component of other comprehensive income (loss); however, such currency translation adjustments to redemption value are allocated to Discovery stockholders only. Redeemable noncontrolling interest adjustments of redemption value to the floor are reflected in retained earnings. Any adjustment of redemption value to the floor that reflects a redemption in excess of fair value is included as an adjustment to net income available to Discovery stockholders in the calculation of earnings per share. There were no current period adjustments to reflect a redemption in excess of fair value. (See Note 12.)

The table below presents the reconciliation of changes in redeemable noncontrolling interests (in millions).

	Three Months Ended March 31,	
	2016	2015
Beginning balance	\$241	\$747
Initial fair value of redeemable noncontrolling interests of acquired businesses	—	60
Cash distributions to redeemable noncontrolling interests	(2)	—
Comprehensive income adjustments:		
Net income attributable to redeemable noncontrolling interests	6	—
Other comprehensive income (loss) attributable to redeemable noncontrolling interests	1	(35)
Currency translation on redemption values	2	(59)
Retained earnings adjustments:		
Adjustments of redemption values to the floor	—	39
Ending balance	\$248	\$752

Redeemable noncontrolling interests consist of the following arrangements:

In connection with the acquisition of a controlling interest in Eurosport France on March 31, 2015, the Company recognized \$60 million for TF1's 49% redeemable noncontrolling interest. On July 22, 2015, TF1 exercised its right to put the entirety of its remaining 49% noncontrolling interest in both Eurosport France and Eurosport International to the Company for €491 million (\$551 million as of the date redemption became mandatory, and \$548 million on October 1, 2015 when the transaction closed). The difference between the carrying amount of the redeemable noncontrolling interest and its fair value at the date of exercise resulted in a €25 million (\$28 million) adjustment to retained earnings, recognized as a component of redeemable noncontrolling interest adjustments to redemption value in the consolidated statements of equity for the period ended September 30, 2015. Upon acquisition of TF1's noncontrolling interest on October 1, 2015, the Company adjusted the accumulated other comprehensive income balance of \$61 million attributable to TF1 and allocated it to Discovery stockholders.

In connection with the acquisition of a controlling interest in Discovery Family on September 23, 2014, the Company recognized \$238 million for Hasbro's redeemable noncontrolling interest in Discovery Family. Hasbro has the right to put the entirety of its remaining 40% non-controlling interest to the Company for one year after December 31, 2021, or in the event a Discovery performance obligation related to Discovery Family is not met. Embedded in the

redeemable noncontrolling interest is also a Discovery call right that is exercisable for one year after December 31, 2021. Upon the exercise of the put or call options, the price to be paid for the redeemable noncontrolling interest is generally a function of the then-current fair market value of the redeemable noncontrolling interest, to which certain discounts and floor values may apply in specified situations depending upon the party exercising the put or call and the basis for the exercise of the put or call. As Hasbro's put right is outside the control of the Company, Hasbro's 40% noncontrolling interest is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet.

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

In connection with the acquisition of a controlling interest in Discovery Japan on January 10, 2013, Jupiter Telecommunications Co., Ltd ("J:COM") obtained the right to put all, but not less than all, of its 20% noncontrolling interest to Discovery at any time for cash. Through January 10, 2017, the redemption value is the January 10, 2013 fair value denominated in Japanese yen; thereafter, the redemption value is the greater of the then-current fair value or the January 10, 2013 fair value denominated in Japanese yen.

NOTE 9. EQUITY

Common Stock Repurchase Program

Under the Company's stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases, privately negotiated transactions at prevailing prices, pursuant to one or more accelerated stock repurchase agreements, or other derivative arrangements as permitted by securities laws and other legal requirements, and subject to stock price, business and market conditions and other factors. Over the life of the program, authorization under the stock repurchase program has totaled \$7.5 billion. As of March 31, 2016, the Company had remaining authorization of \$1.8 billion for future repurchases under the existing stock repurchase program, which will expire on October 8, 2017.

All common stock repurchases have been made through open market transactions and repurchased common stock has been recorded as treasury stock on the consolidated balance sheet. As of March 31, 2016, the Company had repurchased over the life of the program 3 million and 123 million shares of Series A and Series C common stock, respectively, for the aggregate purchase price of \$171 million and \$5.5 billion, respectively. The table below presents a summary of common stock repurchases during the three months ended March 31, 2016 and 2015 (in millions).

	Three Months Ended March 31, 2016 2015	
Series C Common Stock:		
Shares repurchased	8.4	6.4
Purchase price	\$214	\$200

Preferred Stock Repurchase and Conversion

The Company has an agreement with Advance/Newhouse Programming Partnership ("Advance/Newhouse") to repurchase, on a quarterly basis, a number of shares of Series C convertible preferred stock convertible into a number of shares of Series C common stock equal to 3/7 of the number of shares of Series C common stock purchased under the Company's common stock repurchase program during the then most recently completed fiscal quarter. The price paid per preferred share is calculated as 99% of the average price paid for the Series C common shares repurchased by the Company during the applicable fiscal quarter multiplied by the Series C conversion rate. The Series C preferred stock is convertible, at the option of the holder, into two shares of Series C common stock. The Advance/Newhouse repurchases are made outside of the Company's publicly announced common stock repurchase program. The repurchase transactions are recorded as a decrease of par value of preferred stock and retained earnings upon settlement as there is no remaining additional paid-in capital for this class of stock.

The table below presents a summary of Series C convertible preferred stock repurchases during the three months ended March 31, 2016 and 2015 (in millions).

	Three Months Ended March 31, 2016 2015	
--	--	--

Series C Convertible Preferred Stock:

Shares repurchased	2.9	1.7
Purchase price	\$159	\$117

Based on the number of shares of Series C common stock repurchased during the three months ended March 31, 2016, the Company expects to convert and retire 1.8 million shares of its Series C convertible preferred shares under the preferred stock conversion and repurchase arrangement for an aggregate purchase price of \$91 million or about May 9, 2016. The expected purchase of these shares has not been recognized as a liability on the Company's consolidated balance sheet as of March 31, 2016,

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

due to certain termination rights held by Discovery and Advance/Newhouse in the preferred stock conversion and repurchase arrangement.

In addition, on February 25, 2016, at the request of Advance/Newhouse and in accordance with the Company's Articles of Incorporation, the Company converted 292,500 shares of Advance/Newhouse Series C convertible preferred stock into 585,000 shares of Series C common stock.

Other Comprehensive Income (Loss)

The table below presents the tax effects related to each component of other comprehensive income (loss) and reclassifications made into the consolidated statements of operations (in millions).

	Three Months Ended March 31, 2016			Three Months Ended March 31, 2015		
	Pretax	Tax Benefit (Expense)	Net-of-tax	Pretax	Tax Benefit (Expense)	Net-of-tax
Currency translation adjustments:						
Unrealized gains (losses)	\$50	\$ 8	\$ 58	\$(265)	\$ 11	\$(254)
Reclassifications:						
Other expense, net	—	—	—	6	—	6
Total currency translation adjustments	50	8	58	(259)	11	(248)
Market value adjustments:						
Unrealized losses	(52)	10	(42)	—	—	—
Reclassifications:						
Other expense, net	26	(5)	21	—	—	—
Total market value adjustments	(26)	5	(21)	—	—	—
Derivative adjustments:						
Unrealized (losses) gains	(21)	8	(13)	14	(6)	8
Reclassifications:						
Distribution revenue	(1)	—	(1)	(3)	1	(2)
Costs of revenues	(4)	1	(3)	(2)	1	(1)
Other expense, net	(1)	—	(1)	10	(3)	7
Interest expense	1	—	1	—	—	—
Total derivative adjustments	(26)	9	(17)	19	(7)	12
Other comprehensive income (loss)	\$(2)	\$ 22	\$ 20	\$(240)	\$ 4	\$(236)

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Accumulated Other Comprehensive Loss

The table below presents the changes in the components of accumulated other comprehensive loss, net of taxes (in millions).

	Three Months Ended March 31, 2016			Accumulated Other Comprehensive Loss
	Currency Translation Adjustments	Market Value Adjustments	Derivative Adjustments	
Beginning balance	\$(606)	\$ (27)	\$ —	\$ (633)
Other comprehensive income (loss) before reclassifications	58	(42)	(13)	3
Reclassifications from accumulated other comprehensive loss to net income	—	21	(4)	17
Other comprehensive income (loss)	58	(21)	(17)	20
Other comprehensive income attributable to redeemable noncontrolling interests	(1)	—	—	(1)
Ending balance	\$(549)	\$ (48)	\$ (17)	\$ (614)

	Three Months Ended March 31, 2015			Accumulated Other Comprehensive Loss
	Currency Translation Adjustments	Market Value Adjustments	Derivative Adjustments	
Beginning balance	\$ (367)	\$ (2)	\$ 1	\$ (368)
Other comprehensive (loss) income before reclassifications	(254)	—	8	(246)
Reclassifications from accumulated other comprehensive loss to net income	6	—	4	10
Other comprehensive (loss) income	(248)	—	12	(236)
Other comprehensive loss attributable to redeemable noncontrolling interests	35	—	—	35
Ending balance	\$ (580)	\$ (2)	\$ 13	\$ (569)

NOTE 10. EQUITY-BASED COMPENSATION

The Company has various incentive plans under which stock options, time-based restricted stock units ("RSUs"), performance-based restricted stock units ("PRsUs"), stock appreciation rights ("SARs") and unit awards have been issued. During the three months ended March 31, 2016, the vesting and service requirements of equity-based awards granted were consistent with the arrangements disclosed in the 2015 Form 10-K.

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

The table below presents the components of equity-based compensation expense (in millions).

	Three Months Ended March 31, 20162015	
PRsUs	\$9	\$ 2
RSUs	6	4
Stock options	5	5
SARs	4	(8)
ESPP	—	1
Unit awards	—	(2)
Total equity-based compensation expense	\$24	\$ 2
Tax benefit recognized	\$9	\$ 1

Compensation expense for all awards was recorded in selling, general and administrative expense on the consolidated statements of operations. The Company records expense for the fair value of cash-settled and other liability-classified equity-based compensation awards ratably over the graded vesting service period based on changes in fair value as well as the the probability that performance targets will be met, if applicable, less estimated forfeitures. These liability-classified equity-based compensation awards include SARs, unit awards and certain PRsUs. The table below presents current and non-current portions of cash-settled and other liability-classified equity-based compensation awards for the periods ending March 31, 2016 and December 31, 2015 (in millions).

	March 31, December 31, 2016 2015	
Current portion of liability-classified awards:		
PRsUs	\$ 21	\$ —
SARs	3	5
Non-current portion of liability-classified awards:		
PRsUs	34	46
SARs	4	3
Total liability-classified equity based compensation award liability	\$ 62	\$ 54

The table below presents award activity (in millions, except weighted-average exercise price) for PRsUs, RSUs and SARs.

	Three Months Ended March 31, 2016	
	Awards	Weighted-Average Grant Price
Awards granted:		
PRsUs	0.9	\$ 25.08
RSUs	1.4	\$ 25.11
SARs	2.4	\$ 25.76
Awards converted or settled:		
PRsUs	0.6	\$ 22.32
RSUs	0.3	\$ 33.71
SARs	0.9	\$ 20.66

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The table below presents stock option activity (in millions, except weighted-average exercise price).

	Stock Options	Weighted-Average Exercise Price
Outstanding as of December 31, 2015	15.3	\$ 24.01
Granted	2.3	\$ 25.24
Exercised	(0.3)	\$ 15.18
Forfeited	(0.3)	\$ 35.26
Outstanding as of March 31, 2016	17.0	

The table below presents unrecognized compensation cost, net of expected forfeitures, related to non-vested equity-based awards and the weighted average amortization period over which these expenses will be recognized as of March 31, 2016 (in millions, except years).

	Unrecognized Compensation Cost, Net of Expected Forfeitures	Weighted Average Amortization Period (years)
RSUs	\$ 63	3.4
PRsUs	41	1.5
Stock options	40	2.6
SARs	17	1.5
Total unrecognized compensation cost, net of expected forfeitures	\$ 161	

NOTE 11. INCOME TAXES

The Company's provisions for income taxes were \$111 million and \$125 million, and the effective income tax rates were 29% and 33%, for the three months ended March 31, 2016 and 2015, respectively. The following table reconciles the Company's effective income tax rate to the U.S. federal statutory income tax rate of 35%.

	Three Months Ended March 31,	
	2016	2015
U.S. federal statutory income tax rate	35 %	35 %
State and local income taxes, net of federal tax benefit	2 %	2 %
Effect of foreign operations	(4)%	— %
Domestic production activity deductions	(4)%	(4)%
Effective income tax rate	29 %	33 %

The Company and its subsidiaries file income tax returns in the U.S. and various state and foreign jurisdictions. The Company is currently under limited issue examination by the IRS for its 2008 to 2011 tax years and under audit for its 2012 to 2014 consolidated federal income tax returns. The Company does not anticipate any material adjustments. With few exceptions, the Company is no longer subject to audit by any jurisdiction for years prior to 2006. Adjustments that arose as the audits for certain tax years were completed have been included in change in uncertain tax positions in the table above.

The Company's reserves for uncertain tax positions at March 31, 2016 and December 31, 2015 totaled \$179 million and \$173 million, respectively. It is reasonably possible that the total amount of unrecognized tax benefits related to certain of the Company's uncertain tax positions could decrease by as much as \$78 million within the next twelve months as a result of ongoing audits, lapses of statutes of limitations or regulatory developments.

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

As of March 31, 2016 and December 31, 2015, the Company had accrued approximately \$21 million and \$20 million of total interest and penalties payable related to unrecognized tax benefits, respectively. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

NOTE 12. EARNINGS PER SHARE

In calculating earnings per share, the Company follows the two-class method, which distinguishes between the classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. The Company's Series A, B and C common stock and the Series C convertible preferred stock are treated as one class for purposes of applying the two-class method, because they have substantially equal rights and share equally on an as converted basis with respect to income available to Discovery Communications, Inc.

The table below sets forth the computation for income available to Discovery Communications, Inc. stockholders (in millions).

	Three Months Ended March 31, 2016 2015	
Numerator:		
Net income	\$269	\$250
Less:		
Allocation of undistributed income to Series A convertible preferred stock	(59)	(53)
Net income attributable to redeemable noncontrolling interests	(6)	—
Net income available to Discovery Communications, Inc. Series A, B and C common and Series C convertible preferred stockholders for basic net income per share	\$204	\$197
Allocation of net income available to Discovery Communications Inc. Series A, B and C common stockholders and Series C convertible preferred stockholders for basic net income per share:		
Series A, B and C common stockholders	173	166
Series C convertible preferred stockholders	31	31
Total	204	197
Add:		
Allocation of undistributed income to Series A convertible preferred stockholders	59	53
Net income available to Discovery Communications, Inc. Series A, B and C common stockholders for diluted net income per share	\$263	\$250

Net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share is included in net income available to Discovery Communications, Inc. Series A, B and C common stockholders for diluted net income per share. For the three months ended March 31, 2016 and 2015, net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share was \$30 million.

The table below sets forth the weighted average number of shares outstanding utilized in determining the denominator for basic and diluted earnings per share (in millions).

Three
Months
Ended
March
31,

Edgar Filing: Discovery Communications, Inc. - Form 10-Q

	2016	2015
Denominator:		
Weighted average Series A, B and C common shares outstanding — basic	413	439
Weighted average impact of assumed preferred stock conversion	214	223
Weighted average dilutive effect of equity-based awards	3	5
Weighted average Series A, B and C common shares outstanding — diluted	630	667
Weighted average Series C convertible preferred stock outstanding — basic and diluted	36	41

28

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

The weighted average number of diluted shares outstanding adjusts the weighted average number of shares of Series A, B and C common stock outstanding for the potential dilution that would occur if common stock equivalents, including convertible preferred stock and equity-based awards, were converted into common stock or exercised, calculated using the treasury stock method. Series A, B and C diluted common stock includes the impact of the conversion of Series A preferred stock, the impact of the conversion of Series C preferred stock, and the impact of equity-based compensation.

The table below sets forth the Company's calculated earnings per share.

	Three Months Ended March 31, 2016 2015	
Basic net income per share available to Discovery Communications, Inc. Series A, B and C common and Series C convertible preferred stockholders:		
Series A, B and C common stockholders	\$0.42	\$0.38
Series C convertible preferred stockholders	\$0.84	\$0.76

Diluted net income per share available to Discovery Communications, Inc. Series A, B and C common and Series C convertible preferred stockholders:

Series A, B and C common stockholders	\$0.42	\$0.37
Series C convertible preferred stockholders	\$0.84	\$0.74

Series C convertible preferred earnings per share amounts may not recalculate due to rounding. The computation of the diluted earnings per share of Series A, B and C common stockholders assumes the conversion of Series A and C convertible preferred stock, while the diluted earnings per share amounts of Series C convertible preferred stock does not assume conversion of those shares.

The table below presents the details of the equity-based awards and preferred shares that were excluded from the calculation of diluted earnings per share (in millions).

	Three Months Ended March 31, 2016 2015	
Anti-dilutive stock options and RSUs	7	6
PRSU's whose performance targets have not been achieved	3	3

Only outstanding PRSU's whose performance targets have been achieved as of the last day of the most recent period are included in the dilutive effect calculation.

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 13. SUPPLEMENTAL DISCLOSURES

The following tables present supplemental information related to the consolidated financial statements (in millions).

Accrued Liabilities

	March 31, December 31,	
	2016	2015
Accrued payroll and related benefits	\$ 345	\$ 449
Content rights payable	209	217
Accrued interest	97	61
Current portion of equity-based compensation liabilities	24	5
Accrued income taxes	21	30
Other accrued liabilities	278	226
Total accrued liabilities	\$ 974	\$ 988

Other Expense, Net

	Three Months Ended March 31,	
	2016	2015
Foreign currency losses, net	\$(4)	\$(12)
Loss on derivative instruments	(9)	(11)
Remeasurement gain on previously held equity interest	—	2
Other (expense) income, net	(3)	2
Total other expense, net	\$(16)	\$(19)

Equity-Based Plan Proceeds, Net

	Three Months Ended March 31,	
	2016	2015
Tax settlements associated with equity-based plans	\$(11)	\$(26)
Excess tax benefits from equity-based compensation	—	5
Proceeds from issuance of common stock in connection with equity-based plans	6	4
Total equity-based plan payments, net	\$(5)	\$(17)

Supplemental Cash Flow Information

	Three Months Ended March 31,	
	2016	2015
Cash paid for taxes, net	\$145	\$218
Cash paid for interest, net	46	41
Noncash investing and financing activities:		
Contingent consideration obligations from business acquisitions	—	10
Contingent consideration receivable from business dispositions	13	—
Accrued purchases of property and equipment	9	6

NOTE 14. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with related parties. Related parties include entities that share common directorship, such as Liberty Global plc ("Liberty Global"), Liberty Broadband Corporation ("Liberty Broadband") and their subsidiaries and equity method investees (together the "Liberty Group"). Discovery's Board of Directors

30

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

includes Mr. Malone, who is Chairman of the Board of Liberty Global and beneficially owns approximately 25% of the aggregate voting power with respect to the election of directors of Liberty Global. Mr. Malone is also Chairman of the Board of Liberty Broadband and beneficially owns approximately 46% of the aggregate voting power with respect to the election of directors of Liberty Broadband. The majority of the revenue earned from the Liberty Group relates to multi-year network distribution arrangements. Related party transactions also include revenues and expenses for content and services provided to or acquired from equity method investees, such as OWN, All3Media and the Company's investments in the New Russian Business, or minority partners of consolidated subsidiaries, such as Hasbro.

The table below presents a summary of the transactions with related parties (in millions).

	Three Months Ended March 31, 2016 2015	
Revenues and service charges:		
Liberty Group	\$56	\$40
Equity method investees	27	24
Other	11	8
Total revenues and service charges	\$94	\$72
Interest income ^(a)	\$5	\$8
Expenses	\$(21)	\$(21)

^(a) The Company records interest earnings from loans to equity method investees, such as OWN, as a component of income from equity investees, net, in the consolidated statements of operations. (See Note 3.)

The table below presents receivables due from related parties (in millions).

	March 31, December 31, 2016 2015	
Receivables	\$ 66	\$ 37
Note receivable (Note 3)	369	384

NOTE 15. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

Commitments

In the normal course of business, the Company enters into various commitments, which primarily include programming and talent arrangements, operating and capital leases, employment contracts, arrangements to purchase various goods and services, future funding commitments to equity method investees, and the conditional obligation to issue or acquire additional shares of preferred stock. (See Note 9.)

Contingencies

Put Rights

The Company has granted put rights related to an equity method investment and certain consolidated subsidiaries. Harpo has the right to require the Company to purchase all or part of its interest in OWN for fair value at various dates. No amounts have been recorded by the Company for the Harpo put right. (See Note 3.) Hasbro and J:COM have the right to require the Company to purchase their remaining noncontrolling interests in Discovery Family and Discovery Japan, respectively. The Company recorded the value of the put rights for Discovery Family and Discovery Japan as a component of redeemable equity in the amounts of \$220 million and \$28 million, respectively. (See Note

8.)

Legal Matters

The Company is party to various lawsuits and claims in the ordinary course of business, including claims related to employees, vendors, other business partners or patent issues. However, a determination as to the amount of the accrual required for such contingencies is highly subjective and requires judgment about future events. Although the outcome of these matters cannot

31

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

be predicted with certainty and the impact of the final resolution of these matters on the Company's results of operations in a particular subsequent reporting period is not known, management does not believe that the resolution of these matters will have a material adverse effect on the Company's consolidated financial position, future results of operations or cash flows.

Guarantees

There were no guarantees recorded as of March 31, 2016 and December 31, 2015.

The Company may provide or receive indemnities intended to allocate business transaction risks. Similarly, the Company may remain contingently liable for certain obligations of a divested business in the event that a third party does not fulfill its obligations under an indemnification obligation. The Company records a liability for its indemnification obligations and other contingent liabilities when probable and estimable. There were no material amounts for indemnifications or other contingencies recorded as of March 31, 2016 and December 31, 2015.

NOTE 16. REPORTABLE SEGMENTS

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

The accounting policies of the reportable segments are the same as the Company's, except that certain inter-segment transactions that are eliminated for consolidation are not eliminated at the segment level. Inter-segment transactions primarily include advertising and content purchases.

The Company evaluates the operating performance of its segments based on financial measures such as revenues and adjusted operating income before depreciation and amortization ("Adjusted OIBDA"). Adjusted OIBDA is defined as operating income excluding: (i) mark-to-market equity-based compensation, (ii) depreciation and amortization, (iii) amortization of deferred launch incentives, (iv) restructuring and other charges, (v) certain impairment charges, (vi) gains and losses on business and asset dispositions, and (vii) certain inter-segment eliminations related to production studios. The Company uses this measure to assess the operating results and performance of its segments, perform analytical comparisons, identify strategies to improve performance and allocate resources to each segment. The Company believes Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. The Company excludes mark-to-market equity-based compensation, restructuring and other charges, certain impairment charges, and gains and losses on business and asset dispositions from the calculation of Adjusted OIBDA due to their volatility. The Company also excludes depreciation of fixed assets, amortization of intangible assets and deferred launch incentives, as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses are excluded from segment results to enable executive management to evaluate segment performance based upon the decisions of segment executives. Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income and other measures of financial performance reported in accordance with GAAP. The tables below present summarized financial information for each of the Company's reportable segments, other operating segments and corporate and inter-segment eliminations (in millions).

Revenues by Segment

	Three Months	
	Ended March 31,	
	2016	2015
U.S. Networks	\$807	\$749
International Networks	711	735
Education and Other	44	54
Corporate and inter-segment eliminations	(1)	(1)
Total revenues	\$1,561	\$1,537

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

Adjusted OIBDA by Segment

	Three Months Ended March 31,	
	2016	2015
U.S. Networks	\$473	\$425
International Networks	185	215
Education and Other	(1)	5
Corporate and inter-segment eliminations	(80)	(77)
Total Adjusted OIBDA	\$577	\$568

Reconciliation of Total Adjusted OIBDA to Income Before Income Taxes

	Three Months Ended March 31,	
	2016	2015
Total Adjusted OIBDA	\$577	\$568
Amortization of deferred launch incentives	(3)	(4)
Mark-to-market equity-based compensation	(13)	8
Depreciation and amortization	(79)	(81)
Restructuring and other charges	(6)	(9)
Gain on disposition	13	—
Operating income	\$489	\$482
Interest expense	(85)	(89)
(Loss) income from equity investees, net	(8)	1
Other expense, net	(16)	(19)
Income before income taxes	\$380	\$375

Total Assets by Segment

	March 31, December 31,	
	2016	2015
U.S. Networks	\$ 3,288	\$ 3,295
International Networks	5,172	5,151
Education and Other	453	520
Corporate and inter-segment eliminations	6,965	6,898
Total assets	\$ 15,878	\$ 15,864

Total assets for corporate and inter-segment eliminations include goodwill that is allocated to the Company's segments to account for goodwill. The presentation of segment assets in the table above is consistent with the financial reports that are reviewed by the Company's CEO.

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 17. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Overview

As of March 31, 2016 and December 31, 2015, all of the outstanding senior notes have been issued by DCL, a wholly owned subsidiary of the Company, pursuant to one or more Registration Statements on Form S-3 filed with the U.S. Securities and Exchange Commission ("SEC"). (See Note 6.) The Company fully and unconditionally guarantees the senior notes on an unsecured basis. Each of the Company, DCL, and/or Discovery Communications Holding LLC ("DCH") (collectively the "Issuers") may issue additional debt securities under the Company's current Registration Statement on Form S-3 that are fully and unconditionally guaranteed by the other Issuers.

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

Basis of Presentation

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

The operations of certain of the Company's international subsidiaries are excluded from the Company's consolidated U.S. income tax return. Tax expense related to permanent differences has been allocated to the entity that created the difference. Tax expense related to temporary differences has been allocated to the entity that created the difference, where identifiable. The remaining temporary differences are allocated to each entity included in the Company's consolidated U.S. income tax return based on each entity's relative pretax income. Deferred taxes have been allocated based upon the temporary differences between the carrying amounts of the respective assets and liabilities of the applicable entities.

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

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Condensed Consolidating Balance Sheet
March 31, 2016
(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries of DCL	Other Non- Guarantor Subsidiaries of Discovery	Reclassifications and Eliminations	Discovery and Subsidiaries
ASSETS							
Current assets:							
Cash and cash equivalents	\$ —	\$—	\$81	\$ 252	\$ —	\$ —	\$ 333
Receivables, net	—	—	424	1,096	—	—	1,520
Content rights, net	—	—	11	341	—	—	352
Deferred income taxes	—	—	38	53	—	—	91
Prepaid expenses and other current assets	25	20	171	155	—	—	371
Inter-company trade receivables, net	—	—	186	—	—	(186) —
Total current assets	25	20	911	1,897	—	(186	) 2,667
Investment in and advances to subsidiaries	5,343	5,324	7,669	—	3,576	(21,912) —
Noncurrent content rights, net	—	—	614	1,415	—	—	2,029
Goodwill	—	—	3,769	4,438	—	—	8,207
Intangible assets, net	—	—	285	1,433	—	—	1,718
Equity method investments	—	—	24	505	—	—	529
Other noncurrent assets	—	20	103	625	—	(20	) 728
Total assets	\$ 5,368	\$5,364	\$13,375	\$ 10,313	\$ 3,576	\$ (22,118	) \$ 15,878
LIABILITIES AND EQUITY							
Current liabilities:							
Current portion of debt	\$ —	\$—	\$5	\$ 20	\$ —	\$ —	\$ 25
Other current liabilities	—	—	430	920	—	—	1,350
Inter-company trade payables, net	—	—	—	186	—	(186) —
Total current liabilities	—	—	435	1,126	—	(186	) 1,375
Noncurrent portion of debt	—	—	7,249	716	—	—	7,965
Other noncurrent liabilities	2	—	367	554	21	(20	) 924
Total liabilities	2	—	8,051	2,396	21	(206	) 10,264
Redeemable noncontrolling interests	—	—	—	248	—	—	248
Total equity	5,366	5,364	5,324	7,669	3,555	(21,912	) 5,366
Total liabilities and equity	\$ 5,368	\$5,364	\$13,375	\$ 10,313	\$ 3,576	\$ (22,118	) \$ 15,878

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Condensed Consolidating Balance Sheet
December 31, 2015
(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries of DCL	Other Non- Guarantor Subsidiaries of Discovery	Reclassifications and Eliminations	Discovery and Subsidiaries
ASSETS							
Current assets:							
Cash and cash equivalents	\$ —	\$—	\$3	\$ 387	\$ —	\$ —	\$ 390
Receivables, net	—	—	435	1,044	—	—	1,479
Content rights, net	—	—	9	304	—	—	313
Deferred income taxes	—	—	36	32	—	—	68
Prepaid expenses and other current assets	47	26	163	110	—	—	346
Inter-company trade receivables, net	—	—	74	—	—	(74) —
Total current assets	47	26	720	1,877	—	(74	) 2,596
Investment in and advances to subsidiaries	5,406	5,381	7,539	—	3,618	(21,944) —
Noncurrent content rights, net	—	—	601	1,429	—	—	2,030
Goodwill	—	—	3,769	4,395	—	—	8,164
Intangible assets, net	—	—	290	1,440	—	—	1,730
Equity method investments	—	—	25	542	—	—	567
Other noncurrent assets	—	20	103	674	—	(20	) 777
Total assets	\$ 5,453	\$5,427	\$13,047	\$ 10,357	\$ 3,618	\$ (22,038	) \$ 15,864
LIABILITIES AND EQUITY							
Current liabilities:							
Current portion of debt	\$ —	\$—	\$98	\$ 21	\$ —	\$ —	\$ 119
Other current liabilities	—	—	470	990	—	—	1,460
Inter-company trade payables, net	—	—	—	74	—	(74) —
Total current liabilities	—	—	568	1,085	—	(74	) 1,579
Noncurrent portion of debt	—	—	6,724	892	—	—	7,616
Other noncurrent liabilities	2	—	374	600	21	(20	) 977
Total liabilities	2	—	7,666	2,577	21	(94	) 10,172
Redeemable noncontrolling interests	—	—	—	241	—	—	241
Total equity	5,451	5,427	5,381	7,539	3,597	(21,944	) 5,451
Total liabilities and equity	\$ 5,453	\$5,427	\$13,047	\$ 10,357	\$ 3,618	\$ (22,038	) \$ 15,864

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Condensed Consolidating Statement of Operations
Three Months Ended March 31, 2016
(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries DCL	Other Non- Guarantor Subsidiaries Discovery	Reclassification and Eliminations	Discovery and Subsidiaries	
Revenues	\$ —	\$ —	\$481	\$ 1,083	\$ —	\$ (3	) \$ 1,561
Costs of revenues, excluding depreciation and amortization	—	—	114	479	—	(1	) 592
Selling, general and administrative	4	—	69	337	—	(2	) 408
Depreciation and amortization	—	—	10	69	—	—	79	
Restructuring and other charges	—	—	1	5	—	—	6	
Gain on disposition	—	—	—	(13) —	—	(13)
Total costs and expenses	4	—	194	877	—	(3	) 1,072
Operating (loss) income	(4	) —	287	206	—	—	489
Equity in earnings of subsidiaries	266	266	151	—	177	(860) —	
Interest expense	—	—	(80) (5) —	—	(85)
Loss from equity investees, net	—	—	—	(8) —	—	(8)
Other (expense) income, net	—	—	(37) 21	—	—	(16)
Income before income taxes	262	266	321	214	177	(860	) 380
Income tax benefit (expense)	1	—	(55) (57) —	—	(111)
Net income	263	266	266	157	177	(860	) 269
Net income attributable to redeemable noncontrolling interests	—	—	—	—	—	(6) (6)
Net income available to Discovery Communications, Inc.	\$ 263	\$266	\$266	\$ 157	\$ 177	\$ (866	) \$ 263

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Condensed Consolidating Statement of Operations
Three Months Ended March 31, 2015
(in millions)

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries DCL	Other Non- Guarantor Subsidiaries Discovery	Reclassification and Eliminations	Discovery and Subsidiaries
Revenues	\$ —	\$ —	\$ 461	\$ 1,076	\$ —	\$ —	\$ 1,537
Costs of revenues, excluding depreciation and amortization	—	—	108	457	—	—	565
Selling, general and administrative	4	—	43	353	—	—	400
Depreciation and amortization	—	—	9	72	—	—	81
Restructuring and other charges	—	—	5	4	—	—	9
Total costs and expenses	4	—	165	886	—	—	1,055
Operating (loss) income	(4)	—	296	190	—	—	482
Equity in earnings of subsidiaries	252	252	94	—	168	(766)	—
Interest expense	—	—	(87)	(2)	—	—	(89)
Income from equity investees, net	—	—	1	—	—	—	1
Other income (expense), net	—	—	27	(46)	—	—	(19)
Income before income taxes	248	252	331	142	168	(766)	375
Income tax benefit (expense)	2	—	(79)	(48)	—	—	(125)
Net income available to Discovery Communications, Inc.	\$ 250	\$ 252	\$ 252	\$ 94	\$ 168	\$ (766)	\$ 250

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

Condensed Consolidating Statement of Comprehensive Income (Loss)
 Three Months Ended March 31, 2016
 (in millions)

	Discovery	DCH	DCL	Non-Guaranteed Subsidiaries DCL	Other Non- Guarantor Subsidiaries Discovery	Reclassification and Eliminations	Discovery and Subsidiaries
Net income	\$ 263	\$266	\$266	\$ 157	\$ 177	\$ (860)	\$ 269
Other comprehensive loss, net of tax:							
Currency translation adjustments	58	58	58	58	39	(213)	58
Market value adjustments	(21)	(21)	(21)	(21)	(14)	77	(21)
Derivative adjustments	(17)	(17)	(17)	(18)	(11)	63	(17)
Comprehensive income	283	286	286	176	191	(933)	289
Comprehensive loss attributable to redeemable noncontrolling interests	(1)	(1)	(1)	(1)	(1)	(2)	(7)
Comprehensive income attributable to Discovery Communications, Inc.	\$ 282	\$285	\$285	\$ 175	\$ 190	\$ (935)	\$ 282

DISCOVERY COMMUNICATIONS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited)

Condensed Consolidating Statement of Comprehensive Income (Loss)
 Three Months Ended March 31, 2015
 (in millions)

	Discovery	DCH	DCL	Non-Guaranteed Subsidiaries DCL	Other Non- Guarantor Subsidiaries Discovery	Reclassification and Eliminations	Discovery and Subsidiaries
Net income	\$ 250	\$252	\$252	\$ 94	\$ 168	\$ (766)	\$ 250
Other comprehensive (loss) income, net of tax:							
Currency translation adjustments	(248)	(248)	(248)	(246)	(165)	907	(248)
Derivative adjustments	12	12	12	28	8	(60)	12
Comprehensive income (loss)	14	16	16	(124)	11	81	14
Comprehensive loss attributable to redeemable noncontrolling interests	35	35	35	35	23	(128)	35
Comprehensive income (loss) attributable to Discovery Communications, Inc.	\$ 49	\$51	\$51	\$ (89)	\$ 34	\$ (47)	\$ 49

DISCOVERY COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2016
(in millions)

	Discovery	DCH	DCL	Non-Guaranteed Subsidiaries DCL	Other Non- Guarantor Subsidiaries Discovery	Reclassification and Eliminations	Discovery and Subsidiaries
Operating Activities							
Cash provided by (used in) operating activities	\$ 19	\$ 6	\$(11)	\$ 48	\$	—\$	—\$ 62
Investing Activities							
Purchases of property and equipment	—	—	(7)	(8)	—	—	(15)
Distributions from equity method investees	—	—	—	15	—	—	15
Investments in equity method investees, net	—	—	—	4	—	—	4
Investments in available-for-sale and cost method investments	—	—	—	(4)	—	—	(4)
Other investing activities, net	—	—	—	(1)	—	—	(1)
Cash (used in) provided by investing activities	—	—	(7)	6	—	—	(1)
Financing Activities							
Commercial paper repayments, net	—	—	(93)	—	—	—	(93)
Borrowings under revolving credit facility	—	—	—	95	—	—	95
Principal repayments of revolving credit facility	—	—	—	(252)	—	—	(252)
Borrowings from debt, net of discount	—	—	498	—	—	—	498
Principal repayments of capital lease obligations	—	—	(1)	(11)	—	—	(12)
Repurchases of stock	(373)	—	—	—	—	—	(373)
Distributions to redeemable noncontrolling interests	—	—	(1)	(1)	—	—	(2)
Equity-based plan payments, net	(5)	—	—	—	—	—	(5)
Inter-company contributions and other financing activities, net	359	(6)	(307)	(57)	—	—	—