Discovery Communications, Inc.
Form 10-Q
November 03, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

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

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 ý	Accelerated filer ¨
Non-accelerated filer o (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 ý

Total number of shares outstanding of each class of the Registrant's common stock as of October 26, 2015:

Series A Common Stock, par value $0.01 per share	149,505,563
Series B Common Stock, par value $0.01 per share	6,537,977
Series C Common Stock, par value $0.01 per share	274,439,399

DISCOVERY COMMUNICATIONS, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. Unaudited Financial Statements.
DISCOVERY COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited; in millions, except par value)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$262	$367
Receivables, net	1,556	1,433
Content rights, net	341	329
Deferred income taxes	80	87
Income taxes receivable and prepaid income taxes	153	17
Prepaid expenses and other current assets	327	258
Total current assets	2,719	2,491
Noncurrent content rights, net	2,067	1,973
Property and equipment, net	500	554
Goodwill	8,180	8,236
Intangible assets, net	1,772	1,971
Equity method investments	562	644
Other noncurrent assets	119	101
Total assets	$15,919	$15,970
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$249	$225
Accrued liabilities	1,506	1,094
Deferred revenues	237	178
Current portion of debt	116	1,107
Total current liabilities	2,108	2,604
Noncurrent portion of debt	6,941	6,002
Deferred income taxes	589	588
Other noncurrent liabilities	395	425
Total liabilities	10,033	9,619
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	240	747
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; 38 and 42 shares issued	1	1
Series A common stock: $0.01 par value; 1,700 shares authorized; 152 and 151 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; 376 and 375 shares issued	4	4
Additional paid-in capital	6,935	6,917
Treasury stock, at cost	(5,086)	(4,763)

Retained earnings	4,297	3,809
Accumulated other comprehensive loss	(508)	(368)
Total Discovery Communications, Inc. stockholders' equity	5,645	5,602
Noncontrolling interests	1	2
Total equity	5,646	5,604
Total liabilities and equity	$15,919	$15,970

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Distribution	$776	$748	$2,309	$2,097
Advertising	699	725	2,200	2,258
Other	82	95	239	234
Total revenues	1,557	1,568	4,748	4,589
Costs and expenses:				
Costs of revenues, excluding depreciation and amortization	574	529	1,703	1,526
Selling, general and administrative	394	432	1,224	1,247
Depreciation and amortization	80	85	243	243
Restructuring and other charges	4	11	37	19
Gain on disposition	—	—	(3)	(31)
Total costs and expenses	1,052	1,057	3,204	3,004
Operating income	505	511	1,544	1,585
Interest expense	(82)	(83)	(248)	(247)
(Loss) income from equity investees, net	(10)	13	(2)	34
Other income (expense), net	—	1	(78)	11
Income before income taxes	413	442	1,216	1,383
Provision for income taxes	(130)	(155)	(394)	(481)
Net income	283	287	822	902
Net income attributable to noncontrolling interests	—	—	—	(2)
Net income attributable to redeemable noncontrolling interests	(4)	(7)	(7)	(11)
Net income available to Discovery Communications, Inc.	$279	$280	$815	$889
Net income per share available to Discovery Communications, Inc. Series A, B and C common stockholders:				
Basic	$0.43	$0.41	$1.25	$1.29
Diluted	$0.43	$0.41	$1.24	$1.28
Weighted average shares outstanding:				
Basic	432	449	434	458
Diluted	653	682	658	693

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$283	$287	$822	$902
Other comprehensive (loss) income, net of tax:				
Currency translation adjustments	(46)	(187)	(162)	(219)
Derivative and market value adjustments	1	3	(1)	(6)
Comprehensive income	238	103	659	677
Comprehensive income attributable to noncontrolling interests	—	—	—	(2)
Comprehensive (income) loss attributable to redeemable noncontrolling interests	(7)	20	16	15
Comprehensive income attributable to Discovery Communications, Inc.	$231	$123	$675	$690

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

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

	Nine Months Ended September 30,	
	2015	2014
Operating Activities		
Net income	$822	$902
Adjustments to reconcile net income to cash provided by operating activities:		
Equity-based compensation expense	16	66
Depreciation and amortization	243	243
Content amortization and impairment expense	1,243	1,083
Gain on disposition	(3)	(31)
Remeasurement gain on previously held equity interest	(2)	(29)
Equity in earnings of investee companies, net of cash distributions	9	(15)
Deferred income taxes	4	(124)
Realized loss from derivative instruments	11	—
Other, net	29	35
Changes in operating assets and liabilities, net of business combinations:		
Receivables, net	(133)	3
Content rights, net	(1,386)	(1,269)
Accounts payable and accrued liabilities	(14)	92
Equity-based compensation liabilities	(25)	(81)
Income taxes receivable and prepaid income taxes	(136)	53
Other, net	(26)	(35)
Cash provided by operating activities	652	893
Investing Activities		
Purchases of property and equipment	(76)	(85)
Business acquisitions, net of cash acquired	(24)	(369)
Payments for derivative instruments	(11)	—
Proceeds from disposition, net of cash disposed	61	45
Distributions from equity method investees	67	58
Investments in equity method investees, net	(26)	(174)
Investments in cost method investments	(16)	(3)
Other investing activities, net	(1)	(1)
Cash used in investing activities	(26)	(529)
Financing Activities		
Commercial paper (repayments) borrowings, net	(140)	126
Borrowings under revolving credit facility	222	585
Principal repayments of revolving credit facility	(179)	(440)
Borrowings from debt, net of discount	936	415
Principal repayments of debt	(849)	—
Principal repayments of capital lease obligations	(22)	(13)
Repurchases of stock	(576)	(1,067)
Cash distributions to redeemable noncontrolling interests	(38)	(2)
Equity-based plan (payments) proceeds, net	(9)	39
Hedge of borrowings from debt instruments	(29)	—
Other financing activities, net	(15)	(12)
Cash used in financing activities	(699)	(369)

Effect of exchange rate changes on cash and cash equivalents	(32)	(27)
Net change in cash and cash equivalents	(105)	(32)
Cash and cash equivalents, beginning of period	367	408
Cash and cash equivalents, end of period	$262	$376

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

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

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Discovery Stockholders	Noncontrolling Interests	Total Equity	Discovery Stockholders	Noncontrolling Interests	Total Equity
Beginning balance	$5,485	$ 1	$5,486	$6,031	$ 3	$6,034
Comprehensive income	231	—	231	123	—	123
Repurchases of stock	(52)	—	(52)	(298)	—	(298)
Equity-based compensation	7	—	7	12	—	12
Excess tax benefits from equity-based compensation	1	—	1	9	—	9
Tax settlements associated with equity-based compensation	(1)	—	(1)	—	—	—
Issuance of common stock for equity-based plans	2	—	2	17	—	17
Other adjustments for equity-based compensation plans	—	—	—	(1)	—	(1)
Redeemable noncontrolling interest adjustments to redemption value	(28)	—	(28)	(15)	—	(15)
Cash distributions to noncontrolling interests	—	—	—	—	(1)	(1)
Purchase of redeemable noncontrolling interest	—	—	—	5	—	5
Ending balance	$5,645	$ 1	$5,646	$5,883	$ 2	$5,885

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Discovery Stockholders	Noncontrolling Interests	Total Equity	Discovery Stockholders	Noncontrolling Interests	Total Equity
Beginning balance	$5,602	$ 2	$5,604	$6,196	$ 1	$6,197
Comprehensive income	675	—	675	690	2	692
Repurchases of stock	(576)	—	(576)	(1,067)	—	(1,067)
Equity-based compensation	27	—	27	39	—	39
Excess tax benefits from equity-based compensation	6	—	6	30	—	30
Tax settlements associated with equity-based compensation	(27)	—	(27)	(27)	—	(27)
Issuance of common stock for equity-based plans	12	—	12	36	—	36
Other adjustments for equity-based compensation plans	—	—	—	(2)	—	(2)
Redeemable noncontrolling interest adjustments to redemption value	(74)	—	(74)	(16)	—	(16)

Noncontrolling interests of disposed businesses	—	(1)	(1)	—	—	—
Cash distributions to noncontrolling interests	—	—	—	—	(1)	(1)
Purchase of redeemable noncontrolling interest	—	—	—	5	—	5
Other adjustments to stockholders' equity	—	—	—	(1)	—	(1)
Ending balance	$5,645	$ 1	$5,646	$5,883	$ 2	$5,885

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.

Recasting of Certain Prior Period Information

The Company's reportable 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. As of December 31, 2014, the Company changed its organizational structure and reorganized its production studios into an operating segment. Previously, components of this segment were part of the U.S. Networks and International Networks segments. The Company has recast amounts for the three and nine months ended September 30, 2014 and total assets by segment as of December 31, 2014 to conform to the current structure for internally managing and monitoring segment performance. The segment does not meet the quantitative thresholds of a separate reportable segment and has been combined with the Education operating segment, which also does not meet the quantitative thresholds of a separate reportable segment. The combined results are referred to as Education and Other for financial statement presentation in all periods as a reconciling item to consolidated figures. (See Note 16.)

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, 2014 (the "2014 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 and contingencies.

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

Accounting and Reporting Pronouncements Adopted

Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("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 sheets for all periods presented. The balance of unamortized debt issuance costs reclassified as of December 31, 2014 was $44 million. (See Note 6.)

Accounting and Reporting Pronouncements Not Yet Adopted

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 new requirements will be effective beginning January 1, 2016, and are required to be implemented on a prospective basis. Early adoption is permitted. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Business Consolidation

In February 2015, the 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. Early adoption is permitted. 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 beginning 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. In the U.S., more than 90% of distribution revenue comes from the Company's top 10 distributors. Outside of the U.S., approximately 45% of distribution revenue comes from the

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

Company's top 10 distributors. 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 and nine months ended September 30, 2015 or 2014. As of September 30, 2015 and December 31, 2014, 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 financial institutions and monitoring the credit quality of its lenders. As of September 30, 2015, 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, which includes both Eurosport International and Eurosport France. On May 30, 2014, the Company acquired an additional 31% equity in Eurosport International to obtain a controlling interest in Eurosport International for €259 million ($351 million) and committed to acquire a similar controlling interest in Eurosport France upon resolution of certain regulatory matters. The outstanding regulatory matters in France were subsequently resolved, and the Company completed its acquisition of an additional 31% interest in Eurosport France for €38 million ($40 million) on March 31, 2015. These transactions gave the Company a 51% controlling stake in Eurosport. The Company recognized gains of $29 million and $2 million during the three months ended June 30, 2014 and March 31, 2015, respectively, to account for the difference between the carrying value and the fair value of the previously held 20% equity method investments in Eurosport International and Eurosport France, respectively. The gains were included in other income (expense), net in the Company's consolidated statements of operations. (See Note 13.) On July 22, 2015, TF1 announced its intent to exercise its right to put the entirety of its remaining 49% noncontrolling interest in Eurosport to the Company. On October 1, 2015, the Company acquired the remaining 49% of Eurosport for €491 million ($548 million). (See Note 8.)

Eurosport is 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), Eurosport Asia-Pacific and Eurosportnews. The acquisitions are intended to increase the growth of Eurosport and enhance the Company's pay-TV offerings in Europe.

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

The Company used discounted cash flow ("DCF") analyses, which represent Level 3 fair value measurements, to assess certain components of the Eurosport purchase price allocations. The fair value of the assets acquired, liabilities assumed, noncontrolling interests recognized and the remeasurement gains recorded on the previously held equity interests is presented in the table below (in millions). The Company's process of identifying the assets acquired and the liabilities assumed and determining their fair values for Eurosport France is not complete as of the date of this filing, principally with respect to liabilities assumed.

	Eurosport France (Provisional) March 31, 2015	Eurosport International May 30, 2014
Goodwill	$69	$785
Intangible assets	40	467
Other assets acquired	27	169
Cash	35	47
Removal of TF1 put right	2	27
Currency translation adjustment	(6)	7
Remeasurement gain on previously held equity interest	(2)	(29)
Liabilities assumed	(30)	(169)
Deferred tax liabilities	(14)	(164)
Redeemable noncontrolling interest (Note 8)	(60)	(558)
Carrying value of previously held equity interest	(21)	(231)
Net assets acquired	$40	$351

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 these acquisitions is assigned to the Eurosport reporting unit, which is a component of the Company's International Networks 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.

Discovery Family (formerly known as the Hub Network)

On September 23, 2014, the Company acquired an additional 10% ownership interest in Discovery Family from Hasbro, Inc. ("Hasbro") for $64 million and obtained control of the joint venture. Discovery Family is a pay-TV network in the U.S. that provides entertainment for children and families. The purchase increased the Company's ownership interest from 50% to 60%. As a result of acquiring a controlling interest, the Company changed its accounting for Discovery Family from an equity method investment to a consolidated subsidiary. There was no gain or loss recorded at the time of acquisition as the fair value of the Company's previously held equity method investment in Discovery Family was equal to the carrying amount as of the acquisition date. The acquisition of Discovery Family supports the Company's strategic priority of broadening the scope of the network to increase viewership. The Company rebranded the network to Discovery Family on October 13, 2014.

The Company used DCF analyses, which represent Level 3 fair value measurements, to assess certain components of its purchase price allocation. The fair value of the assets acquired, liabilities assumed and noncontrolling interest recognized is presented in the table below (in millions).

	September 23, 2014
Goodwill	$310
Intangible assets	301
Other assets acquired	96
Cash	33
Liabilities assumed	(125)

Redeemable noncontrolling interest (Note 8)	(238	)
Carrying value of previously held equity interest	(313	)
Net assets acquired	$64	

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(unaudited)

The goodwill reflects the workforce and synergies expected from combining the operations of Discovery Family with the Company's existing U.S. networks. The goodwill recorded as part of this acquisition is assigned to the U.S. Networks reporting segment. It is not amortizable for tax purposes. Intangible assets primarily consist of distribution customer relationships with an estimated useful life of 25 years, based on three renewals.

Other

In 2015, the Company acquired several other unrelated businesses for total cash and contingent consideration of $32 million, net of cash acquired. Total consideration, net of cash acquired, includes contingent consideration of $9 million and cash not yet paid of $3 million. The Company provisionally recorded $19 million and $18 million of goodwill and intangible assets, respectively, in connection with these acquisitions. The acquisitions included a free-to-air network in Italy, 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.

In 2014, the Company acquired several other unrelated businesses for total consideration of $40 million, net of cash acquired. The Company recorded $37 million and $10 million of goodwill and intangible assets, respectively, in connection with these acquisitions. The acquisitions included a factual entertainment production company in the U.K. and cable networks in New Zealand. The goodwill reflects the synergies and market expansion from combining the operations of these acquisitions with the Company's operations.

Pro Forma Financial Information

The following table presents the unaudited pro forma results of the Company as though all of the business combinations from 2014 had been made on January 1, 2013. These pro forma results do not necessarily represent what would have occurred if the business combinations above had taken place on January 1, 2013, nor do they represent the results that may occur in the future. This pro forma financial information includes the historical financial statement amounts of Discovery and its business combinations with the following adjustments: (i) the Company converted historical financial statements to GAAP, (ii) the Company applied its accounting policies, (iii) the Company adjusted for amortization expense assuming the fair value adjustments to intangible assets had been applied beginning January 1, 2013, (iv) the Company removed the gains recognized upon the consolidation of previously held equity interests in 2014 and reclassified them to 2013, (v) the Company adjusted amounts for the mark-to-market of the TF1 put liabilities recognized in connection with previously held equity interests and reclassified them to 2013, and (vii) the Company included adjustments for income taxes associated with these pro forma adjustments. The Company's 2015 business combinations are not material individually or in aggregate and have not been included in the pro forma table. The pro forma adjustments were based on available information and upon assumptions that the Company believes are reasonable to reflect the impact of these acquisitions on the Company's historical financial information on a supplemental pro forma basis (in millions).

	September 30, 2014	
	Three Months Ended	Nine Months Ended
Revenue	$1,590	$4,883
Net income	298	904

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Impact of Business Combinations

The operations of each of the business combinations in 2015 and 2014 discussed above were included in the consolidated financial statements as of each of their respective acquisition dates. The following table presents their revenue and earnings as reported within the consolidated financial statements for the three and nine months ended September 30, 2015 and 2014 (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Distribution	$115	$89	$328	$119
Advertising	50	31	111	52
Other	30	35	75	44
Total revenues	$195	$155	$514	$215
Net income	$15	$8	$33	$9

Dispositions

Russia

On October 7, 2015, Discovery contributed its Russian business to a joint venture with a Russian media company, National Media Group ("NMG"), to comply with changes in Russian legislation limiting foreign ownership. No cash consideration was exchanged in the transaction. NMG contributed a FTA license which enables advertising on certain joint venture channels. Discovery obtained a 20% ownership in the joint venture and will account for the joint venture under the equity method of accounting following the contribution date and will no longer consolidate the Russian business, which was a component of its International Networks operating segment. Discovery will provide brands and content to the joint venture under a long-term licensing arrangement.

Radio

On June 30, 2015, Discovery sold its radio businesses in Northern Europe to Bauer Media Group ("Bauer") for total consideration, net of cash disposed of €74 million ($84 million), which includes €54 million ($61 million) of net cash received at closing, €3 million ($4 million) of expected working capital adjustments, and €17 million ($19 million) for the fair value of contingent consideration. Discovery recorded a pretax gain of $3 million upon completion of the sale. The fair value of the contingent consideration was determined in accordance with the sale agreement using revenue and earnings projections of the radio business through the earn-out period ending December 31, 2015. The contingent consideration payable to Discovery is subject to change based on actual performance. Subsequent changes in fair value of the contingent consideration will be recognized as a component of the gain or loss recorded on sale.

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 Company's radio businesses had no income before income taxes for the nine months ended September 30, 2015. The impact to income before income taxes for the Company's radio businesses was a loss of $2 million and $6 million for each of the three and nine months ended September 30, 2014, respectively. The Company's radio businesses were part of the International Networks operating segment.

HowStuffWorks, LLC

On May 30, 2014, Discovery sold HowStuffWorks, LLC ("HSW"), a commercial website which uses various media to explain complex concepts, terminology and mechanisms, to Blucora, Inc. (“Blucora”). Blucora paid Discovery $45 million, and Discovery recorded a pretax gain of $31 million upon completion of the sale. HSW was part of the U.S. Networks operating segment. The Company determined that the disposal did not meet the definition of a discontinued

operations due to the migration of sales to its remaining digital business.

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NOTE 3. INVESTMENTS

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

Category	Balance Sheet Location	September 30, 2015	December 31, 2014
Trading securities - mutual funds	Prepaid expenses and other current assets	$144	$147
Equity method investments	Equity method investments	562	644
Cost method investments	Other noncurrent assets	43	29
Total investments		$749	$820

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 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 September 30, 2015, 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 $449 million. The Company's estimated risk of loss excludes the non-contractual future funding of VIEs.

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 $394 million and $457 million as of September 30, 2015 and December 31, 2014, 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 nine months ended September 30, 2015, the Company received net repayments of $67 million from OWN, accrued interest on the note receivable of $18 million and reduced the note receivable by $14 million for the change in interest rate. During the nine months ended September 30, 2014, the Company received net repayments of $56 million from OWN and accrued interest on the note receivable of $25 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. OWN began repaying amounts owed to the Company during 2013.

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 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 $389 million and $424 million as of September 30, 2015 and December 31, 2014, respectively, includes the Company's note receivable and accumulated investment losses. There is a possibility that the results of OWN’s future operations will fall below the Company's long-term projections. 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.

Harpo has the right to require the Company to purchase all or part of Harpo’s interest in OWN at fair market value up to a maximum put amount every two and a half years commencing January 1, 2016. The maximum put amount ranges from $100 million on the first put exercise date up to a cumulative cap of $400 million on the fourth put exercise date. The Company has not recorded amounts for the put right because the fair value of this fair value put right was zero as of September 30, 2015 and December 31, 2014.

Other Equity Method Investments

Other equity method investments include equity ownership interests in unconsolidated entities, including VIEs other than OWN.

On March 31, 2015 and May 30, 2014, the Company acquired from TF1 a controlling interest in each of its Eurosport France and Eurosport International equity method investments, respectively, by increasing its ownership stake from 20% to 51%. As a result, the Company changed its accounting for Eurosport France and Eurosport International from equity method investments to consolidated subsidiaries as of their respective acquisition dates. (See Note 2.)

On September 23, 2014, the Company acquired an additional 10% ownership interest in Discovery Family and obtained a controlling financial interest. The purchase increased the Company's interest from 50% to 60%. As a result, the Company changed its accounting for Discovery Family from an equity method investment to a consolidated subsidiary. (See Note 2.)

On September 23, 2014, the Company acquired a 50% equity method ownership interest in All3Media, a production studio company, for a cash payment of £90 million ($147 million) and with an enterprise value of £556 million ($912 million). All3Media recapitalized its debt structure to effect the transaction. All3Media is not a VIE.

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 primarily include an educational website for $25 million and newly acquired Formula E racing for $16 million.

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.
Level 2	–	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in 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.

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

		September 30, 2015			
Category	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Assets:					
Trading securities - mutual funds	Prepaid expenses and other current assets	$144	$—	$—	$144
Derivatives:					
Foreign exchange	Prepaid expenses and other current assets	—	32	—	32
Foreign exchange	Other noncurrent assets	—	4	—	4
Total		$144	$36	$—	$180
Liabilities:					
Deferred compensation plan	Accrued liabilities	$144	$—	$—	$144
Derivatives:					
Foreign exchange	Accrued liabilities	—	8	—	8
Foreign exchange	Other noncurrent liabilities	—	1	—	1
Total		$144	$9	$—	$153

		December 31, 2014			
Category	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Assets:					
Trading securities - mutual funds	Prepaid expenses and other current assets	$147	$—	$—	$147
Derivatives:					
Foreign exchange	Prepaid expenses and other current assets	—	17	—	17
Foreign exchange	Other noncurrent assets	—	7	—	7
Total		$147	$24	$—	$171
Liabilities:					
Deferred compensation plan	Accrued liabilities	$147	$—	$—	$147
Derivatives:					
Foreign exchange	Accrued liabilities	—	1	—	1
Interest rate	Accrued liabilities	—	28	—	28
TF1 Eurosport France put right	Accrued liabilities	—	—	4	4
Total		$147	$29	$4	$180

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.

Derivative financial instruments are comprised of foreign exchange contracts used by the Company to modify its exposure to market risks from foreign exchange rates and interest rate contracts 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 September 30, 2015. The estimated fair value of the Company's

outstanding senior notes using quoted prices from over the counter markets, considered Level 2 inputs, was $6.9 billion and $7.2 billion as of September 30, 2015 and December 31, 2014, respectively.

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NOTE 5. CONTENT RIGHTS

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

	September 30, 2015	December 31, 2014
Produced content rights:		
Completed	$3,583	$3,242
In-production	408	377
Coproduced content rights:		
Completed	716	696
In-production	66	83
Licensed content rights:		
Acquired	1,048	949
Prepaid	111	82
Content rights, at cost	5,932	5,429
Accumulated amortization	(3,524)	(3,127)
Total content rights, net	2,408	2,302
Current portion	(341)	(329)
Noncurrent portion	$2,067	$1,973

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Content amortization	$414	$372	$1,210	$1,061
Other production charges	54	41	163	108
Content impairments[a]	3	6	33	22
Total content expense	$471	$419	$1,406	$1,191

[a] Content impairments are generally recorded as a component of costs of revenue. However, during the nine months ended September 30, 2015, $21 million in content impairments were reflected as a component of restructuring and other charges. These charges resulted from the cancellation of certain high profile series due to legal circumstances pertaining to the associated talent. There were no content impairments reflected as a component of restructuring and other charges for the three months ended September 30, 2015 and the three and nine months ended September 30, 2014.

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NOTE 6. DEBT

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

	September 30, 2015	December 31, 2014
3.70% Senior Notes, semi-annual interest, due June 2015	$—	$850
5.625% Senior Notes, semi-annual interest, due August 2019	500	500
5.05% Senior Notes, semi-annual interest, due June 2020	1,300	1,300
4.375% Senior Notes, semi-annual interest, due June 2021	650	650
2.375% Senior Notes, euro denominated, annual interest, due March 2022	337	365
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	—
1.90% Senior Notes, euro denominated, annual interest, due March 2027	674	—
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	80	38
Commercial paper	89	229
Capital lease obligations	145	187
Total debt	7,125	7,169
Unamortized discount and debt issuance costs	(68)	(60)
Debt, net	7,057	7,109
Current portion of debt	(116)	(1,107)
Noncurrent portion of debt	$6,941	$6,002

Senior Notes

On March 19, 2015, Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of the Company, issued €600 million principal amount ($637 million, at issuance based on the exchange rate of $1.06 per euro at March 19, 2015) of 1.90% Senior Notes due March 19, 2027 (the "2015 Euro Notes"). The proceeds received by DCL from the offering were net of a $1 million issuance discount and $5 million of debt issuance costs. Interest on the 2015 Euro Notes is payable annually on March 19 of each year. The 2015 Euro Notes are denominated in euro and expose Discovery to fluctuations in foreign exchange rates in that currency. The current balance of the 2015 Euro Notes reflects changes in exchange rates; there have been no other changes to the balance. Discovery has reported the change in remeasurement for these 2015 Euro Notes as a component of other income (expense), net in the consolidated statements of operations.

On March 2, 2015, DCL issued $300 million principal amount of 3.45% Senior Notes due March 15, 2025 (the "2015 USD Notes"). The proceeds received by DCL from the offering were net of an immaterial discount and $2 million of debt issuance costs. Interest on the 2015 USD Notes is payable semi-annually on March 15 and September 15 of each year. In contemplation of the issuance of the 2015 USD Notes, the Company terminated and settled all interest rate forward contracts with its counterparties, which were designated as cash flow hedges used to hedge the pricing of the 2015 USD Notes. (See Note 7.)

DCL has the option to redeem some or all of the 2015 Euro Notes and 2015 USD Notes at any time prior to their maturity by paying a make-whole premium, if the redemption date is prior to three months from the maturity date or by paying their principal amount on or after such date, plus, in each case, accrued and unpaid interest, if any, through the date of repurchase. The 2015 Euro Notes and 2015 USD Notes are unsecured and rank equally in right of payment with all of DCL's other unsecured senior indebtedness. All of DCL's outstanding senior notes are fully and

unconditionally guaranteed on an unsecured and unsubordinated basis by Discovery and contain certain nonfinancial covenants, events of default and other customary provisions. The Company and DCL were in compliance with all covenants and customary provisions under DCL's outstanding senior notes, and there were no events of default as of September 30, 2015.
On March 31, 2015, the Company redeemed $850 million aggregate principal amount of its 3.70% Senior Notes that had an original maturity of June 1, 2015. The repayment included a payment of $1 million for the original issue discount on the 3.70% Senior Notes and resulted in a pretax loss on extinguishment of debt of $5 million for make-whole premiums. The loss on extinguishment of debt was reflected as a component of interest expense in the consolidated statements of operations.

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Revolving Credit Facility

DCL's revolving credit facility allows DCL and certain designated foreign subsidiaries of DCL to borrow up to $1.5 billion, including a $750 million sublimit for multi-currency borrowings, 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 the outstanding borrowings under the commercial paper program discussed below. DCL also has the ability to request an increase of the revolving credit facility up to an aggregate additional $1.0 billion, upon the satisfaction of certain conditions. The revolving credit facility agreement provides for a maturity date of June 20, 2019.

As of September 30, 2015, the Company had outstanding borrowings under the revolving credit facility of $80 million at a weighted average interest rate of 1.37%, of which $20 million was denominated in foreign currencies. As of December 31, 2014, the Company had outstanding borrowings under the revolving credit facility of $38 million at a weighted average interest rate of 1.98%. 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. The Company borrowed an additional $525 million under the revolving credit facility on October 1, 2015 to facilitate the purchase of the remaining 49% noncontrolling interest in Eurosport from TF1. (See Note 8.)

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 September 30, 2015, 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. Outstanding commercial paper borrowings were $89 million with a weighted average interest rate of approximately 0.41% as of September 30, 2015 and $229 million with a weighted average interest rate of approximately 0.60% as of December 31, 2014. The Company's outstanding commercial paper borrowings as of September 30, 2015 and December 31, 2014 had maturities of less than 90 days.

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 and interest rates. The Company does not enter into or hold derivative financial instruments for speculative trading purposes.

The Company designates foreign currency forward 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 income (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 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. (See Note 6.) 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 income (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 may also enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting. During the three months ended September 30, 2015, the Company entered into foreign exchange forward contracts and a zero-cost collar in connection with the purchase of TF1's mandatorily redeemable noncontrolling interest in Eurosport that closed

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on October 1, 2015. (See Note 8.) These derivatives, which economically hedged the Company's exposure to fluctuations in foreign currency exchange rates, did not qualify for hedge accounting. Realized and unrealized gains and losses on contracts that do not qualify for hedge accounting are reflected in other income (expense), net on the consolidated statements 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 September 30, 2015 and December 31, 2014.

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 to settle the effective portion of interest rate derivatives intended to hedge the pricing of the 2015 USD Notes during the nine months ended September 30, 2015 is reported as a financing activity in the consolidated statements of cash flows consistent with the classification of cash proceeds from borrowings of debt, net of discount. 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.

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

		September 30, 2015		December 31, 2014	
	Balance Sheet Location	Notional	Fair Value	Notional	Fair Value
Derivatives designated as hedges:					
Foreign exchange	Prepaid expenses and other current assets	$357	$23	$425	$17
Foreign exchange	Other noncurrent assets	44	4	20	7
Foreign exchange	Accrued liabilities	273	7	35	1
Interest rate	Accrued liabilities	—	—	475	28
Foreign exchange	Other noncurrent liabilities	38	1	—	—
Derivatives not designated as hedges:					
Foreign exchange	Prepaid expenses and other current assets	368	9	3	—
Foreign exchange	Accrued liabilities	155	1	—	—

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gains (losses) recognized in accumulated other comprehensive loss:				
Foreign exchange	$10	$7	$22	$3
Interest rate	1	(3)	(11)	(10)
Gains (losses) reclassified into income from accumulated other comprehensive loss (effective portion):				
Foreign exchange - distribution revenue	7	(1)	15	(2)
Foreign exchange - advertising revenue	—	—	1	—
Foreign exchange - costs of revenues	2	—	6	—
Foreign exchange - other income (expense), net	1	1	2	2
Interest rate - interest expense	(1)	—	(1)	—

Losses reclassified into income from accumulated other comprehensive loss (ineffective portion):				
Interest rate - other income (expense), net	—	—	(11)	—

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If current fair values as of September 30, 2015 remained static over the next twelve months, the Company would reclassify $12 million of net deferred gains from accumulated other comprehensive loss into income in the next twelve months.

The following table presents the pretax net gains on derivatives not designated as hedges and recognized in other income (expense), net in the consolidated statements of operations (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Foreign exchange derivatives	$8	$1	$8	$1

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 (loss) income; 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 Communications, Inc. 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning balance	$754	$598	$747	$36
Initial fair value of redeemable noncontrolling interests of acquired businesses	—	238	60	796
Reclassification of redeemable equity to current liabilities	(551)	(6)	(551)	(6)
Cash distributions to redeemable noncontrolling interests	(2)	—	(38)	(2)
Comprehensive income adjustments:				
Net income attributable to redeemable noncontrolling interests	4	7	7	11
Other comprehensive income (loss) attributable to redeemable noncontrolling interests	3	(27)	(23)	(26)
Currency translation on redemption values	4	(40)	(36)	(40)
Retained earnings adjustments:				
Adjustments of redemption values to the floor	28	15	74	16
Ending balance	$240	$785	$240	$785

Redeemable noncontrolling interests consist of the following arrangements:

In connection with the acquisition of a controlling interest in Eurosport France on March 31, 2015 and Eurosport International on May 30, 2014, the Company recognized $60 million and $558 million, respectively, 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 Eurosport to the Company for €491 million ($551 million as of September 30, 2015), which includes €25 million ($28 million as of September 30, 2015) of working capital adjustments. The carrying amount of the redeemable noncontrolling interest was adjusted to its fair value of $551 million at the date redemption became

mandatory with a corresponding offsetting adjustment to retained earnings. The redeemable noncontrolling interest balance has become mandatorily redeemable and has been reclassified to accrued liabilities as of September 30, 2015. The transaction closed on October 1, 2015 for $548 million.

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

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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.
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.
In connection with the acquisition of SBS Nordic on April 9, 2013, the Company recognized $6 million redeemable noncontrolling interest for the fair value of a noncontrolling interest in one of its Danish subsidiaries. On September 16, 2014, the Company entered into an agreement with the noncontrolling interest holder to purchase their remaining 20% ownership interest. As the redeemable noncontrolling interest was contractually payable, it was reclassified to accrued liabilities in the consolidated balance sheet as of September 30, 2014. On November 19, 2014, the Company purchased the noncontrolling interest for $1 million. The difference between the consideration transferred and the recorded value of the redeemable noncontrolling interest was recorded to additional paid-in capital.
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 prior to October 8, 2015 has totaled $5.5 billion. As of September 30, 2015, the Company had remaining authorization of $416 million for future repurchases under the existing stock repurchase program, which will expire on February 3, 2016. On October 8, 2015, the Company's Board of Directors approved an additional $2.0 billion under the Company's stock repurchase program, which will expire on October 8, 2017.
All common stock repurchases have been made through open market transactions. As of September 30, 2015, the Company had repurchased over the life of the program 2.8 million and 101.6 million shares of Series A and Series C common stock, respectively, for the aggregate purchase price of $171 million and $4.9 billion, respectively. The table below presents a summary of common stock repurchases during the three and nine months ended September 30, 2015 and 2014 (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Series C Common Stock:				
Shares repurchased	—	3.3	10.3	13.4
Purchase price	$—	$188	$323	$957

Repurchased common stock is recorded as treasury stock on the consolidated balance sheet. The Company's 2 for 1 stock split in the form of a share dividend distributed on August 6, 2014 was not applied to the Company's treasury shares. Accordingly, the number of common shares repurchased under the common stock repurchase program has not been retroactively adjusted to give effect to the stock split.
Preferred Stock Conversion and Repurchase

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 Advance/Newhouse repurchases are made outside of the Company’s publicly

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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 and nine months ended September 30, 2015 and 2014 (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Series C Convertible Preferred Stock:				
Shares repurchased	0.8	1.5	3.9	1.5
Purchase price	$52	$110	$253	$110

Since no shares of Series C common stock were repurchased during the three months ended September 30, 2015, there will be no Series C convertible preferred shares converted and retired under the preferred stock conversion and repurchase arrangement during the fourth quarter of 2015.

Common Stock

On February 13, 2014, John C. Malone, a member of Discovery's Board of Directors, entered into an agreement granting David Zaslav, the Company's President and CEO, certain voting and purchase rights with respect to the approximately 5.9 million shares of the Company's Series B common stock owned by Mr. Malone. The agreement gives Mr. Zaslav the right to vote the Series B shares if Mr. Malone is not otherwise voting or directing the vote of those shares. The agreement also provides that if Mr. Malone proposes to sell the Series B shares, Mr. Zaslav will have the first right to negotiate for the purchase of the shares. If that negotiation is not successful and Mr. Malone proposes to sell the Series B shares to a third party, Mr. Zaslav will have the exclusive right to match that offer. The rights granted under the agreement will remain in effect for as long as Mr. Zaslav is either employed as the principal executive officer of the Company or serving on its Board of Directors.

Other Comprehensive (Loss) Income

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

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Pretax	Tax Benefit (Provision)	Net-of-tax	Pretax	Tax Benefit (Provision)	Net-of-tax
Currency translation adjustments:						
Unrealized losses	$(57)	$11	$(46)	$(195)	$8	$(187)
Derivative and market value adjustments:						
Unrealized gains	11	(4)	7	4	(1)	3
Reclassifications:						
Distribution revenue	(7)	2	(5)	1	—	1
Costs of revenues	(2)	1	(1)	—	—	—
Interest expense	1	—	1	—	—	—
Other income (expense), net	(1)	—	(1)	(1)	—	(1)
Other comprehensive loss	$(55)	$10	$(45)	$(191)	$7	$(184)

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	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Pretax	Tax Benefit (Provision)	Net-of-tax	Pretax	Tax Benefit (Provision)	Net-of-tax
Currency translation adjustments:						
Unrealized losses	$(197)	$6	$(191)	$(211)	$(1)	$(212)
Reclassifications:						
Gain on disposition	23	—	23	—	—	—
Other income (expense), net	6	—	6	(7)	—	(7)
Derivative and market value adjustments:						
Unrealized gains (losses)	11	(4)	7	(5)	2	(3)
Reclassifications:						
Distribution revenue	(15)	5	(10)	2	—	2
Advertising revenue	(1)	—	(1)	—	—	—
Costs of revenues	(6)	2	(4)	—	—	—
Gain on disposition	—	—	—	(5)	2	(3)
Interest expense	1	—	1	—	—	—
Other income (expense), net	9	(3)	6	(2)	—	(2)
Other comprehensive loss	$(169)	$6	$(163)	$(228)	$3	$(225)

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 September 30, 2015			Three Months Ended September 30, 2014		
	Currency Translation Adjustments	Derivative and Market Value Adjustments	Accumulated Other Comprehensive Loss	Currency Translation Adjustments	Derivative and Market Value Adjustments	Accumulated Other Comprehensive Income (Loss)
Beginning balance	$(457)	$(3)	$ (460)	$(41)	$3	$ (38)
Other comprehensive (loss) income before reclassifications	(46)	7	(39)	(187)	3	(184)
Reclassifications from accumulated other comprehensive loss to net income	—	(6)	(6)	—	—	—
Other comprehensive (loss) income	(46)	1	(45)	(187)	3	(184)
Other comprehensive (income) loss attributable to redeemable noncontrolling interests	(3)	—	(3)	28	(1)	27
Ending balance	$(506)	$(2)	$ (508)	$(200)	$5	$ (195)

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	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Currency Translation Adjustments	Derivative and Market Value Adjustments	Accumulated Other Comprehensive Loss	Currency Translation Adjustments	Derivative and Market Value Adjustments	Accumulated Other Comprehensive income (Loss)
Beginning balance	$(367)	$(1)	$ (368)	$(8)	$12	$ 4
Other comprehensive (loss) income before reclassifications	(191)	7	(184)	(212)	(3)	(215)
Reclassifications from accumulated other comprehensive loss to net income	29	(8)	21	(7)	(3)	(10)
Other comprehensive loss	(162)	(1)	(163)	(219)	(6)	(225)
Other comprehensive loss (income) attributable to redeemable noncontrolling interests	23	—	23	27	(1)	26
Ending balance	$(506)	$(2)	$ (508)	$(200)	$5	$ (195)

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 nine months ended September 30, 2015, the vesting and service requirements of equity-based awards granted were consistent with the arrangements disclosed in the 2014 Form 10-K.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Stock options	$4	$4	$12	$19
RSUs	4	3	12	10
PRSUs	(5)	14	8	32
SARs	(12)	6	(15)	(2)
Unit awards	—	5	(2)	6
ESPP	—	1	1	1
Total equity-based compensation (income) expense	$(9)	$33	$16	$66
Tax (expense) benefit recognized	$(4)	$11	$6	$23

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.

As of September 30, 2015 and December 31, 2014, the Company recorded total liabilities for other liability-classified equity-based compensation awards of $47 million and $84 million, respectively. The current liability for liability-classified equity-based compensation awards was $5 million and $32 million as of September 30, 2015 and December 31, 2014, respectively.

During the nine months ended September 30, 2015, the Company granted 2.9 million stock options at a weighted average exercise price of $32.09. During the nine months ended September 30, 2015, the Company granted 1.0 million, 0.5 million and 2.0 million of RSUs, PRSUs and SARs, respectively, at a weighted average grant price of $32.30, $31.68 and $32.69, respectively.

During the nine months ended September 30, 2015, 0.5 million stock options were exercised at a weighted average exercise price of $17.93. During the nine months ended September 30, 2015, 0.4 million, 1.2 million and 1.8 million of RSUs, PRSUs and SARs, respectively, were converted or settled, as applicable, at a weighted average grant price of $26.74, $22.44 and $26.74, respectively. During the nine months ended September 30, 2015, the Company made cash payments of $14 million to settle all 1.2 million remaining unit awards.

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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 September 30, 2015 (in millions, except years).

	Unrecognized Compensation Cost, Net of Expected Forfeitures	Weighted Average Amortization Period (years)
Stock options	$33	2.3
RSUs	44	2.6
PRSUs	35	1.4
SARs	4	1.2
Total unrecognized compensation cost, net of expected forfeitures	$116	

NOTE 11. INCOME TAXES

The Company's provisions for income taxes were $130 million and $394 million, and the effective income tax rates were 31% and 32%, for the three and nine months ended September 30, 2015, respectively. The Company's provisions for income taxes were $155 million and $481 million, and the effective income tax rate was 35% for each of the three and nine months ended September 30, 2014, 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
U.S. federal statutory income tax rate	35 %	35 %	35 %	35 %
State and local income taxes, net of federal tax benefit	1 %	2 %	2 %	3 %
Effect of foreign operations	— %	1 %	— %	1 %
Domestic production activity deductions	(1)%	(3)%	(3)%	(3)%
Change in uncertain tax positions	(3)%	— %	(2)%	(1)%
Other, net	(1)%	— %	— %	— %
Effective income tax rate	31 %	35 %	32 %	35 %

The Company and its subsidiaries file income tax returns in the U.S. and various state and foreign jurisdictions. The Company is currently under examination by the IRS for its 2009 and 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 September 30, 2015 and December 31, 2014 totaled $159 million and $176 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 $68 million within the next twelve months as a result of ongoing audits, lapses of statutes of limitations or regulatory developments.

As of September 30, 2015 and December 31, 2014, the Company had accrued approximately $14 million and $17 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. Any redeemable noncontrolling interests adjustments of redemption value

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to the floor that reflects a redemption in excess of fair value are included as an adjustment to net income available to Discovery Communications, Inc. stockholders in the calculation of earnings per share.
The table below sets forth the computation for income available to Discovery Communications, Inc. stockholders (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income	$283	$287	$822	$902
Less:				
Allocation of undistributed income to Series A convertible preferred stock	(61)	(58)	(176)	(183)
Net income attributable to noncontrolling interests	—	—	—	(2)
Net income attributable to redeemable noncontrolling interests	(4)	(7)	(7)	(11)
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	(1)
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	$218	$222	$639	$705
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	185	186	541	592
Series C convertible preferred stockholders	33	36	98	113
Total	218	222	639	705
Add:				
Allocation of undistributed income to Series A convertible preferred stockholders	61	58	176	183
Net income available to Discovery Communications, Inc. Series A, B and C common stockholders for diluted net income per share	$279	$280	$815	$888

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 September 30, 2015 and 2014, net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share was $33 million and $35 million, respectively. For the nine months ended September 30, 2015 and 2014, net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share was $97 million and $112 million, respectively.
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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Denominator:				
Weighted average Series A, B and C common shares outstanding — basic	432	449	434	458
Weighted average impact of assumed preferred stock conversion	217	227	220	228

Weighted average dilutive effect of equity-based awards	4	6	4	7
Weighted average Series A, B and C common shares outstanding — diluted	653	682	658	693
Weighted average Series C convertible preferred stock outstanding — basic and diluted	38	43	39	44

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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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
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	$0.43	$0.41	$1.25	$1.29
Series C convertible preferred stockholders	$0.86	$0.82	$2.50	$2.58
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	$0.43	$0.41	$1.24	$1.28
Series C convertible preferred stockholders	$0.86	$0.82	$2.48	$2.56

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 stockholders 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Anti-dilutive stock options and RSUs	6	4	6	3
PRSUs whose performance targets have not been achieved	3	4	3	3

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

NOTE 13. SUPPLEMENTAL DISCLOSURES

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

Accrued Liabilities

	September 30, 2015	December 31, 2014
Mandatorily redeemable equity	$551	$—
Accrued payroll and related benefits	387	441
Content rights payable	209	198
Accrued interest	106	50

Accrued income taxes	38	120
Current portion of equity-based compensation liabilities	5	32
Other accrued liabilities	210	253
Total accrued liabilities	$1,506	$1,094

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Other Income (Expense), Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Foreign currency (losses) gains, net	$(6)	$7	$(73)	$(5)
Gains (losses) on derivative instruments	8	1	(3)	1
Remeasurement gain on previously held equity interest	—	—	2	29
Other expense, net	(2)	(7)	(4)	(14)
Total other income (expense), net	$—	$1	$(78)	$11

Equity-Based Plan (Payments) Proceeds, Net

	Nine Months Ended September 30,	
	2015	2014
Tax settlements associated with equity-based plans	$(27)	$(27)
Excess tax benefits from equity-based compensation	6	30
Proceeds from issuance of common stock in connection with equity-based plans	12	36
Total equity-based plan (payments) proceeds, net	$(9)	$39

Supplemental Cash Flow Information

	Nine Months Ended September 30,	
	2015	2014
Cash paid for taxes, net	$609	$500
Cash paid for interest, net	188	180
Noncash investing and financing activities:		
Mandatorily redeemable equity	551	—
Working capital adjustments and contingent consideration receivable from business dispositions	19	—
Accrued purchases of property and equipment	13	5
Contingent consideration obligations from business acquisitions	9	—
Assets acquired under capital lease arrangements	2	14

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 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 and All3Media, or minority partners of consolidated subsidiaries, such as Hasbro.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues and service charges:				
Liberty Group	$40	$39	$120	$118
Equity method investees	12	31	44	79
Other	10	9	27	26
Total revenues and service charges	$62	$79	$191	$223
Interest income[a]	$5	$8	$18	$25
Expenses	$(12)	$(10)	$(43)	$(28)

[a] The Company records interest earnings from loans to equity method investees, such as OWN, as a component of (loss) 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).

	September 30, 2015	December 31, 2014
Receivables	$36	$37
Note receivable (see Note 3)	394	457

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.) During the nine months ended September 30, 2015, the Company committed to acquire the exclusive broadcast rights across all media platforms throughout Europe for the four Olympic Games between 2018 and 2024 for €1.3 billion ($1.5 billion as of September 30, 2015). The broadcast rights exclude the U.K. and France for the Olympic Games in 2018 and 2020, and exclude Russia.

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 $214 million and $26 million, respectively. (See Note 8.) On July 22, 2015, TF1 exercised its right to put the entirety of its remaining 49% noncontrolling interest in Eurosport to the Company for €491 million ($551 million as of September 30, 2015). The redeemable noncontrolling interest balance has become mandatorily redeemable and has been reclassified to accrued liabilities as of September 30, 2015. The transaction closed on October 1, 2015 for $548 million. (See Note 8.)

Legal Matters

A former business partner has notified the Company of its intent to pursue breach of contract and various business tort claims against the Company for alleged losses of $116 million. Based on the information currently available, the Company does not believe a loss is probable or reasonably estimable, and no accrual was recorded as of

September 30, 2015. The Company intends to

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vigorously defend itself against the allegations. An adverse outcome in the matter could be material to the Company's consolidated financial position, results of operations or cash flows.

The Company is party to various other 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 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 other 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 September 30, 2015 and December 31, 2014.

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 September 30, 2015 and December 31, 2014.

NOTE 16. REPORTABLE SEGMENTS

The Company’s operating segments are determined based on (i) financial information reviewed by its CEO, (ii) internal management and related reporting structure, and (iii) the basis upon which the CEO makes resource allocation decisions. As of December 31, 2014, the Company changed its organizational structure and reorganized its production studios into an operating segment, Studios. Previously, components of this segment were classified in the U.S. Networks and International Networks reportable segments. Studios does not meet the quantitative thresholds for a separate reportable segment and has been combined with the Education segment, which also does not meet the quantitative thresholds of a separate reportable segment. The Company will refer to the combination as Education and Other for financial statement presentation. The Company has recast amounts for the three and nine months ended September 30, 2014 to conform to the current year presentation.

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).

DISCOVERY COMMUNICATIONS, INC.
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(unaudited)

Revenues by Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
U.S. Networks	$781	$723	$2,344	$2,205
International Networks	740	813	2,276	2,273
Education and Other	36	35	130	117
Corporate and inter-segment eliminations	—	(3)	(2)	(6)
Total revenues	$1,557	$1,568	$4,748	$4,589

Adjusted OIBDA by Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
U.S. Networks	$443	$426	$1,364	$1,275
International Networks	218	277	699	795
Education and Other	(5)	3	(2)	15
Corporate and inter-segment eliminations	(80)	(72)	(237)	(232)
Total Adjusted OIBDA	$576	$634	$1,824	$1,853

Reconciliation of Total Adjusted OIBDA to Income Before Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total Adjusted OIBDA	$576	$634	$1,824	$1,853
Amortization of deferred launch incentives	(4)	(4)	(12)	(8)
Mark-to-market equity-based compensation	17	(23)	9	(29)
Depreciation and amortization	(80)	(85)	(243)	(243)
Restructuring and other charges	(4)	(11)	(37)	(19)
Gain on disposition	—	—	3	31
Operating income	$505	$511	$1,544	$1,585
Interest expense	(82)	(83)	(248)	(247)
(Loss) income from equity investees, net	(10)	13	(2)	34
Other income (expense), net	—	1	(78)	11
Income before income taxes	$413	$442	$1,216	$1,383

Total Assets by Segment

	September 30, 2015	December 31, 2014
U.S. Networks	$3,363	$3,315
International Networks	5,203	5,443
Education and Other	347	320
Corporate and inter-segment eliminations	7,006	6,892
Total assets	$15,919	$15,970

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 September 30, 2015 and December 31, 2014, 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
September 30, 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	$—	$—	$16	$ 246	$ —	$ —	$ 262
Receivables, net	—	—	451	1,105	—	—	1,556
Content rights, net	—	—	8	333	—	—	341
Deferred income taxes	—	—	39	41	—	—	80
Income taxes receivable and prepaid income taxes	139	9	—	5	—	—	153
Prepaid expenses and other current assets	—	—	176	151	—	—	327
Inter-company trade receivables, net	—	—	66	—	—	(66)	—
Total current assets	139	9	756	1,881	—	(66)	2,719
Investment in and advances to subsidiaries	5,508	5,500	7,641	—	3,686	(22,335)	—
Noncurrent content rights, net	—	—	621	1,446	—	—	2,067
Goodwill	—	—	3,769	4,411	—	—	8,180
Intangible assets, net	—	—	294	1,478	—	—	1,772
Equity method investments	—	—	14	548	—	—	562
Other noncurrent assets	—	20	104	515	—	(20)	619
Total assets	$5,647	$5,529	$13,199	$ 10,279	$ 3,686	$ (22,421)	$ 15,919
LIABILITIES AND EQUITY							
Current liabilities:							
Current portion of debt	$—	$—	$92	$ 24	$ —	$ —	$ 116
Other current liabilities	—	—	492	1,500	—	—	1,992
Inter-company trade payables, net	—	—	—	66	—	(66)	—
Total current liabilities	—	—	584	1,590	—	(66)	2,108
Noncurrent portion of debt	—	—	6,747	194	—	—	6,941
Other noncurrent liabilities	2	—	368	613	21	(20)	984
Total liabilities	2	—	7,699	2,397	21	(86)	10,033
Redeemable noncontrolling interests	—	—	—	240	—	—	240
Equity attributable to Discovery Communications, Inc.	5,645	5,529	5,500	7,642	3,665	(22,336)	5,645

Noncontrolling interests	—	—	—	—	—	1	1
Total equity	5,645	5,529	5,500	7,642	3,665	(22,335)	5,646
Total liabilities and equity	$5,647	$5,529	$13,199	$ 10,279	$ 3,686	$ (22,421)	$ 15,919

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

Condensed Consolidating Balance Sheet
December 31, 2014
(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	$—	$—	$8	$ 359	$ —	$ —	$ 367
Receivables, net	—	—	416	1,017	—	—	1,433
Content rights, net	—	—	8	321	—	—	329
Deferred income taxes	—	—	40	47	—	—	87
Income taxes receivable and prepaid income taxes	1	11	—	5	—	—	17
Prepaid expenses and other current assets	(1)	—	164	95	—	—	258
Inter-company trade receivables, net	—	—	151	—	—	(151)	—
Total current assets	—	11	787	1,844	—	(151)	2,491
Investment in and advances to subsidiaries	5,678	5,669	7,750	—	3,800	(22,897)	—
Noncurrent content rights, net	—	—	613	1,360	—	—	1,973
Goodwill	—	—	3,769	4,467	—	—	8,236
Intangible assets, net	—	—	307	1,664	—	—	1,971
Equity method investments	—	—	21	623	—	—	644
Other noncurrent assets	—	20	106	549	—	(20)	655
Total assets	$5,678	$5,700	$13,353	$ 10,507	$ 3,800	$ (23,068)	$ 15,970
LIABILITIES AND EQUITY							
Current liabilities:							
Current portion of debt	$—	$—	$1,084	$ 23	$ —	$ —	$ 1,107
Other current liabilities	73	—	433	991	—	—	1,497
Inter-company trade payables, net	—	—	—	151	—	(151)	—
Total current liabilities	73	—	1,517	1,165	—	(151)	2,604
Noncurrent portion of debt	—	—	5,824				