Discovery Communications, Inc.
Form 10-Q
May 05, 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 March 31, 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 April 27, 2015:

Series A Common Stock, par value $0.01 per share	149,151,675
Series B Common Stock, par value $0.01 per share	6,542,457
Series C Common Stock, par value $0.01 per share	274,205,222

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

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$321	$367
Receivables, net	1,431	1,433
Content rights, net	310	329
Deferred income taxes	86	87
Prepaid expenses and other current assets	321	275
Total current assets	2,469	2,491
Noncurrent content rights, net	1,991	1,973
Property and equipment, net	534	554
Goodwill	8,152	8,236
Intangible assets, net	1,855	1,971
Equity method investments	618	644
Other noncurrent assets	163	145
Total assets	$15,782	$16,014
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$205	$225
Accrued liabilities	932	1,094
Deferred revenues	175	178
Current portion of debt	453	1,107
Total current liabilities	1,765	2,604
Noncurrent portion of debt	7,036	6,046
Deferred income taxes	532	588
Other noncurrent liabilities	406	425
Total liabilities	9,739	9,663
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	752	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; 40 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	6,911	6,917
Treasury stock, at cost	(4,963)	(4,763)
Retained earnings	3,903	3,809

Accumulated other comprehensive loss	(569)	(368)
Total Discovery Communications, Inc. stockholders’ equity	5,289	5,602
Noncontrolling interests	2	2
Total equity	5,291	5,604
Total liabilities and equity	$15,782	$16,014

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

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

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Distribution	$758	$657
Advertising	687	689
Other	92	65
Total revenues	1,537	1,411
Costs and expenses:		
Costs of revenues, excluding depreciation and amortization	565	482
Selling, general and administrative	400	409
Depreciation and amortization	81	83
Restructuring and other charges	9	3
Total costs and expenses	1,055	977
Operating income	482	434
Interest expense	(89)	(81)
Income from equity investees, net	1	13
Other expense, net	(19)	(17)
Income from continuing operations before income taxes	375	349
Provision for income taxes	(125)	(118)
Net income	250	231
Net income attributable to redeemable noncontrolling interests	—	(1)
Net income available to Discovery Communications, Inc.	$250	$230
Net income per share available to Discovery Communications, Inc. Series A, B and C common stockholders:		
Basic	$0.38	$0.33
Diluted	$0.37	$0.33
Weighted average shares outstanding:		
Basic	439	468
Diluted	667	704

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

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

	Three Months Ended March 31,	
	2015	2014
Net income	$250	$231
Other comprehensive (loss) income, net of tax:		
Currency translation adjustments	(248)	1
Derivative and market value adjustments	12	(1)
Comprehensive income	14	231
Comprehensive loss (income) attributable to redeemable noncontrolling interests	35	(1)
Comprehensive income attributable to Discovery Communications, Inc.	$49	$230

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

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

	Three Months Ended March 31,	
	2015	2014
Operating Activities		
Net income	$250	$231
Adjustments to reconcile net income to cash provided by operating activities:		
Equity-based compensation expense	2	19
Depreciation and amortization	81	83
Content amortization and impairment expense	407	350
Remeasurement gain on previously held equity interest	(2)	—
Equity in earnings of investee companies, net of cash distributions	1	(11)
Deferred income tax benefit	(48)	(35)
Launch amortization expense	4	2
Loss from derivative instruments	11	—
Other, net	5	11
Changes in operating assets and liabilities, net of business combinations:		
Receivables, net	(10)	31
Content rights	(445)	(391)
Accounts payable and accrued liabilities	(134)	6
Equity-based compensation liabilities	(25)	(81)
Income tax receivable	3	53
Other, net	(37)	(27)
Cash provided by operating activities	63	241
Investing Activities		
Purchases of property and equipment	(34)	(28)
Business acquisitions, net of cash acquired	(16)	(17)
Payments for derivative instruments	(11)	—
Distributions from equity method investees	15	16
Investments in equity method investees, net	(26)	1
Other investing activities, net	(6)	—
Cash used in investing activities	(78)	(28)
Financing Activities		
Commercial paper borrowings, net	199	—
Borrowings under revolving credit facility	123	—
Principal repayments of revolving credit facility	(13)	—
Borrowings from debt, net of discount	936	415
Principal repayments of debt	(849)	—
Principal repayments of capital lease obligations	(12)	(4)
Repurchases of stock	(317)	(266)
Cash payments for equity-based plans, net	(17)	—
Hedge of borrowings from debt instruments	(29)	—
Other financing activities, net	(9)	(5)
Cash provided by financing activities	12	140
Effect of exchange rate changes on cash and cash equivalents	(43)	(4)
Net change in cash and cash equivalents	(46)	349
Cash and cash equivalents, beginning of period	367	408

Cash and cash equivalents, end of period	$321	$757

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

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

	Three Months Ended March 31,	
	2015	2014
Supplemental Cash Flow Information		
Cash paid for taxes, net	$218	$41
Cash paid for interest, net as reported in operating activities	$41	$20
Noncash Investing and Financing Transactions		
Assets acquired under capital lease arrangements	$—	$14
Accrued purchases of property and equipment	$6	$7
Amounts obligated under contingent consideration arrangements	$10	$—

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

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

	Three Months Ended March 31, 2015			Three Months Ended March 31, 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	49	—	49	230	—	230
Repurchases of stock	(317)	—	(317)	(266)	—	(266)
Equity-based compensation	11	—	11	20	—	20
Excess tax benefits from equity-based compensation	5	—	5	16	—	16
Tax settlements associated with equity-based compensation	(26)	—	(26)	(26)	—	(26)
Issuance of common stock in connection with equity-based compensation plans	4	—	4	10	—	10
Other adjustments for equity-based compensation plans	—	—	—	(1)	—	(1)
Redeemable noncontrolling interest adjustments to redemption value	(39)	—	(39)	1	—	1
Ending balance	$5,289	$ 2	$5,291	$6,180	$ 1	$6,181

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

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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, radio stations 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 months ended March 31, 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.)

Stock Split Effected in the Form of a Share Dividend

On May 16, 2014, Discovery's Board of Directors approved a stock split effected in the form of a share dividend (the "2014 Share Dividend") of one share of the Company's Series C common stock on each issued and outstanding share of Series A, Series B, and Series C common stock. The stock split did not change the number of treasury shares or the number of outstanding preferred shares, but the conversion ratio on the preferred shares was adjusted as a result of the stock split. (See Note 9.) The 2014 Share Dividend was distributed on August 6, 2014 to stockholders of record on July 28, 2014 and has been accounted for as a 2 for 1 stock split. All share and per share data for earnings per share has been retroactively adjusted to give effect to the 2014 Share Dividend.

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”).

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(unaudited)

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.

Accounting and Reporting Pronouncements Not Yet Adopted

Presentation of Debt Issuance Cost

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 in the balance sheet as a deferred charge. The new standard will be effective for reporting periods beginning after December 15, 2015 and should be adopted retrospectively. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the consolidated financial statements.

Business Consolidation

In February 2015, the FASB issued guidance on evaluating whether a reporting entity should consolidate certain legal entities. Specifically, this guidance amends the consolidation guidance for VIEs and general partners' investments in limited partnerships, and modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. The new standard will be 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 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 will be 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. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. In April 2015, the FASB proposed a one-year deferral of the pronouncement's effective date to annual reporting periods beginning after December 15, 2017, and the interim periods within those years. 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, including the largest distributors in the U.S. and major international distributors. In the U.S., approximately 90% of distribution revenue comes from the top 10 distributors. Outside of the U.S., approximately 45% of distribution revenue comes from the top 10 distributors. Agreements in place with the major cable and satellite operators in the U.S. expire at various times beginning in 2015 through 2021. One of the Company's top 10 U.S. distribution agreements will expire prior to June 30, 2015. Negotiations to renew agreements with distributors can be contentious and, in some cases, those negotiations may not be completed prior to the end of the existing contract. Although the Company is seeking to renew its agreements with its distributors, a delay in securing a renewal that results in a service disruption,

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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 which is impacted by affiliate subscriber levels and viewership.

No individual customer accounted for more than 10% of total consolidated revenues for the three months ended March 31, 2015 or 2014. As of March 31, 2015 and December 31, 2014, the Company’s trade receivables do 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.

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 March 31, 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% ownership interest in Eurosport, which includes both Eurosport International and Eurosport France, and was accounted for as an equity method investment. On May 30, 2014, the Company acquired a controlling 31% 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 on March 31, 2015, the Company completed its acquisition of an additional 31% interest in Eurosport France for €38 million ($40 million), giving 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 expense, net in the Company's consolidated statements of operations. (See Note 13.)

Eurosport is a 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 television offerings in Europe.

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The Company used discounted cash flow ("DCF") analyses, which represent Level 3 fair value measurements, to assess certain components of its 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 and income taxes.

	Eurosport France (Provisional) March 31, 2015	Eurosport International May 30, 2014
Goodwill	$72	$785
Intangible assets	40	467
Other assets acquired	20	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	(26)	(169)
Deferred tax liabilities	(14)	(164)
Redeemable noncontrolling interest	(60)	(558)
Carrying value of previously held equity interest	(21)	(231)
Net assets acquired	$40	$351

TF1 has the right to put the entirety of its remaining 49% noncontrolling interest in Eurosport to the Company during two 90-day windows in the two and a half years after May 30, 2014. If the put right is exercised during the first 90-day window beginning July 1, 2015, it has a floor value equal to 49% of the fair value of Eurosport on May 30, 2014, which was approximately €466 million ($500 million as of March 31, 2015), to be adjusted for working capital items upon closing. If the put right is exercised during the second 90-day window beginning July 1, 2016, it will be priced at 49% of the then-current fair value of Eurosport, or as may be agreed between the Company and TF1. As the exercise of TF1's put right is outside the control of the Company, TF1's 49% noncontrolling interest is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet. (See Note 8.)

The goodwill reflects the workforce and synergies expected from increased pan-European market penetration as the operations of Eurosport and the Company are combined. The goodwill recorded as part of this acquisition is assigned to the Eurosport reporting unit, which is a component of the Company's International Networks segment. The goodwill recorded as part of this acquisition 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 television 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, 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 was equal to the carrying amount of the Company's previously held equity method investment in Discovery Family 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 network rebrand to Discovery Family occurred on October 13, 2014.

DISCOVERY COMMUNICATIONS, INC.
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(unaudited)

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

Hasbro has the right to put the entirety of its remaining 40% noncontrolling interest to the Company for one year after December 31, 2021, or in the event that Discovery does not meet a performance obligation related to the network. As the exercise of 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. (See Note 8.) Embedded in the redeemable noncontrolling interest is the value of a Discovery call right exercisable for one year after December 31, 2021. Upon the exercise of the put or call options, the price to be paid for the interest being purchased is generally a function of the then fair market value of the interest, to which certain discounts and floor values may apply in specified situations, depending upon the party exercising the put or call, the basis for the exercise of the put or call, and the determined fair market value of the network at the time of exercise.

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 unit. 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 and a contractual renewal term of 8 years.

Other

In 2015, the Company acquired a free-to-air network in Italy for total consideration of $21 million, net of cash acquired. Total consideration, net of cash acquired, includes $10 million of contingent consideration. The Company provisionally recorded $10 million and $13 million of goodwill and intangible assets, respectively, in connection with this acquisition. The goodwill reflects the synergies and regional market penetration from combining the operations of these acquisitions with the Company.

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.

Pro Forma Financial Information

The following table presents the unaudited pro forma results of the Company as though all of the business combinations discussed above for 2015 had been made on January 1, 2014 and for 2014 had been made on January 1, 2013. These pro forma results do not necessarily represent what would have occurred if all the business combinations above had taken place on January 1, 2014 and 2013, as applicable, 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: 1) the Company converted historical financial statements to

GAAP, 2) the Company applied its accounting policies, 3) the Company adjusted for amortization expense assuming the fair value adjustments to intangible assets had been applied beginning January 1, 2014 and 2013, as applicable, 4) the Company removed the gain recognized upon the consolidation of previously held equity interest in 2015 and reclassified them to 2014, 5) 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 6) the Company included adjustments for income taxes associated with these pro forma adjustments.

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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).

	Pro forma	
	Three Months Ended March 31,	
	2015	2014
Revenue	$1,550	$1,589
Net income	249	238

Impact of Business Combinations

The operations of each of the business combinations discussed above were included in the consolidated financial statements as of each of their respective acquisition dates. The following table presents the revenue and earnings of the business combinations discussed above as reported within the consolidated financial statements for the three months ended March 31, 2015 (in millions). Amounts for the three months ended March 31, 2014 were immaterial.

	Three Months Ended March 31, 2015
Revenues:	
Distribution	$97
Advertising	23
Other	32
Total revenues	$152
Net income	$5

Dispositions

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.

NOTE 3. INVESTMENTS

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

Category	Balance Sheet Location	March 31, 2015	December 31, 2014
Trading securities:			
Money market mutual funds	Cash and cash equivalents	$16	$—
Mutual funds	Prepaid expenses and other current assets	150	147
Equity method investments	Equity method investments	618	644
Cost method investments	Other noncurrent assets	29	29
Total investments		$813	$820

Trading Securities

Trading securities include investments in money market mutual funds with original maturities of 90 days or less and mutual funds held in a separate trust which are owned as part of the Company’s supplemental retirement plan. (See Note 4.)

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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.

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 funding, content licenses, and services, such as distribution, sales and administrative support, for a fee. (See Note 14.)

The Company's combined advances to and note receivable from OWN, including accrued interest, were $452 million and $457 million as of March 31, 2015 and December 31, 2014, respectively. During the three months ended March 31, 2015, the Company received net repayments of $13 million from OWN and accrued interest on the note receivable of $8 million. During the three months ended March 31, 2014, the Company received net repayments of $19 million from OWN and accrued interest on the note receivable of $9 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. The funding to OWN accrues interest at 7.5% compounded annually. 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 future net income will initially 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 $423 million and $424 million as of March 31, 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 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 put right was zero as of March 31, 2015 and December 31, 2014.

Other Equity Method Investments

Other equity method investments include ownership interests in unconsolidated ventures, including VIEs other than OWN. As of March 31, 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 $482 million. The Company's estimated risk of loss excludes the non-contractual future funding of VIEs.

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 by increasing its ownership stake from 20% to 51%. The Company paid approximately €38 million ($40 million) and €259 million ($351 million) for the additional interest in Eurosport France and

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Eurosport International, respectively. 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 for $64 million 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 with an enterprise value of £556 million ($912 million), for a cash payment of £90 million ($147 million). All3Media recapitalized its debt structure to effect the transaction.

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.

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

		March 31, 2015			
Category	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Assets:					
Trading securities:					
Money market mutual funds	Cash and cash equivalents	$16	$—	$—	$16
Mutual funds	Prepaid expenses and other current assets	150	—	—	150
Derivatives:					
Foreign exchange	Prepaid expenses and other current assets	—	35	—	35
Foreign exchange	Other noncurrent assets	—	7	—	7
Total		$166	$42	$—	$208
Liabilities:					
Deferred compensation plan	Accrued liabilities	$150	$—	$—	$150
Derivatives:					
Foreign exchange	Accrued liabilities	—	1	—	1
Total		$150	$1	$—	$151

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		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 money market mutual funds with original maturities of 90 days or less and 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.

Prior to the consolidation of Eurosport France on March 31, 2015, TF1 had a conditional right to require Discovery to purchase its remaining shares in Eurosport France. (See Note 2.)

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. The estimated fair value of the Company's outstanding senior notes using quoted prices from over the counter markets, considered Level 2 inputs, was $7.4 billion and $7.2 billion as of March 31, 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).

	March 31, 2015	December 31, 2014
Produced content rights:		
Completed	$3,392	$3,242
In-production	363	377
Coproduced content rights:		
Completed	732	696
In-production	72	83
Licensed content rights:		
Acquired	982	949
Prepaid	71	82
Content rights, at cost	5,612	5,429
Accumulated amortization	(3,311)	(3,127)
Total content rights, net	2,301	2,302
Current portion	(310)	(329)
Noncurrent portion	$1,991	$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 March 31,	
	2015	2014
Content amortization	$403	$344
Other production charges	53	27
Content impairments	4	6
Total content expense	$460	$377

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NOTE 6. DEBT

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

	March 31, 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	322	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	645	—
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	145	38
Capital lease obligations	167	187
Commercial paper	428	229
Total debt	7,507	7,169
Unamortized discount	(18)	(16)
Debt, net	7,489	7,153
Current portion of debt	(453)	(1,107)
Noncurrent portion of debt	$7,036	$6,046

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 $4 million of deferred financing 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 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 $2 million of deferred financing 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 plus 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 March 31, 2015.
On March 31, 2015, the Company redeemed its $850 million aggregate principal amount of 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 Facilities

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 swing line 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.

The Company had outstanding borrowings of $145 million at a weighted average interest rate of 1.40% under the revolving credit facility as of March 31, 2015, of which $55 million was denominated in foreign currencies, and $38 million at a weighted average interest rate of 1.98% as of December 31, 2014. 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. 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 credit agreement governing the revolving credit facility contains customary representations, warranties and events of default, as well as affirmative and negative covenants. As of March 31, 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 $428 million with a weighted average interest rate of approximately 0.6% as of March 31, 2015 and $229 million with a weighted average interest rate of approximately 0.6% as of December 31, 2014. The Company's outstanding commercial paper borrowings as of March 31, 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 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 earnings 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. These contracts are intended to mitigate economic exposures of the Company. Realized and unrealized gains and losses on contracts that do not qualify for hedge accounting are reflected in other expense, net on the consolidated statements of operations.

The Company records all unsettled derivative contracts at their gross fair values on the consolidated balance sheet (see Note 4). There were no amounts eligible to be offset under master netting agreements as of March 31, 2015 and December 31, 2014.

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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 three months ended March 31, 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).

		March 31, 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	$ 541	$ 35	$ 425	$ 17
Foreign exchange	Other noncurrent assets	177	7	20	7
Foreign exchange	Accrued liabilities	94	1	35	1
Interest rate	Accrued liabilities	—	—	475	28
Foreign exchange	Other noncurrent liabilities	16	—	—	—
Derivatives not designated as hedges:					
Foreign exchange	Prepaid expenses and other current assets	—	—	3	—

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 March 31,	
	2015	2014
Gains (losses) recognized in accumulated other comprehensive loss:		
Foreign exchange	$ 26	$ (2)
Interest rate	(12)	—
Gains reclassified into income from accumulated other comprehensive loss (effective portion):		
Foreign exchange - distribution revenue	3	—
Foreign exchange - costs of revenues	2	—
Foreign exchange - other expense, net	1	1
Losses reclassified into income from accumulated other comprehensive loss (ineffective portion):		
Interest rate - other expense, net	(11)	—

Based on fair values as of March 31, 2015, $30 million of net deferred gains are expected to be reclassified from accumulated other comprehensive loss into income in the next twelve months.

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 income from continuing operations available to Discovery Communications, Inc. stockholders in the calculation of earnings per share. None of the current period adjustments reflect a redemption in excess of fair value. (See Note 12.)

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

	Three Months Ended March 31,	
	2015	2014
Beginning balance	$747	$36
Initial fair value of redeemable noncontrolling interests of acquired businesses	60	—
Comprehensive (loss) income adjustments:		
Net income attributable to redeemable noncontrolling interests	—	1
Other comprehensive loss attributable to redeemable noncontrolling interests	(35)	—
Currency translation on redemption values	(59)	1
Retained earnings adjustments:		
Adjustments to redemption values	39	(1)
Ending balance	$752	$37

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 noncontrolling interest. TF1 has the right to put the entirety of its remaining 49% non-controlling interest in Eurosport to the Company during two 90-day windows in the two and a half years after May 30, 2014. If the put right is exercised during the first 90-day window beginning July 1, 2015, it has a floor value equal to 49% of the fair value denominated in euro of Eurosport on May 30, 2014, which was approximately €466 million ($500 million as of March 31, 2015), to be adjusted for working capital items upon closing. If the put right is exercised during the second 90-day window beginning July 1, 2016, it will be priced at 49% of the current fair value denominated in euro of Eurosport, or as may be agreed between the Company and TF1. As TF1's put right is outside the control of the Company, TF1's 49% noncontrolling interest in Eurosport is presented as redeemable noncontrolling interest outside of permanent equity on the Company's consolidated balance sheet. (See Note 2.)
In connection with the acquisition of a controlling interest in Discovery Family on September 23, 2014, the Company recognized $238 million for Hasbro's noncontrolling interest in Discovery Family. Hasbro has the right to put the entirety of its remaining 40% non-controlling interest to the Company for one year after December 31, 2021, or in the event a Discovery performance obligation related to Discovery Family is not met. Embedded in the redeemable noncontrolling interest is also a Discovery call right that is exercisable for one year after December 31, 2021. Upon the exercise of the put or call options, the price to be paid for the interest being purchased is generally a function of the then-current fair market value of the 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. (See Note 2.)
In connection with the acquisition of a controlling interest in Discovery Japan on January 10, 2013, J:COM obtained the right to put all, but not less than all, of its 20% noncontrolling interest to Discovery at any time for cash. Through January 10, 2017, the redemption value is the January 10, 2013 fair value denominated in Japanese yen; thereafter, the redemption value is the greater of the then-current fair value or the January 10, 2013 fair value denominated in Japanese yen.
NOTE 9. EQUITY
Common Stock Repurchase Program

Under the Company's stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases or privately negotiated transactions at prevailing prices or pursuant to one or more accelerated stock repurchase agreements or other derivative arrangements as permitted by securities laws and other legal requirements, and subject to stock price, business and market conditions and other factors. Over the life of the program authorization under the stock repurchase program has totaled $5.5 billion. As of March 31, 2015, the Company had remaining authorization of $538 million for future repurchases under the stock repurchase program, which will expire on February 3, 2016.

All common stock repurchases have been made through open market transactions and were funded using cash on hand and the issuance of debt. As of March 31, 2015, the Company had repurchased over the life of the program 2.8 million and 97.7

million shares of Series A and Series C common stock, respectively, for the aggregate purchase price of $171 million and $4.8 billion, respectively. The table below presents a summary of stock repurchases (in millions).

	Three Months Ended March 31,	
	2015	2014
Series C Common Stock:		
Shares repurchased	6.4	3.4
Purchase price	$ 200	$ 266

Repurchased common stock is recorded in treasury stock on the consolidated balance sheet. The stock split in the form of a share dividend was not applied to the Company's treasury shares. (See Note 1.) 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 all Series C common stock purchased under the Company’s stock repurchase program during the then most recently completed fiscal quarter. The price paid per preferred share is calculated as 99% of the average price paid for the Series C common shares repurchased by the Company during the applicable fiscal quarter multiplied by the Series C conversion rate. The Series C conversion rate changed from one to two upon the August 6, 2014 effective date of the stock split in the form of a share dividend. (See Note 1.) The Advance/Newhouse repurchases are made outside of the Company’s publicly announced stock repurchase program. During the three months ended March 31, 2015, the Company converted and retired 1.7 million shares of its Series C convertible preferred stock under the preferred stock conversion and repurchase arrangement for an aggregate purchase price of $117 million. Based on the number of shares of Series C common stock purchased during the three months ended March 31, 2015, the Company expects to convert and retire 1.4 million shares of its Series C convertible preferred stock under the preferred stock conversion and repurchase arrangement for an aggregate purchase price of $85 million on or about May 7, 2015. The expected purchase of these shares has not been recognized as a liability on the Company's consolidated balance sheet as of March 31, 2015 due to certain termination rights held by Discovery and Advance/Newhouse in the preferred stock conversion and repurchase arrangement. The repurchase transactions are recorded as a decrease of par value of preferred stock and retained earnings upon settlement using cash on hand as there is no remaining additional paid-in capital for this class of stock.

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 Dr. Malone. The agreement gives Mr. Zaslav the right to vote the Series B shares if Dr. Malone is not otherwise voting or directing the vote of those shares. The agreement also provides that if Dr. 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 Dr. Malone proposed 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.

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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 March 31, 2015			Three Months Ended March 31, 2014		
	Pretax	Tax Benefit (Provision)	Net-of-tax	Pretax	Tax Benefit (Provision)	Net-of-tax
Currency translation adjustments:						
Unrealized (losses) gains	$(265)	$11	$(254)	$2	$(1)	$1
Reclassifications to other expense, net	6	—	6	—	—	—
Derivative and market value adjustments:						
Unrealized gains (losses)	14	(6)	8	(1)	1	—
Reclassifications to distribution revenue	(3)	1	(2)	—	—	—
Reclassifications to costs of revenues	(2)	1	(1)	—	—	—
Reclassifications to other expense, net	10	(3)	7	(1)	—	(1)
Other comprehensive loss	$(240)	$4	$(236)	$—	$—	$—

Accumulated Other Comprehensive Loss

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

	Three Months Ended March 31, 2015			Three Months Ended March 31, 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
Beginning balance	$(367)	$(1)	$ (368)	$(8)	$12	$ 4
Other comprehensive (loss) income before reclassifications	(254)	8	(246)	1	—	1
Reclassifications from accumulated other comprehensive loss to net income	6	4	10	—	(1)	(1)
Other comprehensive (loss) income	(248)	12	(236)	1	(1)	—
Other comprehensive loss attributable to redeemable noncontrolling interests	35	—	35	—	—	—
Ending balance	$(580)	$11	$ (569)	$(7)	$11	$ 4

NOTE 10. EQUITY-BASED COMPENSATION

The Company has various incentive plans under which stock options, time-based restricted stock units ("RSUs"), performance-based restricted stock units ("PRSUs"), stock appreciation rights ("SARs") and unit awards have been issued. During the three months ended March 31, 2015, the vesting and service requirements of equity-based awards granted were consistent with the arrangements disclosed in the 2014 Form 10-K.

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

	Three Months Ended March 31,	
	2015	2014
Stock options	$ 5	$ 9
RSUs	4	4
PRSUs	2	7
Unit awards	(2)	1
SARs	(8)	(2)
ESPP	1	—
Total equity-based compensation expense	$ 2	$ 19
Tax benefit recognized	$ 1	$ 7

Compensation expense for all awards was recorded in selling, general and administrative expense on the consolidated statements of operations. As of March 31, 2015 and December 31, 2014, the Company recorded total liabilities for cash-settled and other liability-classified equity-based compensation awards of $49 million and $84 million, respectively. The current portion of the liability for cash-settled and other liability-classified equity-based compensation awards was $10 million and $32 million as of March 31, 2015 and December 31, 2014, respectively.
During the three months ended March 31, 2015, the Company granted 2.6 million stock options at a weighted average exercise price of $32.13. During the three months ended March 31, 2015, the Company granted 1.0 million, 0.5 million and 1.9 million of RSUs, PRSUs and SARs, respectively, at a weighted average grant price of $32.26, $31.68 and $32.68, respectively.
The table below presents unrecognized compensation cost, net of expected forfeitures, related to non-vested equity-based awards and the weighted average amortization period over which these expenses will be recognized as of March 31, 2015 (in millions, except years).

	Unrecognized Compensation Cost, Net of Forfeitures	Weighted Average Amortization Period (years)
PRSUs	$ 56	1.9
RSUs	54	3.1
Stock options	42	2.6
SARs	14	1.7
Total unrecognized compensation cost, net of expected forfeitures	$ 166	

During the three months ended March 31, 2015, the Company made cash payments of $14 million to settle all remaining unit awards.

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NOTE 11. INCOME TAXES

The Company's provisions for income taxes on income from continuing operations were $125 million and $118 million, and the effective income tax rates were 33% and 34% for the three months ended March 31, 2015 and 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 March 31,			
	2015		2014	
U.S. federal statutory income tax rate	35	%	35	%
State and local income taxes, net of federal tax benefit	2	%	3	%
Effect of foreign operations	—	%	(1	)%
Domestic production activity deductions	(4	)%	(3	)%
Change in uncertain tax positions	—	%	(2	)%
Other, net	—	%	2	%
Effective income tax rate	33	%	34	%

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 2011 and 2010 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.

The Company's reserves for uncertain tax positions at March 31, 2015 and December 31, 2014 totaled $178 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 $90 million within the next twelve months as a result of ongoing audits, lapses of statutes of limitations or regulatory developments.

As of March 31, 2015 and December 31, 2014, the Company had accrued approximately $17 million of total interest and penalties payable related to unrecognized tax benefits. 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 common 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. Following the 2014 Share Dividend on August 6, 2014, each share of Series C convertible preferred stock was convertible into two shares of Series C common stock. As a result of the change in conversion ratio, which did not impact the economic rights of any of the stockholders, and which occurred as a result of the 2014 Share Dividend, the Company recast all prior period earnings per share presentations to be consistent with the current period. 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.

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

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Net income	$ 250	$ 231
Less:		
Allocation of undistributed income to Series A convertible preferred stock	(53)	(47)
Net income attributable to redeemable noncontrolling interests	—	(1)
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	$ 197	$ 184
Allocation of net income available to Discovery Communications Inc., net of taxes, to 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	166	155
Series C convertible preferred stockholders	31	29
Total	197	184
Add:		
Allocation of undistributed income to Series A convertible preferred stockholders	53	47
Net income available to Discovery Communications, Inc. Series A, B and C common stockholders for diluted net income per share	$ 250	$ 231

Net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share is included in net income available to Discovery Communications, Inc. Series A, B and C common stockholders for diluted net income per share. For the three months ended March 31, 2015 and 2014, net income available to Discovery Communications, Inc. Series C convertible preferred stockholders for diluted net income per share was $30 million and $29 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 March 31,	
	2015	2014
Denominator:		
Weighted average Series A, B and C common shares outstanding — basic	439	468
Weighted average impact of assumed preferred stock conversion	223	229
Weighted average dilutive effect of equity-based awards	5	7
Weighted average Series A, B and C common shares outstanding — diluted	667	704

Weighted average Series C convertible preferred stock outstanding — basic and diluted	41	44

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

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the conversion of Series C preferred stock, and the impact of equity-based compensation. 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.

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

	Three Months Ended March 31,	
	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	$0.38	$0.33
Series C convertible preferred stockholders	$0.76	$0.66
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	$0.37	$0.33
Series C convertible preferred stockholders	$0.74	$0.66

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 March 31,	
	2015	2014
Anti-dilutive stock options, PRSUs and RSUs	6	3
PRSUs whose performance targets have not been achieved	3	4

NOTE 13. SUPPLEMENTAL DISCLOSURES

Accrued Liabilities

Accrued liabilities consisted of the following (in millions).

	March 31, 2015	December 31, 2014
Accrued payroll and related benefits	$347	$441
Content rights payable	211	198
Accrued interest	96	50
Accrued income taxes	57	120
Current portion of equity-based compensation liabilities	10	32
Other accrued liabilities	211	253
Total accrued liabilities	$932	$1,094

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Other Expense, Net

Other expense, net consisted of the following (in millions).

	Three Months Ended March 31,	
	2015	2014
Foreign currency losses, net	$(12)	$(11)
Loss on derivative instruments	(11)	—
Remeasurement gain on previously held equity interest	2	—
Other income (expense), net	2	(6)
Total other expense, net	$(19)	$(17)

Cash Payments for Equity-Based Plans, Net

Cash proceeds from equity-based plans, net consisted of the following (in millions).

	Three Months Ended March 31,	
	2015	2014
Tax settlements associated with equity-based plans	$(26)	$(26)
Excess tax benefits from equity-based compensation	5	16
Proceeds from issuance of common stock in connection with equity-based plans	4	10
Total cash payments for equity-based plans, net	$(17)	$—

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.

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

	Three Months Ended March 31,	
	2015	2014
Revenues and service charges:		
Liberty Group	$40	$38
Equity method investees	24	21
Other	8	8
Total revenues and service charges	$72	$67
Interest income[(a)]	$8	$9
Expenses	$(21)	$(10)

[(a)] The Company records interest earnings from loans to equity method investees as a component of income from equity investees, net, in the consolidated statements of operations.

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

	March 31, 2015	December 31, 2014
Receivables	$38	$37
Note receivable (see Note 3)	$452	$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).

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). TF1, Hasbro and J:COM have the right to require the Company to purchase their remaining noncontrolling interests in Eurosport, Discovery Family and Discovery Japan, respectively. The Company has recorded the value of the put rights as redeemable noncontrolling interests. As of March 31, 2015, the recorded value of the redeemable noncontrolling interests in Eurosport, Discovery Family and Discovery Japan was $500 million, $226 million and $26 million, respectively. (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 $75 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 March 31, 2015. The Company intends to vigorously defend against the matter. 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 March 31, 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 March 31, 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. Previously, components of this segment were classified in the U.S. Networks and International Networks reportable segments. Production 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, referred to as

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Education and Other for financial statement presentation. The Company has recast amounts for the three months ended March 31, 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 and (vi) gains and losses on business and asset dispositions. The Company uses this measure to assess the operating results and performance of its segments, perform analytical comparisons, identify strategies to improve performance and allocate resources to each segment. The Company believes Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. The Company excludes mark-to-market equity-based compensation, restructuring and other charges, certain impairment charges, and gains and losses on business and asset dispositions from the calculation of Adjusted OIBDA due to their volatility. The Company also excludes depreciation of fixed assets, amortization of intangible assets and deferred launch incentives, as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses are excluded from segment results to enable executive management to evaluate segment performance based upon the decisions of segment executives. Adjusted OIBDA should be considered in addition to, but not a substitute for, operating income, net income and other measures of financial performance reported in accordance with GAAP.

The tables below present summarized financial information for each of the Company's reportable segments, other operating segments and corporate and inter-segment eliminations (in millions).

Revenues by Segment

	Three Months Ended March 31,	
	2015	2014
U.S. Networks	$749	$706
International Networks	735	667
Education and Other	54	40
Corporate and inter-segment eliminations	(1)	(2)
Total revenues	$1,537	$1,411

Adjusted OIBDA by Segment

	Three Months Ended March 31,	
	2015	2014
U.S. Networks	$425	$387
International Networks	215	220
Education and Other	5	3
Corporate and inter-segment eliminations	(77)	(85)
Total Adjusted OIBDA	$568	$525

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Reconciliation of Total Adjusted OIBDA to Income from Continuing Operations Before Income Taxes

	Three Months Ended March 31,	
	2015	2014
Total Adjusted OIBDA	$568	$525
Amortization of deferred launch incentives	(4)	(2)
Mark-to-market equity-based compensation	8	(3)
Depreciation and amortization	(81)	(83)
Restructuring and other charges	(9)	(3)
Operating income	$482	$434
Interest expense	(89)	(81)
Income from equity investees, net	1	13
Other expense, net	(19)	(17)
Income from continuing operations before income taxes	$375	$349

Total Assets by Segment

	March 31, 2015	December 31, 2014
U.S. Networks	$3,328	$3,315
International Networks	5,190	5,443
Education and Other	324	320
Corporate and inter-segment eliminations	6,940	6,936
Total assets	$15,782	$16,014

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.

NOTE 17. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Overview

As of March 31, 2015 and December 31, 2014, all of the outstanding senior notes (see Note 6) have been issued by DCL, a wholly owned subsidiary of the Company, pursuant to a Registration Statement on Form S-3 filed with the U.S. Securities and Exchange Commission ("SEC") (the “Shelf Registration”). The Company fully and unconditionally guarantees the senior notes on an unsecured basis. The Company, DCL, and/or Discovery Communications Holding LLC (“DCH”) (collectively the “Issuers”) may issue additional debt securities under the Shelf Registration 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, 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.

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

	Discovery	DCH	DCL	Non-Guarantor Subsidiaries of DCL	Other Non-Guarantor Subsidiaries of Discovery	Reclassifications and Eliminations	Discovery and Subsidiaries
ASSETS							
Current assets:							
Cash and cash equivalents	$—	$—	$16	$ 305	$ —	$ —	$ 321
Receivables, net	—	—	413	1,018	—	—	1,431
Content rights, net	—	—	8	302	—	—	310
Deferred income taxes	—	—	39	47	—	—	86
Prepaid expenses and other current assets	—	11	175	135	—	—	321
Inter-company trade receivables, net	—	—	136	—	—	(136)	—
Total current assets	—	11	787	1,807	—	(136)	2,469
Investment in and advances to subsidiaries	5,325	5,315	7,610	—	3,564	(21,814)	—
Noncurrent content rights, net	—	—	610	1,381	—	—	1,991
Goodwill	—	—	3,769	4,383	—	—	8,152
Intangible assets, net	—	—	302	1,553	—	—	1,855
Equity method investments	—	—	18	600	—	—	618
Other noncurrent assets	—	20	154	543	—	(20)	697
Total assets	$5,325	$5,346	$13,250	$ 10,267	$ 3,564	$ (21,970)	$ 15,782
LIABILITIES AND EQUITY							
Current liabilities:							
Current portion of debt	$—	$—	$431	$ 22	$ —	$ —	$ 453
Other current liabilities	35	—	413	864	—	—	1,312
Inter-company trade payables, net	—	—	—	136	—	(136)	—
Total current liabilities	35	—	844	1,022	—	(136)	1,765
Noncurrent portion of debt	—	—	6,755	281	—	—	7,036
Other noncurrent liabilities	1	—	336	600	21	(20)	938
Total liabilities	36	—	7,935	1,903	21	(156)	9,739
Redeemable noncontrolling interests	—	—	—	752	—	—	752
Equity attributable to Discovery Communications, Inc.	5,289	5,346	5,315	7,612	3,543	(21,816)	5,289
Noncontrolling interests	—	—	—	—	—	2	2

Total equity	5,289	5,346	5,315	7,612	3,543	(21,814)	5,291
Total liabilities and equity	$5,325	$5,346	$13,250	$ 10,267	$ 3,564	$ (21,970)	$ 15,782

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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
Prepaid expenses and other current assets	—	11	164	100	—	—	275
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	150	549	—	(20)	699
Total assets	$5,678	$5,700	$13,397	$ 10,507	$ 3,800	$ (23,068)	$ 16,014