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

# FORM 10-Q

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

**For the quarterly period ended September 30, 2021**

**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**

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**Discovery, Inc.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **35-2333914** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **230 Park Avenue South** | **10003** |
| **New York, New York** | **(Zip Code)** |
| **(Address of principal executive offices)** | |

**(212) 548-5555**

**(Registrant's telephone number, including area code)**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbols | Name of Each Exchange on Which Registered |
|---|---|---|
| Series A Common Stock | DISCA | The Nasdaq Global Select Market |
| Series B Common Stock | DISCB | The Nasdaq Global Select Market |
| Series C Common Stock | DISCK | The Nasdaq Global Select Market |

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Total number of shares outstanding of each class of the Registrant's common stock as of October 22, 2021:

| | |
|---|---|
| Series A Common Stock, par value $0.01 per share | 169,207,249 |
| Series B Common Stock, par value $0.01 per share | 6,512,378 |
| Series C Common Stock, par value $0.01 per share | 330,146,263 |

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

**PART I. FINANCIAL INFORMATION**

**ITEM 1. Unaudited Financial Statements.**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Revenues: | | | | |
| Advertising | $ 1,458 | $ 1,306 | $ 4,510 | $ 3,981 |
| Distribution | 1,379 | 1,199 | 4,057 | 3,647 |
| Other | 313 | 56 | 437 | 157 |
| Total revenues | 3,150 | 2,561 | 9,004 | 7,785 |
| Costs and expenses: | | | | |
| Costs of revenues, excluding depreciation and amortization | 1,529 | 1,003 | 3,553 | 2,731 |
| Selling, general and administrative | 944 | 633 | 2,947 | 1,913 |
| Depreciation and amortization | 341 | 341 | 1,043 | 1,001 |
| Impairment of goodwill and other intangible assets | — | — | — | 38 |
| Restructuring and other charges | 7 | 53 | 29 | 75 |
| Gain on disposition | — | — | (72) | — |
| Total costs and expenses | 2,821 | 2,030 | 7,500 | 5,758 |
| Operating income | 329 | 531 | 1,504 | 2,027 |
| Interest expense, net | (159) | (161) | (479) | (485) |
| Loss on extinguishment of debt | (6) | (5) | (10) | (76) |
| Loss from equity investees, net | (9) | (18) | (20) | (62) |
| Other income (expense), net | 78 | (28) | 255 | (92) |
| Income before income taxes | 233 | 319 | 1,250 | 1,312 |
| Income tax (expense) benefit | (36) | 11 | (144) | (275) |
| Net income | 197 | 330 | 1,106 | 1,037 |
| Net income attributable to noncontrolling interests | (32) | (29) | (116) | (82) |
| Net income attributable to redeemable noncontrolling interests | (9) | (1) | (22) | (7) |
| Net income available to Discovery, Inc. | $ 156 | $ 300 | $ 968 | $ 948 |
| Net income per share allocated to Discovery, Inc. Series A, B and C common stockholders: | | | | |
| Basic | $ 0.24 | $ 0.44 | $ 1.47 | $ 1.40 |
| Diluted | $ 0.24 | $ 0.44 | $ 1.46 | $ 1.40 |
| Weighted average shares outstanding: | | | | |
| Basic | 506 | 505 | 503 | 510 |
| Diluted | 663 | 672 | 665 | 677 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Net income | $ 197 | $ 330 | $ 1,106 | $ 1,037 |
| Other comprehensive income (loss) adjustments, net of tax: | | | | |
| Currency translation | (144) | 101 | (203) | 76 |
| Derivatives | 12 | 22 | 137 | (152) |
| Comprehensive income | 65 | 453 | 1,040 | 961 |
| Comprehensive income attributable to noncontrolling interests | (32) | (29) | (116) | (82) |
| Comprehensive income attributable to redeemable noncontrolling interests | (9) | (1) | (22) | (7) |
| Comprehensive income attributable to Discovery, Inc. | $ 24 | $ 423 | $ 902 | $ 872 |

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

**DISCOVERY, INC.**
**CONSOLIDATED BALANCE SHEETS**
**(unaudited; in millions, except par value)**

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,116 | $ 2,091 |
| Receivables, net | 2,462 | 2,537 |
| Content rights and prepaid license fees, net | 254 | 532 |
| Prepaid expenses and other current assets | 824 | 970 |
| Total current assets | 6,656 | 6,130 |
| Noncurrent content rights, net | 3,688 | 3,439 |
| Property and equipment, net | 1,310 | 1,206 |
| Goodwill | 12,957 | 13,070 |
| Intangible assets, net | 6,784 | 7,640 |
| Other noncurrent assets | 2,923 | 2,602 |
| Total assets | $ 34,318 | $ 34,087 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 2,361 | $ 2,190 |
| Deferred revenues | 625 | 557 |
| Current portion of debt | 349 | 335 |
| Total current liabilities | 3,335 | 3,082 |
| Noncurrent portion of debt | 14,436 | 15,069 |
| Deferred income taxes | 1,248 | 1,534 |
| Other noncurrent liabilities | 1,901 | 2,019 |
| Total liabilities | 20,920 | 21,704 |
| Commitments and contingencies (See Note 16) | | |
| Redeemable noncontrolling interests | 358 | 383 |
| Equity: | | |
| Discovery, Inc. stockholders' equity: | | |
| Series A-1 convertible preferred stock: $0.01 par value; 8 shares authorized, issued and outstanding | — | — |
| Series C-1 convertible preferred stock: $0.01 par value; 6 shares authorized; 4 and 5 shares issued and outstanding | — | — |
| Series A common stock: $0.01 par value; 1,700 shares authorized; 170 and 163 shares issued; and 169 and 162 shares outstanding | 2 | 2 |
| Series B convertible common stock: $0.01 par value; 100 shares authorized; 7 shares issued and outstanding | — | — |
| Series C common stock: $0.01 par value; 2,000 shares authorized; 559 and 547 shares issued; and 330 and 318 shares outstanding | 5 | 5 |
| Additional paid-in capital | 11,043 | 10,809 |
| Treasury stock, at cost: 230 shares | (8,244) | (8,244) |
| Retained earnings | 9,522 | 8,543 |
| Accumulated other comprehensive loss | (717) | (651) |
| Total Discovery, Inc. stockholders' equity | 11,611 | 10,464 |
| Noncontrolling interests | 1,429 | 1,536 |
| Total equity | 13,040 | 12,000 |
| Total liabilities and equity | $ 34,318 | $ 34,087 |

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

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

| | Nine Months Ended September 30, 2021 | Nine Months Ended September 30, 2020 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 1,106 | $ 1,037 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Content rights amortization and impairment | 2,735 | 2,118 |
| Depreciation and amortization | 1,043 | 1,001 |
| Deferred income taxes | (502) | (198) |
| Share-based compensation expense | 134 | 62 |
| Gain on disposition | (72) | — |
| Equity in losses of equity method investee companies, including cash distributions | 57 | 96 |
| Gain on sale of investments | (20) | — |
| Loss on extinguishment of debt | 10 | 76 |
| Impairment of goodwill and other intangible assets | — | 38 |
| Other, net | (147) | 34 |
| Changes in operating assets and liabilities, net of acquisitions and dispositions: | | |
| Receivables, net | 44 | 156 |
| Content rights and payables, net | (2,578) | (2,100) |
| Accounts payable, accrued liabilities, deferred revenues and other noncurrent liabilities | 124 | (166) |
| Foreign currency, prepaid expenses and other assets, net | (20) | 32 |
| Cash provided by operating activities | 1,914 | 2,186 |
| **Investing Activities** | | |
| Purchases of property and equipment | (273) | (290) |
| Proceeds from sales and maturities of investments and dissolution of joint venture | 498 | 67 |
| Investments in and advances to equity investments | (137) | (141) |
| (Payments for) proceeds from derivative instruments, net | (102) | 85 |
| Purchases of investments | (103) | (250) |
| Business acquisitions, net of cash acquired | — | (26) |
| Other investing activities, net | 87 | 5 |
| Cash used in investing activities | (30) | (550) |
| **Financing Activities** | | |
| Principal repayments of debt, including premiums to par value and discount payment | (574) | (2,193) |
| Borrowings from debt, net of discount and issuance costs | — | 1,979 |
| Distributions to noncontrolling interests and redeemable noncontrolling interests | (231) | (216) |
| Purchase of redeemable noncontrolling interests | (31) | — |
| Repurchases of stock | — | (741) |
| Principal repayments of revolving credit facility | — | (500) |
| Borrowings under revolving credit facility | — | 500 |
| Other financing activities, net | 25 | (101) |
| Cash used in financing activities | (811) | (1,272) |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | (69) | 40 |
| Net change in cash, cash equivalents, and restricted cash | 1,004 | 404 |
| Cash, cash equivalents, and restricted cash, beginning of period | 2,122 | 1,552 |
| Cash, cash equivalents, and restricted cash, end of period | $ 3,126 | $ 1,956 |

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

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

| | Preferred Stock | | Common Stock | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Shares | Par Value | Additional Paid-In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Discovery, Inc. Stockholders' Equity | Noncontrolling Interests | Total Equity |
| December 31, 2020 | 13 | $ — | 717 | $ 7 | $ 10,809 | $ (8,244) | $ 8,543 | $ (651) | $ 10,464 | $ 1,536 | $ 12,000 |
| Net income available to Discovery, Inc. and attributable to noncontrolling interests | — | — | — | — | — | — | 140 | — | 140 | 46 | 186 |
| Other comprehensive income | — | — | — | — | — | — | — | 70 | 70 | — | 70 |
| Share-based compensation | — | — | — | — | 32 | — | — | — | 32 | — | 32 |
| Preferred stock conversion | (1) | — | 11 | — | — | — | — | — | — | — | — |
| Tax settlements associated with share-based plans | — | — | — | — | (68) | — | — | — | (68) | — | (68) |
| Dividends paid to noncontrolling interests | — | — | — | — | — | — | — | — | — | (178) | (178) |
| Issuance of stock in connection with share-based plans | — | — | 8 | — | 186 | — | — | — | 186 | — | 186 |
| Redeemable noncontrolling interest adjustments to redemption value | — | — | — | — | (8) | — | (1) | — | (9) | — | (9) |
| March 31, 2021 | 12 | $ — | 736 | $ 7 | $ 10,951 | $ (8,244) | $ 8,682 | $ (581) | $ 10,815 | $ 1,404 | $ 12,219 |
| Net income available to Discovery, Inc. and attributable to noncontrolling interests | — | — | — | — | — | — | 672 | — | 672 | 38 | 710 |
| Other comprehensive loss | — | — | — | — | — | — | — | (4) | (4) | — | (4) |
| Share-based compensation | — | — | — | — | 41 | — | — | — | 41 | — | 41 |
| Tax settlements associated with share-based plans | — | — | — | — | (1) | — | — | — | (1) | — | (1) |
| Dividends paid to noncontrolling interests | — | — | — | — | — | — | — | — | — | (29) | (29) |
| Issuance of stock in connection with share-based plans | — | — | — | — | 9 | — | — | — | 9 | — | 9 |
| Redeemable noncontrolling interest adjustments to redemption value | — | — | — | — | — | — | 6 | — | 6 | — | 6 |
| June 30, 2021 | 12 | $ — | 736 | $ 7 | $ 11,000 | $ (8,244) | $ 9,360 | $ (585) | $ 11,538 | $ 1,413 | $ 12,951 |
| Net income available to Discovery, Inc. and attributable to noncontrolling interests | — | — | — | — | — | — | 156 | — | 156 | 32 | 188 |
| Other comprehensive loss | — | — | — | — | — | — | — | (132) | (132) | — | (132) |
| Share-based compensation | — | — | — | — | 43 | — | — | — | 43 | — | 43 |
| Tax settlements associated with share-based plans | — | — | — | — | (1) | — | — | — | (1) | — | (1) |
| Dividends paid to noncontrolling interests | — | — | — | — | — | — | — | — | — | (16) | (16) |
| Issuance of stock in connection with share-based plans | — | — | — | — | 1 | — | — | — | 1 | — | 1 |
| Redeemable noncontrolling interest adjustments to redemption value | — | — | — | — | — | — | 6 | — | 6 | — | 6 |
| September 30, 2021 | 12 | $ — | 736 | $ 7 | $ 11,043 | $ (8,244) | $ 9,522 | $ (717) | $ 11,611 | $ 1,429 | $ 13,040 |

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

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

| | Preferred Stock | | Common Stock | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Shares** | **Par Value** | **Shares** | **Par Value** | **Additional Paid-In Capital** | **Treasury Stock** | **Retained Earnings** | **Accumulated Other Comprehensive Loss** | **Discovery, Inc. Stockholders' Equity** | **Noncontrolling Interests** | **Total Equity** |
| December 31, 2019 | 13 | $ — | 715 | $ 7 | $ 10,747 | $ (7,374) | $ 7,333 | $ (822) | $ 9,891 | $ 1,633 | $ 11,524 |
| Cumulative effect of accounting change | — | — | — | — | — | — | 2 | — | 2 | — | 2 |
| Net income available to Discovery, Inc. and attributable to noncontrolling interests | — | — | — | — | — | — | 377 | — | 377 | 28 | 405 |
| Other comprehensive loss | — | — | — | — | — | — | — | (300) | (300) | — | (300) |
| Share-based compensation | — | — | — | — | 21 | — | — | — | 21 | — | 21 |
| Repurchases of stock | — | — | — | — | — | (523) | — | — | (523) | — | (523) |
| Tax settlements associated with share-based plans | — | — | — | — | (30) | — | — | — | (30) | — | (30) |
| Dividends paid to noncontrolling interests | — | — | — | — | — | — | — | — | — | (170) | (170) |
| Issuance of stock in connection with share-based plans | — | — | 1 | — | 32 | — | — | — | 32 | — | 32 |
| Other adjustments to stockholders' equity | — | — | — | — | — | — | — | — | — | 1 | 1 |
| March 31, 2020 | 13 | $ — | 716 | $ 7 | $ 10,770 | $ (7,897) | $ 7,712 | $ (1,122) | $ 9,470 | $ 1,492 | $ 10,962 |
| Cumulative effect of accounting changes of an equity method investee | — | — | — | — | — | — | (3) | — | (3) | — | (3) |
| Net income available to Discovery, Inc. and attributable to noncontrolling interests | — | — | — | — | — | — | 271 | — | 271 | 25 | 296 |
| Other comprehensive income | — | — | — | — | — | — | — | 101 | 101 | — | 101 |
| Share-based compensation | — | — | — | — | 25 | — | — | — | 25 | — | 25 |
| Tax settlements associated with share-based plans | — | — | — | — | (1) | — | — | — | (1) | — | (1) |
| Dividends paid to noncontrolling interests | — | — | — | — | — | — | — | — | — | (27) | (27) |
| Issuance of stock in connection with share-based plans | — | — | — | — | 2 | — | — | — | 2 | — | 2 |
| Other adjustments to stockholders' equity | — | — | — | — | 2 | — | — | — | 2 | 1 | 3 |
| June 30, 2020 | 13 | $ — | 716 | $ 7 | $ 10,798 | $ (7,897) | $ 7,980 | $ (1,021) | $ 9,867 | $ 1,491 | $ 11,358 |
| Net income available to Discovery, Inc. and attributable to noncontrolling interests | — | — | — | — | — | — | 300 | — | 300 | 29 | 329 |
| Other comprehensive income | — | — | — | — | — | — | — | 123 | 123 | — | 123 |
| Share-based compensation | — | — | — | — | 26 | — | — | — | 26 | — | 26 |
| Repurchases of stock | — | — | — | — | — | (228) | — | — | (228) | — | (228) |
| Dividends paid to noncontrolling interests | — | — | — | — | — | — | — | — | — | (10) | (10) |
| Issuance of stock in connection with share-based plans | — | — | — | — | 1 | — | — | — | 1 | — | 1 |
| Redeemable noncontrolling interest adjustments to redemption value | — | — | — | — | — | — | (2) | — | (2) | — | (2) |
| September 30, 2020 | 13 | $ — | 716 | $ 7 | $ 10,825 | $ (8,125) | $ 8,278 | $ (898) | $ 10,087 | $ 1,510 | $ 11,597 |

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

## NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

**Description of Business**

Discovery, Inc. (“Discovery”, the “Company”, "we", "us" or "our") is a global media company that provides content across multiple distribution platforms, including linear platforms such as pay-television ("pay-TV"), free-to-air and broadcast television, authenticated GO applications, digital distribution arrangements, content licensing arrangements and direct-to-consumer ("DTC") subscription products. During the fourth quarter of 2020, the Company announced the global launch of its aggregated DTC product, discovery+, and in January 2021, the Company launched discovery+ in the U.S. across several streaming platforms. The Company also operates production studios. The Company has organized its operations into two reportable segments: U.S. Networks, consisting principally of domestic television networks and digital content services, and International Networks, consisting primarily of international television networks and digital content services.

**Principles of Consolidation and Basis of Presentation**

The consolidated financial statements include the accounts of Discovery and its majority-owned subsidiaries in which a controlling interest is maintained, including variable interest entities ("VIE") for which the Company is the primary beneficiary. Intercompany accounts and transactions between consolidated entities have been eliminated.

**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, 2020 (the “2020 Form 10-K”).

**Use of Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

Significant estimates and judgments inherent in the preparation of the consolidated financial statements include accounting for asset impairments, revenue recognition, estimated credit losses, content rights, leases, depreciation and amortization, business combinations, share-based compensation, income taxes, other financial instruments, contingencies, and the determination of whether the Company should consolidate certain entities.

**Impact of COVID-19**

On March 11, 2020, the World Health Organization declared the coronavirus disease 2019 (“COVID-19”) outbreak to be a global pandemic. COVID-19 continues to spread throughout the world, and the duration and severity of its effects and associated economic disruption remain uncertain. The Company continues to closely monitor the impact of COVID-19 on all aspects of its business and geographies, including the impact on its customers, employees, suppliers, vendors, distribution and advertising partners, production facilities, and various other third parties.

Beginning in the second quarter of 2020, demand for the Company’s advertising products and services decreased due to economic disruptions from limitations on social and commercial activity. These economic disruptions and the resulting effect on the Company eased during the second half of 2020. The Company currently does not expect the pandemic will have a significant impact on demand during fiscal year 2021. Many of the Company’s third-party production partners that were shut down during most of the second quarter of 2020 due to COVID-19 restrictions came back online in the third quarter of 2020 and, as a result, the Company has incurred additional costs to comply with various governmental regulations and implement certain safety measures for the Company's employees, talent, and partners. Additionally, certain sporting events that the Company has rights to were cancelled or postponed, thereby eliminating or deferring the related revenues and expenses, including the Tokyo 2020 Olympic Games, which occurred in July and August 2021. The postponement of the Olympic Games deferred both Olympic-related revenues and significant expenses from fiscal year 2020 to fiscal year 2021.

In response to the impact of the pandemic, the Company employed innovative production and programming strategies, including producing content filmed by its on-air talent and seeking viewer feedback on which content to air. The Company continues to pursue a number of cost savings initiatives, which began during the third quarter of 2020 through the implementation of travel, marketing, production and other operating cost reductions, including personnel reductions, restructurings and resource reallocations to align its expense structure to ongoing changes within the industry.

The nature and full extent of COVID-19's effects on the Company's operations and results is not yet known and will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity and the extent of future surges of COVID-19, vaccine distribution and other actions to contain the virus or treat its impact, among others. The Company will continue to monitor COVID-19 and its impact on the Company's business results and financial condition. These consolidated financial statements reflect management's latest estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures as of the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods presented. Actual results may differ significantly from these estimates and assumptions.

**Accounting and Reporting Pronouncements Adopted**

***Business Combinations***

In October 2021, the FASB issued guidance that requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination as if it had originated the contracts. The guidance is effective for interim and annual periods beginning after December 15, 2022, and may be early adopted. The Company early adopted this guidance during the third quarter of 2021. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements for prior acquisitions in the current annual period, and the impact in future periods will be dependent on the contract assets and contract liabilities acquired in future business combinations.

**Accounting and Reporting Pronouncements Not Yet Adopted**

***LIBOR***

In March 2020, the FASB issued guidance providing optional expedients and exceptions for applying U.S. GAAP to contract modifications, hedging relationships, and other transactions associated with the expected market transition away from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The guidance is for March 12, 2020 through December 31, 2022 and may not be applied to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, with a few exceptions for certain hedging relationships existing as of December 31, 2022. The Company is currently assessing the impact this guidance would have on its consolidated financial statements and related disclosures, if elected.

***Convertible Instruments***

In August 2020, the FASB issued guidance simplifying the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This guidance amends the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions, requires the use of the if-converted method for calculating earnings per share for convertible instruments, and makes targeted improvements to the disclosures for convertible instruments and related earnings per share guidance. The guidance is effective for interim and annual periods beginning after December 15, 2021. The Company does not expect adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

**NOTE 2. ACQUISITIONS AND DISPOSITIONS**

**Acquisitions**

***WarnerMedia***

In May 2021, the Company entered into an agreement with AT&T Inc. to combine WarnerMedia's ("WarnerMedia") entertainment, sports and news assets with the Company's nonfiction and international entertainment and sports businesses to create a standalone, global entertainment company.

The proposed combination transaction will be executed through a Reverse Morris Trust type transaction, under which WarnerMedia will be distributed to AT&T's shareholders via a pro rata dividend or through an exchange offer or a combination of both, and immediately thereafter, combined with the Company. In connection with the combination transaction, AT&T will receive approximately $43 billion (subject to adjustment) in a combination of cash, debt securities and WarnerMedia's retention of certain debt. The Company will be considered the accounting acquirer. The Company established an interest rate derivative program to mitigate interest rate risk associated with the anticipated issuance of future fixed-rate debt by WarnerMedia, which is expected to be guaranteed by the Company upon closing of the transaction. (See Note 8.)

Immediately prior to closing, all shares of Series A, Series B, and Series C common stock and Series A-1 and Series C-1 convertible preferred stock will be reclassified and converted to one class of the Company's common stock. AT&T's shareholders that receive WarnerMedia stock in the distribution will receive stock representing 71% of the combined company and the Company's shareholders will own 29% of the combined company, in each case on a fully diluted basis. The Boards of Directors of both AT&T and the Company have approved the transaction.

The transaction is anticipated to close in mid-2022, subject to approval by the Company's shareholders and customary closing conditions, including receipt of regulatory approvals. Agreements are in place with Dr. John Malone and Advance/Newhouse Programming Partnership to vote in favor of the transaction. The transaction requires, among other things, the consent of Advance/Newhouse Programming Partnership under the Company's certificate of incorporation as the sole holder of the Series A-1 Preferred Stock, which consent was given pursuant to a consent agreement. In connection with Advance/Newhouse Programming Partnership's entry into the consent agreement and related forfeiture of the significant rights attached to the Series A-1 Preferred Stock in the reclassification of the shares of Series A-1 Preferred Stock into common stock, it will receive an increase to the number of shares of common stock of the Company into which the Series A-1 Preferred Stock would be converted. Upon the closing, the impact the issuance of such additional shares of common stock of the Company will be recorded as a transaction expense. No vote by AT&T shareholders is required.

The merger agreement contains certain customary termination rights for Discovery and AT&T, including, without limitation, a right for either party to terminate if the transaction is not completed on or before July 15, 2023. Termination under specified circumstances will require Discovery to pay AT&T a termination fee of $720 million or AT&T to pay Discovery a termination fee of $1.8 billion.

In anticipation of this combination, in June 2021, Magallanes, Inc., a wholly owned subsidiary of AT&T Inc., entered into a $10 billion term loan that will be guaranteed by the Company and certain material subsidiaries of the Company upon closing of the transaction.

***Other***

During 2020, we completed other immaterial acquisitions.

**Dispositions**

***Great American Country***

In June 2021, the Company completed the sale of its Great American Country network to Hicks Equity Partners for a sale price of $90 million. The Company recorded a gain of $76 million, based on net assets disposed of $14 million.

**NOTE 3. INVESTMENTS**

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

| Category | Balance Sheet Location | Ownership | September 30, 2021 | December 31, 2020 |
|---|---|---|---|---|
| Equity method investments: | | | | |
| nC+ | Other noncurrent assets | 32% | $ 153 | $ 164 |
| Discovery Solar Ventures, LLC [(a)] | Other noncurrent assets | N/A | 77 | 83 |
| All3Media | Other noncurrent assets | 50% | 79 | 76 |
| Other | Other noncurrent assets | | 236 | 184 |
| Total equity method investments [(b)] | | | 545 | 507 |
| | | | | |
| Investments with readily determinable fair values: | | | | |
| Sharecare | Prepaid expenses and other current assets | | 73 | — |
| Lionsgate Entertainment Corp. | Other noncurrent assets | | 68 | 54 |
| fuboTV Inc. | Prepaid expenses and other current assets | | 4 | 32 |
| Total investments with readily determinable fair values | | | 145 | 86 |
| | | | | |
| Equity investments without readily determinable fair values: | | | | |
| Group Nine Media [(c)] | Other noncurrent assets | 25% | 276 | 276 |
| Formula E [(d)] | Other noncurrent assets | 25% | 65 | 65 |
| Other | Other noncurrent assets | | 212 | 200 |
| Total equity investments without readily determinable fair values | | | 553 | 541 |
| Total investments | | | $ 1,243 | $ 1,134 |

(a) Discovery Solar Ventures, LLC invests in limited liability companies that sponsor renewable energy projects related to solar energy. These investments are considered VIEs of the Company and are accounted for under the equity method of accounting using the Hypothetical Liquidation at Book Value methodology for allocating earnings.

(b) Total equity method investments at September 30, 2021 presented above includes a $5 million investment recorded in other noncurrent liabilities.

(c) Overall ownership percentage for Group Nine Media is calculated on an outstanding shares basis. The amount shown herein includes a $20 million note receivable balance within other noncurrent assets on the Company's consolidated balance sheets.

(d) Ownership percentage for Formula E includes holdings accounted for as an equity method investment and holdings accounted for as an equity investment without a readily determinable fair value.

**Equity Method Investments**

Investments in equity method investees are those for which the Company has the ability to exercise significant influence but does not control and is not the primary beneficiary. The Company had no impairment losses for the nine months ended September 30, 2021 and 2020.

With the exception of nC+, the carrying values of the Company's equity method investments are consistent with its ownership in the underlying net assets of the investees. A portion of the Scripps Networks purchase price associated with the investment in nC+ was attributed to amortizable intangible assets. This basis difference is included in the carrying value of nC+ and is amortized over time as a reduction of earnings from nC+. Earnings from nC+ were reduced by the amortization of these intangibles of $8 million for each of the nine months ended September 30, 2021 and 2020. Amortization that reduces the Company's equity in earnings of nC+ for future periods is expected to be $40 million.

Certain of the Company's other equity method investments are VIEs, for which the Company is not the primary beneficiary. As of September 30, 2021, the Company's maximum exposure for all its unconsolidated VIEs, including the investment carrying values and unfunded contractual commitments made on behalf of VIEs, was approximately $195 million. The Company's maximum estimated exposure excludes the non-contractual future funding of VIEs. The aggregate carrying values of these VIE investments were $114 million as of September 30, 2021 and $123 million as of December 31, 2020. The Company recognized its portion of VIE operating results with net losses of $6 million and $17 million for the three months ended September 30, 2021 and 2020, respectively, and net losses of $21 million and $39 million for the nine months ended September 30, 2021 and 2020, respectively, in loss from equity investees, net on the consolidated statements of operations.

***Investments with Readily Determinable Fair Value***

Investments in entities or other securities in which the Company has no control or significant influence, is not the primary beneficiary, and have a readily determinable fair value are classified as equity investments with readily determinable fair value. The investments are measured at fair value based on a quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs (Level 1). Gains and losses are recorded in other income (expense), net on the consolidated statements of operations.

During the three months ended September 30, 2021, Sharecare, an investment that was formerly determined to not have a readily determinable fair value, was listed on the Nasdaq stock exchange and reclassified as an investment with readily determinable fair value. Prior to this reclassification, the Company recorded a gain of $77 million during the nine months ended September 30, 2021 as a result of observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The gains and losses related to the Company's investments with readily determinable fair values for the three and nine months ended September 30, 2021 and 2020 are summarized in the table below (in millions).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net gains (losses) recognized during the period on equity securities | $ (31) | $ 9 | $ 31 | $ (6) |
| Less: Net gains recognized on equity securities sold | — | — | 16 | — |
| Unrealized gains (losses) recognized during reporting period on equity securities still held at the reporting date | $ (31) | $ 9 | $ 15 | $ (6) |

***Equity investments without readily determinable fair values assessed under the measurement alternative***

Equity investments without readily determinable fair value include ownership rights that either (i) do not meet the definition of in-substance common stock or (ii) do not provide the Company with control or significant influence and these investments do not have readily determinable fair values.

During the nine months ended September 30, 2021, the Company invested $15 million in various equity investments without readily determinable fair values and concluded that its other equity investments without readily determinable fair values had decreased $7 million in fair value as a result of observable price changes in orderly transactions for the identical or a similar investment of the same issuer. As of September 30, 2021, the Company had recorded cumulative upward adjustments of $9 million and cumulative impairments of $1 million for its equity investments without readily determinable fair values.

## 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).

| | | September 30, 2021 | | | |
|---|---|---|---|---|---|
| **Category** | **Balance Sheet Location** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | | |
| Cash equivalents: | | | | | |
| Time deposits | Cash and cash equivalents | $ — | $ 173 | $ — | $ 173 |
| Treasury securities | Cash and cash equivalents | 100 | — | — | 100 |
| Equity securities: | | | | | |
| Time deposits | Prepaid expenses and other current assets | — | 101 | — | 101 |
| Mutual funds | Prepaid expenses and other current assets | 12 | — | — | 12 |
| Company-owned life insurance contracts | Prepaid expenses and other current assets | — | 1 | — | 1 |
| Mutual funds | Other noncurrent assets | 210 | — | — | 210 |
| Company-owned life insurance contracts | Other noncurrent assets | — | 31 | — | 31 |
| Total | | $ 322 | $ 306 | $ — | $ 628 |
| **Liabilities** | | | | | |
| Deferred compensation plan | Accounts payable and accrued liabilities | $ 23 | $ — | $ — | $ 23 |
| Deferred compensation plan | Other noncurrent liabilities | 232 | — | — | 232 |
| Total | | $ 255 | $ — | $ — | $ 255 |

| | | December 31, 2020 | | | |
|---|---|---|---|---|---|
| **Category** | **Balance Sheet Location** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | | |
| Cash equivalents: | | | | | |
| Time deposits | Cash and cash equivalents | $ — | $ 7 | $ — | $ 7 |
| Treasury securities | Cash and cash equivalents | 500 | — | — | 500 |
| Equity securities: | | | | | |
| Money market funds | Cash and cash equivalents | — | 150 | — | 150 |
| Time deposits | Prepaid expenses and other current assets | — | 250 | — | 250 |
| Mutual funds | Prepaid expenses and other current assets | 14 | — | — | 14 |
| Company-owned life insurance contracts | Prepaid expenses and other current assets | — | 4 | — | 4 |
| Mutual funds | Other noncurrent assets | 200 | — | — | 200 |
| Company-owned life insurance contracts | Other noncurrent assets | — | 48 | — | 48 |
| Total | | $ 714 | $ 459 | $ — | $ 1,173 |
| **Liabilities** | | | | | |
| Deferred compensation plan | Accounts payable and accrued liabilities | $ 28 | $ — | $ — | $ 28 |
| Deferred compensation plan | Other noncurrent liabilities | 220 | — | — | 220 |
| Total | | $ 248 | $ — | $ — | $ 248 |

Equity securities include money market funds, time deposits, investments in mutual funds held in separate trusts, which are owned as part of the Company's supplemental retirement plans, and company-owned life insurance contracts. The fair value of Level 1 equity securities was determined by reference to the quoted market price per share in active markets multiplied by the number of shares 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. Changes in the fair value of the investments are offset by changes in the fair value of the deferred compensation obligation. Company-owned life insurance contracts are recorded at their cash surrender value, which approximates fair value (Level 2).

In addition to the financial instruments listed in the tables above, the Company has other financial instruments, including cash deposits, accounts receivable, accounts payable, and senior notes. The carrying values for such financial instruments, other than the senior notes, each approximated their fair values as of September 30, 2021 and December 31, 2020. The estimated fair value of the Company's outstanding senior notes using quoted prices from over-the-counter markets, considered Level 2 inputs, was $17.4 billion and $18.7 billion as of September 30, 2021 and December 31, 2020, respectively.

The Company's derivative financial instruments are discussed in Note 8 and its investments with readily determinable fair value are discussed in Note 3.

**NOTE 5. CONTENT RIGHTS**

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

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Produced content rights: | | |
| Completed | $ 9,861 | $ 8,576 |
| In-production | 737 | 731 |
| Coproduced content rights: | | |
| Completed | 994 | 888 |
| In-production | 65 | 78 |
| Licensed content rights: | | |
| Acquired | 1,225 | 1,312 |
| Prepaid | 254 | 556 |
| Content rights, at cost | 13,136 | 12,141 |
| Accumulated amortization | (9,194) | (8,170) |
| Total content rights, net | 3,942 | 3,971 |
| Current portion | (254) | (532) |
| Noncurrent portion | $ 3,688 | $ 3,439 |

Content expense consisted of the following (in millions).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Content amortization | $ 1,217 | $ 762 | $ 2,732 | $ 2,110 |
| Other production charges | 150 | 96 | 333 | 202 |
| Content impairments | 2 | 1 | 3 | 8 |
| Total content expense | $ 1,369 | $ 859 | $ 3,068 | $ 2,320 |

As of September 30, 2021, the Company expects to amortize approximately 57%, 26% and 12% of its produced and co-produced content, excluding content in-production, and 50%, 22% and 10% of its licensed content rights in the next three twelve-month operating cycles ending September 30, 2022, 2023 and 2024, respectively.

## NOTE 6. GOODWILL

### Goodwill

The carrying value and changes in the carrying value of goodwill attributable to each reportable segment were as follows (in millions).

| | U.S. Networks | International Networks | Total |
|---|---|---|---|
| December 31, 2020 | $ 10,813 | $ 2,257 | $ 13,070 |
| Dispositions | — | (3) | (3) |
| Foreign currency translation and other | — | (110) | (110) |
| September 30, 2021 | $ 10,813 | $ 2,144 | $ 12,957 |

The carrying amount of goodwill at the U.S. Networks segment included accumulated impairments of $20 million as of September 30, 2021 and December 31, 2020. The carrying amount of goodwill at the International Networks segment included accumulated impairments of $1.6 billion as of September 30, 2021 and December 31, 2020.

### Impairment Analysis

During the second quarter of 2020, the Company performed a quantitative goodwill impairment analysis for the Asia-Pacific reporting unit and determined that the estimated fair value did not exceed its carrying value, which resulted in a pre-tax impairment charge to write-off the remaining $36 million goodwill balance.

During the third quarter of 2020, the Company realigned its International Networks management reporting structure. As a result, Australia and New Zealand, which were previously included in the Europe reporting unit, are now included in the Asia-Pacific reporting unit, including associated goodwill.

During the fourth quarter of 2020, the Company performed its annual goodwill impairment assessment for all reporting units, and based on the quantitative impairment analysis for the Company's Asia-Pacific reporting unit the estimated fair value did not exceed its carrying value, which resulted in a pre-tax impairment charge to write-off the remaining $85 million goodwill balance. The Europe reporting unit, which had headroom of approximately 20%, was the only reporting unit with fair value in excess of carrying value that was 20% or lower. During the nine months ended September 30, 2021, management concluded there were no triggering events. Management will continue to monitor this reporting unit for changes in the business environment that could impact recoverability.

**NOTE 7. DEBT**

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

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| 4.375% Senior Notes, semi-annual interest, due June 2021 | $ — | $ 335 |
| 2.375% Senior Notes, euro denominated, annual interest, due March 2022 | 349 | 369 |
| 3.300% Senior Notes, semi-annual interest, due May 2022 | — | 168 |
| 3.500% Senior Notes, semi-annual interest, due June 2022 | — | 62 |
| 2.950% Senior Notes, semi-annual interest, due March 2023 | 796 | 796 |
| 3.250% Senior Notes, semi-annual interest, due April 2023 | 192 | 192 |
| 3.800% Senior Notes, semi-annual interest, due March 2024 | 450 | 450 |
| 2.500% Senior Notes, sterling denominated, annual interest, due September 2024 | 539 | 545 |
| 3.900% Senior Notes, semi-annual interest, due November 2024 | 497 | 497 |
| 3.450% Senior Notes, semi-annual interest, due March 2025 | 300 | 300 |
| 3.950% Senior Notes, semi-annual interest, due June 2025 | 500 | 500 |
| 4.900% Senior Notes, semi-annual interest, due March 2026 | 700 | 700 |
| 1.900% Senior Notes, euro denominated, annual interest, due March 2027 | 699 | 739 |
| 3.950% Senior Notes, semi-annual interest, due March 2028 | 1,700 | 1,700 |
| 4.125% Senior Notes, semi-annual interest, due May 2029 | 750 | 750 |
| 3.625% Senior Notes, semi-annual interest, due May 2030 | 1,000 | 1,000 |
| 5.000% Senior Notes, semi-annual interest, due September 2037 | 548 | 548 |
| 6.350% Senior Notes, semi-annual interest, due June 2040 | 664 | 664 |
| 4.950% Senior Notes, semi-annual interest, due May 2042 | 285 | 285 |
| 4.875% Senior Notes, semi-annual interest, due April 2043 | 516 | 516 |
| 5.200% Senior Notes, semi-annual interest, due September 2047 | 1,250 | 1,250 |
| 5.300% Senior Notes, semi-annual interest, due May 2049 | 750 | 750 |
| 4.650% Senior Notes, semi-annual interest, due May 2050 | 1,000 | 1,000 |
| 4.000% Senior Notes, semi-annual interest, due September 2055 | 1,732 | 1,732 |
| Total debt | 15,217 | 15,848 |
| Unamortized discount, premium and debt issuance costs, net [(a)] | (432) | (444) |
| Debt, net of unamortized discount, premium and debt issuance costs | 14,785 | 15,404 |
| Current portion of debt | (349) | (335) |
| Noncurrent portion of debt | $ 14,436 | $ 15,069 |

[(a)] Current portion of unamortized discount, premium, and debt issuance costs, net is not material.

.**Senior Notes**

In the third quarter of 2021, Discovery Communications, LLC ("DCL") and Scripps Networks Interactive, Inc. ("Scripps"), wholly owned subsidiaries of Discovery Inc., issued notices for the redemption in full of all $168 million aggregate principal amount outstanding of DCL's 3.300% Senior Notes due May 2022 and $62 million aggregate principal amount outstanding of DCL's and Scripps' 3.500% Senior Notes due June 2022 (collectively, the "2022 Notes"). The 2022 Notes were redeemed in July 2021 for an aggregate redemption price of $235 million, plus accrued interest. The redemption included $5 million for premium over par on the 2022 Notes and resulted in a loss on extinguishment of debt of $6 million.

In the first quarter of 2021, DCL issued a notice for the redemption in full of all $335 million aggregate principal amount outstanding of its 4.375% Senior Notes due June 2021 (the "2021 Notes") in accordance with the terms of the indenture governing the 2021 Notes. The 2021 Notes were redeemed in March 2021 for an aggregate redemption price of $339 million, plus accrued interest. The redemption included $3 million for premium over par and resulted in a loss on extinguishment of debt of $3 million.

In the third quarter of 2020, Discovery, Inc. commenced five separate private offers to exchange (the “Exchange Offers”) any and all of DCL's outstanding 5.000% Senior Notes due 2037, 6.350% Senior Notes due 2040, 4.950% Senior Notes due 2042, 4.875% Senior Notes due 2043 and 5.200% Senior Notes due 2047 (collectively, the “Old Notes”) for one new series of DCL 4.000% Senior Notes, semi-annual interest, due September 2055 (the “New Notes”). Discovery, Inc. completed the Exchange Offers in September 2020, by exchanging $1.4 billion aggregate principal amount of the Old Notes for $1.7 billion aggregate principal amount of the New Notes (before debt discount of $318 million). The Exchange Offers were accounted for as a debt modification and, as a result, third-party issuance costs totaling $11 million were expensed as incurred.

Also, in the third quarter of 2020, the Company completed offers to purchase for cash (the “Cash Offers”) the Old Notes. Approximately $22 million aggregate principal amount of the Old Notes were validly tendered and accepted for purchase by Discovery pursuant to the Cash Offers, for total cash consideration of $27 million, plus accrued interest. The Cash Offers resulted in a loss on extinguishment of debt of $5 million.

In the second quarter of 2020, DCL issued $1.0 billion aggregate principal amount of Senior Notes due May 2030 and $1.0 billion aggregate principal amount of Senior Notes due May 2050. The proceeds received by DCL were net of a $1 million issuance discount and $20 million of debt issuance costs. DCL used the proceeds from the offering to repurchase $1.5 billion aggregate principal amount of DCL's and Scripps Networks' senior notes in a cash tender offer. The repurchase resulted in a loss on extinguishment of debt of $71 million. The loss included $62 million of net premiums to par value and $9 million of other charges. The Company used the remaining proceeds and cash on hand to fully repay the $500 million that was outstanding under its revolving credit facility.

As of September 30, 2021, all senior notes are fully and unconditionally guaranteed by the Company and Scripps Networks, except for the remaining $23 million of un-exchanged Scripps Networks senior notes acquired in conjunction with the acquisition of Scripps Networks.

**Revolving Credit Facility and Commercial Paper Programs**

In June 2021, DCL entered into a multicurrency revolving credit agreement (the "Credit Agreement"), replacing the existing $2.5 billion credit agreement, dated February 4, 2016, as amended. DCL has the capacity to initially borrow up to $2.5 billion under the Credit Agreement. Upon the closing of the proposed combination transaction with WarnerMedia, the available commitments may be increased by $3.5 billion, to an aggregate amount not to exceed $6 billion. The Credit Agreement includes a $150 million sublimit for the issuance of standby letters of credit. DCL may also request additional commitments up to $1 billion from the lenders upon satisfaction of certain conditions. Obligations under the Credit Agreement are unsecured and are fully and unconditionally guaranteed by Discovery, Inc. and Scripps Networks Interactive, Inc., and will also be guaranteed by the holding company of the WarnerMedia business upon the closing of the proposed combination transaction. The Credit Agreement will be available on a revolving basis until June 2026, with an option for up to two additional 364-day renewal periods subject to the lenders' consent. The Credit Agreement contains customary representations and warranties as well as affirmative and negative covenants. As of September 30, 2021, DCL was in compliance with all covenants and there were no events of default under the Credit Facility.

Additionally, the Company's commercial paper program is supported by the Credit Facility. Under the commercial paper program, the Company may issue up to $1.5 billion, including up to $500 million of euro-denominated borrowings. Borrowing capacity under the Credit Facility is reduced by any outstanding borrowings under the commercial paper program.

As of September 30, 2021 and December 31, 2020, the Company had no outstanding borrowings under the Credit Facility or the commercial paper program.

***Credit Agreement Financial Covenants***

The Credit Agreement includes financial covenants that require the Company to maintain a minimum consolidated interest coverage ratio of 3.00 to 1.00 and a maximum adjusted consolidated leverage ratio of 4.50 to 1.00, which increases to 5.75 to 1.00 upon the closing of the proposed combination transaction with WarnerMedia, with step-downs to 5.00 to 1.00 and 4.50 to 1.00 on the first and second anniversaries of the closing, respectively.

**NOTE 8. 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.

In anticipation of the proposed combination transaction with WarnerMedia, the Company executed forward starting interest rate swap contracts with a total notional value of $5.0 billion, swaption collars with a total notional value of $2.5 billion, and purchase payer swaptions with a total notional value of $7.5 billion during the three months ended September 30, 2021. The objective of these contracts is to mitigate interest rate risk associated with the forecasted issuance of future fixed-rate public debt. Premiums of $142 million were paid at execution and reflected as cash outflows from investing activities. The contracts did not receive hedging designation and changes in the fair value are recognized in other income (expense), net in the consolidated statements of operations.

During the three months ended September 30, 2021, the Company also unwound and settled foreign exchange cash flow hedges with a total notional value of $245 million. The $9 million pretax accumulated other comprehensive gain will be deferred in other comprehensive income until the hedged transaction occurs or is determined to be no longer probable of occurring within the defined hedged periods.

The following table summarizes the impact of derivative financial instruments on the Company's consolidated balance sheets (in millions). There were no amounts eligible to be offset under master netting agreements as of September 30, 2021 and December 31, 2020. The fair value of the Company's derivative financial instruments at September 30, 2021 and December 31, 2020 was determined using a market-based approach (Level 2).

| | September 30, 2021 | | | | | December 31, 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Fair Value | | | | | Fair Value | | | |
| | Notional | Prepaid expenses and other current assets | Other non-current assets | Accounts payable and accrued liabilities | Other non-current liabilities | Notional | Prepaid expenses and other current assets | Other non-current assets | Accounts payable and accrued liabilities | Other non-current liabilities |
| Cash flow hedges: | | | | | | | | | | |
| Foreign exchange | $ 969 | $ 9 | $ 7 | $ 4 | $ 5 | $ 1,082 | $ 2 | $ 5 | $ 14 | $ 17 |
| Interest rate swaps | 2,000 | 57 | — | 7 | — | 2,000 | — | 11 | — | 89 |
| Net investment hedges: (a) | | | | | | | | | | |
| Cross-currency swaps | 3,509 | 46 | 51 | 19 | 86 | 3,544 | 34 | 41 | — | 154 |
| Foreign exchange | 37 | 4 | — | — | — | 44 | 2 | — | — | — |
| No hedging designation: | | | | | | | | | | |
| Foreign exchange | 929 | 3 | — | 25 | 50 | 1,035 | — | — | 2 | 26 |
| Interest rate swaps | 15,000 | 157 | 90 | — | — | — | — | — | — | — |
| Cross-currency swaps | 139 | 3 | — | — | 4 | 139 | 2 | — | — | 13 |
| Total | | $ 279 | $ 148 | $ 55 | $ 145 | | $ 40 | $ 57 | $ 16 | $ 299 |

(a) Excludes £400 million of sterling notes ($539 million equivalent at September 30, 2021) designated as a net investment hedge. (See Note 7.)

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Gains (losses) recognized in accumulated other comprehensive loss: | | | | |
| Foreign exchange - derivative adjustments | $ 15 | $ (19) | $ 45 | $ 50 |
| Interest rate - derivative adjustments | 3 | 53 | 129 | (219) |
| Gains (losses) reclassified into income from accumulated other comprehensive loss: | | | | |
| Foreign exchange - advertising revenue | 1 | — | 1 | 1 |
| Foreign exchange - distribution revenue | 2 | 5 | 1 | 25 |
| Foreign exchange - costs of revenues | — | — | — | 2 |
| Interest rate - interest expense, net | — | — | (1) | 1 |

If current fair values of designated cash flow hedges as of September 30, 2021 remained static over the next twelve months, the Company would reclassify $3 million of net deferred losses from accumulated other comprehensive loss into income in the next twelve months. The maximum length of time the Company is hedging exposure to the variability in future cash flows is 34 years.

The following table presents the pretax impact of derivatives designated as net investment hedges on other comprehensive income (loss) (in millions). Other than amounts excluded from effectiveness testing, there were no other gains (losses) reclassified from accumulated other comprehensive loss to income during the three and nine months ended September 30, 2021 and 2020.

| | Three Months Ended September 30, | | | | |
|---|---|---|---|---|---|
| | Amount of gain (loss) recognized in AOCI | | Location of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing) | Amount of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing) | |
| | 2021 | 2020 | | 2021 | 2020 |
| Cross currency swaps | $ 46 | $ (78) | Interest expense, net | $ 10 | $ 10 |
| Foreign exchange contracts | 4 | (1) | Other income (expense), net | — | — |
| Sterling notes (foreign denominated debt) | 14 | (23) | N/A | — | — |
| Total | $ 64 | $ (102) | | $ 10 | $ 10 |

| | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|
| | Amount of gain (loss) recognized in AOCI | | Location of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing) | Amount of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing) | |
| | 2021 | 2020 | | 2021 | 2020 |
| Cross currency swaps | $ 93 | $ 26 | Interest expense, net | $ 31 | $ 33 |
| Foreign exchange contracts | 4 | 3 | Other income (expense), net | — | — |
| Sterling notes (foreign denominated debt) | 6 | 10 | N/A | — | — |
| Total | $ 103 | $ 39 | | $ 31 | $ 33 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Interest rate swaps | $ 106 | $ — | $ 106 | $ — |
| Cross-currency swaps | 2 | (8) | 8 | (1) |
| Equity | — | — | — | 7 |
| Foreign exchange derivatives | (20) | 27 | (47) | (10) |
| Total in other income (expense), net | $ 88 | $ 19 | $ 67 | $ (4) |

## NOTE 9. EQUITY

### Repurchase Programs

In February 2020, the Company's Board of Directors authorized additional stock repurchases of up to $2 billion upon completion of its existing $1 billion repurchase authorization announced in May 2019. Under the stock repurchase authorization, management is authorized to purchase shares from time to time through open market purchases at prevailing prices or privately negotiated purchases subject to market conditions and other factors.

All common stock repurchases, including prepaid common stock repurchase contracts, have been made through open market transactions and have been recorded as treasury stock on the consolidated balance sheet. Over the life of the Company's repurchase programs and as of September 30, 2021, the Company had repurchased 3 million and 229 million shares of Series A and Series C common stock, respectively, for an aggregate purchase price of $171 million and $8.2 billion, respectively. There were no stock repurchases during the three and nine months ended September 30, 2021. During the three months ended September 30, 2020, the Company repurchased 11.2 million shares of its common stock for $228 million. During the nine months ended September 30, 2020, the Company repurchased 30.7 million shares of its common stock for $751 million.

**Preferred Stock**

During the nine months ended September 30, 2021, Advance Newhouse Programming Partnership converted 0.6 million of its Series C-1 convertible preferred stock into 11.0 million shares of Series C common stock.

**Other Comprehensive Income (Loss) Adjustments**

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

| | Three Months Ended September 30, 2021 | | | Three Months Ended September 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Pretax | Tax benefit (expense) | Net-of-tax | Pretax | Tax benefit (expense) | Net-of-tax |
| **Currency translation adjustments:** | | | | | | |
| Unrealized gains (losses): | | | | | | |
| Foreign currency | $ (187) | $ 1 | $ (186) | $ 193 | $ (11) | $ 182 |
| Net investment hedges | 59 | (17) | 42 | (106) | 25 | (81) |
| Total currency translation adjustments | (128) | (16) | (144) | 87 | 14 | 101 |
| **Derivative adjustments:** | | | | | | |
| Unrealized gains (losses) | 18 | (3) | 15 | 35 | (9) | 26 |
| Reclassifications from other comprehensive income to net income | (3) | — | (3) | (5) | 1 | (4) |
| Total derivative adjustments | 15 | (3) | 12 | 30 | (8) | 22 |
| Other comprehensive income (loss) adjustments | $ (113) | $ (19) | $ (132) | $ 117 | $ 6 | $ 123 |

| | Nine Months Ended September 30, 2021 | | | Nine Months Ended September 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Pretax | Tax benefit (expense) | Net-of-tax | Pretax | Tax benefit (expense) | Net-of-tax |
| **Currency translation adjustments:** | | | | | | |
| Unrealized gains (losses): | | | | | | |
| Foreign currency | $ (296) | $ 15 | $ (281) | $ 29 | $ 46 | $ |
| Net investment hedges | 88 | (10) | 78 | 23 | (22) | |
| Total currency translation adjustments | (208) | 5 | (203) | 52 | 24 | |
| **Derivative adjustments:** | | | | | | |
| Unrealized gains (losses) | 174 | (36) | 138 | (168) | 40 | (1 |
| Reclassifications from other comprehensive income to net income | (1) | — | (1) | (29) | 5 | ( |
| Total derivative adjustments | 173 | (36) | 137 | (197) | 45 | (1 |
| Other comprehensive income (loss) adjustments | $ (35) | $ (31) | $ (66) | $ (145) | $ 69 | $ ( |

**Accumulated Other Comprehensive Loss**

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

| | Three Months Ended September 30, 2021 | | | |
|---|---|---|---|---|
| | Currency Translation | Derivatives | Pension Plan and SERP Liability | Accumulated Other Comprehensive Loss |
| Beginning balance | $ (614) | $ 44 | $ (15) | $ (585) |
| Other comprehensive income (loss) before reclassifications | (144) | 15 | — | (129) |
| Reclassifications from accumulated other comprehensive loss to net income | — | (3) | — | (3) |
| Other comprehensive income (loss) | (144) | 12 | — | (132) |
| Ending balance | $ (758) | $ 56 | $ (15) | $ (717) |

| | Three Months Ended September 30, 2020 | | | |
|---|---|---|---|---|
| | Currency Translation | Derivatives | Pension Plan and SERP Liability | Accumulated Other Comprehensive Loss |
| Beginning balance | $ (872) | $ (142) | $ (7) | $ (1,021) |
| Other comprehensive income (loss) before reclassifications | 101 | 26 | — | 127 |
| Reclassifications from accumulated other comprehensive loss to net income | — | (4) | — | (4) |
| Other comprehensive income (loss) | 101 | 22 | — | 123 |
| Ending balance | $ (771) | $ (120) | $ (7) | $ (898) |

| | Nine Months Ended September 30, 2021 | | | |
|---|---|---|---|---|
| | Currency Translation | Derivatives | Pension Plan and SERP Liability | Accumulated Other Comprehensive Loss |
| Beginning balance | $ (555) | $ (81) | $ (15) | $ (651) |
| Other comprehensive income (loss) before reclassifications | (203) | 138 | — | (65) |
| Reclassifications from accumulated other comprehensive loss to net income | — | (1) | — | (1) |
| Other comprehensive income (loss) | (203) | 137 | — | (66) |
| Ending balance | $ (758) | $ 56 | $ (15) | $ (717) |

| | Nine Months Ended September 30, 2020 | | | |
|---|---|---|---|---|
| | Currency Translation | Derivatives | Pension Plan and SERP Liability | Accumulated Other Comprehensive Loss |
| Beginning balance | $ (847) | $ 32 | $ (7) | $ (822) |
| Other comprehensive income (loss) before reclassifications | 76 | (128) | — | (52) |
| Reclassifications from accumulated other comprehensive loss to net income | — | (24) | — | (24) |
| Other comprehensive income (loss) | 76 | (152) | — | (76) |
| Ending balance | $ (771) | $ (120) | $ (7) | $ (898) |

## NOTE 10. REVENUES AND ACCOUNTS RECEIVABLE

### Disaggregated Revenue

The following table presents the Company’s revenues disaggregated by revenue source (in millions). Management uses these categories of revenue to evaluate the performance of its businesses and to assess its financial results and forecasts.

| | Three Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2020 | | | |
| | U.S. Networks | International Networks | Corporate, inter-segment eliminations, and other | Total | U.S. Networks | International Networks | Corporate, inter-segment eliminations, and other | Total |
| Revenues: | | | | | | | | |
| Advertising | $ 991 | $ 467 | $ — | $ 1,458 | $ 941 | $ 365 | $ — | $ 1, |
| Distribution | 841 | 538 | — | 1,379 | 696 | 503 | — | 1, |
| Other | 26 | 290 | (3) | 313 | 22 | 34 | — | |
| Total | $ 1,858 | $ 1,295 | $ (3) | $ 3,150 | $ 1,659 | $ 902 | $ — | $ 2, |

| | Nine Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2020 | | | |
| | U.S. Networks | International Networks | Corporate, inter-segment eliminations, and other | Total | U.S. Networks | International Networks | Corporate, inter-segment eliminations, and other | Total |
| Revenues: | | | | | | | | |
| Advertising | $ 3,090 | $ 1,420 | $ — | $ 4,510 | $ 2,964 | $ 1,017 | $ — | $ 3,98 |
| Distribution | 2,465 | 1,592 | — | 4,057 | 2,143 | 1,504 | — | 3,64 |
| Other | 82 | 363 | (8) | 437 | 64 | 87 | 6 | 15 |
| Total | $ 5,637 | $ 3,375 | $ (8) | $ 9,004 | $ 5,171 | $ 2,608 | $ 6 | $ 7,78 |

### Accounts Receivable and Credit Losses

Receivables include amounts currently due from customers and are presented net of an estimate for lifetime expected credit losses. Allowance for credit losses is measured using historical loss rates for the respective risk categories and incorporating forward-looking estimates. To assess collectability, the Company analyzes market trends, economic conditions, the aging of receivables and customer specific risks, and records a provision for estimated credit losses expected over the lifetime of receivables. The corresponding expense for the expected credit losses is reflected in selling, general and administrative expenses. The Company does not require collateral with respect to trade receivables.

The Company’s accounts receivable balances and the related credit losses arise primarily from distribution and advertising revenue. The Company monitors ongoing credit exposure through active review of customers’ financial conditions, aging of receivable balances, historical collection trends, and expectations about relevant future events that may significantly affect collectability. The allowance for credit losses decreased from $59 million at December 31, 2020 to $54 million at September 30, 2021. The activity in the allowance for credit losses for the nine months ended September 30, 2021 was not material.

### Contract Liability

A contract liability, such as deferred revenue, is recorded when cash is received in advance of the Company's performance. Total deferred revenues, including both current and noncurrent, were $710 million and $649 million at September 30, 2021 and December 31, 2020, respectively. Noncurrent deferred revenue is a component of other noncurrent liabilities on the consolidated balance sheets. The change in deferred revenue for the nine months ended September 30, 2021 was primarily due to cash payments received for which the performance obligation was not satisfied prior to the end of the period, partially offset by revenue recognized during the period, of which $414 million was included in the deferred revenue balance at December 31, 2020. Revenue recognized for the nine months ended September 30, 2020 related to the deferred revenue balance at December 31, 2019 was $340 million.

**Transaction Price Allocated to Remaining Performance Obligations**

Most of the Company's distribution contracts are licenses of functional intellectual property where revenue is derived from royalty-based arrangements, for which the guidance allows the application of a practical expedient to record revenues as a function of royalties earned to date instead of estimating incremental royalty contract revenue. Accordingly, in these instances revenue is recognized based upon the royalties earned to date. However, there are certain other distribution arrangements that are fixed price or contain minimum guarantees that extend beyond one year. The Company recognizes revenue for fixed fee distribution contracts on a monthly basis based on minimum monthly fees; by calculating one twelfth of annual license fees specified in its distribution contracts; or based on the pro-rata fees earned calculated on the license fees specified in the distribution contract. The transaction price allocated to remaining performance obligations within these fixed price or minimum guarantee distribution revenue contracts was $1.4 billion as of September 30, 2021 and is expected to be recognized over the next six years.

The Company's content licensing contracts and sports sublicensing deals are licenses of functional intellectual property. Certain of these arrangements extend beyond one year. The transaction price allocated to remaining performance obligations on these long-term contracts was $684 million as of September 30, 2021 and is expected to be recognized over the next four years.

The Company's brand licensing contracts are licenses of symbolic intellectual property. Certain of these arrangements extend beyond one year. The transaction price allocated to remaining performance obligations on these long-term contracts was $93 million as of September 30, 2021 and is expected to be recognized over the next eleven years.

The value of unsatisfied performance obligations disclosed above does not include: (i) contracts involving variable consideration for which revenues are recognized in accordance with the usage-based royalty exception, and (ii) contracts with an original expected length of one year or less, such as advertising contracts.

**NOTE 11. SHARE-BASED COMPENSATION**

The Company has various incentive plans under which performance-based restricted stock units ("PRSUs"), service-based restricted stock units ("RSUs"), stock options, and stock appreciation rights ("SARs") have been issued.

The table below presents the components of share-based compensation expense (in millions), which is recorded in selling, general and administrative expense in the consolidated statements of operations.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| PRSUs | $ (2) | $ 4 | $ 10 | $ |
| RSUs | 29 | 21 | 80 | |
| Stock options | 17 | 8 | 43 | |
| SARs | (5) | (1) | 1 | |
| Total share-based compensation expense | $ 39 | $ 32 | $ 134 | $ |
| Tax benefit recognized | $ 6 | $ 5 | $ 21 | $ |

The Company recorded total liabilities for cash-settled and other liability-settled share-based compensation awards of $23 million and $55 million as of September 30, 2021 and December 31, 2020, respectively. The current portion of the liability for cash-settled and other liability-settled awards was $20 million and $37 million as of September 30, 2021 and December 31, 2020, respectively.

During the nine months ended September 30, 2021, 5.9 million stock options were exercised and the Company received proceeds of $159 million from these transactions.

The table below presents awards granted (in millions, except weighted-average grant price).

| | Nine Months Ended September 30, 2021 | |
|---|---|---|
| | Awards | Weighted-Average Grant Price |
| Awards granted: | | |
| PRSUs | 0.2 | $ 58.18 |
| RSUs | 2.9 | $ 53.66 |
| Stock options | 15.5 | $ 40.25 |

The table below presents unrecognized compensation cost related to non-vested share-based awards and the weighted-average amortization period over which these expenses will be recognized as of September 30, 2021 (in millions, except years).

| | Unrecognized Compensation Cost | Weighted-Average Amortization Period (years) |
|---|---|---|
| PRSUs | $ 2 | 0.3 |
| RSUs | 261 | 2.4 |
| Stock options | 242 | 2.7 |
| SARs | — | 0.3 |
| Total unrecognized compensation cost | $ 505 | |

Of the $261 million of unrecognized compensation cost related to RSUs, $50 million is related to cash-settled RSUs. Stock-settled RSUs are expected to be recognized over a weighted-average period of 1.2 years and cash-settled RSUs are expected to be recognized over a weighted-average period of 2.6 years.

**NOTE 12. INCOME TAXES**

Income tax expense (benefit) was $36 million and $144 million for the three and nine months ended September 30, 2021, respectively, and an $11 million benefit and $275 million expense for the three and nine months ended September 30, 2020, respectively. The increase in the three months ended September 30, 2021 was primarily attributable to a deferred tax benefit of $51 million recorded in the three months ended September 30, 2020 as a result of the UK Finance Act 2020 that was enacted in July 2020 and a tax benefit from favorable multi-year state resolution that did not recur in the current quarter. The decrease in income tax expense for the nine months ended September 30, 2021 was primarily attributable to a deferred tax benefit of $151 million as a result of the UK Finance Act 2021 that was enacted in June 2021.

Income tax expense for the three months ended September 30, 2021 reflects an effective income tax rate that differs from the federal statutory tax rate primarily attributable to the effect of foreign operations, which included taxation and allocation of income and losses among multiple foreign jurisdictions. Income tax expense for the nine months ended September 30, 2021 reflects an effective income tax rate that differs from the federal statutory tax rate primarily attributable to a deferred tax benefit of $151 million as a result of the UK Finance Act 2021 that was enacted in June 2021, and to a lesser extent, state and local income taxes and favorable noncontrolling interest tax adjustments.

The Company's reserves for uncertain tax positions as of September 30, 2021 and December 31, 2020 totaled $407 million and $348 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 $75 million within the next twelve months as a result of ongoing audits, lapses of statutes of limitations or regulatory developments.

As of September 30, 2021 and December 31, 2020, the Company had accrued approximately $59 million and $53 million, respectively, 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 13. EARNINGS PER SHARE**

The table below sets forth the Company's calculated earnings per share. Earnings per share amounts may not recalculate due to rounding.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Numerator: | | | | |
| Net income | $ 197 | $ 330 | $ 1,106 | $ 1,037 |
| Less: | | | | |
| Allocation of undistributed income to Series A-1 convertible preferred stock | (17) | (31) | (104) | (99) |
| Net income attributable to noncontrolling interests | (32) | (29) | (116) | (82) |
| Net income attributable to redeemable noncontrolling interests | (9) | (1) | (22) | (7) |
| Redeemable noncontrolling interest adjustments of carrying value to redemption value (redemption value does not equal fair value) | — | (4) | — | (3) |
| Net income allocated to Discovery, Inc. Series A, B and C common and Series C-1 convertible preferred stockholders for basic net income per share | $ 139 | $ 265 | $ 864 | $ 846 |
| | | | | |
| Allocation of net income: | | | | |
| Series A, B and C common stockholders | $ 120 | $ 223 | $ 738 | $ 714 |
| Series C-1 convertible preferred stockholders | 19 | 42 | 126 | 132 |
| Total | 139 | 265 | 864 | 846 |
| Add: | | | | |
| Allocation of undistributed income to Series A-1 convertible preferred stockholders | 17 | 31 | 104 | 99 |
| Net income allocated to Discovery, Inc. Series A, B and C common stockholders for diluted net income per share | $ 156 | $ 296 | $ 968 | $ 945 |
| | | | | |
| Denominator — weighted average: | | | | |
| Series A, B and C common shares outstanding — basic | 506 | 505 | 503 | 510 |
| Impact of assumed preferred stock conversion | 154 | 165 | 156 | 165 |
| Dilutive effect of share-based awards | 3 | 2 | 6 | 2 |
| Series A, B and C common shares outstanding — diluted | 663 | 672 | 665 | 677 |
| Series C-1 convertible preferred stock outstanding — basic and diluted | 4 | 5 | 4 | 5 |
| | | | | |
| Basic net income per share allocated to: | | | | |
| Series A, B and C common stockholders | $ 0.24 | $ 0.44 | $ 1.47 | $ 1.40 |
| Series C-1 convertible preferred stockholders | $ 4.57 | $ 8.55 | $ 28.45 | $ 27.11 |
| | | | | |
| Diluted net income per share allocated to: | | | | |
| Series A, B and C common stockholders | $ 0.24 | $ 0.44 | $ 1.46 | $ 1.40 |
| Series C-1 convertible preferred stockholders | $ 4.56 | $ 8.53 | $ 28.20 | $ 27.03 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Anti-dilutive share-based awards | 32 | 27 | 10 | 26 |

**NOTE 14. SUPPLEMENTAL DISCLOSURES**

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

**Supplemental Cash Flow Information**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| Cash paid for taxes, net | $ 555 | $ 353 |
| Cash paid for interest, net | 515 | 516 |
| Non-cash investing and financing activities: | | |
| Unsettled stock repurchases | — | 14 |
| Accrued purchases of property and equipment | 22 | 33 |
| Assets acquired under finance lease and other arrangements | 119 | 79 |

**Cash, Cash Equivalents, and Restricted Cash**

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Cash, cash equivalents, and restricted cash: | | |
| Cash and cash equivalents | $ 3,116 | $ 2,091 |
| Restricted cash - other current assets | 10 | 31 |
| Total cash, cash equivalents, and restricted cash | $ 3,126 | $ 2,122 |

**NOTE 15. 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 (collectively the “Liberty Group”). Discovery’s Board of Directors includes Dr. Malone, who is Chairman of the Board of Liberty Global and beneficially owns approximately 30% of the aggregate voting power with respect to the election of directors of Liberty Global. Dr. 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, or minority partners of consolidated subsidiaries.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Revenues and service charges: | | | | |
| Liberty Group | $ 167 | $ 158 | $ 507 | $ 513 |
| Equity method investees | 57 | 42 | 181 | 152 |
| Other | 23 | 26 | 74 | 71 |
| Total revenues and service charges | $ 247 | $ 226 | $ 762 | $ 736 |
| Expenses | $ (62) | $ (74) | $ (176) | $ (168) |
| Distributions to noncontrolling interests and redeemable noncontrolling interests | $ (18) | $ (14) | $ (231) | $ (216) |

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

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Receivables | $ 177 | $ 177 |
| Payables | $ 22 | $ 43 |

## NOTE 16. COMMITMENTS AND CONTINGENCIES

***Put Rights***

The Company has granted put rights to certain consolidated subsidiaries, which may be exercised in 2021.

***Legal Matters***

From time to time, in the normal course of its operations, the Company is subject to various litigation matters and claims, 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 matters will have a material adverse effect on the Company's future consolidated financial position, future results of operations or cash flows.

## NOTE 17. REPORTABLE SEGMENTS

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

The accounting policies of the reportable segments are the same as the Company’s, except that certain inter-segment transactions that are eliminated for consolidation are not eliminated at the segment level. Inter-segment transactions primarily include advertising and content purchases. The Company does not report assets by segment because this is not used to allocate resources or evaluate segment performance.

The Company evaluates the operating performance of its operating segments based on financial measures such as revenues and Adjusted OIBDA. Adjusted OIBDA is defined as operating income excluding: (i) employee share-based compensation, (ii) depreciation and amortization, (iii) restructuring and other charges, (iv) certain impairment charges, (v) gains and losses on business and asset dispositions, (vi) certain inter-segment eliminations related to production studios, (vii) third-party transaction and integration costs, and (viii) other items impacting comparability. 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 employee share-based compensation, restructuring and other charges, certain impairment charges, gains and losses on business and asset dispositions, and acquisition and integration costs from the calculation of Adjusted OIBDA due to their impact on comparability between periods. The Company also excludes the depreciation of fixed assets and amortization of intangible assets, as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses and inter-segment eliminations related to production studios 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 U.S. GAAP.

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

**Revenues**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| U.S. Networks | $ 1,858 | $ 1,659 | $ 5,637 | $ 5,171 |
| International Networks | 1,295 | 902 | 3,375 | 2,608 |
| Corporate, inter-segment eliminations and other | (3) | — | (8) | 6 |
| Total revenues | $ 3,150 | $ 2,561 | $ 9,004 | $ 7,785 |

**Adjusted OIBDA**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| U.S. Networks | $ 963 | $ 951 | $ 2,836 | $ 3,029 |
| International Networks | (79) | 127 | 287 | 527 |
| Corporate, inter-segment eliminations and other | (158) | (124) | (443) | (362) |
| Adjusted OIBDA | $ 726 | $ 954 | $ 2,680 | $ 3,194 |

**Reconciliation of Net Income available to Discovery, Inc. to Adjusted OIBDA**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net income available to Discovery, Inc. | $ 156 | $ 300 | $ 968 | $ 948 |
| Net income attributable to redeemable noncontrolling interests | 9 | 1 | 22 | 7 |
| Net income attributable to noncontrolling interests | 32 | 29 | 116 | 82 |
| Income tax expense (benefit) | 36 | (11) | 144 | 275 |
| Income before income taxes | 233 | 319 | 1,250 | 1,312 |
| Other (income) expense, net | (78) | 28 | (255) | 92 |
| Loss from equity investees, net | 9 | 18 | 20 | 62 |
| Loss on extinguishment of debt | 6 | 5 | 10 | 76 |
| Interest expense, net | 159 | 161 | 479 | 485 |
| Operating income | 329 | 531 | 1,504 | 2,027 |
| Gain on disposition | — | — | (72) | — |
| Restructuring and other charges | 7 | 53 | 29 | 75 |
| Impairment of goodwill and other intangible assets | — | — | — | 38 |
| Depreciation and amortization | 341 | 341 | 1,043 | 1,001 |
| Employee share-based compensation | 36 | 29 | 124 | 53 |
| Transaction and integration costs | 13 | — | 52 | — |
| Adjusted OIBDA | $ 726 | $ 954 | $ 2,680 | $ 3,194 |

**NOTE 18. RESTRUCTURING AND OTHER CHARGES**

Restructuring and other charges by reportable segments and corporate, inter-segment eliminations, and other were as follows (in millions).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| U.S. Networks | $ 4 | $ 29 | $ 5 | $ 41 |
| International Networks | 4 | 13 | 24 | 17 |
| Corporate, inter-segment eliminations, and other | (1) | 11 | — | 17 |
| Total restructuring and other charges | $ 7 | $ 53 | $ 29 | $ 75 |

Restructuring charges for the three and nine months ended September 30, 2021 and 2020 primarily include charges related to employee relocation and termination costs. During 2020, the Company implemented various cost-savings initiatives including personnel reductions, restructurings and resource reallocations to align its expense structure to ongoing changes within the industry, including economic challenges resulting from the COVID-19 pandemic. These actions are intended to enable the Company to more efficiently operate in a leaner and more directed cost structure and have continued throughout 2021.

Changes in restructuring and other liabilities recorded in accrued liabilities by major category were as follows (in millions).

| | U.S. Networks | International Networks | Corporate, inter-segment eliminations, and other | Total |
|---|---|---|---|---|
| December 31, 2020 | $ 23 | $ 20 | $ 15 | $ 58 |
| Employee termination accruals, net | 5 | 24 | — | 29 |
| Cash paid | (20) | (29) | (11) | (60) |
| September 30, 2021 | $ 8 | $ 15 | $ 4 | $ 27 |

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

Management's discussion and analysis of financial condition and results of operations is a supplement to and should be read in conjunction with the accompanying consolidated financial statements and related notes. This section provides additional information regarding Discovery, Inc.'s ("Discovery," the "Company," "we," "us," or "our") businesses, current developments, results of operations, cash flows and financial condition. Additional context can also be found in our 2020 Annual Report on Form 10-K.

**BUSINESS OVERVIEW**

We are a global media company that provides content across multiple distribution platforms, including linear platforms such as pay-television ("pay-TV"), free-to-air, and broadcast television, authenticated GO applications, digital distribution arrangements, content licensing arrangements and direct-to-consumer ("DTC") subscription products. As one of the world's largest pay-TV programmers, we provide original and purchased content and live events to approximately 3.7 billion cumulative subscribers and viewers worldwide through networks that we wholly or partially own. As of September 30, 2021, we had 20 million total paid DTC subscribers.[1] We distribute customized content in the U.S. and over 220 other countries and territories in nearly 50 languages. We have an extensive library of content and own most rights to our content and footage, which enables us to leverage our library to quickly launch brands and services into new markets and on new platforms. Our content can be re-edited and updated in a cost-effective manner to provide topical versions of subject matter that can be utilized around the world on a variety of platforms.

Our content spans genres including survival, natural history, exploration, sports, general entertainment, home, food, travel, heroes, adventure, crime and investigation, health, and kids. Our global portfolio of networks includes prominent nonfiction television brands such as Discovery Channel, our most widely distributed global brand, HGTV, Food Network, TLC, Animal Planet, Investigation Discovery, Travel Channel, Science, and MotorTrend (previously known as Velocity domestically and currently known as Turbo in most international countries). Among other networks in the U.S., Discovery also features two Spanish-language services, Discovery en Español and Discovery Familia. Our international portfolio also includes Eurosport, a leading sports entertainment provider and broadcaster of the Olympic Games (the "Olympics") across Europe (excluding Russia), TVN, a Polish media company, as well as Discovery Kids, a leading children's entertainment brand in Latin America. We participate in joint ventures including Magnolia, the recently formed multi-platform venture with Chip and Joanna Gaines, and Group Nine Media, a digital media holding company home to top digital brands including NowThis News, the Dodo, Thrillist, PopSugar, and Seeker. We also operate production studios.

During the fourth quarter of 2020, we announced the global launch of our aggregated DTC product, discovery+, a non-fiction, real life subscription service. In January 2021, we launched discovery+ in the U.S. across several streaming platforms and entered into a partnership with Verizon, which is offering access to discovery+ for up to 12 months to certain of its customers. The global rollout of discovery+ across more than 25 markets has already begun with the U.K. and Ireland, where we have partnered with Sky, and India. We also have a partnership with Vodafone, which will provide discovery+ to existing Vodafone TV and mobile customers in 12 markets across Europe. Upon launch in the U.S., discovery+ included an extensive content library comprised of more than 55,000 episodes and features a wide array of exclusive, original series from the Discovery portfolio of brands that have a strong leadership position. The service is available with ads or on an ad-free tier, providing us with dual revenue streams.

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[1] We define a subscription as (i) a subscription to a direct-to-consumer product for which we have recognized subscription revenue from a direct-to-consumer platform; (ii) a subscription received through wholesale arrangements in which we receive a fee for the distribution of our direct-to-consumer platforms, as well as subscriptions provided directly or through third-party platforms; and (iii) a subscription recognized by certain joint venture partners and affiliated parties. We may refer to the aggregate number of subscriptions across our direct-to-consumer services as subscribers. A subscriber is only counted if they are on a paying status, and excludes users on free trials. At the end of each quarter, we include the actual number of users that rolled to pay up to seven days immediately following quarter end.

We invest in high-quality content for our networks and brands with the objective of building viewership, optimizing distribution revenue, capturing advertising revenue, and creating or repositioning branded channels and business to sustain long-term growth and occupy a desired content niche with strong consumer appeal. Our strategy is to maximize the distribution, ratings and profit potential of each of our branded networks. In addition to growing distribution and advertising revenues for our branded networks, we have extended content distribution across new platforms, including brand-aligned websites, online streaming platforms, including discovery+, mobile devices, video on demand, and broadband channels, which provide promotional platforms for our television content and serve as additional outlets for advertising and distribution revenue. Audience ratings are a key driver in generating advertising revenue and creating demand on the part of cable television operators, direct-to-home satellite operators, telecommunication service providers, and other content distributors who deliver our content to their customers.

Although we utilize certain brands and content globally, we classify our operations in two reportable segments: U.S. Networks, consisting principally of domestic television networks and digital content services, and International Networks, consisting primarily of international television networks and digital content services. Our segment presentation aligns with our management structure and the financial information management uses to make decisions about operating matters, such as the allocation of resources and business performance assessments.

### *WarnerMedia*

In May 2021, we entered into an agreement with AT&T Inc. to combine WarnerMedia's ("WarnerMedia") entertainment, sports and news assets with our nonfiction and international entertainment and sports businesses to create a standalone, global entertainment company.

The proposed combination transaction will be executed through a Reverse Morris Trust type transaction, under which WarnerMedia will be distributed to AT&T's shareholders via a pro rata dividend or through an exchange offer or a combination of both, and immediately thereafter, combined with Discovery. In connection with the combination transaction, AT&T will receive approximately $43 billion (subject to adjustment) in a combination of cash, debt securities and WarnerMedia's retention of certain debt. The Company established an interest rate derivative program to mitigate interest rate risk associated with the anticipated issuance of future fixed-rate debt by WarnerMedia, which is expected to be guaranteed by the Company upon closing of the transaction. (See Note 8 to the accompanying consolidated financial statements.)

Immediately prior to closing, all shares of Series A, Series B, and Series C common stock and Series A-1 and Series C-1 convertible preferred stock will be reclassified and converted to one class of Discovery common stock. AT&T's shareholders that receive WarnerMedia stock in the distribution will receive stock representing 71% of the combined company and Discovery shareholders will own 29% of the combined company, in each case on a fully diluted basis. The Boards of Directors of both AT&T and Discovery have approved the transaction.

The transaction is anticipated to close in mid-2022, subject to approval by the Company's shareholders and customary closing conditions, including receipt of regulatory approvals. Agreements are in place with Dr. John Malone and Advance/Newhouse Programming Partnership to vote in favor of the transaction. The transaction requires, among other things, the consent of Advance/Newhouse Programming Partnership under the Company's certificate of incorporation as the sole holder of the Series A-1 Preferred Stock, which consent was given pursuant to a consent agreement. In connection with Advance/Newhouse's Programming Partnership's entry into the consent agreement and related forfeiture of the significant rights attached to the Series A-1 Preferred Stock in the reclassification of the shares of Series A-1 Preferred Stock into common stock, it will receive an increase to the number of shares of common stock of the Company into which the Series A-1 Preferred Stock would be converted. Upon the closing, the impact the issuance of such additional shares of common stock of Discovery will be recorded as a transaction expense. No vote by AT&T shareholders is required.

The merger agreement contains certain customary termination rights for Discovery and AT&T, including, without limitation, a right for either party to terminate if the transaction is not completed on or before July 15, 2023. Termination under specified circumstances will require Discovery to pay AT&T a termination fee of $720 million or AT&T to pay Discovery a termination fee of $1.8 billion.

In anticipation of this combination, in June 2021, Magallanes, Inc., a wholly owned subsidiary of AT&T Inc., entered into a $10 billion term loan that will be guaranteed by the Company and certain material subsidiaries of the Company upon closing of the transaction.

### *Impact of COVID-19*

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak to be a global pandemic. COVID-19 continues to spread throughout the world, and the duration and severity of its effects and associated economic disruption remain uncertain. We continue to closely monitor the impact of COVID-19 on all aspects of our business and geographies, including the impact on our customers, employees, suppliers, vendors, distribution and advertising partners, production facilities, and various other third parties.

Beginning in the second quarter of 2020, demand for our advertising products and services decreased due to economic disruptions from limitations on social and commercial activity. These economic disruptions and the resulting effect on the Company eased during the second half of 2020. We currently do not expect the pandemic will have a significant impact on demand during fiscal year 2021. Many of our third-party production partners that were shut down during most of the second quarter of 2020 due to COVID-19 restrictions came back online in the third quarter of 2020 and, as a result, we have incurred additional costs to comply with various governmental regulations and implement certain safety measures for our employees, talent, and partners. Additionally, certain sporting events that we have rights to were cancelled or postponed, thereby eliminating or deferring the related revenues and expenses, including the Tokyo 2020 Olympic Games, which occurred in July and August 2021. The postponement of the Olympic Games deferred both Olympic-related revenues and significant expenses from fiscal year 2020 to fiscal year 2021.

In response to the impact of the pandemic, we employed innovative production and programming strategies, including producing content filmed by our on-air talent and seeking viewer feedback on which content to air. We continue to pursue a number of cost savings initiatives, which began during the third quarter of 2020 through the implementation of travel, marketing, production and other operating cost reductions, including personnel reductions, restructurings and resource reallocations to align our expense structure to ongoing changes within the industry.

The nature and full extent of COVID-19's effects on our operations and results is not yet known and will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity and the extent of future surges of COVID-19, vaccine distribution and other actions to contain the virus or treat its impact, among others. We will continue to monitor COVID-19 and its impact on our business results and financial condition. Our consolidated financial statements reflect management's latest estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures as of the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods presented. Actual results may differ significantly from these estimates and assumptions.

## RESULTS OF OPERATIONS

### Foreign Exchange Impacting Comparability

The impact of exchange rates on our business is an important factor in understanding period-to-period comparisons of our results. For example, our international revenues are favorably impacted as the U.S. dollar weakens relative to other foreign currencies, and unfavorably impacted as the U.S. dollar strengthens relative to other foreign currencies. We believe the presentation of results on a constant currency basis ("ex-FX"), in addition to results reported in accordance with U.S. GAAP provides useful information about our operating performance because the presentation ex-FX excludes the effects of foreign currency volatility and highlights our core operating results. The presentation of results on a constant currency basis should be considered in addition to, but not a substitute for, measures of financial performance reported in accordance with U.S. GAAP.

The ex-FX change represents the percentage change on a period-over-period basis adjusted for foreign currency impacts. The ex-FX change is calculated as the difference between the current year amounts translated at a baseline rate, which is a spot rate for each of our currencies determined early in the fiscal year as part of our forecasting process (the "2021 Baseline Rate"), and the prior year amounts translated at the same 2021 Baseline Rate. In addition, consistent with the assumption of a constant currency environment, our ex-FX results exclude the impact of our foreign currency hedging activities, as well as realized and unrealized foreign currency transaction gains and losses. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies.

### Consolidated Results of Operations

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

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2021 | 2020 | % Change | % Change (ex-FX) |
| Revenues: | | | | |
| Advertising | $ 1,458 | $ 1,306 | 12 % | 11 % |
| Distribution | 1,379 | 1,199 | 15 % | 15 % |
| Other | 313 | 56 | NM | NM |
| Total revenues | 3,150 | 2,561 | 23 % | 23 % |
| Costs of revenues, excluding depreciation and amortization | 1,529 | 1,003 | 52 % | 52 % |
| Selling, general and administrative | 944 | 633 | 49 % | 47 % |
| Depreciation and amortization | 341 | 341 | — % | (1) % |
| Restructuring and other charges | 7 | 53 | (87) % | (87) % |
| Total costs and expenses | 2,821 | 2,030 | 39 % | 38 % |
| Operating income | 329 | 531 | (38) % | (38) % |
| Interest expense, net | (159) | (161) | (1) % | |
| Loss on extinguishment of debt | (6) | (5) | 20 % | |
| Loss from equity investees, net | (9) | (18) | (50) % | |
| Other income (expense), net | 78 | (28) | NM | |
| Income before income taxes | 233 | 319 | (27) % | |
| Income tax (expense) benefit | (36) | 11 | NM | |
| Net income | 197 | 330 | (40) % | |
| Net income attributable to noncontrolling interests | (32) | (29) | 10 % | |
| Net income attributable to redeemable noncontrolling interests | (9) | (1) | NM | |
| Net income available to Discovery, Inc. | $ 156 | $ 300 | (48) % | |

NM - Not meaningful

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2021 | | 2020 | | % Change | % Change (ex-FX) |
| Revenues: | | | | | | |
| Advertising | $ | 4,510 | $ | 3,981 | 13 % | 12 % |
| Distribution | | 4,057 | | 3,647 | 11 % | 10 % |
| Other | | 437 | | 157 | NM | NM |
| Total revenues | | 9,004 | | 7,785 | 16 % | 14 % |
| Costs of revenues, excluding depreciation and amortization | | 3,553 | | 2,731 | 30 % | 27 % |
| Selling, general and administrative | | 2,947 | | 1,913 | 54 % | 51 % |
| Depreciation and amortization | | 1,043 | | 1,001 | 4 % | 3 % |
| Impairment of goodwill and other intangible assets | | — | | 38 | NM | NM |
| Restructuring and other charges | | 29 | | 75 | (61) % | (60) % |
| Gain on disposition | | (72) | | — | NM | NM |
| Total costs and expenses | | 7,500 | | 5,758 | 30 % | 28 % |
| Operating income | | 1,504 | | 2,027 | (26) % | (24) % |
| Interest expense, net | | (479) | | (485) | (1) % | |
| Loss on extinguishment of debt | | (10) | | (76) | (87) % | |
| Loss from equity investees, net | | (20) | | (62) | (68) % | |
| Other income (expense), net | | 255 | | (92) | NM | |
| Income before income taxes | | 1,250 | | 1,312 | (5) % | |
| Income tax expense | | (144) | | (275) | (48) % | |
| Net income | | 1,106 | | 1,037 | 7 % | |
| Net income attributable to noncontrolling interests | | (116) | | (82) | 41 % | |
| Net income attributable to redeemable noncontrolling interests | | (22) | | (7) | NM | |
| Net income available to Discovery, Inc. | $ | 968 | $ | 948 | 2 % | |

*Revenues*

Advertising revenue is dependent upon a number of factors, including the stage of development of television markets, the number of subscribers to our channels, viewership demographics, the popularity of our content, our ability to sell commercial time over a group of channels, market demand, the mix in sales of commercial time between the upfront and scatter markets, and economic conditions. These factors impact the pricing and volume of our advertising inventory.

Advertising revenue increased 12% and 13% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, advertising revenue increased 11% and 12% for the three and nine months ended September 30, 2021, respectively. The increase for the three and nine months ended September 30, 2021 was primarily attributable to improved overall performance in all regions at International Networks as advertising markets continued to recover from the impact of COVID-19.

Distribution revenue consists principally of fees from affiliates for distributing our linear networks, supplemented by revenue earned from subscription video on demand content licensing and DTC subscription services.

Distribution revenue increased 15% and 11% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, distribution revenue increased 15% and 10% for the three and nine months ended September 30, 2021, respectively. The increase for the three and nine months ended September 30, 2021 was primarily attributable to an increase at U.S. Networks due to discovery+ and an increase in contractual affiliate rates, partially offset by a decline in linear subscribers. The increase for the nine months ended September 30, 2021 was also partially offset by certain prior year non-recurring items.

Other revenue increased $257 million and $280 million for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, other revenue increased $266 million and $288 million for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, the increases were primarily attributable to sublicensing of Olympics sports rights to broadcast networks throughout Europe.

Revenue for our segments is discussed separately below under the heading “Segment Results of Operations.”

*Costs of Revenues*

The Company's principal component of costs of revenues is content expense. Content expense includes television series, television specials, films, sporting events, and digital products. The costs of producing a content asset and bringing that asset to market consist of film costs, participation costs, exploitation costs, and production costs.

Costs of revenues increased 52% and 30% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, cost of revenues increased 52% and 27% for the three and nine months ended September 30, 2021, respectively. The increase for the three and nine months ended September 30, 2021, was primarily attributable to the Olympics, and to a lesser extent European sporting events and leagues returning to a more normalized schedule, and higher content investment related to discovery+.

*Selling, General and Administrative*

Selling, general and administrative expenses consist principally of employee costs, marketing costs, research costs, occupancy and back office support fees.

Selling, general and administrative expenses increased 49% and 54% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, selling, general and administrative expenses increased 47% and 51% for the three and nine months ended September 30, 2021, respectively. The increase for the three and nine months ended September 30, 2021 was primarily attributable to higher marketing-related expenses to support the launch of discovery+ and the Olympics.

*Depreciation and Amortization*

Depreciation and amortization expense includes depreciation of fixed assets and amortization of finite-lived intangible assets. Depreciation and amortization was flat and increased 4% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, depreciation and amortization decreased 1% and increased 3% for the three and nine months ended September 30, 2021, respectively. The increase for the nine months ended September 30, 2021 was primarily attributable to assets placed in service related to the launch of discovery+.

*Restructuring and Other Charges*

Restructuring and other charges were $7 million and $29 million for the three and nine months ended September 30, 2021, respectively, as compared to $53 million and $75 million for the three and nine months ended September 30, 2020, respectively. Restructuring and other charges primarily include employee relocation and termination costs during the three and nine months ended September 30, 2021 and 2020. (See Note 18 to the accompanying consolidated financial statements.)

*Gain on Disposition*

Gain on disposition was $72 million for the nine months ended September 30, 2021, and was primarily attributable to the sale of our Great American Country network. (See Note 2 to the accompanying consolidated financial statements.)

*Interest Expense, net*

Interest expense, net decreased 1% for the three and nine months ended September 30, 2021 compared to the prior year period. (See Note 7 and Note 8 to the accompanying consolidated financial statements.)

*Loss on Extinguishment of Debt*

Losses of extinguishment of debt were $6 million and $10 million for the three and nine months ended September 30, 2021, respectively, as compared to losses of $5 million and $76 million for the three and nine months ended September 30, 2020, respectively. During the nine months ended September 30, 2020, we repurchased $1.5 billion aggregate principal amount of DCL's and Scripps Networks' senior notes. The repurchase resulted in a loss on extinguishment of debt of $76 million. (See Note 7 to the accompanying consolidated financial statements.)

*Loss From Equity Investees, net*

We reported losses from our equity method investees of $9 million and $20 million for the three and nine months ended September 30, 2021, respectively, as compared to losses of $18 million and $62 million for the three and nine months ended September 30, 2020, respectively. The changes are attributable to our share of earnings and losses from our equity investees. (See Note 3 to the accompanying consolidated financial statements.)

*Other Income (Expense), net*

The table below presents the details of other income (expense), net (in millions).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Change in the value of equity investments without readily determinable fair value | $ (7) | $ — | $ 74 | $ (2) |
| Foreign currency gain (loss), net | 26 | (46) | 73 | (75) |
| Gains (losses) on derivative instruments, net | 88 | 19 | 67 | (4) |
| Gain on sale of investment with readily determinable fair value | — | — | 16 | — |
| Change in the value of investments with readily determinable fair value | (31) | 9 | 15 | (6) |
| Gain on sale of equity method investments | — | — | 4 | 3 |
| Interest income | 1 | 1 | 4 | 6 |
| Other income (expense), net | 1 | — | 2 | (3) |
| Total other income (expense), net | $ 78 | $ (28) | $ 255 | $ (92) |

*Income Tax Expense (Benefit)*

Income tax expense (benefit) was $36 million and $144 million for the three and nine months ended September 30, 2021, respectively, and an $11 million benefit and $275 million expense for the three and nine months ended September 30, 2020, respectively. The increase in the three months ended September 30, 2021 was primarily attributable to a deferred tax benefit of $51 million recorded in the three months ended September 30, 2020 as a result of the UK Finance Act 2020 that was enacted in July 2020 and a tax benefit from favorable multi-year state resolution that did not recur in the current quarter. The decrease in income tax expense for the nine months ended September 30, 2021 was primarily attributable to a deferred tax benefit of $151 million as a result of the UK Finance Act 2021 that was enacted in June 2021.

Income tax expense for the three months ended September 30, 2021 reflects an effective income tax rate that differs from the federal statutory tax rate primarily attributable to the effect of foreign operations, which included taxation and allocation of income and losses among multiple foreign jurisdictions. Income tax expense for the nine months ended September 30, 2021 reflects an effective income tax rate that differs from the federal statutory tax rate primarily attributable to a deferred tax benefit of $151 million as a result of the UK Finance Act 2021 that was enacted in June 2021, and to a lesser extent, state and local income taxes and favorable noncontrolling interest tax adjustments.

**Segment Results of Operations**

We evaluate the operating performance of our operating segments based on financial measures such as revenues and Adjusted OIBDA. Adjusted OIBDA is defined as operating income excluding: (i) employee share-based compensation, (ii) depreciation and amortization, (iii) restructuring and other charges, (iv) certain impairment charges, (v) gains and losses on business and asset dispositions, (vi) certain inter-segment eliminations related to production studios, (vii) third-party transaction and integration costs, and (viii) other items impacting comparability. We use this measure to assess the operating results and performance of our segments, perform analytical comparisons, identify strategies to improve performance, and allocate resources to each segment. We believe Adjusted OIBDA is relevant to investors because it allows them to analyze the operating performance of each segment using the same metric management uses. We exclude employee share-based compensation, restructuring and other charges, certain impairment charges, gains and losses on business and asset dispositions, and acquisition and integration costs from the calculation of Adjusted OIBDA due to their impact on comparability between periods. We also exclude the depreciation of fixed assets and amortization of intangible assets, as these amounts do not represent cash payments in the current reporting period. Certain corporate expenses and inter-segment eliminations related to production studios 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 U.S. GAAP.

The tables below present our reconciliation of consolidated net income available to Discovery, Inc. to Adjusted OIBDA and Adjusted OIBDA by segment (in millions).

| | Three Months Ended September 30, 2021 | Three Months Ended September 30, 2020 | % Change |
|---|---|---|---|
| Net income available to Discovery, Inc. | $ 156 | $ 300 | (48) % |
| Net income attributable to redeemable noncontrolling interests | 9 | 1 | NM |
| Net income attributable to noncontrolling interests | 32 | 29 | 10 % |
| Income tax expense (benefit) | 36 | (11) | NM |
| Income before income taxes | 233 | 319 | (27) % |
| Other (income) expense, net | (78) | 28 | NM |
| Loss from equity investees, net | 9 | 18 | (50) % |
| Loss on extinguishment of debt | 6 | 5 | 20 % |
| Interest expense, net | 159 | 161 | (1) % |
| Operating income | 329 | 531 | (38) % |
| Restructuring and other charges | 7 | 53 | (87) % |
| Depreciation and amortization | 341 | 341 | — % |
| Employee share-based compensation | 36 | 29 | 24 % |
| Transaction and integration costs | 13 | — | NM |
| Adjusted OIBDA | $ 726 | $ 954 | (24) % |
| | | | |
| Adjusted OIBDA | | | |
| U.S. Networks | $ 963 | $ 951 | 1 % |
| International Networks | (79) | 127 | NM |
| Corporate, inter-segment eliminations, and other | (158) | (124) | (27) % |
| Adjusted OIBDA | $ 726 | $ 954 | (24) % |

| | Nine Months Ended September 30, 2021 | Nine Months Ended September 30, 2020 | % Change |
|---|---|---|---|
| Net income available to Discovery, Inc. | $ 968 | $ 948 | 2 % |
| Net income attributable to redeemable noncontrolling interests | 22 | 7 | NM |
| Net income attributable to noncontrolling interests | 116 | 82 | 41 % |
| Income tax expense | 144 | 275 | (48) % |
| Income before income taxes | 1,250 | 1,312 | (5) % |
| Other (income) expense, net | (255) | 92 | NM |
| Loss from equity investees, net | 20 | 62 | (68) % |
| Loss on extinguishment of debt | 10 | 76 | (87) % |
| Interest expense, net | 479 | 485 | (1) % |
| Operating income | 1,504 | 2,027 | (26) % |
| Gain on disposition | (72) | — | NM |
| Restructuring and other charges | 29 | 75 | (61) % |
| Impairment of goodwill and other intangible assets | — | 38 | NM |
| Depreciation and amortization | 1,043 | 1,001 | 4 % |
| Employee share-based compensation | 124 | 53 | NM |
| Transaction and integration costs | 52 | — | NM |
| Adjusted OIBDA | $ 2,680 | $ 3,194 | (16) % |
| | | | |
| Adjusted OIBDA | | | |
| U.S. Networks | $ 2,836 | $ 3,029 | (6) % |
| International Networks | 287 | 527 | (46) % |
| Corporate, inter-segment eliminations, and other | (443) | (362) | (22) % |
| Adjusted OIBDA | $ 2,680 | $ 3,194 | (16) % |

The table below presents the calculation of Adjusted OIBDA (in millions).

| | Three Months Ended September 30, 2021 | Three Months Ended September 30, 2020 | % Change | Nine Months Ended September 30, 2021 | Nine Months Ended September 30, 2020 | % Change |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| U.S. Networks | $ 1,858 | $ 1,659 | 12 % | $ 5,637 | $ 5,171 | 9 % |
| International Networks | 1,295 | 902 | 44 % | 3,375 | 2,608 | 29 % |
| Corporate, inter-segment eliminations, and other | (3) | — | NM | (8) | 6 | NM |
| Total revenues | 3,150 | 2,561 | 23 % | 9,004 | 7,785 | 16 % |
| Costs of revenues, excluding depreciation and amortization | 1,529 | 1,003 | 52 % | 3,553 | 2,731 | 30 % |
| Selling, general and administrative [(a)] | 895 | 604 | 48 % | 2,771 | 1,860 | 49 % |
| Adjusted OIBDA | $ 726 | $ 954 | (24) % | $ 2,680 | $ 3,194 | (16) % |

[(a)] Selling, general and administrative expenses excludes employee share-based compensation and third-party transaction and integration costs.

**U.S. Networks**

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

| | Three Months Ended September 30, 2021 | Three Months Ended September 30, 2020 | % Change | Nine Months Ended September 30, 2021 | Nine Months Ended September 30, 2020 | % Change |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Advertising | $ 991 | $ 941 | 5 % | $ 3,090 | $ 2,964 | 4 % |
| Distribution | 841 | 696 | 21 % | 2,465 | 2,143 | 15 % |
| Other | 26 | 22 | 18 % | 82 | 64 | 28 % |
| Total revenues | 1,858 | 1,659 | 12 % | 5,637 | 5,171 | 9 % |
| Costs of revenues, excluding depreciation and amortization | 459 | 445 | 3 % | 1,339 | 1,334 | — % |
| Selling, general and administrative | 436 | 263 | 66 % | 1,462 | 808 | 81 % |
| Adjusted OIBDA | 963 | 951 | 1 % | 2,836 | 3,029 | (6) % |
| Employee share-based compensation | — | — | | (1) | — | |
| Depreciation and amortization | 222 | 225 | | 671 | 676 | |
| Restructuring and other charges | 4 | 29 | | 5 | 41 | |
| Inter-segment eliminations | (1) | 1 | | (3) | 3 | |
| Gain on disposition | — | — | | (77) | — | |
| Operating income | $ 738 | $ 696 | | $ 2,241 | $ 2,309 | |

*Revenues*

Advertising revenue increased 5% and 4% for the three and nine months ended September 30, 2021, respectively. The increases were primarily attributable to higher pricing, the continued monetization of content offerings on our next generation initiatives and higher inventory, partially offset by lower overall ratings, and to a lesser extent, secular declines in the pay-TV ecosystem.

Distribution revenue increased 21% and 15% for the three and nine months ended September 30, 2021, respectively. The increases were primarily attributable to discovery+ and an increase in contractual affiliate rates, partially offset by a decline in linear subscribers. The increase for the nine months ended September 30, 2021 was also partially offset by certain prior year non-recurring items. Excluding these prior year non-recurring items, distribution revenue increased 17% for the nine months ended September 30, 2021. Total subscribers to our linear networks at September 30, 2021 were 8% lower than at September 30, 2020, while subscribers to our fully distributed linear networks were 3% lower than the prior year. Excluding the impact of the sale of our Great American Country linear network, total subscribers to our linear networks at September 30, 2021 were 4% lower than at September 30, 2020.

Other revenues increased $4 million and $18 million for the three and nine months ended September 30, 2021, respectively.

*Costs of Revenues*

Costs of revenues increased 3% for the three months ended September 30, 2021 and was flat for the nine months ended September 30, 2021. The increase for the three months ended September 30, 2021 was primarily attributable to third-party app store fees and our growing content investment in discovery+. The change for the nine months ended September 30, 2021 was primarily attributable to our growing content investment in discovery +, a non-recurring, non-cash item in the second quarter of 2020, and third-party app store fees, offset by more efficient content spend on our linear networks.

Content expense was $395 million and $391 million for the three months ended September 30, 2021 and 2020, respectively, and $1.1 billion and $1.2 billion for the nine months ended September 30, 2021 and 2020, respectively.

*Selling, General and Administrative*

Selling, general and administrative expenses increased 66% and 81% for the three and nine months ended September 30, 2021, respectively. The increases were primarily attributable to higher marketing-related expenses to support discovery+.

*Adjusted OIBDA*

Adjusted OIBDA increased 1% and decreased 6% for the three and nine months ended September 30, 2021, respectively.

**International Networks**

The following tables present, for our International Networks segment, revenues by type, certain operating expenses, Adjusted OIBDA and a reconciliation of Adjusted OIBDA to operating income (in millions).

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | % Change | % Change (ex-FX) | 2021 | 2020 | % Change | % Change (ex-FX) |
| Revenues: | | | | | | | | |
| Advertising | $ 467 | $ 365 | 28 % | 26 % | $ 1,420 | $ 1,017 | 40 % | 32 % |
| Distribution | 538 | 503 | 7 % | 6 % | 1,592 | 1,504 | 6 % | 4 % |
| Other | 290 | 34 | NM | NM | 363 | 87 | NM | NM |
| Total revenues | 1,295 | 902 | 44 % | 43 % | 3,375 | 2,608 | 29 % | 25 % |
| Costs of revenues, excluding depreciation and amortization | 1,072 | 554 | 94 % | 92 % | 2,218 | 1,389 | 60 % | 52 % |
| Selling, general and administrative | 302 | 221 | 37 % | 32 % | 870 | 692 | 26 % | 19 % |
| Adjusted OIBDA | (79) | 127 | NM | NM | 287 | 527 | (46) % | (43) % |
| Depreciation and amortization | 90 | 93 | | | 281 | 259 | | |
| Impairment of goodwill and other intangible assets | — | — | | | — | 38 | | |
| Restructuring and other charges | 4 | 13 | | | 24 | 17 | | |
| Transaction and integration costs | — | — | | | 4 | — | | |
| Inter-segment eliminations | 1 | — | | | 3 | — | | |
| Loss on disposition | — | — | | | 5 | — | | |
| Operating income | $ (174) | $ 21 | | | $ (30) | $ 213 | | |

*Revenues*

Advertising revenue increased 28% and 40% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, advertising revenue increased 26% and 32% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, the increases were primarily attributable to improved overall performance in all regions as advertising markets continued to recover from the impact of COVID-19, as well as benefiting from the broadcast of the Summer Olympics across Europe.

Distribution revenue increased 7% and 6% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, distribution revenue increased 6% and 4% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, the increases were primarily attributable to an increase in next generation revenues due to subscriber growth for discovery+, partially offset by lower contractual affiliate rates in some European markets.

Other revenue increased $256 million and $276 million for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, other revenue increased $265 million and $284 million for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, the increases were primarily attributable to sublicensing of Olympics sports rights to broadcast networks throughout Europe.

*Costs of Revenues*

Costs of revenues increased 94% and 60% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, costs of revenues increased 92% and 52% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, the increases were primarily attributable to costs related to the Olympics and to a lesser extent, European sporting events and leagues returning to a more normalized schedule, and higher content investment related to discovery+.

Content expense, excluding the impact of foreign currency fluctuations, was $845 million and $387 million for the three months ended September 30, 2021 and 2020, respectively, and $1.6 billion and $968 million for the nine months ended September 30, 2021 and 2020, respectively.

*Selling, General and Administrative*

Selling, general and administrative expenses increased 37% and 26% for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, selling, general and administrative expenses increased 32% and 19% for the three and nine months ended September 30, 2021. Excluding the impact of foreign currency fluctuations, the increases were primarily attributable to higher marketing-related expenses to support discovery+ and the Olympics, and to a lesser extent, personnel costs to support discovery+.

*Adjusted OIBDA*

Adjusted OIBDA decreased $206 million and $240 million for the three and nine months ended September 30, 2021, respectively. Excluding the impact of foreign currency fluctuations, Adjusted OIBDA decreased $205 million and $226 million for the three and nine months ended September 30, 2021, respectively.

**Corporate, Inter-segment Eliminations, and Other**

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | % Change | 2021 | 2020 | % Change |
| Revenues | $ (3) | $ — | NM | $ (8) | $ 6 | N |
| Costs of revenues, excluding depreciation and amortization | (2) | 4 | NM | (4) | 8 | N |
| Selling, general and administrative | 157 | 120 | 31 % | 439 | 360 | 22 |
| Adjusted OIBDA | (158) | (124) | (27) % | (443) | (362) | (22) |
| Employee share-based compensation | 36 | 29 | | 125 | 53 | |
| Depreciation and amortization | 29 | 23 | | 91 | 66 | |
| Restructuring and other charges | (1) | 11 | | — | 17 | |
| Transaction and integration costs | 13 | — | | 48 | — | |
| Inter-segment eliminations | — | (1) | | — | (3) | |
| Operating loss | $ (235) | $ (186) | | $ (707) | $ (495) | |

Corporate operations primarily consist of executive management, administrative support services, substantially all of our share-based compensation, and third-party transaction and integration costs.

## FINANCIAL CONDITION

### Liquidity

***Sources of Cash***

Historically, we have generated a significant amount of cash from operations. During the nine months ended September 30, 2021, we funded our working capital needs primarily through cash flows from operations. As of September 30, 2021, we had $3.1 billion of cash and cash equivalents on hand. We are a well-known seasoned issuer and have the ability to conduct registered offerings of securities, including debt securities, common stock, and preferred stock, on short notice, subject to market conditions. Access to sufficient capital from the public market is not assured. We also have a $2.5 billion revolving credit facility and commercial paper program described below.

- *Debt*

    *Revolving Credit Facility and Commercial Paper*

    In June 2021, we entered into a multicurrency revolving credit agreement (the "Credit Agreement"), replacing the existing $2.5 billion credit agreement, dated February 4, 2016, as amended. We have the capacity to initially borrow up to $2.5 billion under the Credit Agreement. Upon the closing of the proposed combination transactions with WarnerMedia, the available commitments may be increased by $3.5 billion, to an aggregate amount not to exceed $6 billion. The Credit Agreement includes a $150 million sublimit for the issuance of standby letters of credit. We may also request additional commitments up to $1 billion from the lenders upon satisfaction of certain conditions. Obligations under the Credit Agreement are unsecured and are fully and unconditionally guaranteed by Discovery, Inc. and Scripps Networks Interactive, Inc., and will also be guaranteed by the holding company of the WarnerMedia business upon the closing of the proposed combination transactions.

    The Credit Agreement will be available on a revolving basis until June 2026, with an option for up to two additional 364-day renewal periods. The Credit Agreement contains customary representations and warranties as well as affirmative and negative covenants. As of September 30, 2021, DCL was in compliance with all covenants and there were no events of default under the Credit Facility.

    Additionally, the Company's commercial paper program is supported by the Credit Facility. Under the commercial paper program, the Company may issue up to $1.5 billion, including up to $500 million of euro-denominated borrowings. Borrowing capacity under the Credit Facility is reduced by any outstanding borrowings under the commercial paper program.

    As of September 30, 2021 and December 31, 2020, the Company had no outstanding borrowings under the Credit Facility or the commercial paper program.

- *Investments*

    We received proceeds of $498 million during the nine months ended September 30, 2021 from the sales and maturities of investments.

***Uses of Cash***

Our primary uses of cash include the creation and acquisition of new content, business acquisitions, repurchases of our capital stock, income taxes, personnel costs, costs to develop and market discovery+, principal and interest payments on our outstanding senior notes, and funding for various equity method and other investments.

- *Content Acquisition*

    We plan to continue to invest significantly in the creation and acquisition of new content. Our investment in content has increased as we acquire and develop new content for discovery+. Contractual commitments to acquire content have increased less than 10% as set forth in "Commitments and Off-Balance Sheet Arrangements" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2020 Form 10-K.

- *Debt*

  *Senior Notes*

  In July 2021, we issued notices for the redemption in full of all $168 million aggregate principal amount outstanding of our 3.300% Senior Notes due May 2022 and $62 million aggregate principal amount outstanding of our 3.500% Senior Notes due June 2022 (the "2022 Notes"). The 2022 Notes were redeemed on July 31, 2021 for an aggregate redemption price of $235 million, plus accrued interest. The redemption included $5 million for premium over par on the 2022 Notes and resulted in a loss on extinguishment of debt of $6 million.

  In February 2021, we issued a notice for the redemption in full of all $335 million aggregate principal amount outstanding of our 4.375% Senior Notes due June 2021 (the "2021 Notes"). The 2021 Notes were redeemed in March 2021 for an aggregate redemption price of $339 million, plus accrued interest. The redemption included $3 million for premium over par and resulted in a loss on extinguishment of debt of $3 million.

  In addition, we have $349 million of senior notes coming due in March 2022.

- *Capital Expenditures and Investments in Next Generation Initiatives*

  We effected capital expenditures of $273 million during the nine months ended September 30, 2021, including amounts capitalized to support our next generation platforms, such as discovery+. In addition, we expect to continue to incur significant costs to develop and market discovery+ in the future.

- *Investments and Business Combinations*

  Our uses of cash have included investments in equity method investments and equity investments without readily determinable fair value. (See Note 3 to the accompanying consolidated financial statements.) We provide funding to our investees from time to time. During the nine months ended September 30, 2021, we contributed $137 million for investments in and advances to our investees. We also purchased $103 million of investments during the nine months ended September 30, 2021.

- *Redeemable Noncontrolling Interest and Noncontrolling Interest*

  Due to business combinations, we also have redeemable equity balances of $358 million, which may require the use of cash in the event holders of noncontrolling interests put their interests to us, which may be exercised in 2021. Distributions to noncontrolling interests and redeemable noncontrolling interests totaled $231 million and $216 million for the nine months ended September 30, 2021 and 2020, respectively.

- *Common Stock Repurchases*

  Historically, we have funded our stock repurchases through a combination of cash on hand, cash generated by operations, and the issuance of debt. In February 2020, our Board of Directors authorized additional stock repurchases of up to $2 billion upon completion of our existing $1 billion authorization announced in May 2019. Under the new stock repurchase authorization, management is authorized to purchase shares from time to time through open market purchases at prevailing prices or privately negotiated purchases subject to market conditions and other factors. (See Note 9 to the accompanying consolidated financial statements.) During the nine months ended September 30, 2021, we did not repurchase any of our common stock.

- *Income Taxes and Interest*

  We expect to continue to make payments for income taxes and interest on our outstanding senior notes. During the nine months ended September 30, 2021, we made cash payments of $555 million and $515 million for income taxes and interest on our outstanding debt, respectively.

**Cash Flows**

The following table presents changes in cash and cash equivalents (in millions).

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| Cash, cash equivalents, and restricted cash, beginning of period | $ 2,122 | $ 1,552 |
| Cash provided by operating activities | 1,914 | 2,186 |
| Cash used in investing activities | (30) | (550) |
| Cash used in financing activities | (811) | (1,272) |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | (69) | 40 |
| Net change in cash, cash equivalents, and restricted cash | 1,004 | 404 |
| Cash, cash equivalents, and restricted cash, end of period | $ 3,126 | $ 1,956 |

***Operating Activities***

Cash provided by operating activities was $1.9 billion and $2.2 billion during the nine months ended September 30, 2021 and 2020, respectively. The decrease in cash provided by operating activities was primarily attributable to a negative fluctuation in working capital activity, partially offset by an increase in net income excluding non-cash items.

***Investing Activities***

Cash used in investing activities was $30 million and $550 million during the nine months ended September 30, 2021 and 2020, respectively. The decrease in cash used in investing activities was primarily attributable to proceeds received from the sales and maturities of investments and a reduction in purchases of investments, partially offset by an increase in payments for derivatives during the nine months ended September 30, 2021.

***Financing Activities***

Cash used in financing activities was $811 million and $1.3 billion during the nine months ended September 30, 2021 and 2020, respectively. The decrease in cash used in financing activities was primarily attributable to a reduction in repurchases of stock during the nine months ended September 30, 2021.

**Capital Resources**

As of September 30, 2021, capital resources were comprised of the following (in millions).

| | September 30, 2021 | | | |
|---|---|---|---|---|
| | Total Capacity | Outstanding Letters of Credit | Outstanding Indebtedness | Unused Capacity |
| Cash and cash equivalents | $ 3,116 | $ — | $ — | $ 3,116 |
| Revolving credit facility and commercial paper program | 2,500 | — | — | 2,500 |
| Senior notes [a] | 15,217 | — | 15,217 | — |
| Total | $ 20,833 | $ — | $ 15,217 | $ 5,616 |

[a] Interest on the senior notes is paid annually or semi-annually. Our senior notes outstanding as of September 30, 2021 had interest rates that ranged from 1.90% to 6.35% and will mature between 2022 and 2055.

We expect that our cash balance, cash generated from operations and availability under the Credit Agreement will be sufficient to fund our cash needs for the next twelve months. Our borrowing costs and access to capital markets can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in part, on our performance as measured by credit metrics such as interest coverage and leverage ratios.

As of September 30, 2021, we held $457 million of our $3.1 billion of cash and cash equivalents in our foreign subsidiaries. The 2017 Tax Act features a participation exemption regime with current taxation of certain foreign income and imposes a mandatory repatriation toll tax on unremitted foreign earnings. Notwithstanding the U.S. taxation of these amounts, we intend to continue to reinvest these funds outside of the U.S. Our current plans do not demonstrate a need to repatriate them to the U.S. However, if these funds are needed in the U.S., we would be required to accrue and pay non-U.S. taxes to repatriate them. The determination of the amount of unrecognized deferred income tax liability with respect to these undistributed foreign earnings is not practicable.

**Summarized Guarantor Financial Information**

***Basis of Presentation***

Each of the Company, DCL, Discovery Communications Holding LLC ("DCH"), and/or Scripps Networks has the ability to conduct registered offerings of debt securities under the Company's shelf registration statement. As of September 30, 2021 and December 31, 2020, all of the Company's outstanding registered senior notes have been issued by DCL, a wholly owned subsidiary of the Company and guaranteed by the Company and Scripps Networks, except for $23 million of senior notes outstanding as of September 30, 2021 that have been issued by Scripps Networks and are not guaranteed. (See Note 7.) DCL primarily includes the Discovery Channel and TLC networks in the U.S. 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. Scripps Networks is 100% owned by the Company.

The tables below present the summarized financial information as combined for Discovery, Inc. (the "Parent"), Scripps Networks, and DCL (collectively, the "Obligors"). All guarantees of DCL's senior notes (the "Note Guarantees") are full and unconditional, joint and several and unsecured, and cover all payment obligations arising under the senior notes. DCH currently is not an issuer or guarantor of any securities and therefore is not included in the summarized financial information included herein.

Note Guarantees issued by Scripps Networks or any subsidiary of the Parent that in the future issues a Note Guarantee (each, a "Subsidiary Guarantor") may be released and discharged (i) concurrently with any direct or indirect sale or disposition of such Subsidiary Guarantor or any interest therein, (ii) at any time that such Subsidiary Guarantor is released from all of its obligations under its guarantee of payment by DCL, (iii) upon the merger or consolidation of any Subsidiary Guarantor with and into DCL or the Parent or another Subsidiary Guarantor, or upon the liquidation of such Subsidiary Guarantor and (iv) other customary events constituting a discharge of the Obligors' obligations.

***Summarized Financial Information***

The Company has included the accompanying summarized combined financial information of the Obligors after the elimination of intercompany transactions and balances among the Obligors and the elimination of equity in earnings from and investments in any subsidiary of the Parent that is a non-guarantor (in millions).

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| Current assets | $ | 3,820 | $ | 2,308 |
| Non-guarantor intercompany trade receivables, net | $ | 103 | $ | 217 |
| Noncurrent assets | $ | 6,077 | $ | 5,905 |
| Current liabilities | $ | 905 | $ | 915 |
| Noncurrent liabilities | $ | 15,742 | $ | 16,500 |

| | Nine Months Ended September 30, 2021 | |
|---|---|---|
| Revenues | $ | 1,[illegible] |
| Operating income | $ | [illegible] |
| Net income | $ | [illegible] |
| Net income available to Discovery, Inc. | $ | [illegible] |

**COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS**

In the normal course of business, we enter into commitments for the purchase of goods or services that require us to make payments or provide funding in the event certain circumstances occur. The nature of our contractual commitments is evolving with the launch and our support of discovery+. Total contractual commitments have increased approximately 14% as set forth in "Commitments and Off-Balance Sheet Arrangements" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2020 Annual Report on Form 10-K, which was primarily attributable to new technology and marketing commitments.

**RELATED PARTY TRANSACTIONS**

In the ordinary course of business, we enter into transactions with related parties, primarily the Liberty Group and our equity method investees. (See Note 15 to the accompanying consolidated financial statements.)

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our critical accounting policies and estimates have not changed since December 31, 2020. For a discussion of each of our critical accounting estimates listed below, including information and analysis of estimates and assumptions involved in their application, see "Critical Accounting Policies and Estimates" included in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our 2020 Annual Report on Form 10-K:

- Uncertain tax positions;
- Goodwill and intangible assets;
- Content rights;
- Consolidation; and
- Revenue recognition

**NEW ACCOUNTING AND REPORTING PRONOUNCEMENTS**

We adopted certain new accounting and reporting standards during the nine months ended September 30, 2021. (See Note 1 to the accompanying consolidated financial statements.)

**CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, financial prospects, and anticipated sources and uses of capital and our proposed transaction to combine our business with AT&T's WarnerMedia business. Words such as “anticipate,” “assume,” “believe,” “continue,” “estimate,” “expect,” “forecast,” “future,” “intend,” “plan,” “potential,” “predict,” “project,” “strategy,” “target” and similar terms, and future or conditional tense verbs like “could,” “may,” “might,” “should,” “will” and “would,” among other terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be accomplished. The following is a list of some, but not all, of the factors that could cause actual results or events to differ materially from those anticipated:

- the occurrence of any event, change or other circumstance that could give rise to the termination of, or prevent or delay our ability to consummate, our proposed transaction to combine with WarnerMedia;
- the effects of the announcement, pendency or completion of our proposed transaction to combine with WarnerMedia on our ongoing business operations;
- changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders, subscription video on demand, internet protocol television, mobile personal devices and personal tablets and their impact on television advertising revenue;
- continued consolidation of distribution customers and production studios;
- a failure to secure affiliate agreements or the renewal of such agreements on less favorable terms;
- rapid technological changes;

- the inability of advertisers or affiliates to remit payment to us in a timely manner or at all;
- general economic and business conditions, including the impact of the ongoing COVID-19 pandemic;
- industry trends, including the timing of, and spending on, feature film, television and television commercial production;
- spending on domestic and foreign television advertising;
- disagreements with our distributors or other business partners over contract interpretation;
- fluctuations in foreign currency exchange rates, political unrest and regulatory changes in international markets, including any proposed or adopted regulatory changes that impact the operations of our international media properties and/or modify the terms under which we offer our services and operate in international markets;
- market demand for foreign first-run and existing content libraries;
- the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;
- uncertainties inherent in the development of new business lines and business strategies;
- uncertainties regarding the financial performance of our investments in unconsolidated entities;
- our ability to complete, integrate, maintain and obtain the anticipated benefits and synergies from our proposed business combinations and acquisitions, including our proposed transaction to combine with WarnerMedia, on a timely basis or at all;
- uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies, and the success of our new discovery+ streaming product;
- future financial performance, including availability, terms, and deployment of capital;
- the ability of suppliers and vendors to deliver products, equipment, software, and services;
- our ability to achieve the efficiencies, savings and other benefits anticipated from our cost-reduction initiatives;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- the possibility or duration of an industry-wide strike or other job action affecting a major entertainment industry union;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission and data privacy regulations and adverse outcomes from regulatory proceedings;
- changes in income taxes due to regulatory changes or changes in our corporate structure;
- changes in the nature of key strategic relationships with partners, distributors and equity method investee partners;
- competitor responses to our products and services and the products and services of the entities in which we have interests;
- threatened or actual cyber-attacks and cybersecurity breaches;
- threatened or actual terrorist attacks and military action;
- our level of debt;
- reduced access to capital markets or significant increases in costs to borrow; and
- a reduction of advertising revenue associated with unexpected reductions in the number of subscribers.

These risks have the potential to impact the recoverability of the assets recorded on our balance sheets, including goodwill or other intangibles. Additionally, many of these risks are currently amplified by and may, in the future, continue to be amplified by the prolonged impact of the COVID-19 pandemic. For additional risk factors, refer to Item 1A, "Risk Factors," in our 2020 Annual Report on Form 10-K and Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Quantitative and qualitative disclosures about our existing market risk are set forth in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in the 2020 Form 10-K. Our exposures to market risk have not changed materially since December 31, 2020.

**ITEM 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2021. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2021, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting**

During the three months ended September 30, 2021, there were no changes in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

In the normal course of business, we experience routine claims and legal proceedings. It is the opinion of our management, based on information available at this time, that none of the current claims and proceedings will have a material adverse effect on our consolidated financial position, results of operations or cash flows. See Note 16 to the accompanying consolidated financial statements.

**ITEM 1A. Risk Factors**

Investors should carefully review and consider the information regarding certain factors that could materially affect our business, results of operations, financial condition and cash flows as set forth under Part I, Item 1A - Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2020, and as supplemented by the updated and additional risk factors described below. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely impact our business, results of operations, financial position and cash flows.

**Risk Factors Related to the Combination of Discovery and AT&T's WarnerMedia Business**

On May 17, 2021, the Company, our wholly owned subsidiary Drake Subsidiary, Inc., AT&T Inc. ("AT&T") and AT&T's wholly owned subsidiary Magallanes, Inc. entered into definitive agreements pursuant to which and subject to the terms and conditions therein (1) AT&T will transfer the business, operations and activities that constitute the WarnerMedia segment of AT&T, subject to certain exceptions (the "WarnerMedia Business") to Magallanes, Inc. (such transfer, the "Separation"), (2) AT&T will distribute to its stockholders the issued and outstanding shares of common stock of Magallanes, Inc. held by AT&T (such distribution, the "Distribution") and (3) Drake Subsidiary, Inc. will merge with and into Magallanes, Inc. with Magallanes, Inc. as the surviving entity and wholly owned subsidiary of the Company (such merger, the "Merger" and the Separation, Distribution and Merger collectively, the "Combination").

***The pendency of the proposed Combination may cause disruption in our business.***

The definitive agreement and plan of merger (the "Merger Agreement") related to the Combination restricts us from taking specified actions without AT&T's consent until the Combination is completed or the Merger Agreement is terminated, including making certain significant acquisitions or investments, entering into certain new lines of business, incurring certain indebtedness in excess of certain thresholds, making non-ordinary course capital expenditures, amending or modifying certain material contracts, divesting certain assets (including certain intellectual property rights), and making certain non-ordinary course changes to personnel and employee compensation. These restrictions and others more fully described in the Merger Agreement may affect our ability to execute our business strategies and attain our financial and other goals and may impact our financial condition, results of operations and cash flows.

The pendency of the proposed Combination could cause disruptions to our business or business relationships, which could have an adverse impact on our results of operations. Parties with which we have business relationships, including distributors, advertisers and content providers, may be uncertain as to the future of such relationships and may delay or defer certain business decisions, seek alternative relationships with third parties or seek to alter their present business relationships with us. Parties with whom we otherwise may have sought to establish business relationships may seek alternative relationships with third parties.

The pursuit of the Combination and the preparation for the integration of the WarnerMedia Business is expected to place a significant burden on our management and internal resources. The diversion of management's attention away from day-to-day business concerns and any difficulties encountered in the transition and integration process could adversely affect our financial results.

We have incurred and will continue to incur significant costs, expenses and fees for professional services and other transaction costs in connection with the Combination. We may also incur unanticipated costs in the integration of the WarnerMedia Business with the business of Discovery. The substantial majority of these costs will be non-recurring expenses relating to the Combination, and many of these costs are payable regardless of whether or not the Combination is consummated. We also could be subject to litigation related to the proposed Combination, which could prevent or delay the consummation of the Combination and result in significant costs and expenses.

***Failure to complete the Combination in a timely manner or at all could negatively impact the market price of our common stock, as well as our future business and our financial condition, results of operations and cash flows.***

We currently anticipate the Combination will be completed in mid-2022, but the Combination cannot be completed until conditions to closing are satisfied or (if permissible under applicable law) waived. The Combination is subject to numerous closing conditions, including approval by Discovery's stockholders, receipt of certain regulatory approvals, AT&T's receipt of a private letter ruling from the Internal Revenue Service regarding the qualification of the Distribution and certain related transactions for tax-free treatment under the Internal Revenue Code and AT&T's receipt of a special cash payment in accordance with the terms of the Separation and Distribution Agreement by and among Discovery, AT&T and Magallanes, Inc.

The satisfaction of the required conditions could delay the completion of the Combination for a significant period of time or prevent it from occurring. Further, there can be no assurance that the conditions to the closing of the Combination will be satisfied or waived or that the Combination will be completed.

If the Combination is not completed in a timely manner or at all, our ongoing business may be adversely affected as follows:

- we may experience negative reactions from the financial markets, and our stock price could decline to the extent that the current market price reflects an assumption that the Combination will be completed;
- we may experience negative reactions from employees, customers, suppliers or other third parties;
- we may be subject to litigation, which could result in significant costs and expenses;
- management's focus may have been diverted from day-to-day business operations and pursuing other opportunities that could have been beneficial to Discovery; and
- our costs of pursuing the Combination may be higher than anticipated.

In addition to the above risks, we may be required, under certain circumstances, to pay AT&T a termination fee equal to $720 million and/or to reimburse or indemnify AT&T for certain of its expenses. If the Combination is not consummated, there can be no assurance that these risks will not materialize and will not materially adversely affect our stock price, business, financial condition, results of operations or cash flows.

***In order to complete the Combination, Discovery and AT&T must obtain certain governmental approvals, and if such approvals are not granted or are granted with conditions, completion of the Combination may be jeopardized or the anticipated benefits of the Combination could be reduced.***

Although Discovery and AT&T have agreed to use reasonable best efforts, subject to certain limitations, to make certain governmental filings and obtain the required governmental approvals or expiration or earlier termination of relevant waiting periods, as the case may be, there can be no assurance that the relevant waiting periods will expire or be terminated or that the relevant approvals will be obtained. As a condition to approving the Combination, these governmental authorities may impose conditions, terms, obligations or restrictions or require divestitures or place restrictions on the conduct of our business after completion of the Combination. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions and that such conditions, terms, obligations or restrictions will not have the effect of delaying or preventing completion of the Combination or imposing additional material costs on or materially limiting the revenues of the combined company following the Combination, or otherwise adversely affecting, including to a material extent, our businesses and results of operations after completion of the Combination. If we or the WarnerMedia Business are required to divest assets or businesses, there can be no assurance that we will be able to negotiate such divestitures expeditiously or on favorable terms or that the governmental authorities will approve the terms of such divestitures. We can provide no assurance that these conditions, terms, obligations or restrictions will not result in the abandonment of the Combination.

***Although we expect that the Combination will result in synergies and other benefits to us, we may not realize those benefits because of difficulties related to integration, the achievement of such synergies, and other challenges.***

Discovery and the WarnerMedia Business have operated and, until completion of the Combination, will continue to operate, independently, and there can be no assurances that our businesses can be combined in a manner that allows for the achievement of substantial benefits. If we are not able to successfully integrate the WarnerMedia Business with ours or pursue our direct-to-consumer strategy successfully, including coordinating our streaming services for global customers, the anticipated benefits, including synergies, of the Combination may not be realized fully or may take longer than expected to be realized. Specifically, the following issues, among others, must be addressed in combining the operations of Discovery and the WarnerMedia Business in order to realize the anticipated benefits of the Combination:

- combining the businesses of Discovery and the WarnerMedia Business in a manner that permits us to achieve the synergies anticipated to result from the Combination, the failure of which would result in the anticipated benefits of the Combination not being realized in the time frame currently anticipated or at all;
- maintaining existing agreements with customers, distributors, providers, talent and vendors and avoiding delays in entering into new agreements with prospective customers, distributors, providers, talent and vendors;
- combining certain of the businesses' corporate functions;
- determining whether and how to address possible differences in corporate cultures and management philosophies;
- integrating the businesses' administrative and information technology infrastructure;
- integrating employees and attracting and retaining key personnel, including talent;
- managing the expanded operations of a significantly larger and more complex company;
- coordinating the businesses' direct-to-consumer streaming services for global customers; and

- resolving potential unknown liabilities, adverse consequences and unforeseen increased expenses associated with the Combination.

Even if the operations of our business and the business of the WarnerMedia Business are integrated successfully, the full benefits of the Combination may not be realized, including, among others, the synergies that are expected. These benefits may not be achieved within the anticipated time frame or at all. Additional unanticipated costs may also be incurred in the integration of our business and the business of the WarnerMedia Business. Further, it is possible that there could be loss of key Discovery or WarnerMedia Business employees, loss of customers, disruption of either or both of Discovery's or WarnerMedia Business' ongoing businesses or unexpected issues, higher than expected costs and an overall post-completion process that takes longer than originally anticipated. All of these factors could materially adversely affect our stock price, business, financial condition, results of operations or cash flows.

***Our consolidated indebtedness will increase substantially following completion of the Combination. This increased level of indebtedness could adversely affect us, including by decreasing our business flexibility.***

Our consolidated indebtedness as of September 30, 2021 was approximately \$15.2 billion. Upon completion of the Combination, we will become responsible for up to approximately \$43.0 billion of additional debt, including existing debt of the existing WarnerMedia Business, and debt that may be issued by Magallanes, Inc. to fund the transactions, with the ultimate amount of such debt to be issued subject to certain adjustments, including for net working capital. In addition, subject to certain conditions, availability under our revolving credit facility will increase from \$2.5 billion to \$6.0 billion. The increased indebtedness could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions, increasing our vulnerability to general adverse economic and industry conditions and limiting our ability to obtain additional financing in the future. In addition, the amount of cash required to pay interest on our indebtedness levels will increase following completion of the Combination, and thus the demands on our cash resources will be greater than prior to the Combination. The increased levels of indebtedness following completion of the Combination could also reduce funds available for capital expenditures, share repurchases, investments, mergers and acquisitions, and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels.

Following consummation of the Combination, our corporate or debt-specific credit rating could be downgraded, which may increase our borrowing costs or give rise to a need to refinance existing indebtedness. If a ratings downgrade occurs, we may need to refinance existing debt or be subject to higher borrowing costs and more restrictive covenants when we incur new debt in the future, which could reduce profitability and diminish operational flexibility.

**Risk Factors Related to our International Operations**

***We are subject to risks related to our international operations.***

We have operations through which we distribute programming outside the United States. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control. These risks include:

- laws and policies affecting trade and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws;
- changes in local regulatory requirements, including restrictions on content, imposition of local content quotas and restrictions or prohibitions on foreign ownership;
- our ability to obtain the appropriate licenses and other regulatory approvals we need to broadcast content in foreign countries;
- differing degrees of protection for intellectual property and varying attitudes towards the piracy of intellectual property;
- significant fluctuations in foreign currency value;
- currency exchange controls;
- the instability of foreign economies and governments;
- war and acts of terrorism;
- anti-corruption laws and regulations such as the Foreign Corrupt Practices Act and the U.K. Bribery Act that impose stringent requirements on how we conduct our foreign operations and changes in these laws and regulations;
- foreign privacy and data protection laws and regulation and changes in these laws; and
- shifting consumer preferences regarding the viewing of video programming.

Events or developments related to these and other risks associated with international trade could adversely affect our revenues from non-U.S. sources, which could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects. Acts of terrorism, hostilities, or financial, political, economic or other uncertainties could lead to a reduction in revenue or loss of investment, which could adversely affect our results of operations. Furthermore, some foreign markets where we and our partners operate may be more adversely affected by current economic conditions than the U.S. We also may incur substantial expense as a result of changes, including the imposition of new restrictions, in the existing economic or political environment in the regions where we do business. This is of particular concern in Poland, where we operate TVN, a key component of our international business, and where the government previously considered, and may reconsider or adopt in the future, regulations that would prohibit non-European Union ownership of Polish licensed free-to-air and pay-TV channels. If such regulations are ever adopted, it could impact the ownership structure and licensing of TVN, and could, directly or indirectly, affect the operations of our Polish media properties and/or modify the terms under which we offer our services and operate in that market.

## General Risks

***Domestic and foreign laws and regulations could adversely impact our operating results.***

Programming services like ours, and the distributors of our services, including cable operators, satellite operators and other multi-channel video programming distributors, are regulated by U.S. federal laws and regulations issued and administered by various federal agencies, including the FCC, as well as by state and local governments, in ways that affect the daily conduct of our video content business. See the discussion under “Business – Regulatory Matters” that appears in our Annual Report on Form 10-K for the year ended December 31, 2020. The U.S. Congress, the FCC and the courts currently have under consideration, and may adopt or interpret in the future, new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operations of our U.S. media properties or modify the terms under which we offer our services and operate.

Similarly, the foreign jurisdictions in which our networks are offered have, in varying degrees, laws and regulations governing our businesses. Programming businesses are subject to regulation on a country-by-country basis. Changes in regulations imposed by foreign governments could also adversely affect our business, results of operations and ability to expand our operations beyond their current scope. The Polish government previously considered, and may reconsider or adopt in the future, regulations that would prohibit non-European Union ownership of Polish licensed free-to-air and pay-TV channels. If such regulations are ever adopted, it could impact the ownership structure and licensing of TVN, which is a key component of our international business, and could, directly or indirectly, affect the operations of our Polish media properties and/or modify the terms under which we offer our services and operate in that market.

***The market price of our common stock has been highly volatile and may continue to be volatile due to circumstances beyond our control.***

The market price of our common stock has fluctuated, and may continue to fluctuate, widely, due to many factors, some of which may be beyond our control. These factors include, without limitation:

- large stockholders exiting their position in our common stock;
- an increase or decrease in the short interest in our common stock;
- comments by securities analysts or other third parties, including blogs, articles, message boards, and social and other media;
- actual or anticipated fluctuations in our financial and operating results;
- risks and uncertainties associated with the ongoing COVID-19 pandemic;
- development and provision of programming for new television and telecommunications technologies and the success of our new discovery+ streaming product;
- spending on domestic and foreign television advertising;
- changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders, subscription video on demand, internet protocol television, mobile personal devices, and personal tablets and their impact on television advertising revenue;
- fluctuations in foreign currency exchange rates;
- public perception of us, our competitors, or industry; and
- overall general market fluctuations.

Stock markets in general and our stock price in particular have recently experienced extreme price and volume fluctuations that have been unrelated or disproportionate to the operating performance of those companies and our company. For example, on March 26, 2021, our Series A common stock experienced an intra-day trading high of $58.21 per share and a low of $34.60 per share while our Series C common stock experienced an intra-day trading high of $51.36 and a low of $30.99 per share. In addition, from October 1, 2020 to September 30, 2021, the closing price of our Series A common stock and our Series C common stock on the Nasdaq ranged from as low as $19.27 and $17.44 to as high as $77.27 and $66.00, respectively, and daily trading volume ranged from approximately 1.9 million and 0.6 million shares to 106.1 million and 45.7 million shares, respectively. During this time, we have not experienced any material changes in our financial condition or results of operations that would explain such price volatility or trading volume. In particular, sales of large blocks of our Series A common stock and Series C common stock on and after March 26, 2021, reportedly conducted by financial institutions unwinding hedge positions associated with margin calls against Archegos Management put pressure on the supply and demand for our common stock, further influencing volatility in its market price. These market fluctuations and trading activities have caused and may in the future cause the market price and demand for our common stock to fluctuate substantially, which may negatively affect the price and liquidity of our common stock.

**ITEM 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 2.1 | Letter agreement, dated as of July 1, 2021, by and between AT&T, Inc. and Discovery, Inc. (filed herewith) |
| 2.2 | Letter agreement, dated as of July 7, 2021, by and between AT&T, Inc. and Discovery, Inc. (filed herewith) |
| 10.1 | Amendment No. 1 to Credit Agreement, dated as of July 30, 2021, among Discovery Communications, LLC, Discovery, Inc., Scripps Networks Interactive, Inc., certain lenders party thereto and Bank of America, N.A. (incorporated by reference to Exhibit 10.9 to the Form 10-Q filed on August 3, 2021 (SEC File No. 001-34177)) |
| 22 | Table of Senior Notes, Issuer and Guarantors (filed herewith) |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as Amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document (filed herewith)† |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)† |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)† |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith)† |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)† |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

* Indicates management contract or compensatory plan, contract or arrangement.

†Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following formatted in Inline XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2021 and 2020, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2021 and 2020, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020, (v) Consolidated Statement of Equity for the three and nine months ended September 30, 2021 and 2020, and (vi) Notes to Consolidated Financial Statements.

**SIGNATURES**

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

| | | |
|---|---|---|
| | | **DISCOVERY, INC.**<br>(Registrant) |
| Date: November 3, 2021 | By: | /s/ David M. Zaslav<br>David M. Zaslav<br>President and Chief Executive Officer |
| Date: November 3, 2021 | By: | /s/ Gunnar Wiedenfels<br>Gunnar Wiedenfels<br>Chief Financial Officer |