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, 2022

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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Warner Bros. 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)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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	WBD	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 21, 2022:

Series A Common Stock, par value $0.01 per share	2,428,396,015

WARNER BROS. DISCOVERY, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. Unaudited Financial Statements.

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Revenues:				
Advertising	$ 2,042	$ 1,453	$ 6,239	$ 4,496
Distribution	4,990	1,328	11,180	3,898
Content	2,531	352	4,918	564
Other	260	17	472	46
Total revenues	9,823	3,150	22,809	9,004
Costs and expenses:				
Costs of revenues, excluding depreciation and amortization	5,627	1,529	13,488	3,553
Selling, general and administrative	2,589	944	7,167	2,947
Depreciation and amortization	2,233	341	5,024	1,043
Restructuring and other charges	1,521	7	2,559	29
Asset impairment and loss (gain) on disposition and disposal groups	43	—	47	(72)
Total costs and expenses	12,013	2,821	28,285	7,500
Operating (loss) income	(2,190)	329	(5,476)	1,504
Interest expense, net	(555)	(159)	(1,219)	(479)
Loss from equity investees, net	(78)	(9)	(135)	(20)
Other (expense) income, net	(28)	72	411	245
(Loss) income before income taxes	(2,851)	233	(6,419)	1,250
Income tax benefit (expense)	566	(36)	1,201	(144)
Net (loss) income	(2,285)	197	(5,218)	1,106
Net income attributable to noncontrolling interests	(21)	(32)	(44)	(116)
Net income attributable to redeemable noncontrolling interests	(2)	(9)	(8)	(22)
Net (loss) income available to Warner Bros. Discovery, Inc.	$ (2,308)	$ 156	$ (5,270)	$ 968
Net (loss) income per share allocated to Warner Bros. Discovery, Inc. Series A common stockholders:				
Basic	$ (0.95)	$ 0.24	$ (3.00)	$ 1.47
Diluted	$ (0.95)	$ 0.24	$ (3.00)	$ 1.46
Weighted average shares outstanding:				
Basic	2,428	589	1,775	588
Diluted	2,428	663	1,775	665

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

WARNER BROS. DISCOVERY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(unaudited; in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net (loss) income	$ (2,285)	$ 197	$ (5,218)	$ 1,106
Other comprehensive (loss) income adjustments, net of tax:				
Currency translation	(690)	(144)	(1,277)	(203)
Derivatives	24	12	(12)	137
Comprehensive (loss) income	(2,951)	65	(6,507)	1,040
Comprehensive income attributable to noncontrolling interests	(21)	(32)	(44)	(116)
Comprehensive income attributable to redeemable noncontrolling interests	(2)	(9)	(8)	(22)
Comprehensive (loss) income attributable to Warner Bros. Discovery, Inc.	$ (2,974)	$ 24	$ (6,559)	$ 902

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

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

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,422	$ 3,905
Receivables, net	6,669	2,446
Prepaid expenses and other current assets	3,581	913
Total current assets	12,672	7,264
Film and television content rights and games, net	28,288	3,832
Property and equipment, net	5,143	1,336
Goodwill	34,450	12,912
Intangible assets, net	46,744	6,317
Other noncurrent assets	8,752	2,766
Total assets	$ 136,049	$ 34,427
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 1,534	$ 412
Accrued liabilities	10,197	2,230
Deferred revenues	1,688	478
Current portion of debt	1,257	339
Total current liabilities	14,676	3,459
Noncurrent portion of debt, net	48,612	14,420
Deferred income taxes	12,317	1,225
Other noncurrent liabilities	10,364	1,927
Total liabilities	85,969	21,031
Commitments and contingencies (See Note 19)		
Redeemable noncontrolling interests	318	363
Warner Bros. Discovery, Inc. stockholders' equity:		
Series A common stock: $0.01 par value; 10,800 and 0 shares authorized; 2,658 and 0 shares issued; and 2,428 and 0 shares outstanding	27	—
Preferred stock: $0.01 par value; 1,200 and 0 shares authorized, 0 shares issued and outstanding	—	—
Discovery Series A-1 convertible preferred stock: $0.01 par value; 0 and 8 shares authorized, issued and outstanding	—	—
Discovery Series C-1 convertible preferred stock: $0.01 par value; 0 and 6 shares authorized; 0 and 4 shares issued and outstanding	—	—
Discovery Series A common stock: $0.01 par value; 0 and 1,700 shares authorized; 0 and 170 shares issued; and 0 and 169 shares outstanding	—	2
Discovery Series B convertible common stock: $0.01 par value; 0 and 100 shares authorized; 0 and 7 shares issued and outstanding	—	—
Discovery Series C common stock: $0.01 par value; 0 and 2,000 shares authorized; 0 and 559 shares issued; and 0 and 330 shares outstanding	—	5
Additional paid-in capital	54,547	11,086
Treasury stock, at cost: 230 and 230 shares	(8,244)	(8,244)
Retained earnings	4,306	9,580
Accumulated other comprehensive loss	(2,119)	(830)
Total Warner Bros. Discovery, Inc. stockholders' equity	48,517	11,599
Noncontrolling interests	1,245	1,434
Total equity	49,762	13,033
Total liabilities and equity	$ 136,049	$ 34,427

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

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

	Nine Months Ended September 30,	
	2022	**2021**
Operating Activities		
Net (loss) income	$ (5,218)	$ 1,106
Adjustments to reconcile net income to cash provided by operating activities:		
Content rights amortization and impairment	11,441	2,735
Depreciation and amortization	5,024	1,043
Deferred income taxes	(2,105)	(502)
Preferred stock conversion premium	789	—
Share-based compensation expense	317	134
Gain on disposition	45	(72)
Equity in losses of equity method investee companies and cash distributions	178	57
Gain on sale of investments	(144)	(20)
Gain from derivative instruments, net	(479)	—
Other, net	142	(137)
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables, net	(139)	44
Film and television content rights, games and payables, net	(8,612)	(2,578)
Accounts payable, accrued liabilities, deferred revenues and other noncurrent liabilities	(182)	124
Foreign currency, prepaid expenses and other assets, net	401	(20)
Cash provided by operating activities	1,458	1,914
Investing Activities		
Purchases of property and equipment	(623)	(273)
Cash acquired from business acquisition and working capital settlement	3,609	—
Proceeds from sales and maturities of investments	162	498
Investments in and advances to equity investments	(137)	(137)
Proceeds from derivative instruments, net	722	(102)
Purchases of investments	—	(103)
Other investing activities, net	9	87
Cash provided by (used in) investing activities	3,742	(30)
Financing Activities		
Principal repayments of term loans	(6,000)	—
Principal repayments of debt, including premiums to par value	(327)	(574)
Distributions to noncontrolling interests and redeemable noncontrolling interests	(286)	(231)
Purchase of redeemable noncontrolling interests	—	(31)
Securitization receivables collected but not remitted	236	—
Borrowings under commercial paper program	885	—
Repayments under commercial paper program	(885)	—
Other financing activities, net	(93)	25
Cash used in financing activities	(6,470)	(811)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(122)	(69)
Net change in cash, cash equivalents, and restricted cash	(1,392)	1,004
Cash, cash equivalents, and restricted cash, beginning of period	3,905	2,122
Cash, cash equivalents, and restricted cash, end of period	$ 2,513	$ 3,126

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

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

	Discovery, Inc. Preferred Stock		Discovery, Inc. Common Stock		Warner Bros. Discovery, Inc. Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Warner Bros. Discovery, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Par Value	Shares	Par Value	Shares	Par Value							
December 31, 2021	12	$ —	736	$ 7	—	$ —	$ 11,086	$ (8,244)	$ 9,580	$ (830)	$ 11,599	$ 1,434	$ 13,033
Net income available to Warner Bros. Discovery, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	—	—	456	—	456	16	472
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(117)	(117)	—	(117)
Share-based compensation	—	—	—	—	—	—	53	—	—	—	53	—	53
Tax settlements associated with share-based plans	—	—	—	—	—	—	(38)	—	—	—	(38)	—	(38)
Dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	(192)	(192)
Issuance of stock in connection with share-based plans	—	—	3	—	—	—	19	—	—	—	19	—	19
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	—	—	(3)	—	(3)	—	(3)
March 31, 2022	12	$ —	739	$ 7	—	$ —	$ 11,120	$ (8,244)	$ 10,033	$ (947)	$ 11,969	$ 1,258	$ 13,227
Net (loss) income available to Warner Bros. Discovery, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	—	—	(3,418)	—	(3,418)	7	(3,411)
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(506)	(506)	—	(506)
Share-based compensation	—	—	—	—	—	—	143	—	—	—	143	—	143
Conversion and issuance of common stock and noncontrolling interest in connection with the acquisition of the WarnerMedia Business	(12)	—	(739)	(7)	2,658	27	43,173	—	—	—	43,193	2	43,195
Dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	(31)	(31)
Issuance of stock in connection with share-based plans	—	—	—	—	—	—	3	—	—	—	3	—	3
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	—	—	(1)	—	(1)	—	(1)
June 30, 2022	—	$ —	—	$ —	2,658	$ 27	$ 54,439	$ (8,244)	$ 6,614	$ (1,453)	$ 51,383	$ 1,236	$ 52,619
Net (loss) income available to Warner Bros. Discovery, Inc. and attributable to noncontrolling interests	—	—	—	—	—	—	—	—	(2,308)	—	(2,308)	21	(2,287)
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(666)	(666)	—	(666)
Share-based compensation	—	—	—	—	—	—	111	—	—	—	111	—	111
Tax settlements associated with share-based plans	—	—	—	—	—	—	(5)	—	—	—	(5)	—	(5)
Dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	(12)	(12)
Issuance of stock in connection with share-based plans	—	—	—	—	—	—	2	—	—	—	2	—	2
September 30, 2022	—	$ —	—	$ —	2,658	$ 27	$ 54,547	$ (8,244)	$ 4,306	$ (2,119)	$ 48,517	$ 1,245	$ 49,762

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

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

	Discovery, Inc. Preferred Stock		Discovery, Inc. Common Stock								
	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Warner Bros. 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 Warner Bros. 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 compensation	—	—	—	—	(68)	—	—	—	(68)	—	(68)
Dividends paid to noncontrolling interest	—	—	—	—	—	—	—	—	—	(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 compensation	—	—	—	—	(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.

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Warner Bros. Discovery, Inc. ("Warner Bros. Discovery", "WBD", the "Company", "we", "us" or "our") is a leading global media and entertainment company that creates and distributes the world's most differentiated and complete portfolio of content and brands across television, film and streaming. Available in more than 220 countries and territories and 50 languages, Warner Bros. Discovery inspires, informs and entertains audiences worldwide through its iconic brands and products including: Discovery Channel, discovery+, CNN, DC, Eurosport, HBO, HBO Max, HGTV, Food Network, OWN, Investigation Discovery, TLC, Magnolia Network, TNT, TBS, truTV, Travel Channel, MotorTrend, Animal Planet, Science Channel, Warner Bros. Pictures, Warner Bros. Television, Warner Bros. Games, New Line Cinema, Cartoon Network, Adult Swim, Turner Classic Movies, Discovery en Español, Hogar de HGTV and others.

Merger with the WarnerMedia Business of AT&T

On April 8, 2022 (the "Closing Date"), Discovery, Inc. ("Discovery") completed its merger (the "Merger") with the WarnerMedia business (the "WarnerMedia Business", "WM Business" or "WM") of AT&T Inc. ("AT&T") and changed its name to "Warner Bros. Discovery, Inc.". On April 11, 2022, the Company's shares started trading on the Nasdaq Global Select Market (the "Nasdaq") under the trading symbol WBD.

The Merger was executed through a Reverse Morris Trust type transaction, under which WM was distributed to AT&T's shareholders via a pro rata distribution, and immediately thereafter, combined with Discovery. (See Note 2 and Note 3). Prior to the Merger, WarnerMedia Holdings, Inc. distributed $40.5 billion to AT&T (subject to working capital and other adjustments) in a combination of cash, debt securities, and WM's retention of certain debt. Discovery transferred purchase consideration of $42.4 billion in equity to AT&T shareholders. In August 2022, the Company and AT&T finalized the post-closing working capital settlement process, pursuant to section 1.3 of the Separation and Distribution Agreement, which resulted in the Company receiving a $1.2 billion payment from AT&T in the third quarter of 2022. AT&T shareholders received shares of WBD Series A common stock ("WBD common stock") in the distribution representing 71% of the combined company and the Company's pre-Merger shareholders continued to own 29% of the combined company, in each case on a fully diluted basis.

Discovery was deemed to be the accounting acquirer of the WM Business for accounting purposes under U.S. generally accepted accounting principles ("U.S. GAAP"); therefore, Discovery is considered WBD's predecessor and the historical financial statements of Discovery prior to April 8, 2022, are reflected in this Quarterly Report on Form 10-Q as WBD's historical financial statements. Accordingly, the financial results of WBD as of and for any periods prior to April 8, 2022 do not include the financial results of the WM Business and current and future results will not be comparable to historical results.

Segments

In connection with the Merger, the Company reevaluated and changed its segment presentation during the quarter ended June 30, 2022. Accordingly, beginning in the quarter ended June 30, 2022, and for all periods presented, we are reporting results based on the following segments:

Studios - Our Studios segment primarily consists of the production and release of feature films for initial exhibition in theaters, production and initial licensing of television programs to third parties and our networks/direct-to-consumer ("DTC") services, distribution of our films and television programs to various third party and internal television and streaming services, distribution through the home entertainment market (physical and digital), related consumer products and themed experience licensing, and interactive gaming.

Networks - Our Networks segment primarily consists of our domestic and international television networks.

DTC - Our DTC segment primarily consists of our premium pay TV and digital content services.

Impact of COVID-19

The Company continues to closely monitor the ongoing 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. Certain key sources of revenue for the Studios segment, including theatrical revenues, television production, studio operations and themed entertainment, have been adversely impacted by governmentally imposed shutdowns and related labor interruptions and constraints on consumer activity, particularly in the context of public entertainment venues, such as cinemas and theme parks.

The nature and full extent of COVID-19's effects on our operations and results are 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 variants or surges of COVID-19, vaccine distribution and efficacy and other actions to contain the virus or treat its impact, among others. The consolidated financial statements reflect management's 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company 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. 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 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, estimated defined benefit plan liabilities, and the determination of whether the Company should consolidate certain entities.

Summary of Significant Accounting Policies

There have been no changes to the Company's significant accounting policies described in the 2021 Form 10-K, other than updates to policies as a result of the Merger as described below.

Film and Television Content Rights

The Company groups its film and television content rights by monetization strategy. For films and television programs predominantly monetized individually, the amount of capitalized film and television production costs and the amount of participations and residuals to be recognized as expense in a particular period are determined using the individual film forecast method. Under this method, the amortization of capitalized costs and the accrual of participations and residuals are based on the proportion of the film's or television program's revenues recognized for such period to the film's or television program's estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a film's or television program's remaining life cycle).

The process of estimating ultimate revenues requires us to make a series of judgments related to future revenue-generating activities associated with a particular film. Prior to the theatrical release of a film, our estimates are based on factors such as the historical performance of similar films, the star power of the lead actors, the rating and genre of the film, pre-release market research (including test market screenings), international distribution plans and the expected number of theaters in which the film will be released. Subsequent to release, ultimate revenues are updated to reflect initial performance, which is often predictive of future performance. For a film or television program that is predominantly monetized on its own but also monetized with other films and/or programs (such as our DTC or linear services), we make a reasonable estimate of the value attributable to the film or program's exploitation while monetized with other films/programs and expense such costs as the film or television program is exhibited. For theatrical films, the period over which ultimate revenues from all applicable sources and exhibition windows are estimated does not exceed 10 years from the date of the film's initial release. For television programs, the ultimate period does not exceed 10 years from delivery of the first episode, or, if still in production, five years from delivery of the most recent episode, if later. For games, the ultimate period does not exceed two years from the date of the game's initial release. Ultimates for produced content monetized on an individual basis are reviewed and updated (as applicable) on a quarterly basis; any adjustments are applied prospectively as of the beginning of the fiscal year of the change.

For programs monetized as a group, including licensed programming, the Company's film groups are generally aligned along the Company's networks and digital content offerings, except for certain international territories wherein content assets are shared across the various networks in the territory and therefore, the territory is the film group. Amortization expense for each period is generally based on the revenue forecast model, which approximates the proportion that estimated distribution and advertising revenues for the current period represent in relation to the estimated remaining total lifetime revenues. Digital content and premium pay TV amortization for each period is recognized based on estimated viewing patterns as there are generally no direct revenues to associate to the individual content assets and therefore number of views is most representative of the use of the title. Licensed rights to film and television programming are typically amortized over the useful life of the program's license period on a straight-line basis (or per-play basis, if greater, for certain programming on our ad-supported networks), or accelerated basis for licensed original programs.

Quarterly, the Company prepares analyses to support its content amortization expense. Critical assumptions used in determining content amortization for programming predominately monetized as a group include: (i) the grouping of content with similar characteristics, (ii) the application of a quantitative revenue forecast model or viewership model based on the adequacy of historical data, (iii) determining the appropriate historical periods to utilize and the relative weighting of those historical periods in the forecast model, and (iv) incorporating secondary streams. The Company then considers the appropriate application of the quantitative assessment given forecasted content use, expected content investment and market trends. Content use and future revenues may differ from estimates based on changes in expectations related to market acceptance, network affiliate fee rates, advertising demand, the number of cable and satellite television subscribers receiving the Company's networks, the number of subscribers to its digital services, and program usage. Accordingly, the Company continually reviews its estimates and planned usage and revises its assumptions if necessary. Any material adjustments from the Company's review of the amortization rates for assets in film groups are applied prospectively in the period of the change.

Unamortized film costs are tested for impairment whenever events or changes in circumstances indicate that the fair value of a film (or television program) predominately monetized on its own, or a film group, may be less than its unamortized costs. In addition, a change in the predominant monetization strategy is considered a triggering event for impairment testing before a title is accounted for as part of a film group. If the carrying value of an individual feature film or television program, or film group, exceeds the estimated fair value, an impairment charge will be recorded in the amount of the difference. For content that is predominately monetized individually, we utilize estimates including ultimate revenues and additional costs to be incurred (including exploitation and participation costs), in order to determine whether the carrying value of a film or television program is impaired.

Game development costs are expensed as incurred before the applicable games reach technological feasibility, or for online hosted arrangements, before the preliminary project phase is complete and it is probable the project will be completed and the software will be used to perform the function intended. Upon release, the capitalized game development costs are amortized based on the proportion of the game's revenues recognized for such period to the game's total current and anticipated revenues. Unamortized capitalized game production and development costs are stated at the lower of cost, less accumulated amortization, or net realizable value and reported in "Film and television content rights and games, net" on the consolidated balance sheets.

Inventory

Inventory is comprised primarily of DVDs, Blu-ray Discs and game units and is stated at the lower of cost or net realizable value in prepaid expenses and other current assets on the consolidated balance sheets. Cost is determined using the average cost method for the majority of our inventory, with the remaining inventory valued using the standard cost method, which approximates average cost. Returned goods included in inventory are valued at estimated realizable value, but not in excess of cost. The Company periodically reviews its inventory for excess and obsolete inventory. The Company's inventory consisted of the following (in millions).

	September 30, 2022	December 31, 2021
Raw materials	$ 6	$ —
Work in process	6	—
Finished goods	137	1
Total inventory	$ 149	$ 1

Defined Benefit Plan

The Company maintains a defined benefit pension plan covering certain employees. Defined benefit plan obligations are based on various assumptions used by our actuaries in calculating these amounts. These assumptions include discount rates, compensation rate increases, expected return on plan assets, retirement rates and mortality rates. Actual results that differ from the assumptions and changes in assumptions could affect future expenses and obligations.

Accounting and Reporting Pronouncements Adopted

LIBOR

In March 2020, the Financial Accounting Standards Board ("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 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. The Company applied the relevant provisions of the guidance to hedge relationships that were subsequently terminated in the first quarter of 2022.

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 Company adopted the guidance effective January 1, 2022, and there was no material impact on its consolidated financial statements.

Accounting and Reporting Pronouncements Not Adopted

Government Assistance

In November 2021, the FASB issued guidance requiring disclosure for transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other guidance. The annual disclosures include terms and conditions, accounting treatment and impacted financial statement lines reflecting the impact of the transactions. The guidance is effective for annual periods beginning after December 15, 2021. While the guidance will not have an effect on the Company's consolidated statement of operations or consolidated balance sheets, the Company is currently assessing the impact this guidance will have on its financial statement disclosures.

Supplier Finance Programs

In September 2022, the FASB issued guidance updating the disclosure requirements for supplier finance program obligations. This guidance provides specific authoritative guidance for disclosure of supplier finance programs, including key terms of such programs, amounts outstanding, and where the obligations are presented in the statement of financial position. The guidance is effective for annual periods beginning after December 15, 2022, including interim periods, except for the disclosure of roll forward information, which is effective for annual periods beginning after December 15, 2023. Certain components of this guidance must be applied retrospectively, while others may be applied prospectively. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures.

NOTE 2. EQUITY AND EARNINGS PER SHARE

Common Stock Issued in Connection with the WarnerMedia Merger

In connection with the Merger, each issued and outstanding share of Discovery Series A common stock, Discovery Series B common stock, and Discovery Series C common stock, was reclassified and automatically converted into one share of WBD common stock, and each issued and outstanding share of Discovery Series A-1 convertible preferred stock ("Series A-1 Preferred Stock") and Series C-1 convertible preferred stock was reclassified and automatically converted into 13.1135 and 19.3648 shares of WBD common stock, respectively.

The Merger required the consent of Advance/Newhouse Programming Partnership under Discovery's certificate of incorporation as the sole holder of the Series A-1 Preferred Stock. 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 received an increase to the number of shares of common stock of the Company into which the Series A-1 Preferred Stock converted. The impact of the issuance of such additional shares of common stock was $789 million and was recorded as a transaction expense in selling, general and administrative expense upon the closing of the Merger.

On April 8, 2022, the Company issued 1.7 billion shares of WBD common stock as consideration paid for the acquisition of WM. (See Note 3).

Earnings Per Share

All share and per share amounts have been retrospectively adjusted to reflect the reclassification and automatic conversion into WBD common stock, except for Series A-1 Preferred Stock, which has not been recast because the conversion of Series A-1 Preferred Stock into WBD common stock in connection with the Merger was considered a discrete event and treated prospectively.

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,	
	2022	2021	2022	2021
Numerator:				
Net (loss) income	$ (2,285)	$ 197	$ (5,218)	$ 1,106
Less:				
Allocation of undistributed income to Series A-1 convertible preferred stock	—	(17)	(49)	(104)
Net income attributable to noncontrolling interests	(21)	(32)	(44)	(116)
Net income attributable to redeemable noncontrolling interests	(2)	(9)	(8)	(22)
Net (loss) income allocated to Warner Bros. Discovery, Inc. Series A common stockholders for basic and diluted net (loss) income per share	$ (2,308)	$ 139	$ (5,319)	$ 864
Add:				
Allocation of undistributed income to Series A-1 convertible preferred stockholders	$ —	$ 17	$ —	$ 104
Net (loss) income allocated to Warner Bros. Discovery, Inc. Series A common stockholders for diluted net (loss) income per share	$ (2,308)	$ 156	$ (5,319)	$ 968
Denominator — weighted average:				
Common shares outstanding — basic	2,428	589	1,775	588
Impact of assumed preferred stock conversion	—	71	—	71
Dilutive effect of share-based awards	—	3	—	6
Common shares outstanding — diluted	2,428	663	1,775	665
Basic net (loss) income per share allocated to common stockholders	$ (0.95)	$ 0.24	$ (3.00)	$ 1.47
Diluted net (loss) income per share allocated to common stockholders	$ (0.95)	$ 0.24	$ (3.00)	$ 1.46

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,	
	2022	2021	2022	2021
Anti-dilutive share-based awards	59	32	48	10

NOTE 3. ACQUISITIONS AND DISPOSITIONS

Acquisitions

WarnerMedia

On April 8, 2022, the Company completed its Merger with the WarnerMedia Business of AT&T. The Merger was executed through a Reverse Morris Trust type transaction, under which WM was distributed to AT&T's shareholders via a pro-rata distribution, and immediately thereafter, combined with Discovery. Discovery was deemed to be the accounting acquirer of WM.

The Merger combined WM's content library of popular and valuable intellectual property with Discovery's global footprint, collection of local-language content and deep regional expertise across more than 220 countries and territories. The Company expects this broad, worldwide portfolio of brands, coupled with its DTC potential and the attractiveness of the combined assets, to result in increased market penetration globally. The Merger is also expected to create significant cost synergies for the Company.

Purchase Price

The following table summarizes the components of the aggregate purchase consideration paid to acquire WM (in millions).

Fair value of WBD common stock issued to AT&T shareholders (1)	$	42,309
Estimated fair value of share-based compensation awards attributable to pre-combination services (2)		94
Settlement of preexisting relationships (3)		(27)
Purchase consideration	$	42,376

(1) The fair value of WBD common stock issued to AT&T shareholders represents approximately 1,732 million shares of the Company's common stock multiplied by the closing share price for Discovery Series A common stock of $24.43 on the Nasdaq on the Closing Date. The number of shares of WBD common stock issued in the Merger was determined based on the number of fully diluted shares of Discovery, Inc. common stock immediately prior to the closing of the Merger, multiplied by the quotient of 71%/29%.

(2) This amount represents the value of AT&T restricted stock unit awards that were not vested and were replaced by WBD restricted stock unit awards with similar terms and conditions as the original AT&T awards. The conversion was based on the ratio of the volume-weighted average per share closing price of AT&T common stock on the ten trading days prior to the Closing Date and the volume-weighted average per share closing price of WBD common stock on the ten trading days following the Closing Date. The fair value of replacement equity-based awards attributable to pre-Merger service was recorded as part of the consideration transferred in the Merger. See Note 14 for additional information.

(3) The amount represents the effective settlement of outstanding payables and receivables between the Company and WM. No gain or loss was recognized upon settlement as amounts were determined to be reflective of fair market value.

Balances reflect rounding of dollar and share amounts to millions, which may result in differences for recalculated standalone amounts compared with the amounts presented above. In August 2022, the Company and AT&T finalized the post-closing working capital settlement process, pursuant to section 1.3 of the Separation and Distribution Agreement, which resulted in the Company receiving a $1.2 billion payment from AT&T in the third quarter of 2022.

Preliminary Purchase Price Allocation

The Company applied the acquisition method of accounting to WM, whereby the excess of the fair value of the purchase price paid over the fair value of identifiable net assets acquired and liabilities assumed was allocated to goodwill. Goodwill reflects the assembled workforce of WM as well as revenue enhancements, cost savings and operating synergies that are expected to result from the Merger. The goodwill recorded as part of the Merger has been provisionally allocated to the Studios, Networks and DTC reportable segments in the amount of $8,938 million, $7,015 million and $5,909 million, respectively, and is not deductible for tax purposes.

The purchase price allocation is preliminary and subject to change. The Company is still evaluating the fair value of film and television library, intangible assets, and income taxes, in addition to ensuring all other assets and liabilities and contingencies have been identified and recorded. The Company has estimated the preliminary fair value of assets acquired and liabilities assumed based on information currently available and will continue to adjust those estimates as additional information pertaining to events or circumstances present at the Closing Date becomes available during the measurement period. The Company reflects measurement period adjustments in the period in which the adjustments occur, and the Company will finalize its accounting for the Merger within one year of the Closing Date. The current period adjustments were primarily related to content, taxes, investments, and capitalized interest. The cumulative impact on the consolidated statements of operations for these measurement period adjustments was $129 million for the three months ended September 30, 2022. The preliminary allocation of the purchase price to the assets acquired and liabilities assumed, measurement period adjustments, and a reconciliation to total consideration transferred is presented in the table below (in millions).

	Preliminary April 8, 2022	Measurement Period Adjustments	Updated Preliminary April 8, 2022
Cash	$ 2,419	$ (10)	$ 2,409
Accounts receivable	4,224	(1)	4,223
Other current assets	4,619	(217)	4,402
Film and television library	28,729	(294)	28,435
Property and equipment	4,260	17	4,277
Goodwill	21,513	349	21,862
Intangible assets	44,889	—	44,889
Other noncurrent assets	5,206	442	5,648
Current liabilities	(10,544)	(14)	(10,558)
Debt assumed	(41,671)	(9)	(41,680)
Deferred income taxes	(13,264)	107	(13,157)
Other noncurrent liabilities	(8,004)	(370)	(8,374)
Total consideration paid	$ 42,376	$ —	$ 42,376

The fair values of the assets acquired, and liabilities assumed were preliminarily determined using the income, cost, and market approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market, such as discounted cash flow analyses, and thus represent a Level 3 measurement. Significant inputs used in the discounted cash flow analyses and other areas of judgment include (i) historical and projected financial information, (ii) discount rates used to present value future cash flows, (iii) royalty rates, (iv) number of renewals for affiliate contracts, (v) synergies, including cost savings, (vi) tax rates, (vii) economic useful life of assets, and (viii) attrition rates, as relevant, that market participants would consider when estimating fair values. The following are the preliminary fair value approaches followed:

Category	Valuation Method
Trade names	Relief from royalty method of the income approach
Film and TV content library	Multi-period excess earnings method of the income approach; net book value
Affiliate contracts	Multi-period excess earnings method of the income approach
Franchises	Multi-period excess earnings method of the income approach
Other intangible assets	Multi-period excess earnings method of the income approach
Licensed content	Net book value method
Licensed sports rights	Differential method, a form of the incremental income approach
Recovery rate for advertiser relationships	With-or-without method, a form of the income approach, recovery rate of 4 years
In-place advertising networks	With-or-without method, a form of the income approach
Subscriber relationships	Replacement cost method of the cost approach
Real estate, property and equipment	Cost approach or the income approach, which estimates the value of property based on the income it generates or the market approach, which determines values based on comparable assets purchased under similar conditions
Current and noncurrent debt assumed comprising existing debt of WM, the Term Loan, and the Notes	Quoted prices for identical or similar securities in active markets

The table below presents a summary of intangible assets acquired, exclusive of content assets, and the weighted average useful life of these assets.

	Fair Value	Weighted Average Useful Life in Years
Trade names	$ 21,084	25
Affiliate, advertising and subscriber relationships	14,700	6
Franchises	7,900	35
Other intangible assets	1,205	
Total intangible assets acquired	$ 44,889	

The Company incurred transaction-related costs of $59 million and $340 million for the three and nine months ended September 30, 2022, respectively. These costs were associated with legal and professional services and were recognized as operating expenses on the consolidated statement of operations. Additionally, the expense related to the issuance of additional shares of common stock in connection with the conversion of Advance/Newhouse Programming's Series A-1 Preferred Stock was $789 million and was recorded as a transaction expense in selling, general and administrative expense upon the closing of the Merger. (See Note 2.)

As a result of the Merger, WM's assets, liabilities, and operations were included in the Company's consolidated financial statements from the Closing Date. The following table presents WM revenue and earnings as reported within the consolidated financial statements (in millions).

	Three Months Ended June 30, 2022	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Revenues:			
Advertising	$ 1,163	$ 761	$ 1,924
Distribution	3,526	3,730	7,256
Content	2,835	3,147	5,982
Other	208	245	453
Total revenues	7,732	7,883	15,615
Inter-segment eliminations	(840)	(699)	(1,539)
Net revenues	$ 6,892	$ 7,184	$ 14,076
Net loss available to Warner Bros. Discovery, Inc.	$ (3,020)	$ (2,135)	$ (5,155)

Pro Forma Combined Financial Information

The following unaudited pro forma combined financial information presents the combined results of the Company and WM as if the Merger had been completed on January 1, 2021. The unaudited pro forma combined financial information is presented for informational purposes and is not indicative of the results of operations that would have been achieved if the Merger had occurred on January 1, 2021, nor is it indicative of future results. The following table presents the Company's pro forma combined revenues and net income (in millions).

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2021	2022	2021
Revenues	$ 10,980	$ 32,087	$ 32,913
Net loss available to Warner Bros. Discovery, Inc.	(659)	(4,132)	(2,795)

The unaudited pro forma combined financial information includes, where applicable, adjustments for (i) additional costs of revenues from the fair value step up of film and television library, (ii) additional amortization expense related to acquired intangible assets, (iii) additional depreciation expense from the fair value of property and equipment, (iv) transaction costs and other one-time non-recurring costs, (v) additional interest expense for borrowings related to the Merger and amortization associated with fair value adjustments of debt assumed, (vi) changes to align accounting policies, (vii) elimination of intercompany activity, and (viii) associated tax-related impacts of adjustments. These pro forma adjustments are based on available information as of the date hereof and upon assumptions that the Company believes are reasonable to reflect the impact of the Merger with WM on the Company's historical financial information on a supplemental pro forma basis. Adjustments do not include costs related to integration activities, cost savings or synergies that have been or may be achieved by the combined business.

Dispositions

In September 2022, the Company sold 75% of its interest in The CW Network to Nexstar Media Inc. (“Nexstar”), in exchange for Nexstar agreeing to fund a majority of The CW Network’s expenses and the retention of the Company’s share of certain receivables that existed prior to the transaction. There was no cash consideration exchanged in the transaction. The Company recorded an immaterial gain and retained a 12.5% ownership interest in The CW Network, which is accounted for as an equity method investment.

In April 2022, the Company completed the sale of its minority interest in Discovery Education for a sale price of $138 million and recorded a gain of $133 million.

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 and recorded a gain of $76 million.

NOTE 4. GOODWILL AND OTHER INTANGIBLE ASSETS

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	Studios	Networks	DTC	Total
December 31, 2021	$ 10,813	$ 2,099	$ —	$ —	$ —	$ 12,912
Segment recast (See Note 20)	(10,813)	(2,059)	—	10,555	2,317	—
Acquisitions (See Note 3)	—	—	8,938	7,015	5,909	21,862
Foreign currency translation and other	—	(40)	(16)	(220)	(48)	(324)
September 30, 2022	$ —	$ —	$ 8,922	$ 17,350	$ 8,178	$ 34,450

The Networks segment included accumulated goodwill impairments of $1.6 billion as of September 30, 2022 and December 31, 2021. The Studios and DTC segments did not include any accumulated goodwill impairments as of September 30, 2022 and December 31, 2021.

Intangible Assets

Finite-lived intangible assets consisted of the following (in millions, except years).

		September 30, 2022			December 31, 2021		
	Weighted Average Amortization Period (Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:							
Trademarks and trade names	32	$ 22,872	$ (1,246)	$ 21,626	$ 1,716	$ (858)	$ 858
Affiliate, advertising and subscriber relationships	8	23,927	(7,839)	16,088	9,433	(4,303)	5,130
Franchises	35	7,900	(108)	7,792	—	—	—
Character rights	14	995	(35)	960	—	—	—
Other	6	544	(266)	278	395	(227)	168
Total		$ 56,238	$ (9,494)	$ 46,744	$ 11,544	$ (5,388)	$ 6,156

Amortization expense relating to finite-lived intangible assets was $1,937 million and $266 million for the three months ended September 30, 2022 and 2021, respectively, and $4,376 million and $814 million for the nine months ended September 30, 2022 and 2021, respectively.

Amortization expense relating to intangible assets subject to amortization for each of the next five years and thereafter is estimated to be as follows (in millions).

	Remaining 2022	2023	2024	2025	2026	Thereafter
Amortization expense	$ 1,845	$ 6,479	$ 4,967	$ 3,595	$ 2,592	$ 27,266

Indefinite-lived intangible assets not subject to amortization (in millions):

	September 30, 2022	December 31, 2021
Trademarks	$ —	$ 161

Impairment Analysis

During the second quarter of 2022, the Company performed a qualitative goodwill impairment assessment for all reporting units in conjunction with the change in its segment presentation, and determined that it was more likely than not that the fair value of those reporting units exceeded their carrying values; therefore, no quantitative goodwill impairment analysis was performed. Due to global macro-economic conditions, the Company will continue to monitor its reporting units for changes that could impact recoverability.

NOTE 5. RESTRUCTURING AND OTHER CHARGES

In connection with the Merger, the Company has announced and has taken actions to implement projects to achieve cost synergies for the Company. The Company finalized the framework supporting its ongoing restructuring and transformation initiatives during the three months ended September 30, 2022, which will include, among other things, strategic content programming assessments, organization restructuring, facility consolidation activities, and other contract termination costs. While the Company's restructuring efforts are ongoing, including the strategic analysis of content programming, the restructuring program is expected to be substantially completed by the end of 2024.

Restructuring and other charges by reportable segments and corporate were as follows (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Studios	$ 562	$ —	$ 762	$ —
Networks	354	6	666	27
DTC	517	1	992	2
Corporate	93	—	162	—
Inter-segment eliminations	(5)	—	(23)	—
Total restructuring and other charges	$ 1,521	$ 7	$ 2,559	$ 29

Total restructuring charges for the three months ended September 30, 2022 included content impairments of $891 million, organization restructuring costs of $238 million, other content development costs and write-offs of $377 million, and contract terminations costs of $15 million, and for the nine months ended September 30, 2022 included content impairments of $1,392 million, organization restructuring costs of $446 million, other content development costs and write-offs of $706 million, and contract terminations costs of $15 million.

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

	U.S. Networks	International Networks	Studios	Networks	DTC	Corporate and Inter-Segment Eliminations	Total
December 31, 2021	$ 4	$ 13	$ —	$ —	$ —	$ 2	$ 19
Segment recast (See Note 20)	(4)	(13)	—	15	—	2	—
Acquisitions (See Note 3)	—	—	40	—	14	55	109
Employee termination accruals, net	—	—	88	95	45	218	446
Cash paid	—	—	(19)	(15)	(13)	(48)	(95)
September 30, 2022	$ —	$ —	$ 109	$ 95	$ 46	$ 229	$ 479

NOTE 6. REVENUES

The following table presents the Company's revenues disaggregated by revenue source (in millions).

	Three Months Ended September 30, 2022				
	Studios	Networks	DTC	Corporate and Inter-segment Eliminations	Total
Revenues:					
Advertising	$ 8	$ 1,944	$ 106	$ (16)	$ 2,042
Distribution	4	2,924	2,062	—	4,990
Content	2,884	277	145	(775)	2,531
Other	192	69	4	(5)	260
Total	$ 3,088	$ 5,214	$ 2,317	$ (796)	$ 9,823

	Three Months Ended September 30, 2021				
	Studios	Networks	DTC	Corporate and Inter-segment Eliminations	Total
Revenues:					
Advertising	$ —	$ 1,416	$ 37	$ —	$ 1,453
Distribution	—	1,118	210	—	1,328
Content	6	339	7	—	352
Other	—	16	1	—	17
Total	$ 6	$ 2,889	$ 255	$ —	$ 3,150

	Nine Months Ended September 30, 2022				
	Studios	Networks	DTC	Corporate and Inter-segment Eliminations	Total
Revenues:					
Advertising	$ 18	$ 5,998	$ 248	$ (25)	$ 6,239
Distribution	8	6,885	4,287	—	11,180
Content	5,525	813	279	(1,699)	4,918
Other	338	133	9	(8)	472
Total	$ 5,889	$ 13,829	$ 4,823	$ (1,732)	$ 22,809

	Nine Months Ended September 30, 2021				
	Studios	Networks	DTC	Corporate and Inter-segment Eliminations	Total
Revenues:					
Advertising	$ —	$ 4,409	$ 87	$ —	$ 4,496
Distribution	—	3,399	499	—	3,898
Content	13	541	10	—	564
Other	—	44	2	—	46
Total	$ 13	$ 8,393	$ 598	$ —	$ 9,004

Reserves for Credit Losses

Reserves for accounts receivable reflect expected credit losses, which are estimated based on historical experience, as well as current and expected economic conditions and industry trends. The allowance for credit losses was $126 million at September 30, 2022 and $54 million at December 31, 2021. The increase was primarily attributable to the acquisition of existing WM receivables in the Merger with WM. The corresponding expense for the expected credit losses is reflected in selling, general and administrative expenses.

Contract Assets and Liabilities

A contract asset is recorded when revenue is recognized in advance of the Company's right to bill and receive consideration and that right is conditioned upon something other than the passage of time. A contract liability, such as deferred revenue, is recorded when the Company has recorded billings in conjunction with its contractual right or when cash is received in advance of the Company's performance.

The following table presents contract assets and liabilities on the consolidated balance sheets (in millions).

Category	Balance Sheet Location	September 30, 2022	December 31, 2021
Contract assets	Prepaid expenses and other current assets	$ 15	$ —
Contract assets	Other noncurrent assets	32	—
Contract liabilities	Deferred revenues	1,688	478
Contract liabilities	Other noncurrent liabilities	296	95

The change in deferred revenue for the nine months ended September 30, 2022 primarily reflects an increase of $1,476 million related to the Merger and cash payments received for which the performance obligation was not satisfied prior to the end of the period, partially offset by $376 million of revenues recognized that were included in the deferred revenue balance at December 31, 2021. Revenue recognized for the nine months ended September 30, 2021 related to the deferred revenue balance at December 31, 2020 was $414 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 $4.9 billion as of September 30, 2022 and is expected to be recognized over the next seven years.

The Company's content licensing contracts and sports sublicensing deals are licenses of functional intellectual property. The transaction price allocated to remaining performance obligations on these contracts was $5.3 billion as of September 30, 2022 and is expected to be recognized over the next eight years.

The Company's brand licensing contracts are licenses of symbolic intellectual property. The transaction price allocated to remaining performance obligations on these contracts was $2.4 billion as of September 30, 2022 and is expected to be recognized over the next 21 years.

The Company's advertising contracts are principally generated from the sale of advertising campaigns comprised of multiple commercial units. In contracts with guaranteed impressions, we have identified the overall advertising campaign as the performance obligation to be satisfied over time, and impressions delivered against the satisfaction of our guarantee as the measure of progress. Certain of these arrangements extend beyond one year. The transaction price allocated to remaining performance obligations on these long-term contracts was $569 million as of September 30, 2022 and is expected to be recognized over the next three 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 sales or usage-based royalty exception, and (ii) contracts with an original expected length of one year or less, such as most advertising contracts; however for content licensing revenues, including revenues associated with the licensing of theatrical and television product for television and streaming services, the Company has included all contracts regardless of duration.

NOTE 7. SALES OF RECEIVABLES

Revolving Receivables Program

The Company has a revolving agreement to transfer up to $5,700 million of certain receivables through its bankruptcy-remote subsidiary Warner Bros. Discovery Receivables Funding, LLC to various financial institutions on a recurring basis in exchange for cash equal to the gross receivables transferred. The Company services sold receivables for a fee and pays fees to the financial institution in connection with this revolving agreement. This agreement is subject to renewal on an annual basis and the transfer limit may be expanded or reduced from time to time. As customers pay their balances, the Company’s available capacity under this revolving agreement increases and typically the Company transfers additional receivables into the program. Our bankruptcy-remote consolidated subsidiary held $3,242 million of pledged receivables as of September 30, 2022 in connection with this revolving agreement. The gross value of the proceeds received results in derecognition of receivables and the obligations assumed are recorded at fair value. The obligations assumed when proceeds are received relate to expected credit losses on sold receivables and estimated fee payments made on outstanding sold receivables already transferred. The obligations are subsequently adjusted for changes in estimated expected credit losses and interest rates, which are considered Level 3 fair value measurements since the inputs are unobservable. In some cases, the Company may have collections that have not yet been remitted to the bank, resulting in a liability. For the three and nine months ended September 30, 2022, the Company has recognized a $93 million and $134 million net loss in selling, general and administrative expense from the revolving receivables program in the consolidated statements of operations, respectively. The outstanding portfolio of receivables derecognized from our consolidated balance sheets was $5,191 million as of September 30, 2022.

The following table presents a summary of receivables sold (in millions).

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Gross receivables sold/cash proceeds received	$ 3,283	$ 6,488
Collections reinvested under revolving agreement	(3,792)	(7,297)
Net cash proceeds received [(a)]	$ (509)	$ (809)
Net receivables sold	$ 3,272	$ 6,470
Obligations recorded	$ 129	$ 227

[(a)] Includes the collections on receivables sold but not remitted of $236 million at period end.

The following table presents a summary of the amounts transferred or pledged (in millions):

	September 30, 2022
Gross receivables pledged as collateral	$ 3,242
Balance sheet classification:	
Receivables, net	$ 3,041
Other noncurrent assets	$ 201

Accounts Receivable Factoring

The Company has a factoring agreement to sell certain of its non-U.S. trade accounts receivable on a non-recourse basis to a third-party financial institution. The Company accounts for these transactions as sales in accordance with ASC 860, “Transfers and Servicing”, when its continuing involvement subsequent to the transfer is limited to providing certain servicing and collection actions on behalf of the purchaser of the designated trade accounts receivable. Proceeds from amounts factored are recorded as an increase to cash and cash equivalents and a reduction to receivables, net in the consolidated balance sheets. Cash received is also reflected as cash provided by operating activities in the consolidated statements of cash flows. Total trade accounts receivable sold under the factoring arrangements was $38 million as of September 30, 2022. The impact to the consolidated statements of operations was immaterial for the three and nine months ended September 30, 2022. This accounts receivable factoring agreement is separate and distinct from the revolving receivables program.

NOTE 8. CONTENT RIGHTS

For purposes of amortization and impairment, capitalized content costs are grouped based on their predominant monetization strategy: individually or as a group. Programming rights include internally developed and licensed content predominately monetized as a group by our Networks and DTC segments. The table below presents the components of content rights (in millions).

	September 30, 2022		
	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Theatrical film production costs:			
Released, less amortization	$ 3,196	$ —	$ 3,196
Completed and not released	588	—	588
In production	1,875	—	1,875
Development and pre-production	96	—	96
Television production costs:			
Released, less amortization	908	6,560	7,468
Completed and not released	978	491	1,469
In production	453	3,773	4,226
Development and pre-production	45	20	65
Total theatrical film and television production costs	$ 8,139	$ 10,844	$ 18,983
Programming rights, less amortization			9,196
Game development costs, less amortization			724
Total film and television content rights and games			28,903
Less: Current content rights and prepaid license fees, net			(615)
Total noncurrent film and television content rights and games, net			$ 28,288

	December 31, 2021		
	Predominantly Monetized Individually	Predominantly Monetized as a Group	Total
Theatrical film production costs:			
Released, less amortization	$ —	$ —	$ —
Completed and not released	—	—	—
In production	—	—	—
Development and pre-production	—	—	—
Television production costs:			
Released, less amortization	9	2,432	2,441
Completed and not released	—	—	—
In production	—	770	770
Development and pre-production	—	17	17
Total theatrical film and television production costs	$ 9	$ 3,219	$ 3,228
Programming rights, less amortization			849
Game development costs, less amortization			—
Total film and television content rights			4,077
Less: Current content rights and prepaid license fees, net			(245)
Total noncurrent film and television content rights, net			$ 3,832

Content expense consisted of the following (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Monetized individually				
Content amortization	$ 1,357	$ 469	$ 3,534	$ 518
Content impairments	322	—	416	—
Total content expense monetized individually	$ 1,679	$ 469	$ 3,950	$ 518
Monetized as a group				
Content amortization	$ 2,584	$ 748	$ 6,492	$ 2,214
Content impairments	587	2	999	3
Total content expense monetized as a group	$ 3,171	$ 750	$ 7,491	$ 2,217
Total content expense	$ 4,850	$ 1,219	$ 11,441	$ 2,735

Content expense includes amortization, impairments, and development expense and is generally a component of costs of revenues on the consolidated statements of operations. Content impairments for the three and nine months ended September 30, 2022 of $891 million and $1,392 million, respectively, and content development write-offs for the three and nine months ended September 30, 2022 of $234 million and $563 million, respectively, were due to the abandonment of certain content categories in connection with the strategic realignment of content following the Merger and are reflected in restructuring and other charges in the Studios, Networks and DTC segments. No content impairments were recorded as a component of restructuring and other charges for the three and nine months ended September 30, 2021.

Other content development costs not previously capitalized as content assets for the three and nine months ended September 30, 2022 were $220 million and $292 million, respectively, of which $143 million for the three and nine months ended September 30, 2022 was due to the abandonment of certain content categories in connection with the strategic realignment of content following the Merger and is reflected in restructuring and other charges in the Studios, Networks, and DTC segments.

NOTE 9. INVESTMENTS

The Company’s equity investments consisted of the following, net of investments recorded in other noncurrent liabilities (in millions).

Category	Balance Sheet Location	Ownership	September 30, 2022	December 31, 2021
Equity method investments:				
The Chernin Group (TCG) 2.0-A, LP	Other noncurrent assets	44%	$ 327	$ —
nC+	Other noncurrent assets	32%	115	151
Other	Other noncurrent assets		703	390
Total equity method investments			1,145	541
Investments with readily determinable fair values	Other noncurrent assets		36	80
Investments with readily determinable fair values	Prepaid expenses and other current assets		—	40
Total investments with readily determinable fair values			36	120
Investments without readily determinable fair values	Other noncurrent assets		635	496
Total investments			$ 1,816	$ 1,157

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 or the entity is not a VIE and the Company does not have a controlling financial interest. In connection with the Merger, the Company acquired $807 million of equity method investments. Impairment losses are recorded in loss from equity investees, net on the consolidated statements of operations. Impairment losses for the three and nine months ended September 30, 2022 were not material.

During the three months ended September 30, 2022, the Company entered into an agreement with British Telecommunications Plc (“BT”) to form a 50:50 joint venture to create a new premium sports offering for the United Kingdom and Ireland, with each party directly contributing or sublicensing its respective operating business and related sports rights and distribution to the joint venture. The Company has determined the joint venture is a VIE, as the Company and BT have equal governance and voting rights and the Company’s 50% equity interest in the joint venture gives it the ability to exercise significant influence over the entity’s operating and financial policies; however, BT is the primary beneficiary given its disproportionate share of earnings compared to its voting rights during the first four years of the joint venture. Accordingly, the Company accounts for its investment in the joint venture as an equity method investment. Additionally, the Company has a call option to obtain the remaining 50% equity interest in September 2024 and September 2026, at the then fair market value plus the expected earnings that BT would have received in the two years following the call option.

Certain of the Company's other equity method investments are VIEs, for which the Company is not the primary beneficiary. As of September 30, 2022, the Company’s maximum exposure for all of its unconsolidated VIEs, including the investment carrying values and unfunded contractual commitments made on behalf of VIEs, was approximately $867 million. The Company's maximum estimated exposure excludes the non-contractual future funding of VIEs. The aggregate carrying values of these VIE investments were $827 million as of September 30, 2022 and $126 million as of December 31, 2021. VIE gains and losses are recorded in loss from equity investees, net on the consolidated statements of operations, and were not material for the three and nine months ended September 30, 2022 and 2021.

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 (expense) income, net on the consolidated statements of operations.

The gains and losses related to the Company's investments with readily determinable fair values for the three and nine months ended September 30, 2022 and 2021 are summarized in the table below (in millions).

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net (losses) gains recognized during the period on equity securities	$ (9)	$ (31)	$ (70)	$ 31
Less: Net gains recognized on equity securities sold	—	—	—	16
Unrealized (losses) gains recognized during reporting period on equity securities still held at the reporting date	$ (9)	$ (31)	$ (70)	$ 15

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.

In connection with the Merger, the Company acquired $156 million in equity method investments without readily determinable fair values. During the nine months ended September 30, 2022, the Company did not invest in any material equity investments without readily determinable fair values and concluded there were no indicators that a change in fair value had taken place. As of September 30, 2022, the Company had recorded cumulative upward adjustments of $9 million and cumulative impairments of $88 million for its equity investments without readily determinable fair values.

NOTE 10. DEBT

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

	Weighted-Average Interest Rate as of September 30, 2022	September 30, 2022	December 31, 2021
Term loans with maturities of 3 years or less	3.83 %	$ 4,000	$ —
Floating rate senior notes with maturities of 5 years or less	4.71 %	500	—
Senior notes with maturities of 5 years or less	3.62 %	13,627	4,314
Senior notes with maturities between 5 and 10 years	4.25 %	10,373	4,128
Senior notes with maturities greater than 10 years	5.11 %	21,644	6,745
Total debt		50,144	15,187
Unamortized discount, premium, debt issuance costs, and fair value adjustments for acquisition accounting, net		(275)	(428)
Debt, net of unamortized discount, premium, debt issuance costs, and fair value adjustments for acquisition accounting		49,869	14,759
Current portion of debt		(1,257)	(339)
Noncurrent portion of debt		$ 48,612	$ 14,420

During the three months ended September 30, 2022, the Company repaid $2.5 billion of aggregate principal amount outstanding of its term loan prior to its due date of April 2025.

During the three months ended June 30, 2022, the Company repaid $3.5 billion of aggregate principal amount outstanding of its term loans prior to the due dates of October 2023 and April 2025. The Company also assumed $41.5 billion of senior notes (at par value) and term loans during the Merger.

During the three months ended March 31, 2022, the Company repaid in full at maturity $327 million aggregate principal amount outstanding of its 2.375% Euro Denominated Senior Notes due March 2022.

During the three months ended September 30, 2021, the Company redeemed in full $168 million aggregate principal amount outstanding of its 3.300% Senior Notes due May 2022 and $62 million aggregate principal amount outstanding of its 3.500% Senior Notes due June 2022. In the first quarter of 2021, the Company redeemed in full $335 million aggregate principal amount outstanding of its 4.375% Senior Notes due June 2021.

The redemptions during 2022 and 2021 resulted in an immaterial loss on extinguishment of debt.

As of September 30, 2022, all senior notes are fully and unconditionally guaranteed by the Company, Scripps Networks Interactive, Inc. ("Scripps Networks"), Discovery Communications, LLC ("DCL") (to the extent it is not the primary obligor on such senior notes), and WarnerMedia Holdings, Inc. (to the extent it is not the primary obligor on such senior notes), except for $1.5 billion of senior notes of the legacy WarnerMedia Business assumed by the Company in connection with the Merger and $23 million of un-exchanged senior notes issued by Scripps Networks. Additionally, the term loans of WarnerMedia Holdings, Inc., made under the $10.0 billion term loan credit agreement (the "Term Loan Credit Agreement"), are fully and unconditionally guaranteed by the Company, Scripps Networks, and DCL.

Revolving Credit Facility and Commercial Paper Programs

In June 2021, DCL entered into a multicurrency revolving credit agreement (the "Revolving Credit Agreement"), replacing the existing $2.5 billion credit agreement, dated February 4, 2016, as amended. Following the Merger, DCL has the capacity to borrow up to $6.0 billion under the Revolving Credit Agreement (the "Credit Facility"). The Revolving Credit Agreement includes a $150 million sublimit for the issuance of standby letters of credit. DCL may also request additional commitments up to $1.0 billion from the lenders upon satisfaction of certain conditions. Obligations under the Revolving Credit Agreement are unsecured and are fully and unconditionally guaranteed by the Company, Scripps Networks, and WarnerMedia Holdings, Inc. The Credit Facility 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 Revolving Credit Agreement contains customary representations and warranties as well as affirmative and negative covenants.

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 effectively reduced by any outstanding borrowings under the commercial paper program.

As of September 30, 2022 and December 31, 2021, the Company had no outstanding borrowings under the Credit Facility or the commercial paper program.

Credit Agreement Financial Covenants

The Revolving Credit Agreement and Term Loan Credit Agreement (together, the "Credit Agreements") include 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 5.75 to 1.00 following the closing of the Merger, 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. As of September 30, 2022, DCL and WarnerMedia Holdings, Inc. were in compliance with all covenants and there were no events of default under the Credit Agreements.

NOTE 11. LEASES

The Company has operating and finance leases for transponders, office space, studio facilities, and other equipment. Our leases have remaining lease terms of up to 30 years, some of which include options to extend the leases for up to 10 years. Most leases are not cancelable prior to their expiration. In connection with the Merger, the Company acquired $2,493 million and $47 million of operating and finance lease right-of-use assets, respectively.

The components of lease cost were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease cost	$ 116	$ 25	$ 254	$ 78
Finance lease cost:				
Amortization of right-of-use assets	$ 21	$ 16	$ 58	$ 44
Interest on lease liabilities	2	2	6	6
Total finance lease cost	$ 23	$ 18	$ 64	$ 50
Variable lease cost	$ 43	$ 2	$ 50	$ 6
Total lease cost	$ 182	$ 45	$ 368	$ 134

Supplemental cash flow information related to leases was as follows (in millions):

	Nine Months Ended September 30,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ (250)	$ (86)
Operating cash flows from finance leases	$ (11)	$ (6)
Financing cash flows from finance leases	$ (54)	$ (49)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 428	$ 39
Finance leases	$ 30	$ 87

Supplemental balance sheet information related to leases was as follows (in millions):

Category	Location on Balance Sheet	September 30, 2022	December 31, 2021
Operating Leases			
Operating lease right-of-use assets	Other noncurrent assets	$ 3,222	$ 535
Operating lease liabilities (current)	Accrued liabilities	$ 337	$ 62
Operating lease liabilities (noncurrent)	Other noncurrent liabilities	3,003	567
Total operating lease liabilities		$ 3,340	$ 629
Finance Leases			
Finance lease right-of-use assets	Property and equipment, net	$ 246	$ 249
Finance lease liabilities (current)	Accrued liabilities	$ 81	$ 58
Finance lease liabilities (noncurrent)	Other noncurrent liabilities	187	197
Total finance lease liabilities		$ 268	$ 255

	September 30, 2022	December 31, 2021
Weighted average remaining lease term (in years):		
Operating leases	12	12
Finance leases	5	5
Weighted average discount rate:		
Operating leases	4.10 %	2.94 %
Finance leases	3.19 %	3.57 %

Maturities of lease liabilities as of September 30, 2022 were as follows (in millions):

	Operating Leases	Finance Leases
2022 (excluding the three quarters ended September 30, 2022)	$ 173	$ 74
2023	450	70
2024	407	55
2025	354	34
2026	323	25
Thereafter	2,610	31
Total lease payments	4,317	289
Less: Imputed interest	(977)	(21)
Total	$ 3,340	$ 268

As of September 30, 2022, the Company has additional leases that have not yet commenced with total minimum lease payments of $477 million, primarily related to facility leases. The remaining leases will commence between 2022 and 2023, have lease terms of 3 to 17 years, and include options to extend the terms for up to 10 additional years.

NOTE 12. 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.

Cash Flow Hedges

On January 1, 2022, the Company discontinued hedge accounting for certain forward starting interest rate swap contracts with a total notional value of $2 billion. The Company previously recognized a gain of $33 million in accumulated other comprehensive loss that will be amortized as an adjustment to interest expense, net over the respective terms of future issuances of debt. Subsequently, the Company unwound and settled the contracts and received cash of $122 million, including an $89 million realized gain for changes in fair market value between the dedesignation date and settlement date that was recognized in other (expense) income, net in the consolidated statements of operations.

In connection with the Merger, the Company acquired two cash flow hedging programs to mitigate foreign currency risk including $922 million notional of production expense hedges and $776 million notional of production rebate hedges. These cash flow hedging programs are carried at fair market value using the spot method, with fair market value changes recorded in other comprehensive income until the production is released. Excluded components of the fair market value, including forward points, are included in current earnings.

During the three months ended September 30, 2022, the Company executed a fixed-to-fixed cross-currency swap with a total notional value of $435 million and an expiration date of 2024 to mitigate foreign currency risk associated with the Company’s British pound sterling (“GBP”) denominated debt, which was previously designated as a net investment hedge prior to the execution of this cash flow hedge.

Net Investment Hedges

During the three months ended March 31, 2022, the Company dedesignated, unwound, and settled certain fixed-to-fixed cross-currency swaps with a total notional value of $705 million associated with the Company's Euro functional subsidiaries. The Company recognized a realized gain of $10 million related to the excluded component of the hedge relationship in other (expense) income, net in the consolidated statements of operations, and recognized a gain of $6 million in accumulated other comprehensive loss.

Also during the three months ended March 31, 2022, the Company executed cross currency swaps with a notional value of $664 million with expiration dates in 2025 to replace the aforementioned swaps that matured.

During the three months ended June 30, 2022, the Company unwound and settled certain cross-currency swaps with a total notional value of $2 billion and recorded a gain of $78 million.

During the three months ended September 30, 2022, the Company executed a fixed-to-fixed cross-currency swap with a total notional value of $194 million and an expiration date of 2024 to mitigate foreign currency risk associated with the Company’s Euro functional subsidiaries.

The Company previously designated its GBP-denominated debt as the hedging instrument in a net investment hedge of the variability in the value of its GBP-functional subsidiaries due to fluctuations in foreign currency exchange rates. During the three months ended September 30, 2022, the Company dedesignated the GBP-denominated debt net investment hedge. Contemporaneously, the Company entered into the aforementioned fixed-to-fixed cross-currency swap and designated it as the hedging instrument in a cash flow hedge of functional-currency equivalent cash flows associated with its GBP-denominated debt between the designation date and September 2024, the maturity date of the GBP-denominated debt.

In connection with the Merger, the Company also acquired $173 million of Euro denominated debt that is designated as the hedging instrument in a net investment hedge of the variability in the value of its Euro-functional subsidiaries with all foreign exchange spot changes accounted for as currency translation adjustments.

No Hedging Designation

During the three months ended March 31, 2022, the Company dedesignated, unwound and settled 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. The Company received cash of $474 million upon settlement, including $142 million in premiums paid at execution during 2021, resulting in a gain of $332 million that was recognized in other (expense) income, net in the consolidated statements of operations.

Also during the three months ended March 31, 2022, the Company executed and subsequently settled treasury locks with a total notional value of $14.5 billion. The Company received cash of $90 million upon settlement, resulting in a gain of $90 million that was recognized in other (expense) income, net in the consolidated statements of operations.

Finally, during the three months ended March 31, 2022, the Company unwound and settled a foreign exchange forward contract with a notional value of $375 million associated with the Company's Euro denominated debt that was paid in full at maturity. The Company recognized a loss of $48 million in other (expense) income, net in the consolidated statements of operations.

In connection with the Merger, the Company acquired $322 million of economic hedges to mitigate foreign currency risk for production expenses that are not designated for hedge accounting. The fair market value changes of these derivatives are expensed to other (expense) income, net.

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, 2022 and December 31, 2021. The fair value of the Company's derivative financial instruments was determined using a market-based approach (Level 2).

	September 30, 2022					December 31, 2021				
		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	$ 1,649	$ 42	$ 79	$ 82	$ 33	$ 777	$ 14	$ —	$ 2	$ —
Interest rate swaps	—	—	—	—	—	2,000	44	—	11	—
Cross-currency swaps	435	3	14	—	—	—	—	—	—	—
Net investment hedges: [(a)]										
Cross-currency swaps	1,651	19	14	—	104	3,512	54	61	20	76
No hedging designation:										
Foreign exchange	906	6	1	3	118	1,020	—	—	34	66
Interest rate swaps	—	—	—	—	—	15,000	126	28	9	5
Cross-currency swaps	139	3	9	—	—	139	3	—	—	5
Total		$ 73	$ 117	$ 85	$ 255		$ 241	$ 89	$ 76	$ 152

[(a)] Excludes €164 million of euro-denominated notes ($160 million equivalent at September 30, 2022) designated as net investment hedges and £400 million of sterling notes designated as net investment hedges at December 31, 2021 (dedesignated during the three months ended September 30, 2022). (See Note 10.)

The following table presents the pre-tax 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,	
	2022	2021	2022	2021
Gains (losses) recognized in accumulated other comprehensive loss:				
Foreign exchange - derivative adjustments	$ 30	$ 15	$ 10	$ 45
Interest rate - derivative adjustments	—	3	—	129
Gains (losses) reclassified into income from accumulated other comprehensive loss:				
Foreign exchange - advertising revenue	—	1	1	1
Foreign exchange - distribution revenue	(2)	2	—	1
Foreign exchange - costs of revenues	8	—	27	—
Interest rate - interest expense, net	—	—	(1)	(1)

If current fair values of designated cash flow hedges as of September 30, 2022 remained static over the next twelve months, the Company would reclassify $1 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 33 years.

The following table presents the pre-tax 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, 2022 and 2021.

	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)	
	2022	2021		2022	2021
Cross currency swaps	$ (63)	$ 46	Interest expense, net	$ 5	$ 10
Foreign exchange contracts	—	4	Other (expense) income, net	—	—
Euro-denominated notes (foreign denominated debt)	13	—	N/A	—	—
Sterling notes (foreign denominated debt)	58	14	N/A	—	—
Total	$ 8	$ 64		$ 5	$ 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)	
	2022	2021		2022	2021
Cross currency swaps	$ 8	$ 93	Interest expense, net	$ 27	$ 31
Foreign exchange contracts	—	4	Other (expense) income, net	—	—
Euro denominated notes (foreign denominated debt)	19	—	N/A	—	—
Sterling notes (foreign denominated debt)	112	6	N/A	—	—
Total	$ 139	$ 103		$ 27	$ 31

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest rate swaps	$ —	$ 106	$ 512	$ 106
Cross-currency swaps	5	2	12	8
Foreign exchange derivatives	(24)	(20)	(70)	(47)
Total in other (expense) income, net	$ (19)	$ 88	$ 454	$ 67

NOTE 13. 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, 2022			
Category	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Assets					
Cash equivalents:					
Time deposits	Cash and cash equivalents	$ —	$ 47	$ —	$ 47
Equity securities:					
Mutual funds	Prepaid expenses and other current assets	13	—	—	13
Company-owned life insurance contracts	Prepaid expenses and other current assets	—	1	—	1
Mutual funds	Other noncurrent assets	225	—	—	225
Company-owned life insurance contracts	Other noncurrent assets	—	96	—	96
Total		$ 238	$ 144	$ —	$ 382
Liabilities					
Deferred compensation plan	Accrued liabilities	$ 71	$ —	$ —	$ 71
Deferred compensation plan	Other noncurrent liabilities	576	—	—	576
Total		$ 647	$ —	$ —	$ 647

		December 31, 2021			
Category	**Balance Sheet Location**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Cash equivalents:					
Time deposits	Cash and cash equivalents	$ —	$ 426	$ —	$ 426
Equity securities:					
Money market funds	Cash and cash equivalents	425	—	—	425
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	215	—	—	215
Company-owned life insurance contracts	Other noncurrent assets	—	32	—	32
Total		$ 652	$ 459	$ —	$ 1,111
Liabilities					
Deferred compensation plan	Accrued Liabilities	$ 21	$ —	$ —	$ 21
Deferred compensation plan	Other noncurrent liabilities	238	—	—	238
Total		$ 259	$ —	$ —	$ 259

Equity securities include money market funds, 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 recorded in other (expense) income, net and changes in the deferred compensation liability are recorded in selling, general and administrative expense. 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, term loans, and senior notes. The carrying values for such financial instruments, other than the senior notes, each approximated their fair values as of September 30, 2022 and December 31, 2021. The estimated fair value of the Company’s outstanding senior notes using quoted prices from over-the-counter markets, considered Level 2 inputs, was $38.2 billion and $17.2 billion as of September 30, 2022 and December 31, 2021, respectively.

The Company's derivative financial instruments are discussed in Note 12, its investments with readily determinable fair value are discussed in Note 9, and the obligation for its revolving receivable program is discussed in Note 7.

NOTE 14. 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. In connection with the Merger, AT&T RSUs subject to time based vesting held by WM employees were replaced with WBD RSUs granted on comparable terms upon closing of the Merger, increasing RSU expense, grants and unrecognized compensation expense for the three and nine months ended September 30, 2022 compared to the three and nine months ended September 30, 2021.

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,	
	2022	2021	2022	2021
PRSUs	$ —	$ (2)	$ 2	$ 10
RSUs	91	29	257	80
Stock options	15	17	56	43
SARs	1	(5)	2	1
Total share-based compensation expense	$ 107	$ 39	$ 317	$ 134
Tax benefit recognized	$ 20	$ 6	$ 60	$ 21

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

	Nine Months Ended September 30, 2022	
	Awards	Weighted-Average Grant Price
Awards granted:		
PRSUs	0.4	$ 28.11
RSUs	32.3	$ 24.04
Stock options	0.4	$ 32.90

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, 2022 (in millions, except years).

	Unrecognized Compensation Cost	Weighted-Average Amortization Period (years)
PRSUs	$ 1	0.3
RSUs	591	2.4
Stock options	172	3.5
Total unrecognized compensation cost	$ 764	

Of the $591 million of unrecognized compensation cost related to RSUs, $38 million is related to cash-settled RSUs. Stock-settled RSUs are expected to be recognized over a weighted-average period of 2.2 years and cash-settled RSUs are expected to be recognized over a weighted-average period of 2.6 years.

NOTE 15. INCOME TAXES

The income tax balances as of September 30, 2022 are inclusive of the WM Business as a result of the Merger. Income tax benefit was $566 million and $1,201 million for the three and nine months ended September 30, 2022, respectively, and income tax expense was $36 million and $144 million for the three and nine months ended September 30, 2021, respectively. The decrease in the three and nine months ended September 30, 2022 was primarily attributable to a decrease in pre-tax book income, and to a smaller extent, an uncertain tax benefit remeasurement recorded in the three months ended September 30, 2022 as a result of a multi-year tax audit agreement. These decreases are partially offset by an unfavorable tax adjustment related to the 2022 preferred stock conversion transaction expense discussed in Note 2, which was not deductible for tax purposes, and the effect of foreign operations, which included taxation and allocation of income and losses among multiple foreign jurisdictions. The decrease in the nine months ended September 30, 2022 was further offset by a deferred tax benefit of $151 million recorded in the nine months ended September 30, 2021 as a result of the UK Finance Act 2021 that was enacted in June 2021.

Income tax benefit for the three and nine months ended September 30, 2022 reflects an effective income tax rate that differs from the federal statutory tax rate primarily attributable to the effect of foreign operations, state and local income taxes, and the non-tax deductible preferred stock conversion transaction expense discussed above.

On April 8, 2022, the Company completed its merger with the WM business. In connection with the merger, the Company entered into a tax matters agreement ("TMA") with AT&T. Pursuant to the TMA, the Company is responsible for tax liabilities related to the periods prior to AT&T's ownership of the business (June 14, 2018), and AT&T is responsible for tax liabilities related to the period for which they owned the business (June 15, 2018 through April 8, 2022). The Company is fully indemnified by AT&T for any tax liabilities arising for the period June 15, 2018 through April 8, 2022. As of September 30, 2022, the Company has recorded reserves for uncertain tax positions and the associated interest and penalties payable related to WM of $1,201 million and $260 million, respectively, through purchase accounting. Indemnification receivables of $381 million were also recorded through purchase accounting during the nine months ended September 30, 2022.

With respect to uncertain tax positions related to jurisdictions that have joint and several liability among members of the AT&T tax filing group during the AT&T ownership period, the Company recognizes only the amount they expect to pay to the taxing authorities after considering the contractual indemnification agreement with AT&T and AT&T's ability to settle any disputed positions with the taxing authorities. As of September 30, 2022, the Company has not recorded any liabilities for uncertain tax positions or indemnification receivables related to matters that were attributable to jurisdictions that have joint and several liability among members of the AT&T filing group since AT&T was determined to be the primary obligor.

As of September 30, 2022 and December 31, 2021, the Company's reserves for uncertain tax positions totaled $1,723 million and $420 million, respectively. The increase in the reserve for uncertain tax positions at September 30, 2022 is primarily attributable to the Merger. 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 $261 million within the next twelve months as a result of ongoing audits, lapses of statutes of limitations or regulatory developments.

As of September 30, 2022 and December 31, 2021, the Company had accrued approximately $334 million and $60 million, respectively, of total interest and penalties payable related to unrecognized tax benefits. The increase in the accrual for interest and penalties payable at September 30, 2022 is primarily attributable to the Merger. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

In August 2022, the U.S. government enacted the Inflation Reduction Act ("IRA") which, among other changes, created a new corporate alternative minimum tax ("CAMT") of 15% for corporations whose average annual adjusted financial statement income for any consecutive 3 tax year periods ending after December 31, 2021 and preceding the tax year exceeds $1 billion, and a 1% excise tax on stock repurchases made by publicly traded U.S. corporations. The effective date of these provisions is January 1, 2023. The Company will continue to monitor for additional guidance issued with respect to the IRA to determine whether there is a material impact to the Company's financial statements.

NOTE 16. BENEFIT PLANS

The Company has a defined benefit pension plan that covers certain U.S.-based employees and a non-qualified unfunded Supplemental Executive Retirement Plan that provides defined pension benefits to eligible executives. In connection with the Merger, the Company also assumed four additional U.S. nonqualified pension plans that are noncontributory and unfunded and several non-U.S. pension plans. The four U.S. plans consist of the Time Warner Excess Benefit Plan (the "Excess plan"), the Retirement Accumulation Plan ("RAP"), the Supplemental Executive Retirement Plan ("SERP") and the Wealth Accumulation Plan ("WAP") (together, the "U.S. Nonqualified Plans"). The U.S. Nonqualified Plans were closed to new entrants during 2010. The Excess plan and RAP are both frozen to new benefit accruals. SERP and WAP only have retirees remaining. The pension formula for the Excess plan captured pay above compensation limits or benefit limits. RAP is a cash balance type formula and now provides only interest credits.

The Company also holds net assets and net liabilities on behalf of other U.S. and non-U.S. pension plans. The plan provisions vary by plan and by country. Some of these plans are unfunded and all are noncontributory.

Obligations and Funded Status

For all of the acquired defined benefit pension plans, the benefit obligation is the projected benefit obligation, the actuarial present value, as of our April 8, 2022 measurement date, of all benefits attributed by the pension benefit formula to employee service rendered to that date. The amount of benefits to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees and their beneficiaries and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels, as applicable.

The unfunded status of the acquired U.S. Nonqualified Plans as of April 8, 2022 was a liability of $278 million. The unfunded status represents a pension benefit obligation of $278 million, with no plan assets. The funded status of the acquired non-U.S. pension plans as of April 8, 2022 was a net asset of $146 million. The funded status represents a pension benefit obligation of $659 million less the fair value of the plan assets of $805 million.

Total assets (liabilities) recognized for all acquired pension plans on our consolidated balance sheets were as follows (in millions).

	April 8, 2022
Plan assets, net	$ 200
Current portion of employee benefit obligation	(27)
Noncurrent portion of employee benefit obligation	(305)
Net amount recognized	$ (132)

Net Periodic Pension Cost

The service cost component of net periodic pension cost is recorded in operating expenses in the consolidated statements of operations, while the remaining components are recorded in other (expense) income, net. Net periodic pension cost was not material for the three and nine months ended September 30, 2022 and 2021.

Assumptions

In determining the projected benefit obligation and the net pension and postretirement benefit cost for the acquired plans, the Company used the following significant weighted-average assumptions.

	April 8, 2022	
	U.S. Nonqualified Plans	Non-U.S. Pension Plans
Discount rate	3.89 %	2.51 %
Long-term rate of return on plan assets	N/A	1.61 %
Rate of compensation increases	N/A	5.82 %

NOTE 17. SUPPLEMENTAL DISCLOSURES

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

Accrued Liabilities

Accrued liabilities consisted of the following (in millions):

	September 30, 2022	December 31, 2021
Accrued participation and residuals	$ 3,019	$ —
Accrued production	1,336	4
Content rights payable	1,004	772
Accrued payroll and related benefits	1,644	533
Other accrued liabilities	3,194	921
Total accrued expenses and other current liabilities	$ 10,197	$ 2,230

Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following (in millions):

	September 30, 2022	December 31, 2021
Production receivables	$ 1,288	$ —
Other current assets	2,293	913
Total prepaid expenses and other current assets	$ 3,581	$ 913

Other (Expense) Income, net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Foreign currency (losses) gains, net	$ (36)	$ 26	$ (106)	$ 73
(Losses) gains on derivative instruments, net	(19)	88	454	67
Change in the value of investments with readily determinable fair value	(16)	(31)	(106)	15
Gain on sale of equity method investments	8	—	141	4
Change in fair value of equity investments without readily determinable fair value	—	(7)	—	74
Other income (expense), net	35	(4)	28	12
Total other (expense) income, net	$ (28)	$ 72	$ 411	$ 245

Supplemental Cash Flow Information

	Nine Months Ended September 30,	
	2022	2021
Cash paid for taxes, net	$ 859	$ 555
Cash paid for interest, net	1,305	515
Non-cash investing and financing activities:		
Equity issued for the acquisition of WarnerMedia	42,309	—
Non-cash consideration related to the sale of The CW Network	126	—
Accrued consideration for the joint venture with BT	82	—
Accrued purchases of property and equipment	29	22
Assets acquired under finance lease and other arrangements	40	119

Cash, Cash Equivalents, and Restricted Cash

	September 30, 2022	December 31, 2021
Cash and cash equivalents	$ 2,422	$ 3,905
Restricted cash - recorded in prepaid expenses and other current assets [(1)]	91	—
Total cash, cash equivalents, and restricted cash	$ 2,513	$ 3,905

[(1)] Restricted cash primarily includes cash posted as collateral related to the Company's hedging program. (See Note 12.)

Assets Held for Sale

As of September 30, 2022, the Company classified its Ranch Lot and Knoxville office building and land as assets held for sale. The Company reclassified $216 million to prepaid expenses and other assets on the consolidated balance sheet at September 30, 2022 and stopped recording depreciation on the assets. An immaterial write-down to the estimated fair value, less costs to sell, was recorded during the three months ended September 30, 2022 and included in loss (gain) on disposition and disposal groups in the consolidated statements of operations.

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, 2022			Three Months Ended September 30, 2021		
	Pretax	Tax benefit (expense)	Net-of-tax	Pretax	Tax benefit (expense)	Net-of-tax
Currency translation adjustments:						
Unrealized gains (losses):						
Foreign currency	$ (684)	$ 3	$ (681)	$ (187)	$ 1	$ (186)
Net investment hedges	5	(14)	(9)	59	(17)	42
Total currency translation adjustments	(679)	(11)	(690)	(128)	(16)	(144)
Derivative adjustments:						
Unrealized gains (losses)	30	(2)	28	18	(3)	15
Reclassifications from other comprehensive income to net income	(6)	2	(4)	(3)	—	(3)
Total derivative adjustments	24	—	24	15	(3)	12
Other comprehensive income (loss) adjustments	$ (655)	$ (11)	$ (666)	$ (113)	$ (19)	$ (132)

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
	Pretax	Tax benefit (expense)	Net-of-tax	Pretax	Tax benefit (expense)	Net-of-tax
Currency translation adjustments:						
Unrealized gains (losses):						
Foreign currency	$ (1,349)	$ 5	$ (1,344)	$ (296)	$ 15	$ (281)
Net investment hedges	124	(55)	69	88	(10)	78
Reclassifications:						
Loss on disposition	(2)	—	(2)	—	—	—
Total currency translation adjustments	(1,227)	(50)	(1,277)	(208)	5	(203)
Derivative adjustments:						
Unrealized gains (losses)	10	(1)	9	174	(36)	138
Reclassifications from other comprehensive income to net income	(27)	6	(21)	(1)	—	(1)
Total derivative adjustments	(17)	5	(12)	173	(36)	137
Other comprehensive income (loss) adjustments	$ (1,244)	$ (45)	$ (1,289)	$ (35)	$ (31)	$ (66)

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, 2022			
	Currency Translation	Derivatives	Pension Plan and SERP Liability	Accumulated Other Comprehensive Loss
Beginning balance	$ (1,432)	$ (8)	$ (13)	$ (1,453)
Other comprehensive income (loss) before reclassifications	(690)	28	—	(662)
Reclassifications from accumulated other comprehensive loss to net income	—	(4)	—	(4)
Other comprehensive income (loss)	(690)	24	—	(666)
Ending balance	$ (2,122)	$ 16	$ (13)	$ (2,119)

	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)

	Nine Months Ended September 30, 2022			
	Currency Translation	Derivatives	Pension Plan and SERP Liability	Accumulated Other Comprehensive Loss
Beginning balance	$ (845)	$ 28	$ (13)	$ (830)
Other comprehensive income (loss) before reclassifications	(1,275)	9	—	(1,266)
Reclassifications from accumulated other comprehensive loss to net income	(2)	(21)	—	(23)
Other comprehensive income (loss)	(1,277)	(12)	—	(1,289)
Ending balance	$ (2,122)	$ 16	$ (13)	$ (2,119)

	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)

NOTE 18. 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"). The Company's Board of Directors includes Dr. John Malone, who is Chairman of the Board of Liberty Global and Liberty Broadband and beneficially owns approximately 30% and 49% of the aggregate voting power with respect to the election of directors of Liberty Global and Liberty Broadband, respectively. 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,	
	2022	2021	2022	2021
Revenues and service charges:				
Liberty Group	$ 549	$ 167	$ 1,242	$ 507
Equity method investees	111	57	348	181
Other	48	23	237	74
Total revenues and service charges	$ 708	$ 247	$ 1,827	$ 762
Expenses	$ (72)	$ (62)	$ (314)	$ (176)
Distributions to noncontrolling interests and redeemable noncontrolling interests	$ (22)	$ (18)	$ (286)	$ (231)

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

	September 30, 2022	December 31, 2021
Receivables	$ 625	$ 172
Payables	$ 25	$ 23

In September 2022, the Company sold 75% of its interest in The CW Network to Nexstar, a related party, and recorded an immaterial gain not included in the table above. (See Note 3.)

NOTE 19. COMMITMENTS AND CONTINGENCIES

Commitments

In the normal course of business, the Company enters into various commitments, which primarily include programming, film licensing, talent arrangements and other agreements, operating and finance leases (see Note 11), arrangements to purchase various goods and services, long-term debt (see Note 10) and future funding commitments to equity method investees (see Note 9) (in millions).

				Long-Term Debt		
Year Ending December 31,	Content	Other Purchase Obligations	Pension and Other Employee Obligations	Principal	Interest	Total
2022 (remaining three months)	$ 2,527	$ 1,053	$ 163	$ —	$ 210	$ 3,953
2023	7,084	1,256	497	1,335	2,223	12,395
2024	5,220	640	265	4,220	2,135	12,480
2025	3,862	316	129	7,147	1,855	13,309
2026	2,591	122	79	790	1,728	5,310
Thereafter	10,433	130	235	36,652	27,486	74,936
Total	$ 31,717	$ 3,517	$ 1,368	$ 50,144	$ 35,637	$ 122,383

Content purchase obligations include commitments and liabilities associated with third-party producers and sports associations for content that airs on our television networks. Production contracts generally require purchase of a specified number of episodes, and/or payments over the term of the license, and include both programs that have been delivered and are available for airing and programs that have not yet been produced or sporting events that have not yet taken place. The commitments disclosed above exclude content liabilities recognized on the consolidated balance sheets.

Other purchase obligations include agreements with certain vendors and suppliers for the purchase of goods and services whereby the underlying agreements are enforceable, legally binding and specify all significant terms. Significant purchase obligations include transmission services, television rating services, marketing commitments and research, equipment purchases, and information technology and other services. Some of these contracts do not require the purchase of fixed or minimum quantities and generally may be terminated with a 30-day to 60-day advance notice without penalty, and are not included in the table above past the 30-day to 60-day advance notice period. The commitments disclosed above exclude liabilities recognized on the consolidated balance sheets.

Other purchase obligations also include future funding commitments to equity method investees. Although the Company had funding commitments to equity method investees as of September 30, 2022, the Company may also provide uncommitted additional funding to its equity method investments in the future. (See Note 9.)

Pension and other employee obligations include payments to meet minimum funding requirements of our pension plans in 2022, estimated benefit payments for our SERP that exceed plan assets, and employment agreements primarily with creative talent for the WM broadcast networks. Payments for the SERP have been estimated over a ten-year period. While benefit payments under these plans are expected to continue beyond 2031, we believe it is not practicable to estimate payments beyond this period. (See Note 16.)

Six Flags Guarantee

In connection with WM's former investment in the Six Flags (as defined below) theme parks located in Georgia and Texas (collectively, the "Parks"), in 1997, certain subsidiaries of the Company agreed to guarantee (the "Six Flags Guarantee") certain obligations of the partnerships that hold the Parks (the "Partnerships") for the benefit of the limited partners in such Partnerships, including, annual payments made to the Parks or to the limited partners and additional obligations at the end of the respective terms for the Partnerships in 2027 and 2028 (the "Guaranteed Obligations"). The aggregate gross undiscounted estimated future cash flow requirements covered by the Six Flags Guarantee over the remaining term (through 2028) are $544 million. To date, no payments have been made by us pursuant to the Six Flags Guarantee.

Six Flags Entertainment Corporation (formerly known as Six Flags, Inc. and Premier Parks Inc.) ("Six Flags"), which has the controlling interest in the Parks, has agreed, pursuant to a subordinated indemnity agreement (the "Subordinated Indemnity Agreement"), to guarantee the performance of the Guaranteed Obligations when due and to indemnify the Company, among others, if the Six Flags Guarantee is called upon. If Six Flags defaults on its indemnification obligations, we have the right to acquire control of the managing partner of the Parks. Six Flags' obligations to us are further secured by its interest in all limited partnership units held by Six Flags.

Based on our evaluation of the current facts and circumstances surrounding the Guaranteed Obligations and the Subordinated Indemnity Agreement, the Company is unable to predict the loss, if any, that may be incurred under the Guaranteed Obligations, and no liability for the arrangements has been recognized as of September 30, 2022. Because of the specific circumstances surrounding the arrangements, and the fact that no active or observable market exists for this type of financial guarantee, the Company is unable to determine a current fair value for the Guaranteed Obligations and related Subordinated Indemnity Agreement.

Contingencies

Other Contingent Commitments

Other contingent commitments primarily include contingent payments for post-production term advance obligations on certain co-financing arrangements, as well as operating lease commitment guarantees, letters of credit, bank guarantees and surety bonds, which generally support performance and payments for a wide range of global contingent and firm obligations, including insurance, litigation appeals, real estate leases and other operational needs.

The Company's other contingent commitments at September 30, 2022 were $258 million, with $252 million estimated due in 2026. For other contingent commitments where payment obligations are outside our control, the timing of amounts represents the earliest period in which the payment could be requested. For the remaining other contingent commitments, the timing of amounts presented represents when the maximum contingent commitment will expire but does not mean that we expect to incur an obligation to make any payments within that time period. In addition, these amounts do not reflect the effects of any indemnification rights we might possess.

Put Rights

The Company has granted put rights to non-controlling interest holders in certain consolidated subsidiaries.

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 20. 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. In connection with the Merger, the Company reevaluated and changed its segment presentation and reportable segments during the quarter ended June 30, 2022. As of June 30, 2022, we classified our operations in three reportable segments: Studios, primarily consisting of the production and release of feature films for initial exhibition in theaters, production and initial licensing of television programs to third parties and our networks/DTC services, distribution of our films and television programs to various third party and internal television and streaming services, distribution through the home entertainment market (physical and digital), related consumer products and themed experience licensing, and interactive gaming; Networks, consisting primarily of our domestic and international television networks; and DTC, consisting primarily of our premium pay TV and digital content services. Goodwill was reallocated to the new segments based on relative fair value. Prior periods have been recast to conform to the current period presentation.

The accounting policies of the reportable segments are the same as the Company’s, except that certain inter-segment transactions that are eliminated for consolidation are not eliminated at the segment level. Inter-segment transactions primarily include advertising and content licenses. The Company records inter-segment transactions of content licenses at the gross amount. Prior year amounts have been recast to reflect the current presentation. The Company does not report assets by segment because it 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 EBITDA. Adjusted EBITDA is defined as operating income excluding:

- employee share-based compensation;
- depreciation and amortization;
- restructuring, facility consolidation, and other charges;
- certain impairment charges;
- gains and losses on business and asset dispositions;
- certain inter-segment eliminations;
- third-party transaction and integration costs;
- amortization of purchase accounting fair value step-up for content;
- amortization of capitalized interest for content; and
- 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 EBITDA 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 transaction and integration costs from the calculation of Adjusted EBITDA due to their impact on comparability between periods. The Company also excludes the depreciation of fixed assets and amortization of intangible assets, amortization of purchase accounting fair value step-up for content, and amortization of capitalized interest for content, 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 EBITDA 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 and inter-segment eliminations (in millions).

Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Studios	$ 3,088	$ 6	$ 5,889	$ 13
Networks	5,214	2,889	13,829	8,393
DTC	2,317	255	4,823	598
Corporate	(11)	—	2	—
Inter-segment eliminations	(785)	—	(1,734)	—
Total revenues	$ 9,823	$ 3,150	$ 22,809	$ 9,004

Adjusted EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Studios	$ 762	$ 4	$ 1,004	$ 8
Networks	2,630	1,093	6,247	4,040
DTC	(634)	(276)	(1,379)	(1,095)
Corporate	(340)	(95)	(749)	(273)
Inter-segment eliminations	6	—	(8)	—
Adjusted EBITDA	$ 2,424	$ 726	$ 5,115	$ 2,680

Reconciliation of Net (Loss) Income available to Warner Bros. Discovery, Inc. to Adjusted EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (loss) income available to Warner Bros. Discovery, Inc.	$ (2,308)	$ 156	$ (5,270)	$ 968
Net income attributable to redeemable noncontrolling interests	2	9	8	22
Net income attributable to noncontrolling interests	21	32	44	116
Income tax (benefit) expense	(566)	36	(1,201)	144
(Loss) income before income taxes	(2,851)	233	(6,419)	1,250
Other expense (income), net	28	(72)	(411)	(245)
Loss from equity investees, net	78	9	135	20
Interest expense, net	555	159	1,219	479
Operating (loss) income	(2,190)	329	(5,476)	1,504
Asset impairment and loss (gain) on disposition and disposal groups	43	—	47	(72)
Restructuring and other charges	1,521	7	2,559	29
Depreciation and amortization	2,233	341	5,024	1,043
Employee share-based compensation	113	36	317	124
Transaction and integration costs	59	13	1,129	52
Amortization of fair value step-up for content	645	—	1,515	—
Adjusted EBITDA	$ 2,424	$ 726	$ 5,115	$ 2,680

NOTE 21. SUBSEQUENT EVENTS

In October 2022, the Company sold its 49% stake in Golden Maple Limited (known as Tencent Video VIP) for proceeds of $143 million and recorded a gain of $55 million.

In connection with the MotorTrend Group, LLC joint venture between the Company and GoldenTree (“GT”), GT acquired a put right that requires the Company to either purchase GT’s 32.5% noncontrolling interest in the joint venture at fair value or participate in an initial public offering for the joint venture. In October 2022, GT exercised its put right and will require the Company to purchase GT’s 32.5% noncontrolling interest at fair value, which cannot be estimated at this time.

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 our businesses, current developments, results of operations, cash flows and financial condition. Additional context can also be found in our Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K").

BUSINESS OVERVIEW

On April 8, 2022, Discovery, Inc., a global media company that provides content across multiple distribution platforms including linear, free-to-air and broadcast television, authenticated GO applications, digital distribution arrangements, content licensing arrangements and direct-to-consumer ("DTC") subscription products, completed its merger (the "Merger") with the WarnerMedia business (the "WarnerMedia Business", "WM Business", or "WM") of AT&T Inc. ("AT&T") and changed its name from "Discovery, Inc." to "Warner Bros. Discovery, Inc." ("Warner Bros. Discovery", "WBD", the "Company", "we", "us", or "our"). On April 11, 2022, the Company's shares started trading on the Nasdaq Global Select Market (the "Nasdaq") under the trading symbol WBD. (See Note 2 and Note 3 to the accompanying consolidated financial statements.)

Warner Bros. Discovery is a leading global media and entertainment company that creates and distributes the world's most differentiated and complete portfolio of content and brands across television, film and streaming. Available in more than 220 countries and territories and 50 languages, Warner Bros. Discovery inspires, informs and entertains audiences worldwide through its iconic brands and products including: Discovery Channel, discovery+, CNN, DC, Eurosport, HBO, HBO Max, HGTV, Food Network, OWN, Investigation Discovery, TLC, Magnolia Network, TNT, TBS, truTV, Travel Channel, MotorTrend, Animal Planet, Science Channel, Warner Bros. Pictures, Warner Bros. Television, Warner Bros. Games, New Line Cinema, Cartoon Network, Adult Swim, Turner Classic Movies, Discovery en Español, Hogar de HGTV and others.

In connection with the Merger, the Company has announced and has taken actions to implement projects to achieve cost synergies for the Company. The Company finalized the framework supporting its ongoing restructuring and transformation initiatives during the three months ended September 30, 2022, which will include, among other things, strategic content programming assessments, organization restructuring, facility consolidation activities, and other contract termination costs. The Company expects that it will incur approximately \$3.2 - \$4.3 billion in pre-tax restructuring charges. Of the total expected pre-tax restructuring charges, the Company expects total cash expenditures will be \$1.0 - \$1.5 billion. The Company incurred \$1.5 billion and \$2.6 billion of pre-tax restructuring charges for the three and nine months ended September 30, 2022, respectively. While the Company's restructuring efforts are ongoing, including the strategic analysis of content programming, the restructuring program is expected to be substantially completed by the end of 2024.

In connection with the Merger, the Company reevaluated and changed its segment presentation and reportable segments for the quarter ending June 30, 2022. As of June 30, 2022, we classified our operations in three reportable segments:

Studios, consisting primarily of the production and release of feature films for initial exhibition in theaters, production and initial licensing of television programs to third parties and our networks/DTC services, distribution of our films and television programs to various third party and internal television and streaming services, distribution through the home entertainment market (physical and digital), related consumer products and themed experience licensing, and interactive gaming;

Networks, consisting principally of our domestic and international television networks; and

DTC, consisting primarily of our premium pay TV and digital content services.

Our segment presentation aligned 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. Prior periods have been recast to conform to the current period presentation.

During the three months ended March 31, 2022, we exited our operations in Russia and removed all of our channels and services from the market. We do not expect these actions will have a material effect on our consolidated financial statements.

Impact of COVID-19

We continue to closely monitor the ongoing 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. Certain key sources of revenue for the Studios segment, including theatrical revenues, television production, studio operations and themed entertainment, have been adversely impacted by governmentally imposed shutdowns and related labor interruptions and constraints on consumer activity, particularly in the context of public entertainment venues, such as cinemas and theme parks.

The nature and full extent of COVID-19's effects on our operations and results are 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 variants or surges of COVID-19, vaccine distribution and efficacy and other actions to contain the virus or treat its impact, among others. Our consolidated financial statements reflect management's 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

The discussion below compares our actual and pro forma combined results, as if the Merger occurred on January 1, 2021, for the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2021. Management believes reviewing our pro forma combined operating results in addition to actual operating results is useful in identifying trends in, or reaching conclusions regarding, the overall operating performance of our businesses. Our combined Studios, Networks, DTC, Corporate, and inter-segment eliminations pro forma information is based on the historical operating results of the respective segments and includes adjustments in accordance with Article 11 of Regulation S-X to illustrate the effects of the Merger as if it had occurred on January 1, 2021. The unaudited pro forma combined results include, where applicable, adjustments for (i) additional costs of revenues from the fair value step up of film and television library, (ii) additional amortization expense related to acquired intangible assets, (iii) additional depreciation expense from the fair value of property and equipment, (iv) adjustments for transaction costs and other one-time non-recurring costs, (v) changes to align accounting policies, and (vi) adjustments to eliminate intercompany activity.

Adjustments do not include costs related to integration activities, cost savings or synergies that have been or may be achieved by the combined business. Pro forma amounts are not necessarily indicative of what our results would have been had we operated the combined businesses since January 1, 2021 and should not be taken as indicative of the Company's future consolidated results of operations.

Actual amounts for the three and nine months ended September 30, 2022 include results of operations for Discovery for the entire period and WM for the period subsequent to the completion of the Merger on April 8, 2022.

Foreign Exchange Impacting Comparability

In addition to the Merger, 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. generally accepted accounting principles ("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 "2022 Baseline Rate"), and the prior year amounts translated at the same 2022 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,								
	2022			2021			% Change		
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual (a)	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Revenues:									
Advertising	$ 2,042	$ —	$ 2,042	$ 1,453	$ 890	$ 2,343	41 %	(13) %	(10) %
Distribution	4,990	—	4,990	1,328	3,985	5,313	NM	(6) %	(4) %
Content	2,531	—	2,531	352	2,756	3,108	NM	(19) %	(15) %
Other	260	—	260	17	199	216	NM	20 %	24 %
Total revenues	9,823	—	9,823	3,150	7,830	10,980	NM	(11) %	(8) %
Costs of revenues, excluding depreciation and amortization	5,627	(132)	5,495	1,529	4,437	5,966	NM	(8) %	(4) %
Selling, general and administrative	2,589	—	2,589	944	2,047	2,991	NM	(13) %	(11) %
Depreciation and amortization	2,233	(475)	1,758	341	1,653	1,994	NM	(12) %	(11) %
Restructuring and other charges	1,521	—	1,521	7	—	7	NM	NM	NM
Asset impairment and loss (gain) on disposition and disposal groups	43	—	43	—	(223)	(223)	NM	NM	NM
Total costs and expenses	12,013	(607)	11,406	2,821	7,914	10,735	NM	6 %	9 %
Operating (loss) income	(2,190)	607	(1,583)	329	(84)	245	NM	NM	NM
Interest expense, net	(555)			(159)			NM		
Loss from equity investees, net	(78)			(9)			NM		
Other (expense) income, net	(28)			72			NM		
(Loss) income before income taxes	(2,851)			233			NM		
Income tax benefit (expense)	566			(36)			NM		
Net (loss) income	(2,285)			197			NM		
Net income attributable to noncontrolling interests	(21)			(32)			(34) %		
Net income attributable to redeemable noncontrolling interests	(2)			(9)			(78) %		
Net (loss) income available to Warner Bros. Discovery, Inc.	$ (2,308)			$ 156			NM		

(a) Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

NM - Not meaningful

	Nine Months Ended September 30,						% Change		
	2022			2021					
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual [a]	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Revenues:									
Advertising	$ 6,239	$ 1,412	$ 7,651	$ 4,496	$ 3,332	$ 7,828	39 %	(2) %	— %
Distribution	11,180	4,339	15,519	3,898	11,767	15,665	NM	(1) %	1 %
Content	4,918	3,297	8,215	564	8,321	8,885	NM	(8) %	(5) %
Other	472	230	702	46	489	535	NM	31 %	33 %
Total revenues	22,809	9,278	32,087	9,004	23,909	32,913	NM	(3) %	— %
Costs of revenues, excluding depreciation and amortization	13,488	5,869	19,357	3,553	15,349	18,902	NM	2 %	5 %
Selling, general and administrative	7,167	1,733	8,900	2,947	6,551	9,498	NM	(6) %	(5) %
Depreciation and amortization	5,024	512	5,536	1,043	5,175	6,218	NM	(11) %	(10) %
Restructuring and other charges	2,559	(90)	2,469	29	91	120	NM	NM	NM
Asset impairment and loss (gain) on disposition and disposal groups	47	—	47	(72)	(223)	(295)	NM	NM	NM
Total costs and expenses	28,285	8,024	36,309	7,500	26,943	34,443	NM	5 %	7 %
Operating (loss) income	(5,476)	1,254	(4,222)	1,504	(3,034)	(1,530)	NM	NM	NM
Interest expense, net	(1,219)			(479)			NM		
Loss from equity investees, net	(135)			(20)			NM		
Other income (expense), net	411			245			68 %		
(Loss) Income before income taxes	(6,419)			1,250			NM		
Income tax benefit (expense)	1,201			(144)			NM		
Net (loss) income	(5,218)			1,106			NM		
Net income attributable to noncontrolling interests	(44)			(116)			(62) %		
Net income attributable to redeemable noncontrolling interests	(8)			(22)			(64) %		
Net (loss) income available to Warner Bros. Discovery, Inc.	$ (5,270)			$ 968			NM		

[a] Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

The discussion through operating income below is on a pro forma combined basis, ex-FX, since the actual increases year over year for revenues, cost of revenue, selling, general and administrative expenses and adjusted EBITDA are substantially attributable to the Merger.

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 decreased 10% and was flat for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to declines in general entertainment, news, and sports in the U.S. and the prior year Olympics in Europe at Networks, partially offset by subscriber growth on our DTC ad-supported tiers. For the nine months ended September 30, 2022, subscriber growth on our DTC ad-supported tiers was offset by lower news and general entertainment in the U.S.

Distribution revenue consists principally of fees from affiliates for distributing our linear networks and DTC subscription services.

Distribution revenue decreased 4% and increased 1% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to a decline in wholesale revenues primarily due to the Amazon Channels expiration in September 2021, a decline in linear subscribers in the U.S., and lower contractual affiliate rates in some European markets, partially offset by global retail subscriber gains on our DTC platforms, higher contractual affiliate rates in the U.S. and premium sports packages in Latin America. The increase for the nine months ended September 30, 2022 was primarily attributable to global retail subscriber gains on our DTC platforms, an increase in contractual affiliate rates in the U.S., and premium sports packages in Latin America, partially offset by a decline in wholesale revenues primarily due to the Amazon Channels expiration in September 2021.

Content revenue consists primarily of licensing feature films for initial theatrical exhibition, licensing television programs for initial television broadcast or streaming, and licensing of sports rights; additionally, film and television content is licensed through distribution channels including international free-to-air, basic and premium pay television, television syndication, and further streaming services. Content revenue also includes home entertainment sales and rentals of film and television products (physical and digital, including premium video-on-demand, transactional video-on-demand and electronic sell-through), interactive entertainment sales (physical and digital) across various platforms, and consumer products and themed experience licensing.

Content revenue decreased 15% and 5% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to third party licensing of sports rights internationally, mainly related to Olympic sports rights to broadcast networks throughout Europe in 2021 and lower home entertainment and TV licensing revenues. The decrease for the nine months ended September 30, 2022 was primarily attributable to the proportion of inter-segment licensing increasing as a percentage of total content revenue.

Other revenue increased 24% and 33% for the three and nine months ended September 30, 2022, respectively, primarily attributable to the reopening of Warner Bros. Studio Tour London and Warner Bros. Studio Tour Hollywood. In addition, the nine months ended September 30, 2022 was favorably impacted by the opening of the Harry Potter flagship store in New York in June 2021.

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 production costs, participation costs, and exploitation costs.

Cost of revenues decreased 4% and increased 5% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to lower sports rights related to the broadcast of the Olympics in Europe in 2021 and lower content expense for theatrical and television products, partially offset by increased DTC programming expenses and the impact of measurement period adjustments to the fair value of content assets acquired during the Merger. (See Note 3 to the accompanying consolidated financial statements.) The increase for the nine months ended September 30, 2022 was primarily attributable to increased DTC programming expenses, the impact of measurement period adjustments to the fair value of content assets acquired during the Merger, higher sports rights in the U.S., and increased expenses at CNN, partially offset by lower sports rights related to the broadcast of the Olympics in Europe in 2021 and lower content expense for television product due to lower television production revenues.

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 decreased 11% and 5% for the three and nine months ended September 30, 2022, respectively, primarily attributable to lower marketing and personnel expenses.

Depreciation and Amortization

Depreciation and amortization expense includes depreciation of fixed assets and amortization of finite-lived intangible assets. Depreciation and amortization decreased 11% and 10%, respectively, primarily attributable to a change in amortization method from the straight-line method to the sum of the years' digits method for some of the WM assets acquired.

Restructuring and Other Charges

In connection with the Merger, the Company has announced and has taken actions to implement projects to achieve cost synergies for the Company. Restructuring and other charges increased $1,540 million and $2,376 million for the three and nine months ended September 30, 2022, respectively, primarily attributable to strategic content programming assessments, organization restructuring, facility consolidation activities, and other contract termination costs. (See Note 5 to the accompanying consolidated financial statements.)

Asset Impairment and Loss (Gain) on Dispositions and Disposals Groups

As reported asset impairment and loss (gain) on disposition and disposal groups was a $43 million loss for the three months ended September 30, 2022 and a $47 million loss for the nine months ended September 30, 2022, primarily attributable to the write-down to the estimated fair value, less costs to sell, of the Ranch Lot and Knoxville office building and land in connection with the classification as assets held for sale. (See Note 17 to the accompanying consolidated financial statements.)

As reported asset impairment and loss (gain) on disposition and disposal groups was a $72 million gain for the nine months ended September 30, 2021, primarily attributable to the sale of our Great American Country network. (See Note 3 to the accompanying consolidated financial statements.)

Interest Expense, net

As reported interest expense, net increased $396 million and $740 million for the three and nine months ended September 30, 2022, respectively, primarily attributable to debt assumed as a result of the Merger. (See Note 10 and Note 12 to the accompanying consolidated financial statements.)

Loss From Equity Investees, net

We reported losses from our equity method investees of $78 million and $135 million for the three and nine months ended September 30, 2022, respectively, as compared to losses of $9 million and $20 million for the three and nine months ended September 30, 2021, respectively. The changes are attributable to our share of earnings and losses from our equity investees. (See Note 9 to the accompanying consolidated financial statements.)

Other (Expense) Income, net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Foreign currency (losses) gains, net	$ (36)	$ 26	$ (106)	$ 73
(Losses) gains on derivative instruments, net	(19)	88	454	67
Change in the value of investments with readily determinable fair value	(16)	(31)	(106)	15
Gain on sale of equity method investments	8	—	141	4
Change in fair value of equity investments without readily determinable fair value	—	(7)	—	74
Other income (expense), net	35	(4)	28	12
Total other (expense) income, net	$ (28)	$ 72	$ 411	$ 245

Income Tax Benefit (Expense)

The income tax balances as of September 30, 2022 are inclusive of the WM Business as a result of the Merger. Income tax benefit was $566 million and $1,201 million for the three and nine months ended September 30, 2022, respectively, and income tax expense was $36 million and $144 million for the three and nine months ended September 30, 2021, respectively. The decrease in the three and nine months ended September 30, 2022 was primarily attributable to a decrease in pre-tax book income, and to a smaller extent, an uncertain tax benefit remeasurement recorded in the three months ended September 30, 2022 as a result of a multi-year tax audit agreement. These decreases are partially offset by an unfavorable tax adjustment related to the 2022 preferred stock conversion transaction expense discussed in Note 2, which was not deductible for tax purposes, and the effect of foreign operations, which included taxation and allocation of income and losses among multiple foreign jurisdictions. The decrease in the nine months ended September 30, 2022 was further offset by a deferred tax benefit of $151 million recorded in the nine months ended September 30, 2021 as a result of the UK Finance Act 2021 that was enacted in June 2021.

Income tax benefit for the three and nine months ended September 30, 2022 reflects an effective income tax rate that differs from the federal statutory tax rate primarily attributable to the effect of foreign operations, state and local income taxes, and the non-tax deductible preferred stock conversion transaction expense discussed above.

Segment Results of Operations

The Company evaluates the operating performance of its operating segments based on financial measures such as revenues and Adjusted EBITDA. Adjusted EBITDA is defined as operating income excluding:

- employee share-based compensation;
- depreciation and amortization;
- restructuring, facility consolidation, and other charges;
- certain impairment charges;
- gains and losses on business and asset dispositions;
- certain inter-segment eliminations;
- third-party transaction and integration costs;
- amortization of purchase accounting fair value step-up for content;
- amortization of capitalized interest for content; and

- 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 EBITDA 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 transaction and integration costs from the calculation of Adjusted EBITDA due to their impact on comparability between periods. The Company also excludes the depreciation of fixed assets and amortization of intangible assets, amortization of purchase accounting fair value step-up for content, and amortization of capitalized interest for content, 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 EBITDA 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 table below presents our reconciliation of consolidated net income available to Warner Bros. Discovery, Inc. to Adjusted EBITDA and Adjusted EBITDA by segment (in millions).

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Net (loss) income available to Warner Bros. Discovery, Inc.	$ (2,308)	$ 156	NM	$ (5,270)	$ 968	NM
Net income attributable to redeemable noncontrolling interests	2	9	(78) %	8	22	(64) %
Net income attributable to noncontrolling interests	21	32	(34) %	44	116	(62) %
Income tax (benefit) expense	(566)	36	NM	(1,201)	144	NM
(Loss) income before income taxes	(2,851)	233	NM	(6,419)	1,250	NM
Other expense (income), net	28	(72)	NM	(411)	(245)	68 %
Loss from equity investees, net	78	9	NM	135	20	NM
Interest expense, net	555	159	NM	1,219	479	NM
Operating (loss) income	(2,190)	329	NM	(5,476)	1,504	NM
Asset impairment and loss (gain) on disposition and disposal groups	43	—	NM	47	(72)	NM
Restructuring and other charges	1,521	7	NM	2,559	29	NM
Depreciation and amortization	2,233	341	NM	5,024	1,043	NM
Employee share-based compensation	113	36	NM	317	124	NM
Transaction and integration costs	59	13	NM	1,129	52	NM
Amortization of fair value step-up for content	645	—	NM	1,515	—	NM
Adjusted EBITDA	$ 2,424	$ 726	NM	$ 5,115	$ 2,680	91 %
Studios	$ 762	$ 4	NM	$ 1,004	$ 8	NM
Networks	2,630	1,093	NM	6,247	4,040	55 %
DTC	(634)	(276)	NM	(1,379)	(1,095)	26 %
Corporate	(340)	(95)	NM	(749)	(273)	NM
Inter-segment eliminations	6	—	NM	(8)	—	NM
Adjusted EBITDA	$ 2,424	$ 726	NM	$ 5,115	$ 2,680	91 %

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	% Change	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021	% Change
Revenues:						
Studios	$ 3,088	$ 6	NM	$ 5,889	$ 13	NM
Networks	5,214	2,889	80 %	13,829	8,393	65 %
DTC	2,317	255	NM	4,823	598	NM
Corporate	(11)	—	NM	2	—	NM
Inter-segment eliminations	(785)	—	NM	(1,734)	—	NM
Total revenues	9,823	3,150	NM	22,809	9,004	NM
Costs of revenues, excluding depreciation and amortization	4,982	1,529	NM	11,973	3,553	NM
Selling, general and administrative [(a)]	2,417	895	NM	5,721	2,771	NM
Adjusted EBITDA	$ 2,424	$ 726	NM	$ 5,115	$ 2,680	91 %

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

Studios Segment

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

	Three Months Ended September 30,						% Change		
	2022			2021					
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual [a]	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Revenues:									
Advertising	$ 8	$ —	$ 8	$ —	$ 35	$ 35	NM	(77) %	(77) %
Distribution	4	—	4	—	2	2	NM	NM	NM
Content	2,884	—	2,884	6	3,167	3,173	NM	(9) %	(6) %
Other	192	—	192	—	143	143	NM	34 %	34 %
Total revenues	3,088	—	3,088	6	3,347	3,353	NM	(8) %	(5) %
Costs of revenues, excluding depreciation and amortization	1,756	—	1,756	—	2,050	2,050	NM	(14) %	(11) %
Selling, general and administrative	570	—	570	2	745	747	NM	(24) %	(21) %
Adjusted EBITDA	762	—	762	4	552	556	NM	37 %	43 %
Depreciation and amortization	174	(38)	136	—	173	173			
Employee share-based compensation	1	—	1	—	12	12			
Restructuring and other charges	562	—	562	—	—	—			
Transaction and integration costs	1	—	1	—	—	—			
Asset impairment and loss (gain) on disposition and disposal groups	15	—	15	—	—	—			
Amortization of fair value step-up for content	271	(35)	236	—	361	361			
Operating (loss) income	$ (262)	$ 73	$ (189)	$ 4	$ 6	$ 10			

[a] Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

	Nine Months Ended September 30,						% Change		
	2022			2021					
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual [a]	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Revenues:									
Advertising	$ 18	$ 9	$ 27	$ —	$ 83	$ 83	NM	(67) %	(67) %
Distribution	8	6	14	—	10	10	NM	40 %	40 %
Content	5,525	3,898	9,423	13	9,426	9,439	NM	— %	2 %
Other	338	154	492	—	328	328	NM	50 %	50 %
Total revenues	5,889	4,067	9,956	13	9,847	9,860	NM	1 %	4 %
Costs of revenues, excluding depreciation and amortization	3,763	2,392	6,155	2	6,384	6,386	NM	(4) %	(2) %
Selling, general and administrative	1,122	698	1,820	3	2,046	2,049	NM	(11) %	(9) %
Adjusted EBITDA	1,004	977	1,981	8	1,417	1,425	NM	39 %	45 %
Depreciation and amortization	332	77	409	—	518	518			
Employee share-based compensation	1	26	27	—	73	73			
Restructuring and other charges	762	(38)	724	—	38	38			
Transaction and integration costs	1	—	1	—	—	—			
Asset impairment and loss (gain) on disposition and disposal groups	15	—	15	—	—	—			
Amortization of fair value step-up for content	834	(78)	756	—	1,199	1,199			
Operating (loss) income	$ (941)	$ 990	$ 49	$ 8	$ (411)	$ (403)			

[a] Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

The discussion below is on a pro forma combined basis, ex-FX, since the actual increases year over year for revenues, cost of revenue, selling, general and administrative expenses and adjusted EBITDA are substantially attributable to the Merger.

Revenues

Content revenue decreased 6% and increased 2% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to lower home entertainment and TV licensing revenues. Home entertainment revenue across theatrical and television products was lower due to strong COVID-induced demand in the prior year, as well as fewer new releases of theatrical products. The decrease in TV licensing revenue was primarily due to fewer new release availabilities of theatrical product.

The increase for the nine months ended September 30, 2022 was primarily attributable to higher theatrical film rental revenue and higher games revenue with the release of *LEGO Star Wars: The Skywalker Saga*, partially offset by lower home entertainment and TV licensing revenue. Theatrical performance was favorably impacted by the performance of *The Batman*, which was released in the first quarter of 2022, as well as improved audience attendance at movie theaters. Home entertainment revenue across theatrical and television products was lower due to strong COVID-induced demand in the prior year. The decrease in TV licensing revenue was primarily due to lower TV production revenue, partially offset by favorable timing and mix of television availabilities.

Other revenue increased 34% and 50% for the three and nine months ended September 30, 2022, respectively. The increase for the three months ended September 30, 2022 was primarily attributable to the reopening of Warner Bros. Studio Tour London and Warner Bros. Studio Tour Hollywood. In addition, the nine months ended September 30, 2022 was favorably impacted by the opening of the Harry Potter flagship store in New York in June 2021.

Costs of Revenues

Costs of revenues decreased 11% and 2% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to lower content expense for theatrical and television products. The decrease for the nine months ended September 30, 2022 was primarily attributable to lower content expense for television product due to lower television production revenues, partially offset by higher content expense associated with new games and theatrical releases.

Selling, General and Administrative

Selling, general and administrative expenses decreased 21% and 9% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to lower marketing expenses due to fewer theatrical releases. The decrease for the nine months ended September 30, 2022, was primarily attributable to lower marketing expenses due to fewer theatrical releases, partially offset by higher bad debt expense.

Adjusted EBITDA

Adjusted EBITDA increased 43% and 45% for the three and nine months ended September 30, 2022, respectively.

Networks Segment

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

	Three Months Ended September 30,						% Change		
	2022			2021					
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual [a]	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Revenues:									
Advertising	$ 1,944	$ —	$ 1,944	$ 1,416	$ 852	$ 2,268	37 %	(14) %	(11) %
Distribution	2,924	—	2,924	1,118	1,947	3,065	NM	(5) %	(2) %
Content	277	—	277	339	117	456	(18)%	(39) %	(37) %
Other	69	—	69	16	65	81	NM	(15) %	(6) %
Total revenues	5,214	—	5,214	2,889	2,981	5,870	80 %	(11) %	(8) %
Costs of revenues, excluding depreciation and amortization	1,906	—	1,906	1,349	1,043	2,392	41 %	(20) %	(16) %
Selling, general and administrative	678	—	678	447	319	766	52 %	(11) %	(8) %
Adjusted EBITDA	2,630	—	2,630	1,093	1,619	2,712	NM	(3) %	(2) %
Depreciation and amortization	1,424	(291)	1,133	260	1,009	1,269			
Employee share-based compensation	—	—	—	—	11	11			
Restructuring and other charges	354	—	354	6	1	7			
Transaction and integration costs	1	—	1	—	—	—			
Amortization of fair value step-up for content	2	—	2	—	1	1			
Inter-segment eliminations	30	—	30	—	—	—			
Operating income	$ 819	$ 291	$ 1,110	$ 827	$ 597	$ 1,424			

[a] Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

	Nine Months Ended September 30,						% Change		
	2022			2021					
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual [a]	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Revenues:									
Advertising	$ 5,998	$ 1,380	$ 7,378	$ 4,409	$ 3,301	$ 7,710	36 %	(4) %	(2) %
Distribution	6,885	2,183	9,068	3,399	5,915	9,314	NM	(3) %	(1) %
Content	813	220	1,033	541	441	982	50 %	5 %	7 %
Other	133	55	188	44	145	189	NM	(1) %	3 %
Total revenues	13,829	3,838	17,667	8,393	9,802	18,195	65 %	(3) %	(1) %
Costs of revenues, excluding depreciation and amortization	5,728	2,160	7,888	3,040	4,590	7,630	88 %	3 %	6 %
Selling, general and administrative	1,854	352	2,206	1,313	983	2,296	41 %	(4) %	(1) %
Adjusted EBITDA	6,247	1,326	7,573	4,040	4,229	8,269	55 %	(8) %	(8) %
Depreciation and amortization	3,311	303	3,614	794	3,182	3,976			
Employee share-based compensation	—	9	9	—	28	28			
Restructuring and other charges	666	(5)	661	27	6	33			
Transaction and integration costs	1	—	1	4	—	4			
Amortization of fair value step-up for content	3	419	422	—	402	402			
Inter-segment eliminations	28	—	28	—	—	—			
Asset impairment and loss (gain) on disposition and disposal groups	—	—	—	(72)	—	(72)			
Operating income	$ 2,238	$ 600	$ 2,838	$ 3,287	$ 611	$ 3,898			

[a] Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

The discussion below is on a pro forma combined basis, ex-FX, since the actual increases year over year for revenues, cost of revenue, selling, general and administrative expenses and adjusted EBITDA are substantially attributable to the Merger.

Revenues

Advertising revenue decreased 11% and 2% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to declines from general entertainment, news, and sports in the U.S. and the prior year Olympics in Europe. The decrease for the nine months ended September 30, 2022 was primarily attributable to lower news and general entertainment in the U.S., partially offset by increased sports advertising in the U.S. due to the NCAA Men's Final Four in 2022, addition of the NHL in the fourth quarter of 2021, and a more normalized NBA playoff schedule.

Distribution revenue decreased 2% and 1% for the three and nine months ended September 30, 2022, respectively, primarily attributable to a decline in linear subscribers in the U.S. and lower contractual affiliate rates in some European markets, partially offset by an increase in contractual affiliate rates in the U.S. and premium sports packages in Latin America.

Content revenue decreased 37% and increased 7% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to third party licensing of sports rights internationally, mainly related to Olympic sports rights to broadcast networks throughout Europe in 2021, partially offset by higher inter-segment licensing of content to DTC. The increase for the nine months ended September 30, 2022 was primarily attributable to higher inter-segment licensing of content to DTC, partially offset by overall net lower sub-licensing revenue for the Winter Olympics in 2022 compared to the Summer Olympics in 2021.

Other revenue decreased 6% and increased 3% for the three and nine months ended September 30, 2022, respectively.

Costs of Revenues

Cost of revenues decreased 16% and increased 6% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to lower sports rights related to the broadcast of the Olympics in Europe in 2021 and lower content expense in the U.S. The increase for the nine months ended September 30, 2022 was primarily attributable to higher sports rights in the U.S. and increased expense at CNN, partially offset by lower sports rights related to the broadcast of the Olympics in Europe in 2021.

Selling, General and Administrative

Selling, general and administrative expenses decreased 8% and 1% for the three and nine months ended September 30, 2022, respectively. The decrease for the three months ended September 30, 2022 was primarily attributable to lower personnel and marketing expenses. The decrease for the nine months ended September 30, 2022 was primarily attributable to lower personnel costs, partially offset by higher marketing expenses.

Adjusted EBITDA

Adjusted EBITDA decreased 2% and 8% for the three and nine months ended September 30, 2022, respectively.

DTC Segment

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

	Three Months Ended September 30,						% Change		
	2022			2021					
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual [a]	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Revenues:									
Advertising	$ 106	$ —	$ 106	$ 37	$ 17	$ 54	NM	96 %	NM
Distribution	2,062	—	2,062	210	2,036	2,246	NM	(8) %	(6) %
Content	145	—	145	7	187	194	NM	(25) %	(25) %
Other	4	—	4	1	2	3	NM	33 %	33 %
Total revenues	2,317	—	2,317	255	2,242	2,497	NM	(7) %	(6) %
Costs of revenues, excluding depreciation and amortization	2,118	—	2,118	178	1,590	1,768	NM	20 %	22 %
Selling, general and administrative	833	—	833	353	685	1,038	NM	(20) %	(18) %
Adjusted EBITDA	(634)	—	(634)	(276)	(33)	(309)	NM	NM	NM
Depreciation and amortization	543	(117)	426	58	425	483			
Employee share-based compensation	(1)	—	(1)	—	6	6			
Restructuring and other charges	517	—	517	1	(1)	—			
Amortization of fair value step-up for content	191	(97)	94	—	73	73			
Inter-segment eliminations	(10)	—	(10)	—	—	—			
Operating loss	$ (1,874)	$ 214	$ (1,660)	$ (335)	$ (536)	$ (871)			

[a] Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

	Nine Months Ended September 30,						% Change		
	2022			2021					
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual [a]	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Revenues:									
Advertising	$ 248	$ 36	$ 284	$ 87	$ 23	$ 110	NM	NM	NM
Distribution	4,287	2,150	6,437	499	5,842	6,341	NM	2 %	3 %
Content	279	230	509	10	432	442	NM	15 %	15 %
Other	9	3	12	2	10	12	NM	— %	— %
Total revenues	4,823	2,419	7,242	598	6,307	6,905	NM	5 %	6 %
Costs of revenues, excluding depreciation and amortization	4,200	1,977	6,177	513	4,406	4,919	NM	26 %	27 %
Selling, general and administrative	2,002	909	2,911	1,180	1,943	3,123	70 %	(7) %	(6) %
Adjusted EBITDA	(1,379)	(467)	(1,846)	(1,095)	(42)	(1,137)	(26) %	(62) %	(65) %
Depreciation and amortization	1,193	150	1,343	179	1,335	1,514			
Employee share-based compensation	(1)	—	(1)	—	14	14			
Restructuring and other charges	992	(3)	989	2	3	5			
Transaction and integration costs	1	—	1	—	—	—			
Amortization of fair value step-up for content	256	(21)	235	—	220	220			
Asset impairment and loss (gain) on disposition and disposal groups	4	—	4	—	—	—			
Operating loss	$ (3,824)	$ (593)	$ (4,417)	$ (1,276)	$ (1,614)	$ (2,890)			

[a] Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

The discussion below is on a pro forma combined basis, ex-FX, since the actual increases year over year for revenues, cost of revenue, selling, general and administrative expenses and adjusted EBITDA are substantially attributable to the Merger.

Revenues

As of September 30, 2022, we had 94.9 million core DTC subscribers.[1]

Advertising revenue increased $53 million and $176 million for the three and nine months ended September 30, 2022, respectively, primarily attributable to subscriber growth on our DTC ad-supported tiers.

Distribution revenue decreased 6% for the three months ended September 30, 2022 and increased 3% for the nine months ended September 30, 2022. The decrease for the three months ended September 30, 2022 was primarily attributable to a decline in wholesale revenues primarily due to the Amazon Channels expiration in September 2021, partially offset by global retail subscriber gains. The increase for the nine months ended September 30, 2022 was primarily attributable to global retail subscriber gains, partially offset by a decline in wholesale revenues primarily due to the Amazon Channels expiration in September 2021.

Content revenue decreased 25% for the three months ended September 30, 2022 and increased 15% for the nine months ended September 30, 2022. The decrease for the three months ended September 30, 2022 was primarily attributable to third party licensing of HBO content in September 2021. The increase for the nine months ended September 30, 2022 was primarily attributable to higher third party licensing of HBO content.

Costs of Revenues

Costs of revenues increased 22% and 27% for the three and nine months ended September 30, 2022, respectively, primarily attributable to increased programming expenses and the impact of measurement period adjustments to the fair value of content assets acquired during the Merger. (See Note 3 to the accompanying consolidated financial statements.)

Selling, General, and Administrative Expenses

Selling, general and administrative expenses decreased 18% and 6% for the three and nine months ended September 30, 2022, respectively, primarily attributable to more efficient marketing-related spend.

Adjusted EBITDA

Adjusted EBITDA decreased $335 million and $733 million for the three and nine months ended September 30, 2022, respectively.

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[1] We define a "DTC Subscription" as:

a) a retail subscription to discovery+, HBO or HBO Max for which we have recognized subscription revenue, whether directly or through a third party, from a direct-to-consumer platform; b) a wholesale subscription to discovery+, HBO, or HBO Max for which we have recognized subscription revenue from a fixed-fee arrangement with a third party and where the individual user has activated their subscription; and c) a wholesale subscription to discovery+, HBO or HBO Max for which we have recognized subscription revenue on a per subscriber basis.

We may refer to the aggregate number of DTC Subscriptions as "subscribers."

The reported number of "subscribers" included herein and the definition of "DTC Subscription" as used herein excludes:

a) individuals who subscribe to DTC products, other than discovery+, HBO and HBO Max, that may be offered by us or by certain joint venture partners or affiliated parties from time to time; b) a limited number of international discovery+ subscribers that are part of non-strategic partnerships or short-term arrangements as may be identified by the Company from time to time; c) domestic, and international Cinemax subscribers, and international basic HBO subscribers; and d) users on free trials.

Corporate

The following tables present Adjusted EBITDA and a reconciliation of Adjusted EBITDA to operating loss (in millions):

	Three Months Ended September 30,						% Change		
	2022			2021					
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Adjusted EBITDA	$ (340)	$ —	$ (340)	$ (95)	$ (231)	$ (326)	NM	(4) %	(7) %
Employee share-based compensation	113	—	113	36	21	57			
Depreciation and amortization	92	(29)	63	23	46	69			
Restructuring and other charges	93	—	93	—	—	—			
Transaction and integration costs	57	—	57	13	111	124			
Asset impairment and loss (gain) on disposition and disposal groups	28	—	28	—	(223)	(223)			
Inter-segment eliminations	(20)	—	(20)	—	—	—			
Operating loss	$ (703)	$ 29	$ (674)	$ (167)	$ (186)	$ (353)			

	Nine Months Ended September 30,						% Change		
	2022			2021					
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Adjusted EBITDA	$ (749)	$ (353)	$ (1,102)	$ (273)	$ (672)	$ (945)	NM	(17) %	(19) %
Employee share-based compensation	317	(11)	306	124	159	283			
Depreciation and amortization	188	(18)	170	70	140	210			
Restructuring and other charges	162	(44)	118	—	44	44			
Transaction and integration costs	1,126	(564)	562	48	901	949			
Asset impairment and loss (gain) on disposition and disposal groups	28	—	28	—	(223)	(223)			
Inter-segment eliminations	(28)	—	(28)	—	—	—			
Operating loss	$ (2,542)	$ 284	$ (2,258)	$ (515)	$ (1,693)	$ (2,208)			

Corporate operations primarily consist of executive management and administrative support services, which are recorded in selling, general and administrative expense, as well as substantially all of our share-based compensation and third-party transaction and integration costs.

Selling, general and administrative expense was $358 million and $234 million for the three months ended September 30, 2022 and 2021, respectively, and $1,091 million and $692 million for the nine months ended September 30, 2022 and 2021, respectively. Adjusted EBITDA decreased 7% and 19% for the three and nine months ended September 30, 2022, respectively. The decreases were primarily attributable to increased securitization costs from higher interest rates, partially offset by lower personnel costs.

As reported transaction and integration costs for the nine months ended September 30, 2022 included the impact of the issuance of additional shares of common stock to Advance/Newhouse Programming Partnership of $789 million upon the closing of the Merger. (See Note 2 to the accompanying consolidated financial statements.)

Inter-segment Eliminations

The following tables present our inter-segment eliminations, by revenue and expense (in millions):

	Three Months Ended September 30,								
	2022			2021			% Change		
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Inter-segment revenue eliminations	$ (785)	$ —	$ (785)	$ —	$ (751)	$ (751)	NM	(5) %	(5) %
Inter-segment expense eliminations	(791)	—	(791)	—	(786)	(786)	NM	(1) %	(1) %
Adjusted EBITDA	6	—	6 —	—	35	35	NM	(83) %	(83) %
Restructuring and other charges	(5)	—	(5)	—	—	—			
Amortization of fair value step-up for content	181	—	181	—	—	—			
Operating income (loss)	$ (170)	$ —	$ (170)	$ —	$ 35	$ 35			

	Nine Months Ended September 30,								
	2022			2021			% Change		
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
Inter-segment revenue eliminations	$ (1,734)	$ (1,065)	$ (2,799)	$ —	$ (2,074)	$ (2,074)	NM	(35) %	(35) %
Inter-segment expense eliminations	(1,726)	(1,038)	(2,764)	—	(2,147)	(2,147)	NM	(29) %	(29) %
Adjusted EBITDA	(8)	(27)	(35) —	—	73	73	NM	NM	NM
Restructuring and other charges	(23)	—	(23)	—	—	—			
Amortization of fair value step-up for content	422	—	422	—	—	—			
Operating income (loss)	$ (407)	$ (27)	$ (434)	$ —	$ 73	$ 73			

Inter-segment revenue and expense eliminations primarily represent inter-segment content transactions and marketing and promotion activity between reportable segments. In our current segment structure, in certain instances, production and distribution activities are in different segments. Inter-segment content transactions are presented “gross” (i.e. the segment producing and/or licensing the content reports revenue and profit from inter-segment transactions in a manner similar to the reporting of third-party transactions, and the required eliminations are reported on the separate “Eliminations” line when presenting our summary of segment results). Generally, timing of revenue recognition is similar to the reporting of third-party transactions. The segment distributing the content, e.g. via our DTC or linear services, capitalizes the cost of inter-segment content transactions, including “mark-ups” and amortizes the costs over the shorter of the license term, if applicable, or the expected period of use. The content amortization expense related to the inter-segment profit is also eliminated on the separate “Eliminations” line when presenting our summary of segment results.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources of Cash

Historically, we have generated a significant amount of cash from operations. During the nine months ended September 30, 2022, we funded our working capital needs primarily through cash flows from operations. As of September 30, 2022, we had $2.4 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. As of September 30, 2022, we also have a $6.0 billion revolving credit facility and a $1.5 billion commercial paper program, as described below. In connection with the Merger, we incurred a substantial amount of additional third-party indebtedness, which has significantly increased our future financial commitments, including aggregate interest payments.

- *Debt*

  Revolving Credit Facility and Commercial Paper

  In June 2021, Discovery Communications, LLC ("DCL") entered into a multicurrency revolving credit agreement (the "Revolving Credit Agreement"), replacing the existing $2.5 billion credit agreement, dated February 4, 2016, as amended. DCL has the capacity to borrow up to $6.0 billion under the Revolving Credit Agreement (the "Credit Facility"). The Revolving Credit Agreement includes a $150 million sublimit for the issuance of standby letters of credit. DCL may also request additional commitments up to $1.0 billion from the lenders upon satisfaction of certain conditions. Obligations under the Revolving Credit Agreement are unsecured and are fully and unconditionally guaranteed by the Company, Scripps Networks Interactive, Inc. ("Scripps Networks"), and WarnerMedia Holdings, Inc. The Credit Facility 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 Revolving Credit Agreement contains customary representations and warranties as well as affirmative and negative covenants. As of September 30, 2022, DCL was in compliance with all covenants and there were no events of default under the Revolving Credit Agreement.

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

  During the nine months ended September 30, 2022, we borrowed and repaid $885 million under our commercial paper program. As of September 30, 2022 and December 31, 2021, the Company had no outstanding borrowings under the Credit Facility or the commercial paper program.

- *Derivatives*

  We received investing proceeds of $722 million during the nine months ended September 30, 2022 from the unwind and settlement of derivative instruments. (See Note 12 to the accompanying consolidated financial statements.)

- *Investments and Business Combinations*

  During the nine months ended September 30, 2022, we completed the sale of our minority interest in Discovery Education and other investments and received cash of $162 million.

  In addition, we acquired $3.6 billion of cash in connection with the Merger and the post-closing working capital settlement process.

Uses of Cash

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

- *Content Acquisition*

  We plan to continue to invest significantly in the creation and acquisition of new content. Subsequent to the Merger, contractual commitments to acquire content have increased significantly compared to our commitments as set forth in "Material Cash Requirements from Known Contractual and Other Obligations" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2021 Form 10-K. (See Note 19 to the accompanying consolidated financial statements.)

- *Debt*

  Term Loan

  During the nine months ended September 30, 2022, the Company repaid $6.0 billion of aggregate principal amount outstanding of its term loans prior to the due dates of October 2023 and April 2025.

  Senior Notes

  During the nine months ended September 30, 2022, we repaid in full at maturity $327 million aggregate principal amount outstanding of our 2.375% Euro Denominated Senior Notes due March 2022. In addition, we have $106 million, $796 million, $192 million, and $159 million of senior notes coming due in February, March, April, and September 2023, respectively.

  In anticipation of the Merger, WarnerMedia Holdings, Inc., formerly a wholly owned subsidiary of AT&T, entered into a $10.0 billion term loan credit agreement (the "Term Loan Credit Agreement") and issued $30.0 billion aggregate principal amount of senior unsecured notes. The proceeds were used to fund the cash payments to AT&T and to otherwise fund the Merger and pay fees and expenses. Upon completion of the Merger, AT&T was released from all obligations and the debt was unconditionally guaranteed on a senior unsecured basis by WBD and each wholly owned domestic subsidiary of WBD that is a borrower or considered a subsidiary guarantor under the Term Loan Credit Agreement or the Revolving Credit Agreement, and will rank equally with all of the Company's other unsecured senior debt.

  On a consolidated basis, we also assumed an additional $1.5 billion of senior notes (at par value) issued by the WarnerMedia Business that existed prior to the Merger.

- *Capital Expenditures and Investments in Next Generation Initiatives*

  We effected capital expenditures of $623 million during the nine months ended September 30, 2022, including amounts capitalized to support our next generation platforms, such as HBO Max and discovery+. In addition, we expect to continue to incur significant costs to develop and market HBO Max and discovery+ streaming products 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 9 to the accompanying consolidated financial statements.) We also provide funding to our investees from time to time. During the nine months ended September 30, 2022, we contributed $137 million for investments in and advances to our investees.

  We expect to incur significant, one-time transaction and integration costs during the first year following the Merger. (See Note 3 to the accompanying consolidated financial statements.)

- *Redeemable Noncontrolling Interest and Noncontrolling Interest*

  Due to business combinations, we have redeemable equity balances of $318 million at September 30, 2022, which may require the use of cash in the event holders of noncontrolling interests put their interests to us. Distributions to noncontrolling interests and redeemable noncontrolling interests totaled $286 million and $231 million for the nine months ended September 30, 2022 and 2021, 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 $2.0 billion upon completion of our existing $1.0 billion repurchase 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. During the nine months ended September 30, 2022, 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, 2022, we made cash payments of $859 million and $1,305 million for income taxes and interest on our outstanding debt, respectively. We expect cash required for interest payments to increase significantly as a result of the Merger.

Cash Flows

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

	Nine Months Ended September 30,	
	2022	2021
Cash, cash equivalents, and restricted cash, beginning of period	$ 3,905	$ 2,122
Cash provided by operating activities	1,458	1,914
Cash provided by (used in) investing activities	3,742	(30)
Cash used in financing activities	(6,470)	(811)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(122)	(69)
Net change in cash, cash equivalents, and restricted cash	(1,392)	1,004
Cash, cash equivalents, and restricted cash, end of period	$ 2,513	$ 3,126

Operating Activities

Cash provided by operating activities was $1,458 million and $1,914 million during the nine months ended September 30, 2022 and 2021, respectively. The decrease in cash provided by operating activities was primarily attributable to a negative fluctuation in working capital activity, partially offset an increase in net income excluding non-cash items.

Investing Activities

Cash provided by (used in) investing activities was $3,742 million and $30 million during the nine months ended September 30, 2022 and 2021, respectively. The increase in cash provided by investing activities was primarily attributable to proceeds received from cash acquired during the Merger and the post-closing working capital settlement process and from the unwind and settlement of derivative instruments, partially offset by a reduction in cash received from the sales and maturities of investments and increased purchases of property and equipment during the nine months ended September 30, 2022.

Financing Activities

Cash used in financing activities was $6,470 million and $811 million during the nine months ended September 30, 2022 and 2021, respectively. The increase in cash used in financing activities was primarily attributable to principal repayments made on our term loans and senior notes and an increase in distributions to noncontrolling interests and redeemable noncontrolling interests, partially offset by securitization receivables collected but not remitted during the nine months ended September 30, 2022.

Capital Resources

As of September 30, 2022, capital resources were comprised of the following (in millions).

	September 30, 2022		
	Total Capacity	Outstanding Indebtedness	Unused Capacity
Cash and cash equivalents	$ 2,422	$ —	$ 2,422
Revolving credit facility and commercial paper program	6,000	—	6,000
Term loans	4,000	4,000	—
Senior notes [(a)]	46,144	46,144	—
Total	$ 58,566	$ 50,144	$ 8,422

[(a)] Interest on the senior notes is paid annually or semi-annually. Our senior notes outstanding as of September 30, 2022 had interest rates that ranged from 1.90% to 9.15% and will mature between 2023 and 2062.

We expect that our cash balance, cash generated from operations and availability under the Credit Facility will be sufficient to fund our cash needs for both the short-term and the long-term. 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, 2022, we held $2.2 billion of our $2.4 billion of cash and cash equivalents in our foreign subsidiaries. The Tax Cuts and Jobs Act of 2017 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

As of September 30, 2022 and December 31, 2021, all of the Company's outstanding $14.6 billion registered senior notes have been issued by DCL, a wholly owned subsidiary of the Company, and guaranteed by the Company, Scripps Networks, and WarnerMedia Holdings, Inc. As of September 30, 2022, the Company also has outstanding $30.0 billion of senior notes issued by WarnerMedia Holdings, Inc. and guaranteed by the Company, Scripps and DCL; $1.5 billion of senior notes issued by the legacy WarnerMedia Business (not guaranteed); and approximately $23 million of un-exchanged senior notes issued by Scripps Networks (not guaranteed). (See Note 10 to the accompanying consolidated financial statements.) DCL primarily includes the Discovery Channel and TLC networks in the U.S. DCL is a wholly owned subsidiary of the Company. Scripps Networks is also 100% owned by the Company.

The tables below present the summarized financial information as combined for Warner Bros. Discovery, Inc. (the "Parent"), Scripps Networks, DCL, and WarnerMedia Holdings, Inc. (collectively, the "Obligors"). All guarantees of DCL and WarnerMedia Holdings, Inc.'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.

Note Guarantees issued by Scripps Networks, DCL or WarnerMedia Holdings, Inc., 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, (iii) upon the merger or consolidation of any Subsidiary Guarantor with and into DCL, WarnerMedia Holdings, Inc. or the Parent or another Subsidiary Guarantor, as applicable, 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). The summarized balance sheet information as of December 31, 2021 does not include information with respect to WarnerMedia Holdings, Inc., as WarnerMedia Holdings, Inc. was a wholly-owned subsidiary of AT&T with *de minimis* assets and no operating activities for the year ended December 31, 2021. The summarized income statement information for the nine months ended September 30, 2022 includes information with respect to WarnerMedia Holdings, Inc. beginning subsequent to the close of the Merger.

	September 30, 2022	December 31, 2021
Current assets	$ 1,594	$ 4,452
Non-guarantor intercompany trade receivables, net	161	85
Noncurrent assets	5,880	5,969
Current liabilities	1,635	1,018
Noncurrent liabilities	48,694	15,778

	Nine Months Ended September 30, 2022
Revenues	$ 1,603
Operating income	(623)
Net income	(1,102)
Net income available to Warner Bros. Discovery, Inc.	(1,108)

MATERIAL CASH REQUIREMENTS FROM KNOWN CONTRACTUAL AND OTHER OBLIGATIONS

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. Subsequent to the Merger, total contractual commitments, particularly in respect of long-term debt and content purchase obligations, have increased significantly compared to our commitments set forth in "Material Cash Requirements from Known Contractual and Other Obligations" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2021 Form 10-K. (See Note 10 and Note 19 to the accompanying consolidated financial statements.)

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 18 to the accompanying consolidated financial statements.)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Except for updates to accounting policies as a result of the Merger described in Note 1 to the accompanying consolidated financial statements, our critical accounting policies and estimates have not changed since December 31, 2021. 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 2021 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, 2022. (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, as well as in other public statements we may make, may 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, anticipated sources and uses of capital and our recently completed acquisition of the 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 effects of our recently completed acquisition of the WarnerMedia Business;
- changes in the distribution and viewing of television programming, including the continuing expanded deployment of personal video recorders, subscription video on demand, internet protocol television, mobile personal devices, personal tablets and user-generated content and their impact on television advertising revenue;
- continued consolidation of distribution customers and production studios;
- a failure to secure affiliate or distribution agreements or the renewal of such agreements or other wholesale subscription or bundled service arrangements 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 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 recently completed acquisition of the WarnerMedia Business, 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 discovery+ and HBO Max streaming products;
- realizing direct-to-consumer subscriber goals, including through the activation of subscriptions by subscribers receiving access through bundled services or other wholesale subscription arrangements;
- future financial performance, including availability, terms, and deployment of capital;
- inherent uncertainties involved in the estimates and assumptions used in the preparation of financial forecasts;
- the ability of suppliers and vendors to deliver products, equipment, software, and services;
- the outcome of any pending or threatened or potential litigation, including any litigation that has been or may be instituted against us relating to our recently completed acquisition of the WarnerMedia Business;
- availability of qualified personnel and recruiting, motivating and retaining talent;
- the possibility or duration of an industry-wide strike or other job action affecting a major entertainment industry union or others involved in the development and production of our television programming, feature films and interactive entertainment (e.g., games) who are covered by collective bargaining agreements;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission and similar authorities internationally 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 terrorist attacks and military action, including the intensification or expansion of the conflict in Ukraine;
- service disruptions or the failure of communications satellites or transmitter facilities;
- theft of our content and unauthorized duplication, distribution and exhibition of such content;
- changes in existing U.S. and foreign laws and regulations, as well as possible private rights of action, regarding intellectual property rights protection and privacy, personal data protection and user consent;
- potential changes to the electromagnetic spectrum currently used for broadcast television and satellite distribution being considered by the Federal Communications Commission could negatively impact our WarnerMedia Business's ability to deliver pay-TV network feeds of our domestic pay-TV programming networks to our affiliates, and, in some cases, to produce high-value news and entertainment programming on location;

- our level of debt, including the significant indebtedness incurred in connection with the acquisition of the WarnerMedia Business, and our future compliance with debt covenants;
- reduced access to capital markets or significant increases in costs to borrow, including as a result of higher interest rates and perceived, potential or actual inflation; 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 Part I, Item 1A, “Risk Factors,” in our 2021 Form 10-K, Part II, Item 1A, “Risk Factors” in our Quarterly Report on Form 10-Q for the period ended March 31, 2022 (the “Q1 10-Q”), and Part II, Item 1A, “Risk Factors” in our Quarterly Report on Form 10-Q for the period ended June 30, 2022 (the “Q2 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 2021 Form 10-K. Our exposures to market risk have not changed materially since December 31, 2021.

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, 2022. 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, 2022, 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

On April 8, 2022, Discovery completed its merger with WM. (See Note 3 to the accompanying consolidated financial statements). We are currently integrating policies, processes, people, technology and operations for the combined company. Management will continue to evaluate our internal control over financial reporting as we execute integration activities. During the three months ended September 30, 2022, except as noted above, 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 19 to the accompanying consolidated financial statements.)

Between September 23, 2022 and October 24, 2022, two purported class action lawsuits (Collinsville Police Pension Board v. Discovery, Inc., et al., Case No. 1:22-cv-08171 and Todorovski v. Discovery, Inc., et al., Case No. 1:22-cv-09125) were filed in the United States District Court for the Southern District of New York. The complaints name Warner Bros. Discovery, Inc., Discovery, Inc., David Zaslav, and Gunnar Wiedenfels as defendants. The complaints generally allege that the defendants made false and misleading statements in SEC filings and in certain public statements relating to the Merger, in violation of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, as amended. The complaints seek damages and other relief. The Company intends to vigorously defend these litigations.

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 2021 Form 10-K, Part II, Item 1A "Risk Factors” of the Company’s Q1 Form 10-Q and Part II, Item 1A “Risk Factors” of the Company’s Q2 Form 10-Q.

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.

ITEM 6. Exhibits.

Exhibit No.	Description
10.1	Amendment No. 1 to Credit Agreement, dated as of August 2, 2022, by and among WarnerMedia Holdings, Inc., Warner Bros. Discovery, Inc., Discovery Communications, LLC, Scripps Networks Interactive, Inc., certain lenders party thereto and JPMorgan Chase Bank, N.A., as agent (incorporated by reference to Exhibit 10.7 to the Form 10-Q filed on August 5, 2022).
10.2	Amendment No. 2 to Credit Agreement, dated as of August 2, 2022, by and among Discovery Communications, LLC, Warner Bros. Discovery, Inc., Scripps Networks Interactive, Inc., WarnerMedia Holdings, Inc., certain lenders party thereto and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.6 to the Form 10-Q filed on August 5, 2022).
10.3	Joinder Agreement, dated as of July 5, 2022, by the various entities party thereto (incorporated by reference to Exhibit 10.12 to the Form 10-Q filed on August 5, 2022).*
10.4	Third Amended and Restated Receivables Purchase Agreement, dated as of July 5, 2022, by and among Warner Bros. Discovery Receivables Funding, LLC, the persons from time to time party thereto, PNC Bank, National Association, Turner Broadcasting System, Inc. and PNC Capital Markets LLC (incorporated by reference to Exhibit 10.15 to the Form 10-Q filed on August 5, 2022).*
10.5	Fourth Amended and Restated Receivables Purchase Agreement, dated as of August 30, 2022, by and among Warner Bros. Discovery Receivables Funding, LLC, the persons from time to time party thereto, PNC Bank, National Association, Turner Broadcasting System, Inc. and PNC Capital Markets LLC (filed herewith).*
10.6	Employment Agreement, dated as of July 9, 2022, by and between Bruce Campbell and Discovery Communications, LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on July 14, 2022).* †
10.7	Employment Agreement, dated as of July 11, 2022, by and between Gunnar Wiedenfels and Discovery Communications, LLC (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on July 14, 2022).* †
10.8	Aircraft Time Sharing Agreement, dated as of August 1, 2022, by and between David Zaslav and Warner Media, LLC (filed herewith).†
10.9	Employment Agreement, dated as of August 2, 2022, by and between JB Perrette and Discovery Communications, LLC (filed herewith).†
10.10	Employment Agreement, dated as of August 26, 2022, by and between David Leavy and Discovery Communications, LLC (filed herewith).†
22	Table of Senior Notes, Issuer and Guarantors (incorporated by reference to Exhibit 22 to the Form 10-Q filed on August 5, 2022).
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)

*Exhibits, schedules and annexes have been omitted pursuant to Item 601(a)(5) of Regulation S-K and will be supplementally provided to the SEC upon request.

†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, 2022 and December 31, 2021, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2022 and 2021, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2022 and 2021, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021, (v) Consolidated Statement of Equity for the three and nine months ended September 30, 2022 and 2021, 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.

		WARNER BROS. DISCOVERY, INC. (Registrant)
Date: November 3, 2022	By:	/s/ David M. Zaslav David M. Zaslav President and Chief Executive Officer
Date: November 3, 2022	By:	/s/ Gunnar Wiedenfels Gunnar Wiedenfels Chief Financial Officer