Discovery Communications, Inc.
Form 10-Q
August 04, 2017

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-34177

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

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

(240) 662-2000
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ý	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	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 ý

Total number of shares outstanding of each class of the Registrant’s common stock as of July 28, 2017:

Series A Common Stock, par value $0.01 per share	153,933,105
Series B Common Stock, par value $0.01 per share	6,512,379
Series C Common Stock, par value $0.01 per share	218,521,945

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

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$206	$ 300
Receivables, net	1,758	1,495
Content rights, net	390	310
Prepaid expenses and other current assets	416	397
Total current assets	2,770	2,502
Noncurrent content rights, net	2,070	2,089
Property and equipment, net	514	482
Goodwill, net	8,123	8,040
Intangible assets, net	1,481	1,512
Equity method investments, including note receivable	700	557
Other noncurrent assets	491	490
Total assets	$16,149	$ 15,672
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$222	$ 241
Accrued liabilities	946	1,075
Deferred revenues	193	163
Current portion of debt	105	82
Total current liabilities	1,466	1,561
Noncurrent portion of debt	8,158	7,841
Deferred income taxes	370	467
Other noncurrent liabilities	392	393
Total liabilities	10,386	10,262
Commitments and contingencies (See Note 15)		
Redeemable noncontrolling interests	237	243
Equity:		
Discovery Communications, Inc. stockholders' equity:		
Series A convertible preferred stock: $0.01 par value; 75 shares authorized; 71 shares issued	1	1
Series C convertible preferred stock: $0.01 par value; 75 shares authorized; 26 and 28 shares issued	1	1
Series A common stock: $0.01 par value; 1,700 shares authorized; 157 and 155 shares issued	1	1
Series B convertible common stock: $0.01 par value; 100 shares authorized; 7 shares issued	—	—
Series C common stock: $0.01 par value; 2,000 shares authorized; 383 and 381 shares issued	4	4
Additional paid-in capital	7,177	7,046
Treasury stock, at cost	(6,737)	(6,356)
Retained earnings	5,696	5,232
Accumulated other comprehensive loss	(617)	(762)
Total equity	5,526	5,167
Total liabilities and equity	$16,149	$ 15,672

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Distribution	$857	$813	$1,712	$1,614
Advertising	805	813	1,492	1,500
Other	83	82	154	155
Total revenues	1,745	1,708	3,358	3,269
Costs and expenses:				
Costs of revenues, excluding depreciation and amortization	634	603	1,241	1,195
Selling, general and administrative	389	400	804	808
Depreciation and amortization	80	80	160	159
Restructuring and other charges	8	39	32	45
Loss (gain) on disposition	4	—	4	(13)
Total costs and expenses	1,115	1,122	2,241	2,194
Operating income	630	586	1,117	1,075
Interest expense	(91)	(91)	(182)	(176)
Loss on extinguishment of debt	—	—	(54)	—
Loss from equity investees, net	(42)	(23)	(95)	(31)
Other (expense) income, net	(24)	38	(37)	22
Income before income taxes	473	510	749	890
Income tax expense	(93)	(95)	(148)	(206)
Net income	380	415	601	684
Net income attributable to noncontrolling interests	—	(1)	—	(1)
Net income attributable to redeemable noncontrolling interests	(6)	(6)	(12)	(12)
Net income available to Discovery Communications, Inc.	$374	$408	$589	$671
Net income per share available to Discovery Communications, Inc. Series A, B and C common stockholders:				
Basic	$0.65	$0.66	$1.02	$1.08
Diluted	$0.64	$0.66	$1.01	$1.08
Weighted average shares outstanding:				
Basic	384	404	387	409
Diluted	578	616	583	623

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$380	$415	$601	$684
Other comprehensive income (loss) adjustments, net of tax:				
Currency translation	91	(65)	159	(7)
Available-for-sale securities	5	(4)	4	(25)
Derivatives	(9)	5	(17)	(12)
Comprehensive income	467	351	747	640
Comprehensive income attributable to noncontrolling interests	—	(1)	—	(1)
Comprehensive income attributable to redeemable noncontrolling interests	(6)	(8)	(13)	(15)
Comprehensive income attributable to Discovery Communications, Inc.	$461	$342	$734	$624

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

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

	Six Months Ended June 30,	
	2017	2016
Operating Activities		
Net income	$601	$684
Adjustments to reconcile net income to cash provided by operating activities:		
Share-based compensation expense	22	27
Depreciation and amortization	160	159
Content amortization and impairment expense	910	864
Loss (gain) on disposition	4	(13)
Equity in losses of investee companies, including cash distributions	100	34
Deferred income taxes	(88)	(105)
Loss on extinguishment of debt	54	—
Realized loss from derivative instruments	—	3
Other, net	16	26
Changes in operating assets and liabilities:		
Receivables, net	(249)	(73)
Content rights, net	(947)	(937)
Accounts payable and accrued liabilities	(150)	(180)
Share-based compensation liabilities	(1)	(5)
Income taxes receivable and prepaid income taxes	32	28
Foreign currency and other, net	(21)	(122)
Cash provided by operating activities	443	390
Investing Activities		
Payments for investments	(270)	(60)
Distributions from equity method investees	18	40
Purchases of property and equipment	(78)	(43)
Proceeds from disposition, net of cash disposed	29	19
Proceeds from (payments for) derivative instruments, net	5	(3)
Other investing activities, net	3	(2)
Cash used in investing activities	(293)	(49)
Financing Activities		
Commercial paper borrowings, net	25	13
Borrowings under revolving credit facility	350	280
Principal repayments of revolving credit facility	(200)	(572)
Borrowings from debt, net of discount and including premiums	659	498
Principal repayments of debt, including discount payment and premiums to par value	(650)	—
Principal repayments of capital lease obligations	(19)	(17)
Repurchases of stock	(501)	(750)
Cash settlement of common stock repurchase contracts	58	—
Distributions to redeemable noncontrolling interests	(20)	(17)
Share-based plan payments, net	11	2
Other financing activities, net	(8)	(13)
Cash used in financing activities	(295)	(576)
Effect of exchange rate changes on cash and cash equivalents	51	30

Net change in cash and cash equivalents	(94)	(205)
Cash and cash equivalents, beginning of period	300	390
Cash and cash equivalents, end of period	$206	$185

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

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

	Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Par Value	Shares	Par Value					
December 31, 2016	99	$ 2	543	$ 5	$ 7,046	$ (6,356)	$ 5,232	$ (762)	$ 5,167
Cumulative effect of accounting change - share-based payments	—	—	—	—	4	—	(4)	—	—
Net income available to Discovery Communications, Inc.	—	—	—	—	—	—	589	—	589
Other comprehensive income	—	—	—	—	—	—	—	145	145
Repurchases of stock	(2)	—	—	—	—	(381)	(120)	—	(501)
Cash settlement of common stock repurchase contracts	—	—	—	—	58	—	—	—	58
Share-based compensation	—	—	—	—	23	—	—	—	23
Tax settlements associated with share-based compensation	—	—	(1)	—	(30)	—	—	—	(30)
Issuance of stock in connection with share-based plans	—	—	5	—	76	—	—	—	76
Redeemable noncontrolling interest adjustments to redemption value	—	—	—	—	—	—	(1)	—	(1)
June 30, 2017	97	$ 2	547	$ 5	$ 7,177	$ (6,737)	$ 5,696	$ (617)	$ 5,526

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

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

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Discovery Communications, Inc. (“Discovery” or the “Company”) is a global media company that provides content across multiple distribution platforms, including pay-television ("pay-TV"), free-to-air ("FTA") and broadcast, various digital distribution platforms and content licensing agreements. The Company also operates a portfolio of websites, digital direct-to-consumer products, a production studio and curriculum-based education products and services. As further discussed in Note 2, on April 28, 2017, the Company sold two of its production studios Raw and Betty to DLG Acquisitions Limited (“All3Media”). The Company presents its operations in two reportable segments: U.S. Networks, consisting principally of domestic television networks and digital content services, and International Networks, consisting principally of international television networks and digital content services. In addition, Education and Other consists principally of curriculum-based product and service offerings and the production studio. Financial information for Discovery’s reportable segments is discussed in Note 16.

Basis of Presentation

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

Unaudited Interim Financial Statements

These consolidated financial statements are unaudited; however, in the opinion of management, they reflect all adjustments consisting only of normal recurring adjustments necessary to state fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles (“GAAP”) applicable to interim periods. The results of operations for the interim periods presented are not necessarily indicative of results for the full year or future periods. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Discovery’s Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”).

Use of Estimates

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

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

Reclassifications

The Company adopted new accounting guidance for share-based payments, deferred income taxes and statements of cash flows as of January 1, 2017. The adoption of the new guidance for deferred income taxes resulted in reclassifications of current deferred tax assets to noncurrent deferred tax assets and liabilities in the Company's balance sheet as of December 31, 2016 to conform to the current period presentation. The impact of these reclassifications is shown within the Balance Sheet Classification of Deferred Income Taxes section below. The new

accounting pronouncements adopted for share-based payments resulted in the reclassification of net tax windfall adjustments of $1 million from financing activities to operating activities in the consolidated statement of cash flows for the six months ended June 30, 2016, to conform to the current period presentation. The impact of these reclassifications is shown within the Share-based Payments section below. The new accounting pronouncements adopted for cash flow statements did not impact the prior period amounts presented in these financial statements. The impact of the adoptions to

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other prior periods for the balance sheet and statement of operations that are not presented in these financial statements were disclosed in the 2016 Form 10-K. See further discussion of new accounting pronouncements adopted below.

Accounting and Reporting Pronouncements Adopted

Share-Based Payments

On January 1, 2017, the Company adopted new guidance that simplifies how share-based payments are accounted for and presented in the financial statements. The new guidance impacted the financial statements as follows:

- Actual forfeitures are used in the calculations of share-based compensation expense instead of estimated forfeitures. Retained earnings was decreased by approximately $4 million to effect the modified retrospective method impact of the adoption as of January 1, 2017.
- Net windfall tax benefits or deficiencies are recorded in income tax expense in the period in which they occur, whereas they were previously recorded in additional paid-in capital ("APIC"). This change has been applied prospectively. There were $1 million in net tax windfall adjustments for the three and six months ended June 30, 2016.
- Expected cash flows from net windfall tax benefits are no longer factored into the calculation of the number of shares for diluted earnings per share. This change has been applied prospectively. Net windfall tax benefits did not impact the presentation of diluted earnings per share for the three and six months ended June 30, 2016.
- Cash flows from net windfall tax benefits are classified as operating activities in the statement of cash flows presentation. Previously net windfall tax benefits were classified as financing activities. This change is applied retrospectively, resulting in the adjustment of prior period amounts. There were $1 million in net tax windfall adjustments for the six months ended June 30, 2016 reclassified from financing activities to operating activities.
- The Company evaluated the accounting for awards that are liability-classified and marked-to-market each accounting period and concluded that there is no change to the accounting for those awards.

Balance Sheet Classification of Deferred Income Taxes

On January 1, 2017, the Company adopted new guidance that removes the requirement to separate deferred tax assets and liabilities into current and noncurrent amounts, and instead requires all such amounts be classified as noncurrent on the Company's consolidated balance sheets. As a result, each tax jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company retrospectively adopted the new guidance effective January 1, 2017. The following table summarizes the adjustments the Company made to conform prior period classifications to the new guidance:

	December 31, 2016	
	As reported	As adjusted
Current deferred income tax assets	$97	$ —
Noncurrent deferred income tax assets (included within other noncurrent assets)	9	20
Noncurrent deferred income tax liabilities	(553)	(467)
Total	$(447)	$ (447)

Statement of Cash Flows

On January 1, 2017, the Company adopted new guidance that reduces diversity in practice in how certain cash receipts and cash payments are classified in the statement of cash flows. The topics relevant to the Company include: (1) debt prepayment or debt extinguishment costs, which prior to adoption were classified as operating activities, but are now

classified as financing activities, (2) settlement and receipt of discounts and premiums associated with our senior notes, which prior to adoption were classified as operating activities, but are now classified as financing activities when the stated interest rate is deemed not insignificant to the effective interest rate of the borrowing, (3) contingent consideration payments not made soon after a business combination date, which must be classified as financing activities up to the contingent consideration liability amount with any excess payment classified as operating activities, and (4) the election to assess distributions received from equity method investees based on the nature of distribution approach, which results in the classification of such distributions based on the nature of the activity that generated the distribution as either a return on investment (classified as cash inflows from operating activities) or a return of investment (classified as cash inflows from investing activities). The Company early adopted this guidance

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retrospectively effective January 1, 2017. There was no impact from the adoption of the new guidance on the prior period financial statements presented for the six months ended June 30, 2016, as there were no transactions related to the first and second items listed above and no change in the Company's historical accounting policy was required for the third and fourth items listed above.

Accounting and Reporting Pronouncements Not Yet Adopted

Goodwill

Under the current accounting guidance, the quantitative goodwill impairment test is performed using a two-step process. The first step of the process is to compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the quantitative impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the quantitative goodwill impairment test is required to be performed to measure the amount of impairment loss, if any. The second step of the quantitative goodwill impairment test compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit’s identifiable net assets excluding goodwill is compared to the fair value of the reporting unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

In January 2017, the FASB issued guidance that simplifies the subsequent measurement of goodwill impairments. The new guidance eliminates Step 2 from the goodwill impairment test, and eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. Therefore, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments in this update should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Income Taxes

In October 2016, the FASB issued guidance that simplifies the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new guidance includes requirements to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, and therefore eliminates the exception for an intra-entity transfer of an asset other than inventory. The new standard is effective for reporting periods beginning after December 15, 2017, with any adjustments applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact that the pronouncement will have on the consolidated financial statements.

Leases

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

Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued guidance regarding the classification and measurement of financial instruments. The standard requires equity securities, including available-for-sale ("AFS") securities, to be measured at fair value with changes in the fair value recognized through net income, superseding the guidance permitting entities to record gains and losses on equity securities with readily determinable fair values in accumulated other comprehensive income. Investments accounted for under the equity method of accounting or that result in consolidation are not included within the scope of this update. The new standard will affect the Company's accounting for AFS securities for reporting periods prospectively beginning after December 15, 2017.

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting pronouncement related to revenue recognition, which applies a single, comprehensive revenue recognition model for all contracts with customers. The core principle of the new guidance is that the Company will recognize revenue from the transfer of promised goods or services to customers at an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods or services. Subsequent to the issuance of the May 2014 guidance, several clarifications and updates have been issued by the FASB on this topic, the most recent of which

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was issued in December 2016. Many of these clarifications and updates to the guidance, as well as a number of interpretive issues, apply to companies in the media and entertainment industry.

The new standard is effective for annual reporting periods beginning after December 15, 2017. In addition, the guidance requires new or expanded disclosures related to the judgments made by companies when following the framework. The Company has made progress toward completing its assessment of the impact of adopting this new guidance, and the Company is finalizing its implementation plan. The Company currently does not anticipate that the adoption of the new guidance will have a material impact on the Company's financial statements, principally because the Company does not expect significant changes in the way it will record U.S. Networks' distribution or advertising revenues. The Company is still evaluating the impact of its international distribution and advertising revenue arrangements. The Company's evaluation of the expected impact of the new guidance on certain transactions could change if there are additional interpretations of the new revenue guidance that are different from the Company's preliminary conclusions. The Company will apply the new revenue standard beginning January 1, 2018. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). When the Company has completed its evaluation, it will determine the method of transition that will be used in adopting the new standard.

Concentrations Risk

Customers

The Company has long-term contracts with distributors around the world. For the U.S. Networks segment, more than 90% of distribution revenue comes from the Company's largest 10 distributors in the U.S. For the International Networks segment, approximately 43% of distribution revenue comes from the Company's largest 10 distributors outside of the U.S. Agreements in place with the major cable and satellite operators in the U.S. Networks and International Networks expire at various times from 2017 through 2021. Although the Company seeks to renew its agreements with its distributors prior to expiration of a contract, a delay in securing a renewal that results in a service disruption, a failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on the Company’s financial condition and results of operations. Not only could the Company experience a reduction in distribution revenue, but it could also experience a reduction in advertising revenue, as viewership is impacted by affiliate subscriber levels.

No individual customer accounted for more than 10% of total consolidated revenues for the three and six months ended June 30, 2017 or 2016. As of June 30, 2017 and December 31, 2016, the Company’s trade receivables did not represent a significant concentration of credit risk as the customers and markets in which the Company operates are varied and dispersed across many geographic areas.

Financial Institutions

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

Lender Counterparties

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

of June 30, 2017, the Company did not anticipate nonperformance by any of its counterparties.

Counterparty Credit Risk

The Company is exposed to the risk that the counterparties to outstanding derivative financial instruments will default on their obligations. The Company manages these credit risks through evaluating and monitoring the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with outstanding derivative financial instruments is spread across a relatively broad counterparty base of banks and financial institutions. In connection with the Company's hedge of certain investments classified as AFS securities, the Company has pledged shares as collateral to the derivative counterparty. (See Note 3.) The Company also has a limited number of arrangements where collateral is required to be

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posted in the instance that certain fair value thresholds are exceeded. As of June 30, 2017, no collateral has been posted by either party under these arrangements. As of June 30, 2017, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of $48 million. (See Note 4.)

NOTE 2. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Scripps Networks Interactive, Inc. ("Scripps")

On July 31, 2017, Discovery announced that it has signed an agreement for Discovery to acquire Scripps in a cash-and-stock transaction valued at $14.6 billion, or $90.00 per share. The transaction is expected to close by early 2018.

Scripps shareholders will receive $90.00 per share, comprised of $63.00 per share in cash and $27.00 per share in Discovery's Series C common stock based on Discovery's July 21, 2017 closing price. The stock portion will be subject to a collar based on the volume weighted average price of Discovery's Series C common stock over the 15 trading days ending on the third trading day prior to closing (the "Average Discovery Price"). Scripps shareholders will receive 1.2096 shares of Discovery's Series C common stock if the Average Discovery Price is below $22.32, and 0.9408 shares of Discovery's Series C common stock if the Average Discovery Price is above $28.70. If the Average Discovery Price is greater than or equal to $22.32 but less than or equal to $28.70, Scripps shareholders will receive a number of shares between 1.2096 and 0.9408 equal to $27.00 in value. If the Average Discovery Price is between $22.32 and $25.51, Discovery has the option to pay additional cash instead of issuing more shares. Scripps shareholders will have the option to elect to receive their consideration in cash, stock or the mixture described above, subject to pro rata cut backs to the extent cash or stock is oversubscribed. Post-closing, Scripps' shareholders will own approximately 20% of Discovery's fully diluted common shares and Discovery's shareholders will own approximately 80%. The cash portion of the purchase price will be financed with a combination of new debt and cash on hand. While Discovery expects to put in place financing for the transaction, Discovery also has secured fully committed financing from affiliates of Goldman Sachs & Co. LLC to fund the acquisition. The aggregate purchase price includes an assumption of Scripps' net debt of approximately $2.7 billion. The transaction is subject to approval by Discovery and Scripps' shareholders, regulatory approvals, and other customary closing conditions.

John C. Malone, Advance/Newhouse Programming Partnership ("Advance/Newhouse") and members of the Scripps family have entered into voting agreements to vote in favor of the transaction. In addition, Advance/Newhouse has provided its consent, in its capacity as the holder of Discovery's outstanding shares of Series A preferred stock, for Discovery to enter into the merger agreement and consummate the merger. In connection with this consent, Discovery and Advance/Newhouse have entered into an exchange agreement pursuant to which Advance/Newhouse will exchange all of its shares of Series A and Series C preferred stock of Discovery for shares of newly designated Series A-1 and Series C-1 preferred stock of Discovery. The exchange transaction will not change the aggregate number of shares of Discovery's Series A common stock and Series C common stock that are beneficially owned by Advance/Newhouse or change voting rights or liquidation preferences afforded to Advance/Newhouse.

Dispositions

Raw and Betty Studios, LLC.

On April 28, 2017, the Company sold Raw and Betty to All3Media. All3Media is a U.K. based television, film and digital production and distribution company. The Company owns 50% of All3Media and accounts for its investment in All3Media under the equity method of accounting. The Company recorded a loss of $4 million for the disposition of these businesses for the three and six months ended June 30, 2017. The loss on disposition of Raw and Betty included $38 million in net assets, including $30 million of goodwill. The impact to the Company's income before income taxes for Raw and Betty through the date of sale were losses of $3 million and $4 million for the three and six months ended June 30, 2017, respectively, and income of $1 million and $3 million for the three and six months ended June 30, 2016, respectively. Raw and Betty were components of the studios operating segment reported with

Education and Other.

Group Nine Transaction

On December 2, 2016, the Company recorded a pre-tax gain of $50 million upon disposition of its digital network Seeker and production studio SourceFed, following its contribution of the businesses and $100 million in cash for the formation of a new joint venture, Group Nine Media, Inc. ("Group Nine Media"), on December 2, 2016 ("Group Nine Transaction"). Group Nine Media includes Thrillist Media Group, NowThis Media and TheDodo.com. As a result of the transaction, Discovery obtained a 39% ownership interest in the preferred stock of Group Nine Media, which is accounted for under the cost method of accounting. (See Note 3.) The gain on contribution of the digital networks business included the disposition of $32 million in net assets, including

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$22 million of goodwill allocated to the transaction based on the relative fair values of the digital networks business disposed of and the portion of the U.S. Networks reporting unit that was retained.

Radio

On June 30, 2015, Discovery sold its radio business in the Nordics to Bauer Media Group ("Bauer") for total consideration, net of cash disposed, of €72 million ($80 million), which included €54 million ($61 million) in cash and €18 million ($19 million) of contingent consideration. The cumulative gain on the disposal is $1 million. Based on the final resolution and receipt of contingent consideration payable, Discovery recorded a pre-tax gain of $13 million for the three months ended March 31, 2016. The Company had previously recorded a $12 million loss including estimated contingent consideration as disclosed for the quarter ended December 31, 2015.

The Company determined that the disposals noted above did not meet the definition of discontinued operations, because the dispositions do not represent strategic shifts that have a significant impact on the Company's operations and consolidated financial results.

NOTE 3. INVESTMENTS

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

Category	Balance Sheet Location	June 30, 2017	December 31, 2016
Trading securities: mutual funds	Prepaid expenses and other current assets	$ 178	$ 160
Equity method investments	Equity method investments, including note receivable	700	557
AFS securities:			
Common stock	Other noncurrent assets	68	64
Common stock - pledged	Other noncurrent assets	68	64
Cost method investments	Other noncurrent assets	260	245
Total investments		$ 1,274	$ 1,090

Trading Securities

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

Equity Method Investments

The Company makes investments that support its underlying business strategy and enable it to enter new markets and develop programming. Almost all equity method investees are privately owned. The carrying values of the Company’s equity method investments are consistent with its ownership in the underlying net assets of the investees, except for Oprah Winfrey Network ("OWN"), because the Company has recorded losses in excess of its ownership interest, and certain investments in renewable energy projects accounted for using the Hypothetical Liquidation at Book Value ("HLBV") methodology under the equity method of accounting. Certain of the Company's equity method investments are VIEs, for which the Company is not the primary beneficiary. As of June 30, 2017, the Company’s maximum exposure for all its VIEs including the investment carrying values, unfunded contractual commitments, and guarantees made on behalf of VIEs was approximately $577 million. The Company's maximum estimated exposure excludes the non-contractual future funding of VIEs. The aggregate carrying values of these VIE investments were $544 million and $426 million as of June 30, 2017 and December 31, 2016, respectively. The Company recognized its portion of net losses generated by VIEs of $35 million and $5 million for the three months ended June 30, 2017 and 2016, respectively, and net losses and net income generated by VIEs of $78 million and $4 million for the six months ended June 30, 2017 and 2016, respectively.

OWN

OWN is a pay-TV network and website that provides adult lifestyle content, which is focused on self-discovery, self-improvement and entertainment. Since the initial equity was not sufficient to fund OWN's activities without additional subordinated financial support in the form of a note receivable held by the Company, OWN is a VIE. While

the Company and Harpo, Inc. ("Harpo") are partners who share equally in voting control, power is not shared because Harpo holds operational rights related to programming and marketing, as well as selection and retention of key management personnel, that significantly impact OWN's economic performance. Accordingly, the Company has determined that it is not the primary beneficiary of OWN and

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accounts for its investment in OWN using the equity method. However, the Company provides OWN content licenses and services, such as distribution, sales and administrative support, for a fee and has provided OWN funding. (See Note 14.)

The carrying value of the Company's investment in OWN of $350 million and $320 million as of June 30, 2017 and December 31, 2016, respectively, includes the Company's note receivable and accumulated investment balance. The Company's combined advances to and note receivable from OWN, including accrued interest, were $301 million and $311 million as of June 30, 2017 and December 31, 2016, respectively. The interest on the note, compounded annually, is 5.0%. During the six months ended June 30, 2017, the Company received net repayments of $17 million from OWN and accrued interest on the note receivable of $7 million. The note receivable is secured by the net assets of OWN. While the Company has no further funding commitments, the Company will provide additional funding to OWN, if necessary, and expects to recoup amounts funded. There can be no event of default on the borrowing until 2023. However, borrowings are scheduled for repayment four years after the borrowing date to the extent that OWN has excess cash to repay the borrowings then due. Following such repayment, OWN's subsequent cash distributions will be shared equally between the Company and Harpo. The Company monitors the financial results of OWN along with other relevant business information to assess the recoverability of the OWN note receivable. There has been no impairment of the OWN note receivable.

In accordance with the venture agreement, losses generated by OWN are generally allocated to both investors based on their proportionate ownership interests. However, the Company has recorded its portion of OWN's losses based upon accounting rules for equity method investments. Prior to the contribution of the Discovery Health network to OWN at its launch, the Company had recognized $104 million, or 100%, of OWN's net losses. During the three months ended March 31, 2012, accumulated operating losses at OWN exceeded the equity contributed to OWN, and Discovery began again to record 100% of OWN's net losses. Although OWN has become profitable, the Company will record 100% of any net losses to the extent they result from OWN's operations as long as Discovery has provided all funding to OWN and OWN's accumulated losses continue to exceed the equity contributed. All of OWN's net income has been and will continue to be recorded by the Company until the Company recovers losses absorbed in excess of the Company's equity ownership interest.

Based on the joint venture agreement, as amended on April 1, 2016, Harpo has the right to require the Company to purchase all or part of Harpo's interest in OWN at fair market value up to a maximum put amount during 90-day windows beginning on April 1, 2017 and every two and a half years commencing July 1, 2018 through January 1, 2026. The maximum put amount ranges from $100 million on the first put exercise date up to a cumulative cap of $400 million on the fifth put exercise date. On June 16, 2017, Harpo delivered its put notice for up to $100 million in value of its OWN membership interests to the Company. Harpo may withdraw its put exercise notice during the required 30 day valuation process, which has been extended until August 16, 2017. Harpo and Discovery are following a series of protocols specified in the joint venture agreement to determine an agreed upon fair value for the put. The number of common units subject to the put exercise represents the proportion of common units held by Harpo that equate to the fair value of the Harpo put purchase price. As of June 30, 2017, the Company has not recorded a liability in connection with the exercise of Harpo's put as the valuation has not been finalized and Harpo may withdraw its put exercise notice.

Renewable Energy Investments

During three and six months ended June 30, 2017, the Company invested $15 million and $196 million, respectively in limited liability companies that sponsor renewable energy projects related to solar energy. The Company expects these investments to result in tax benefits received, which reduce the Company's tax liability, and cash flows from the operation of the investee. These investments are considered VIEs of the Company. The Company does not consolidate the investments as the Company does not have the power to direct the activities that will most significantly impact their economic performance such as the investee's ability to obtain sufficient customers or control solar panel assets.

As such, the Company accounts for these investments under the equity method of accounting as the Company possesses rights that allow the Company to exercise significant influence over the investments. Once a stipulated return on investment is garnered by the Company, the investment allocations to the Company are significantly reduced. Accordingly, the Company applies the HLBV method for recognizing the Company's proportionate share of the investments' net earnings or losses.

During the three and six months ended June 30, 2017, the Company recognized $43 million and $126 million, respectively of losses on these investments as part of loss from equity investees, net in the consolidated statements of operations. The Company recorded benefits of $56 million and $112 million associated with these investments during the three and six months ended June 30, 2017, respectively, that were recorded as a component of income tax expense and operating cash flows. These benefits are comprised of $15 million from the entities' passive losses and $41 million from the investment tax credits for the three months ended June 30, 2017, the latter of which is accounted for utilizing the flow through method. For the six months ended June 30, 2017, the benefits are comprised of $46 million from the entities' passive losses and $66 million from investment tax credits. No investments in renewable energy projects were held by the Company for the three or six months ended June 30, 2016. As of June 30, 2017 and December 31, 2016, the Company's carrying value of renewable energy investments was $109 million and $39

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million, respectively. The Company has $31 million of future funding commitments for these investments as of June 30, 2017, which are cancelable under limited circumstances.

Other Equity Method Investments

At June 30, 2017 and December 31, 2016, the Company's other equity method investments included All3Media, a Russian cable television business, Mega TV in Chile, and certain joint ventures in Canada. The Company acquired other equity method investments, largely to enhance the Company's digital distribution strategies, particularly for Eurosport Player, and made additional contributions to existing equity method investments totaling $59 million during the six months ended June 30, 2017.

AFS Securities

On November 12, 2015, the Company acquired 5 million shares, or approximately 3%, of Lions Gate Entertainment Corp. ("Lionsgate"), an entertainment company, for $195 million. Lionsgate operates in the motion picture production and distribution, television programming and syndication, home entertainment and digital distribution business. As the shares have a readily determinable fair value and the Company has the intent to retain the investment, the shares are classified as AFS securities.

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

	June 30, 2017	December 31, 2016
Cost	$195	$ 195
Accumulated change in the value of:		
Hedged AFS recognized in other (expense) income, net	(15)	(19)
Unhedged AFS recorded in other comprehensive income (loss)	18	14
Other-than-temporary impairment of AFS securities	(62)	(62)
Carrying value	$136	$ 128

The Company hedged 50% of the shares with an equity collar (the "Lionsgate Collar") and pledged those shares as collateral to the derivative counter party. In the application of hedge accounting, when the share price of Lionsgate is within the boundaries of the collar and the hedge has no intrinsic value, the Company records the gains or losses on the Lionsgate AFS securities as a component of other comprehensive income (loss). When the share price of the Lionsgate AFS is outside the boundaries of the collar and the hedge has intrinsic value, the Company records a gain or loss for the change in the fair value of the hedged portion of Lionsgate shares that correspond to the change in intrinsic value of the hedge as a component of other (expense) income, net. (See Note 7.)

In 2016, the Company determined that the decline in value of AFS securities related to its investment in Lionsgate was other-than-temporary in nature and, as such, the cost basis was adjusted to fair value. The impairment determination was based on the sustained decline in the stock price of Lionsgate in relation to the purchase price and the prolonged length of time the fair value of the investment had been less than the carrying value. Based on the other-than-temporary impairment determination, unrealized pre-tax losses of $62 million previously recorded as a component of other comprehensive income (loss) were recognized as an impairment charge that was included as a component of other (expense) income, net for the quarter ended September 30, 2016. Since the impairment charge in 2016, the changes in fair value as a result of changes in stock price have been recorded as a component of other comprehensive income (loss).

Cost Method Investments

The Company's cost method investments as of June 30, 2017 primarily include its 39% minority interest in Group Nine Media valued at $182 million. (See Note 2.) Although Discovery has significant influence through its voting

rights in the preferred stock of Group Nine Media, the Company applies the cost method for its ownership interest, which does not meet the definition of in-substance common stock. The Company also has investments in an educational website, an electric car racing series and certain investments to enhance the Company's digital distribution strategies. For the six months ended June 30, 2017, the Company invested $15 million in various cost method investments.

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NOTE 4. FAIR VALUE MEASUREMENTS

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

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

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

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

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

		June 30, 2017			
Category	Balance Sheet Location	Level 1	Level 2	Level 3	Total
Assets					
Trading securities - mutual funds	Prepaid expenses and other current assets	$178	$ —	$ —	$178
AFS securities:					
Common stock	Other noncurrent assets	68	—	—	68
Common stock - pledged	Other noncurrent assets	68	—	—	68
Derivatives:					
Cash flow hedges:					
Foreign exchange	Prepaid expenses and other current assets	—	8	—	8
Net investment hedges:					
Cross-currency swaps	Other noncurrent assets	—	18	—	18
Fair value hedges:					
Equity (Lionsgate Collar)	Other noncurrent assets	—	22	—	22
Total		$314	$ 48	$ —	$362
Liabilities					
Deferred compensation plan	Accrued liabilities	$178	$ —	$ —	$178
Derivatives:					
Cash flow hedges:					
Foreign exchange	Accrued liabilities	—	23	—	23
Foreign exchange	Other noncurrent liabilities	—	1	—	1
Net investment hedges:					
Cross-currency swaps	Accrued liabilities	—	7	—	7
Cross-currency swaps	Other noncurrent liabilities	—	58	—	58
No hedging designation:					
Cross-currency swaps	Other noncurrent liabilities	—	2	—	2
Total		$178	$ 91	$ —	$269

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Category	Balance Sheet Location	December 31, 2016			
		Level 1	Level 2	Level 3	Total
Assets					
Trading securities - mutual funds	Prepaid expenses and other current assets	$ 160	$ —	$ —	$ 160
AFS securities:					
Common stock	Other noncurrent assets	64	—	—	64
Common stock - pledged	Other noncurrent assets	64	—	—	64
Derivatives:					
Cash flow hedges:					
Foreign exchange	Prepaid expenses and other current assets	—	31	—	31
Net investment hedges:					
Cross-currency swaps	Other noncurrent assets	—	35	—	35
Fair value hedges:					
Equity (Lionsgate Collar)	Other noncurrent assets	—	25	—	25
No hedging designation:					
Cross-currency swaps	Other noncurrent assets	—	1	—	1
Total		$ 288	$ 92	$ —	$ 380
Liabilities					
Deferred compensation plan	Accrued liabilities	$ 160	$ —	$ —	$ 160
Derivatives:					
Cash flow hedges:					
Foreign exchange	Accrued liabilities	—	18	—	18
Net investment hedges:					
Cross-currency swaps	Accrued liabilities	—	3	—	3
Cross-currency swaps	Other noncurrent liabilities	—	31	—	31
Total		$ 160	$ 52	$ —	$ 212

The fair value of Level 1 trading securities was determined by reference to the quoted market price per unit in active markets multiplied by the number of units held without consideration of transaction costs. (See Note 3). The fair value of the deferred compensation plan liability was determined based on the fair value of the related investments elected by employees.

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

Derivative financial instruments are comprised of foreign exchange, interest rate and equity contracts. (See Note 7). The fair value of Level 2 derivative financial instruments was determined using a market-based approach.

In addition to the financial instruments listed in the tables above, the Company holds other financial instruments, including cash deposits, accounts receivable, accounts payable, commercial paper, borrowings under the revolving credit facility and senior notes. The carrying values for such financial instruments, other than the senior notes, each approximated their fair values as of June 30, 2017 and December 31, 2016. The estimated fair value of the Company's outstanding senior notes using quoted prices from over the counter markets, considered Level 2 inputs, was $7.6 billion and $7.4 billion as of June 30, 2017 and December 31, 2016, respectively.

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NOTE 5. CONTENT RIGHTS

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

	June 30, 2017	December 31, 2016
Produced content rights:		
Completed	$4,034	$ 3,920
In-production	483	420
Coproduced content rights:		
Completed	647	632
In-production	26	57
Licensed content rights:		
Acquired	1,053	1,090
Prepaid[a]	168	129
Content rights, at cost	6,411	6,248
Accumulated amortization	(3,951)	(3,849)
Total content rights, net	2,460	2,399
Current portion	(390)	(310)
Noncurrent portion	$2,070	$ 2,089

[a] Prepaid licensed content rights includes prepaid rights to the Olympic games of $61 million that are reflected as current content rights assets on the consolidated balance sheet as of June 30, 2017.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Content amortization	$446	$420	$901	$855
Other production charges	76	79	141	138
Content impairments	6	3	9	9
Total content expense	$528	$502	$1,051	$1,002

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NOTE 6. DEBT
The table below presents the components of outstanding debt (in millions).

	June 30, 2017	December 31, 2016
5.625% Senior notes, semi-annual interest, due August 2019	$411	$ 500
5.05% Senior notes, semi-annual interest, due June 2020	789	1,300
4.375% Senior notes, semi-annual interest, due June 2021	650	650
2.375% Senior notes, euro denominated, annual interest, due March 2022	342	314
3.30% Senior notes, semi-annual interest, due May 2022	500	500
3.25% Senior notes, semi-annual interest, due April 2023	350	350
3.80% Senior notes, semi-annual interest, due March 2024	450	—
3.45% Senior notes, semi-annual interest, due March 2025	300	300
4.90% Senior notes, semi-annual interest, due March 2026	700	500
1.90% Senior notes, euro denominated, annual interest, due March 2027	684	627
6.35% Senior notes, semi-annual interest, due June 2040	850	850
4.95% Senior notes, semi-annual interest, due May 2042	500	500
4.875% Senior notes, semi-annual interest, due April 2043	850	850
Revolving credit facility	700	550
Commercial paper	73	48
Capital lease obligations	172	151
Total debt	8,321	7,990
Unamortized discount and debt issuance costs	(58)	(67)
Debt, net	8,263	7,923
Current portion of debt	(105)	(82)
Noncurrent portion of debt	$8,158	$ 7,841

Senior Notes
On March 13, 2017, Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of the Company, issued $450 million principal amount of 3.80% senior notes due March 13, 2024 (the "2017 USD Notes") and an additional $200 million principal amount of its existing 4.90% senior notes due March 11, 2026 (the "2016 USD Notes"). Interest on the 2017 USD Notes is payable semi-annually on March 13 and September 13 of each year. Interest on the 2016 USD Notes is payable semi-annually on March 11 and September 11 of each year. The proceeds received by DCL from the 2017 USD Notes were net of a $1 million issuance discount and $4 million of debt issuance costs. The proceeds received by DCL from the 2016 USD Notes included a $10 million issuance premium and were net of $2 million of debt issuance costs. The issuances are fully and unconditionally guaranteed by the Company.
DCL used the proceeds from the offerings to repurchase $600 million aggregate principal amount of DCL's 5.05% senior notes due 2020 and 5.625% senior notes due 2019 in a cash tender offer. The repurchase resulted in a pretax loss on extinguishment of debt of $54 million for the six months ended June 30, 2017, which is presented as a separate line item on the Company's consolidated statements of operations and recognized as a component of financing cash outflows on the consolidated statements of cash flows. The loss included $50 million for premiums to par value, $2 million of non-cash write-offs of unamortized deferred financing costs, $1 million for the write-off of the original issue discount of these senior notes and $1 million accrued for other third-party fees.
Revolving Credit Facility
DCL's revolving credit facility allows DCL and certain designated foreign subsidiaries of DCL to borrow up to $2.0 billion, including a $100 million sublimit for the issuance of standby letters of credit and a $50 million sublimit for swingline loans. Borrowing capacity under this agreement is reduced by any outstanding borrowings under the

commercial paper program discussed below. The revolving credit facility agreement provides for a maturity date of February 4, 2021 and the option for up to two additional 364-day renewal periods.

As of June 30, 2017, the Company had outstanding U.S. dollar-denominated borrowings under the revolving credit facility of $700 million at a weighted average interest rate of 2.52%. As of December 31, 2016, the Company had outstanding U.S. dollar-

denominated borrowings under the revolving credit facility of $550 million at a weighted average interest rate of 2.05%. The interest rate on borrowings under the revolving credit facility is variable based on DCL's then-current credit ratings for its publicly traded debt and changes in financial index rates. For U.S. dollar-denominated borrowings, the interest rate is based, at the Company's option, on either adjusted LIBOR plus a margin, or an alternate base rate plus a margin. The Company may also borrow in foreign currency under the credit facility, at an interest rate based on adjusted LIBOR, plus a margin. The current margins are 1.30% and 0.30%, respectively, per annum for adjusted LIBOR and alternate base rate borrowings. The Company had no borrowings under the credit facility in foreign currencies as of June 30, 2017 or December 31, 2016. A monthly facility fee is charged based on the total capacity of the facility, and interest is charged based on the amount borrowed on the facility. The current facility fee rate is 0.20% per annum and subject to change based on DCL's then-current credit ratings. All obligations of DCL and the other borrowers under the revolving credit facility are unsecured and are fully and unconditionally guaranteed by Discovery.

The credit agreement governing the revolving credit facility contains customary representations, warranties and events of default, as well as affirmative and negative covenants. As of June 30, 2017, the Company, DCL and the other borrowers were in compliance with all covenants, and there were no events of default under the revolving credit facility.

Commercial Paper

The Company's commercial paper program is supported by the revolving credit facility described above. Outstanding commercial paper borrowings were $73 million with a weighted average interest rate of approximately 1.60% as of June 30, 2017 and $48 million with a weighted average interest rate of approximately 1.20% as of December 31, 2016.

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to modify its exposure to market risks from changes in foreign currency exchange rates, interest rates and the fair value of investments classified as AFS securities. At the inception of a derivative contract, the Company designates the derivative as one of four types based on the Company's intentions and belief as to its likely effectiveness as a hedge. These four types are: (1) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), (2) a hedge of net investments in foreign operations ("net investment hedge"), (3) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), or (4) an instrument with no hedging designation. The Company does not enter into or hold derivative financial instruments for speculative trading purposes.

Unsettled derivative contracts are recorded at their gross fair values on the consolidated balance sheets. (See Note 4.) The portion of the fair value that represents cash flows occurring within one year are classified as current, and the portion related to cash flows occurring beyond one year are classified as noncurrent. Gains and losses on the effective portions of designated cash flow and net investment hedges are initially recognized as components of accumulated other comprehensive loss on the consolidated balance sheets and reclassified into the statements of operations in the same line item in which the hedged item is recorded and in the same period as the hedged item affects earnings. The ineffective portion of any previous gains and losses recorded in accumulated other comprehensive loss on the consolidated balance sheets are reclassified immediately to other (expense) income, net on the consolidated statements of operations. The Company records gains and losses from the Lionsgate Collar, designated as a fair value hedge, and instruments that receive no hedging designation, as a component of other (expense) income, net on the consolidated statements of operations. The cash flows from the effective portion of derivative instruments used as hedges are classified in the consolidated statements of cash flows in the same section as the cash flows from the hedged item.

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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 June 30, 2017 and December