DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE
THREE MONTHS ENDED SEPTEMBER 30, 2019 AND FOR THE PERIOD APRIL 29, 2019 (DATE OF INCEPTION) TO SEPTEMBER 30, 2019

DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC
TABLE OF CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED):

CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME	4
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY AND REDEEMABLE NONCONTROLLING INTERESTS	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS	7

DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC
CONSOLIDATED BALANCE SHEETS
(in millions) (Unaudited)

	As of September 30, 2019
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,125
Accounts receivable, net	554
Prepaid expenses and other current assets	154
Total current assets	1,833
Property and equipment, net	26
Operating lease assets	37
Goodwill	1,924
Definite-lived intangible assets, net	7,606
Other assets	379
Total assets (a)	$ 11,805
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND MEMBER'S EQUITY	
Current liabilities:	
Accounts payable and accrued liabilities	$ 171
Current portion of notes payable and commercial bank financing	33
Current portion of operating lease liabilities	16
Other current liabilities	187
Total current liabilities	407
Notes payable and commercial bank financing, less current portion	7,966
Operating lease liabilities, less current portion	22
Other long-term liabilities	556
Total liabilities (a)	8,951
Commitments and contingencies (See *Note 6*)	
Redeemable noncontrolling interests	377
Member's equity:	
Member's capital	2,375
Accumulated deficit	(120)
Total Diamond Sports Intermediate Holdings member’s equity	2,255
Noncontrolling interests	222
Total member's equity	2,477
Total liabilities, redeemable noncontrolling interests, and member's equity	$ 11,805

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

(a) Our consolidated total assets as of September 30, 2019 include total assets of variable interest entities (VIEs) of $192 million which can only be used to settle the obligations of the VIEs. Our consolidated total liabilities as of September 30, 2019 include total liabilities of VIEs of $3 million, for which the creditors of the VIEs have no recourse to us. See *Note 7. Variable Interest Entities*.

DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in millions) (Unaudited)

	Three Months Ended September 30, 2019	The Period April 29, 2019 to September 30, 2019
Statements of Operations		
REVENUES:		
Total revenues	$ 352	$ 352
OPERATING EXPENSES:		
Media programming and production expenses	234	234
Media selling, general and administrative expenses	28	28
Depreciation of property and equipment	1	1
Corporate general and administrative expenses	92	92
Amortization of definite-lived intangible and other assets	53	53
Total operating expenses	408	408
Operating loss	(56)	(56)
OTHER INCOME (EXPENSE):		
Interest expense and amortization of debt discount and deferred financing costs	(73)	(73)
Income from equity method investments	1	1
Other income, net	7	7
Total other expense, net	(65)	(65)
NET LOSS	(121)	(121)
Net loss attributable to the noncontrolling interests	1	1
NET LOSS ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS	$ (120)	$ (120)
Statements of Comprehensive Income		
COMPREHENSIVE LOSS	$ (121)	$ (121)
Comprehensive loss attributable to the noncontrolling interests	1	1
COMPREHENSIVE LOSS ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS	$ (120)	$ (120)

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

DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY AND REDEEMABLE NONCONTROLLING INTERESTS
(in millions) (Unaudited)

	The Period April 29, 2019 to September 30, 2019				
		Diamond Sports Intermediate Holdings LLC Member			
	Redeemable Noncontrolling Interests	Member's Capital	Accumulated Deficit	Noncontrolling Interests	Total Member's Equity
BALANCE, April 29, 2019	$ —	$ —	$ —	$ —	$ —
Distributions to parent	—	(10)	—	—	(10)
Capital contributions from parent	—	2,385	—	—	2,385
Noncontrolling interests acquired in business combinations	380	—	—	231	231
Distributions to noncontrolling interests	(3)	—	—	(8)	(8)
Net loss	—	—	(120)	(1)	(121)
BALANCE, September 30, 2019	$ 377	$ 2,375	$ (120)	$ 222	$ 2,477

	Three Months Ended September 30, 2019				
		Diamond Sports Intermediate Holdings LLC Member			
	Redeemable Noncontrolling Interests	Member's Capital	Accumulated Deficit	Noncontrolling Interests	Total Member's Equity
BALANCE, June 30, 2019	$ —	$ 10	$ —	$ —	$ 10
Distributions to parent	—	(10)	—	—	(10)
Capital contributions from parent	—	2,375	—	—	2,375
Noncontrolling interests acquired in business combinations	380	—	—	231	231
Distributions to noncontrolling interests	(3)	—	—	(8)	(8)
Net loss	—	—	(120)	(1)	(121)
BALANCE, September 30, 2019	$ 377	$ 2,375	$ (120)	$ 222	$ 2,477

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

DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions) (Unaudited)

	The Period April 29, 2019 to September 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (121)
Adjustments to reconcile net loss to net cash flows from operating activities:	
Depreciation of property and equipment	1
Amortization of definite-lived intangible and other assets	53
Amortization of prepaid sports rights	193
Payments on sports rights	(118)
Income from equity method investments	(1)
Change in assets and liabilities, net of acquisitions:	
Decrease in accounts receivable	52
Increase in prepaid expenses and other current assets	(34)
Increase in accounts payable and accrued liabilities	102
Other, net	(5)
Net cash flows from operating activities	122
CASH FLOWS USED IN INVESTING ACTIVITIES:	
Acquisition of property and equipment	(2)
Acquisition of businesses, net of cash acquired	(9,006)
Payments for equity investments	(345)
Net cash flows used in investing activities	(9,353)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from notes payable and commercial bank financing, net of original issuance discount of $17 million	8,159
Contributions from parent	2,385
Distributions to parent	(10)
Debt issuance costs	(167)
Distributions to noncontrolling interests	(11)
Net cash flows from financing activities	10,356
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,125
CASH AND CASH EQUIVALENTS, beginning of period	—
CASH AND CASH EQUIVALENTS, end of period	$ 1,125

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

DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Background and Nature of Operations

Diamond Sports Intermediate Holdings LLC (the Company), a Delaware limited liability company and an indirect subsidiary of Sinclair Broadcast Group, Inc. (SBG), was formed on April 29, 2019. Diamond Sports Group, LLC (DSG) is a wholly-owned subsidiary of the Company and was formed for the purpose of completing the acquisition of 21 Regional Sports Network brands and Fox College Sports (collectively, the Acquired RSNs) from The Walt Disney Company (Disney). Additionally, on March 12, 2019, Sinclair Television of Illinois, LLC, an indirect wholly-owned subsidiary of SBG, assigned to DSG its ownership interest in Sports Network, LLC which consolidates Marquee Sports Network, LLC (Marquee), a joint venture with the Chicago Cubs. On August 29, 2019, an indirect wholly-owned subsidiary of DSG acquired a 20% equity interest in the Yankee Entertainment and Sports Network (the YES Network). We refer to the Acquired RSNs and Marquee collectively as the "RSNs". The RSNs and YES Network own the exclusive rights to air, among other sporting events, the games of 45 professional sports teams. The operations of the Company from April 29, 2019 to the acquisition date of the Acquired RSNs were immaterial.

Basis of Presentation

The unaudited consolidated financial statements have been prepared on a standalone basis in accordance with accounting principles generally accepted in the United States of America (GAAP).

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses in the consolidated financial statements and in the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include our accounts and those of our wholly-owned and majority-owned subsidiaries, including the operating results of the regional sports networks acquired on August 23, 2019, as discussed in *Note 2. Acquisitions of Assets*, and VIEs for which we are the primary beneficiary. Noncontrolling interests represent a minority owner's proportionate share of the equity in certain of our consolidated entities. Noncontrolling interests which may be redeemed by the holder, and the redemption is outside of our control, are presented as redeemable noncontrolling interests. All intercompany transactions and account balances have been eliminated in consolidation.

We consolidate VIEs when we are the primary beneficiary. We are the primary beneficiary of a VIE when we have the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and have the obligation to absorb losses or the right to receive returns that would be significant to the VIE. See *Note 7. Variable Interest Entities* for more information on our VIEs.

Investments in entities over which we have significant influence but not control are accounted for using the equity method of accounting. Income from equity method investments represents our proportionate share of net income generated by equity method investees.

Interim Financial Statements

The consolidated financial statements for the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019 are unaudited. Reference to the period April 29, 2019 to September 30, 2019 is for the period from the date of formation of the Company through September 30, 2019. The operations of the Company prior to August 23, 2019, were immaterial.

The unaudited consolidated financial statements do not include all disclosures normally included with audited consolidated financial statements. The consolidated statements of operations presented in the accompanying consolidated financial statements are not necessarily representative of operations for an entire year.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

We regularly review accounts receivable and determine an appropriate estimate for the allowance for doubtful accounts based upon the impact of economic conditions on the merchant's ability to pay, past collection experience, and such other factors which, in management's judgment, deserve current recognition. In turn, a provision is charged against earnings in order to maintain the appropriate allowance level. As of September 30, 2019, three customers accounted for 26%, 22%, and 13%, respectively, of our accounts receivable, net. For purposes of this disclosure, a single customer may include multiple distributors under common control.

Programming Rights

We have rights agreements covering the broadcast of regular season games that expire on various dates during the fiscal years ended 2019 through 2035. A prepaid asset is recorded for the rights acquired to broadcast future games or events over a specified season upon payment of the contracted fee. The assets recorded for the rights acquired are classified as current or non-current based on the period when the games are expected to be aired. The program rights for a specified season are amortized over that season on a straight-line basis under the contractual cash flows method, which provides for a reasonable basis to match program rights amortization expense with revenues over the contract term. Assets are recorded for any program rights that have been prepaid. Liabilities are recorded for any program rights obligations that have been incurred for a given season but not yet paid at period end. Recorded programming assets are held at the lower of unamortized cost or estimated net realizable value.

Goodwill

We evaluate our goodwill for impairment annually in the fourth quarter, or more frequently, if events or changes in circumstances indicate an impairment may exist. Our goodwill has been allocated to, and is tested for impairment at, the reporting unit level. A reporting unit is an operating segment or a component of an operating segment to the extent that the component constitutes a business for which discrete financial information is available and regularly reviewed by management. Components of an operating segment with similar economic characteristics are aggregated when testing goodwill for impairment.

In the performance of our annual assessment of goodwill for impairment we have the option to qualitatively assess whether it is more likely than not that a reporting unit has been impaired. As part of this qualitative assessment, we weigh the relative impact of factors that are specific to the reporting units as well as industry, regulatory, and macroeconomic factors that could affect the significant inputs used to determine the fair value of the assets. We also consider the significance of the excess fair value over carrying value in prior quantitative assessments.

If we conclude that it is more likely than not that a reporting unit is impaired, or if we elect not to perform the optional qualitative assessment, we will determine the fair value of the reporting unit and compare it to the net book value of the reporting unit. If the fair value is less than the net book value, we will record an impairment to goodwill for the amount of the difference. We estimate the fair value of our reporting units utilizing a combination of a market-based approach, which considers earnings and cash flow multiples of comparable businesses and recent market transactions, as well as an income approach involving the performance of a discounted cash flow analysis. Our discounted cash flow model is based on our judgment of future market conditions based on our internal forecast of future performance, as well as discount rates that are based on a number of factors including market interest rates, a weighted average cost of capital analysis, and includes adjustments for market risk and company specific risk.

Impairment of Long-lived Assets

We periodically evaluate our long-lived assets for impairment and continue to evaluate them as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. We evaluate the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time that such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are tested for impairment by comparing their estimated fair value to the carrying value. We typically estimate fair value using discounted cash flow models and appraisals.

Other Assets

Other assets as of September 30, 2019 consisted primarily of our equity method investment in the YES Network. On August 29, 2019, an indirect wholly-owned subsidiary of DSG acquired a 20% equity interest in the YES Network for cash consideration of $346 million as part of a consortium led by Yankee Global Enterprises. We account for our investment in the YES Network as an equity method investment, which is recorded within other assets on our consolidated balance sheets, and in which our proportionate share of the net income generated by the investment is represented within income from equity method investments on our consolidated statements of operations. During both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019, we recorded income of $1 million related to our investment.

When factors indicate that there may be a decrease in value of an equity method investment, we assess whether a loss in value has occurred. If that loss is deemed to be other than temporary, an impairment loss is recorded accordingly. For any equity method investments that indicate a potential impairment, we estimate the fair values of those investments using discounted cash flow models, unrelated third-party valuations, or industry comparables, based on the various facts available to us.

Accounts Payable and Accrued Liabilities

Accrued liabilities consisted of the following as of September 30, 2019 (in millions):

	As of September 30, 2019
Compensation and employee benefits	$ 21
Interest	50
Programming and production related obligations	63
Accounts payable and other accruals relating to operating expenses	37
Total accounts payable and accrued liabilities	$ 171

We expense these activities when incurred.

Income Taxes

As a single-member limited liability company, we are treated as a disregarded entity and are not subject to federal and state income taxes. Our income or loss is allocated to and reported in the tax returns of our member. Accordingly, no liability or provision for federal and state income taxes attributable to our operations is included in the accompanying unaudited consolidated financial statements. We do not have a formal tax-sharing arrangement with our member.

Supplemental Information - Statements of Cash Flows

Cash interest paid during the period April 29, 2019 to September 30, 2019 was $15 million.

Revenue Recognition

The following table presents our revenue disaggregated by type (in millions):

	Three Months Ended September 30,	The Period April 29, 2019 to September 30,
	2019	**2019**
Distribution revenue	$ 306	$ 306
Advertising revenue	43	43
Other media revenues	3	3
Total revenues	$ 352	$ 352

Distribution Revenue. We generate distribution revenue through fees received from multi-channel video programming distributors (MVPDs) and virtual MVPDs (vMVPDs) for the right to distribute our sports networks on their respective distribution platforms. Distribution arrangements are generally governed by multi-year contracts and the underlying fees are based upon a contractual monthly rate per subscriber. These arrangements represent licenses of intellectual property; revenue is recognized as our network programming is provided to our customers (as usage occurs) which corresponds with the satisfaction of our performance obligation. Revenue is calculated based upon the contractual rate multiplied by an estimated number of subscribers. Our customers will remit payments based upon actual subscribers a short time after the conclusion of a month, which generally does not exceed 90 days. Historical adjustments to subscriber estimates have not been material.

Advertising Revenue. We generate advertising revenue primarily from the sale of advertising spots/impressions within the RSN programming. Advertising revenue is recognized in the period in which the advertising spots/impressions are delivered. The term of our advertising arrangements is generally less than one year and the timing between when an advertisement is aired and when payment is due is not significant.

In accordance with Accounting Standards Codification (ASC) 606, we do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) distribution arrangements which are accounted for as a sales/usage based royalty.

For the period April 29, 2019 to September 30, 2019, three customers accounted for 29%, 23%, and 13%, respectively, of our total revenues. For purposes of this disclosure, a single customer may include multiple distributors under common control. There was no revenue from these customers prior to the acquisition of the Acquired RSNs.

Financial Instruments

Financial instruments, as of September 30, 2019, consisted of cash and cash equivalents, trade accounts receivable, accounts payable, accrued liabilities, and notes payable. The carrying amounts approximate fair value for each of these financial instruments, except for the notes payable. See *Note 9. Fair Value Measurements* for additional information regarding the fair value of notes payable.

Subsequent Events

On December 13, 2019, Diamond Sports Holdings, LLC, an indirect parent of the Company elected to redeem 300,000 units of its preferred equity at a redemption price of $302 million, representing 100% of the unreturned capital contribution with respect to such preferred equity, plus accrued and unpaid dividends with respect to such preferred equity up to, but not including, the redemption date, and after giving effect to any applicable rebates. The redemption will be funded by a distribution from the Company.

We have evaluated subsequent events through December 13, 2019 and determined that no other events or transactions met the definition of a subsequent event for purposes of recognition or disclosure in the accompanying consolidated financial statements.

2. ACQUISITIONS OF ASSETS:

RSN Acquisition. On May 3, 2019, DSG entered into a definitive agreement to acquire controlling interests in 21 Regional Sports Network brands and Fox College Sports (collectively, the Acquired RSNs), from Disney for $9.6 billion plus certain adjustments. On August 23, 2019 we completed the acquisition for an aggregate preliminary purchase price, including cash acquired, and subject to an adjustment based upon finalization of working capital, net debt, and other adjustments, of $9,829 million, accounted for as a business combination under the acquisition method of accounting. The acquisition provides an expansion to our premium sports programming including the exclusive regional distribution rights to 42 professional teams consisting of 14 Major League Baseball teams, 16 National Basketball Association teams, and 12 National Hockey League teams.

The transaction was funded through a combination of debt financing raised by DSG, as described in *Note 3. Notes Payable and Commercial Bank Financing*, and contributed member's equity.

The following table summarizes the preliminary allocated fair value of acquired assets, assumed liabilities, and noncontrolling interests of the Acquired RSNs (in millions):

Cash and cash equivalents	$	823
Accounts receivable, net		604
Prepaid expenses and other current assets		176
Property and equipment, net		25
Definite-lived intangible assets, net		7,676
Other assets		52
Accounts payable and accrued liabilities		(261)
Other long-term liabilities		(579)
Goodwill		1,924
Fair value of identifiable net assets acquired	$	10,440
Redeemable noncontrolling interests		(380)
Noncontrolling interests		(231)
Gross purchase price	$	9,829
Purchase price, net of cash acquired	$	9,006

The preliminary purchase price allocation presented above is based upon management's estimates of the fair value of the acquired assets, assumed liabilities, and noncontrolling interests using valuation techniques including income, cost, and market approaches. The fair value estimates are based on, but not limited to, expected future revenue and cash flows, expected future growth rates, and estimated discount rates. The allocation is preliminary pending a final determination of the fair value of the assets and liabilities.

The definite-lived intangible assets of $7,676 million are primarily comprised of customer relationships, which represent existing advertiser relationships and contractual relationships with MVPDs of $6,220 million, the fair value of contracts with sports teams of $1,440 million, and tradenames/trademarks of $16 million. The intangible assets will be amortized over a weighted average useful life of 2 years for tradenames/trademarks, 10 years for customer relationships, and 12 years for contracts with sports teams on a straight line basis. The fair value of the sports team contracts will be amortized over the respective contract term. Acquired property and equipment will be depreciated on a straight-line basis over the respective estimated remaining useful lives. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, as well as expected future synergies.

In connection with the acquisition, for both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019, we recognized $91 million of transaction costs that we expensed as incurred and classified as corporate general and administrative expenses on our consolidated statements of operations.

Pro Forma Information. The table below sets forth unaudited pro forma results of operations, assuming that the formation of the Company and the RSN Acquisition, along with transactions necessary to finance the acquisition, occurred at the beginning of the year preceding the year of the acquisition (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total revenues	$ 859	$ 965	$ 2,800	$ 2,896
Net (loss) income	$ (66)	$ 190	$ 193	$ 358
Net (loss) income attributable to Diamond Sports Intermediate Holdings	$ (68)	$ 169	$ 141	$ 295

This pro forma financial information is based on historical results of operations, adjusted for the allocation of the purchase price and other acquisition accounting adjustments, and is not indicative of what our results would have been had we operated the Acquired RSNs for the period presented because the pro forma results do not reflect expected synergies. The pro forma adjustments reflect depreciation expense and amortization of intangible assets related to the fair value adjustments of the assets acquired and any adjustments to interest expense to reflect the debt financing of the transactions, if applicable. Depreciation and amortization expense are higher than amounts recorded in the historical financial statements of the acquirees due to the fair value adjustments recorded for long-lived tangible and intangible assets in purchase accounting.

3. NOTES PAYABLE AND COMMERCIAL BANK FINANCING:

Notes payable and commercial bank financing consisted of the following as of September 30, 2019 (in millions):

	As of September 30, 2019
Bank credit agreement:	
Term Loan, due August 23, 2026	$ 3,300
Senior notes:	
5.375% Secured Notes, due August 15, 2026	3,050
6.625% Notes, due August 15, 2027	1,825
Total outstanding principal	8,175
Less: Deferred financing costs and discount	(176)
Less: Current portion	(33)
Net carrying value of long-term debt	$ 7,966

Notes payable and commercial bank financing as of September 30, 2019 matures as follows (in millions):

2019 (remainder)	$ 8
2020	33
2021	33
2022	33
2023	33
2024 and thereafter	8,035
Total minimum payments	8,175
Less: Deferred financing costs and discount	(176)
Net carrying value of debt	$ 7,999

Interest expense on our consolidated statements of operations was $73 million for both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019. Interest expense included $4 million in amortization of deferred financing costs and debt discount for both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019. We capitalized $183 million as deferred financing costs and debt discount during both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019. Deferred financing costs and original issuance discounts are presented as a direct deduction from the carrying amount of an associated debt liability, except for deferred financing costs related to our revolving credit facility described below, which are presented within other assets on our consolidated balance sheets.

Bank Credit Agreement

On August 23, 2019, the Company and DSG entered into a credit agreement (the Bank Credit Agreement). Pursuant to the Bank Credit Agreement, we raised a seven-year $3,300 million aggregate amount term loan (the Term Loan), with an original issuance discount of $17 million, which bears interest at LIBOR plus 3.25%.

Prior to February 23, 2020, if we repay, refinance, or replace the Term Loan, we are subject to a prepayment premium of 1% of the aggregate principal balance of the repayment. The Term Loan amortizes in equal quarterly installments in an aggregate amount equal to 1% of the original amount of such Term Loan, with the balance being payable on the maturity date. Following the end of each fiscal year, beginning with the fiscal year ending December 31, 2020, we are required to prepay the Term Loan in an aggregate amount equal to (a) 50% of excess cash flow for such fiscal year if the first lien leverage ratio is greater than 3.75 to 1.00, (b) 25% of excess cash flow for such fiscal year if the first lien leverage ratio is greater than 3.25 to 1.00 but less than or equal to 3.75 to 1.00, and (c) 0% of excess cash flow for such fiscal year if the first lien leverage ratio is equal to or less than 3.25 to 1.00. As of September 30, 2019, the Term Loan balance, net of debt discount and deferred financing costs, was $3,222 million.

Additionally, in connection with the Bank Credit Agreement, we obtained a $650.0 million five-year revolving credit facility (the Revolving Credit Facility), priced at LIBOR plus 3.00%, which includes capacity for up to $50 million of letters of credit and for borrowings of up to $50 million under swingline loans. As of September 30, 2019, there were no outstanding borrowings and $650 million available under the Revolving Credit Facility.

The Bank Credit Agreement contains covenants that, subject to certain exceptions, qualifications, ratios, and "baskets", generally limit the ability of the borrower and its restricted subsidiaries to incur debt, create liens, make fundamental changes, enter into asset sales, make certain investments, pay dividends or distribute or redeem certain equity interests, prepay or redeem certain debt, and enter into certain transactions with affiliates. Also, the Revolving Credit Facility is subject to compliance with a first lien net leverage ratio test that will be tested at the end of each fiscal quarter if certain borrowings under the Revolving Credit Facility exceed 35% of the total commitments under the Revolving Credit Facility on such date. As of September 30, 2019, we were in compliance with all covenants.

DSG's obligations under the Bank Credit Agreement are (i) jointly and severally guaranteed by the Company and DSG's direct and indirect, existing and future wholly-owned domestic restricted subsidiaries, subject to certain exceptions, and (ii) secured by first-priority lien on substantially all tangible and intangible assets (whether now owned or hereafter arising or acquired) of DSG and the guarantors, subject to certain permitted liens and other agreed upon exceptions.

Senior Notes

On August 2, 2019, DSG issued $3,050 million principal amount of senior secured notes, which bear interest at a rate of 5.375% per annum and mature on August 15, 2026 (the 5.375% Secured Notes) and issued $1,825 million principal amount of senior notes, which bear interest at a rate of 6.625% per annum and mature on August 15, 2027 (the 6.625% Notes and, together with the 5.375% Secured Notes, the Senior Notes). The proceeds of the Senior Notes were used, in part, to fund the RSN Acquisition. As of September 30, 2019, the DSG Senior Notes balance, net of deferred financing costs, was $4,777 million.

Prior to August 15, 2022, we may redeem the Senior Notes, in whole or in part, at any time or from time to time, at a price equal to 100% of the principal amount of the applicable Senior Notes plus accrued and unpaid interest, if any, to the date of redemption, plus a "make-whole" premium. Beginning on August 15, 2022, we may redeem the Senior Notes, in whole or in part, at any time or from time to time at certain redemption prices, plus accrued and unpaid interest, if any, to the date of redemption. In addition, on or prior to August 15, 2022, we may redeem up to 40% of each series of the Senior Notes using the proceeds of certain equity offerings. If the notes are redeemed during the twelve-month period beginning August 15, 2022, 2023, and 2024 and thereafter, then the redemption prices for the 5.375% Secured Notes are 102.688%, 101.344%, and 100%, respectively, and the redemption prices for the 6.625% Notes are 103.313%, 101.656%, and 100%, respectively.

DSG's obligations under the Senior Notes are jointly and severally guaranteed by the Company and certain wholly-owned subsidiaries of the Company.

4. REDEEMABLE NONCONTROLLING INTERESTS:

We account for redeemable noncontrolling interests in accordance with ASC 480, *Distinguishing Liabilities from Equity*, and classify them as mezzanine equity on our consolidated balance sheets because their exercise is outside of the control of the Company.

Subsidiary Equity Put Right. A noncontrolling equity holder of one of our subsidiaries has the right to sell their interest to the Company at a fair market sale value of $376 million, plus any undistributed income, at any time during the 30-day period following January 2, 2020. In the event the noncontrolling equity holder does not redeem its interest, we have the right to purchase the interest for $376 million. As of September 30, 2019, this redeemable noncontrolling interest was recorded at $377 million which represents the $376 million plus $1 million of undistributed noncontrolling interest income.

5. LEASES:

We determine if a contractual arrangement is a lease at inception. Our lease arrangements provide the Company the right to utilize certain specified tangible assets for a period of time in exchange for consideration. Our leases primarily relate to building space and equipment. We do not separate non-lease components from our building leases for the purposes of measuring our lease liabilities and assets. Our leases consist of operating leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

We recognize a lease liability and a right of use asset at the lease commencement date based on the present value of the future lease payments over the lease term discounted using our incremental borrowing rate. Implicit interest rates within our lease arrangements are rarely determinable. Right of use assets also include, if applicable, prepaid lease payments and initial direct costs, less incentives received.

We recognize operating lease expense on a straight-line basis over the term of the lease within operating expenses. Operating lease expense for both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019 was $2 million, including $0.1 million short-term lease expense.

Our leases do not contain any material residual value guarantees or material restrictive covenants. Some of our leases include optional renewal periods or termination provisions which we assess at inception to determine the term of the lease, subject to reassessment in certain circumstances.

The following table summarizes our outstanding operating lease obligations as of September 30, 2019 (in millions):

2019 (remainder)	$	4
2020		17
2021		11
2022		3
2023		2
Thereafter		4
Total undiscounted obligations		41
Less imputed interest		(3)
Present value of lease obligations	$	38

The following table summarizes supplemental balance sheet information related to our outstanding operating lease obligations as of September 30, 2019 (in millions, except lease term and discount rate):

		As of September 30, 2019
Lease assets, non-current	$	37
Lease liabilities, current	$	16
Lease liabilities, non-current		22
Total lease liabilities	$	38
Weighted average remaining lease term (in years)		3
Weighted average discount rate		4.7%

The following table presents other information related to leases for the period April 29, 2019 to September 30, 2019 (in millions):

		The Period April 29, 2019 to September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	1

6. COMMITMENTS AND CONTINGENCIES:

Programming Rights

We are contractually obligated to make payments to purchase sports programming rights. The following table presents our annual non-cancellable commitments relating to our sports programming rights agreements as of September 30, 2019 (in millions):

2019 (remainder)	$	466
2020		1,834
2021		1,783
2022		1,529
2023		1,478
2024 and thereafter		9,626
Total	$	16,716

Other Liabilities

In connection with the RSN Acquisition, we assumed a deferred purchase price liability. The purchase price liability is payable to the sellers in semi-annual installments through 2027. This obligation was recorded at the preliminary acquisition date fair value. As of September 30, 2019, $8 million was recorded within other current liabilities and $92 million was recorded within other long-term liabilities on our consolidated balance sheets. Interest expense of $0.5 million was recorded for both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019.

In addition to the purchase price liability, we assumed a profit participation interest whereby we are obligated to pay 7% of the excess cash flow generated by two of our RSNs. This obligation was recorded at the preliminary acquisition date fair value. As of September 30, 2019, $8 million was recorded within other current liabilities and $44 million was recorded within other long-term liabilities on our consolidated balance sheets. Interest expense of $0.3 million was recorded for both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019.

In connection with the RSN Acquisition, we assumed an obligation to redeem equity of one of our regional sports networks. The redemption amount will be paid in quarterly installments through the end of 2030 and is based upon a proportion of the excess cash flow generated by the regional sports network. We recorded this obligation in purchase accounting at our preliminary estimate of fair value. As of September 30, 2019, $37 million was recorded within other current liabilities and $245 million was recorded within other long-term liabilities on our consolidated balance sheets. Interest expense of $3 million was recorded for both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019.

Litigation

We are a party to lawsuits, claims, and regulatory matters from time to time in the ordinary course of business. Actions currently pending are in various stages and no material judgments or decisions have been rendered by hearing boards or courts in connection with such actions. We do not believe the outcome of these matters, individually or in the aggregate, will have a material effect on the Company's financial statements.

7. VARIABLE INTEREST ENTITIES:

We are party to a joint venture with an affiliate of the Chicago Cubs to establish and operate Marquee. Marquee is party to a long term telecast rights agreement with the Chicago Cubs, providing Marquee with the rights to air certain live game telecasts and other content, which we guarantee. In connection with the RSN Acquisition, we became party to a joint venture associated with one other regional sports network. We participate significantly in the economics and have the power to direct the activities which significantly impact the economic performance of these regional sports networks, including sales and certain operational services. We consolidate these regional sports networks because they are variable interest entities and we are the primary beneficiary.

The carrying amounts and classification of the assets and liabilities of the VIEs mentioned above, which have been included on our consolidated balance sheets as of the dates presented, were as follows (in millions):

	As of September 30, 2019	
ASSETS		
Current assets:		
Cash and cash equivalents	$	36
Accounts receivable, net		16
Total current assets		52
Property and equipment, net		3
Operating lease assets		3
Goodwill		6
Definite-lived intangible assets, net		128
Total assets	$	192
LIABILITIES		
Current liabilities:		
Other current liabilities	$	1
Operating lease liabilities, less current portion		2
Total liabilities	$	3

The amounts above represent the consolidated assets and liabilities of the VIEs described above, for which we are the primary beneficiary. The assets of each of these consolidated VIEs can only be used to settle the obligations of the VIE. As of September 30, 2019, all of the liabilities are non-recourse to us. The risk and reward characteristics of the VIEs are similar.

8. RELATED PERSON TRANSACTIONS:

Transactions with Sinclair Television Group, Inc.

As of September 30, 2019, we have a $14 million payable to Sinclair Television Group, Inc. (STG), a wholly-owned subsidiary of SBG, for management services rendered by STG to the Company and reimbursement of certain expenses paid by STG on behalf of the Company. See below for further discussion on management service fees.

Management Service Fees. We have entered into two management services agreements with STG in which STG provides us with affiliate sales and marketing services and general and administrative services. The estimated annual amount paid to STG for these services is $71 million subject to annual increases. Additionally, one agreement contains an incentive fee payable to STG calculated based on certain terms contained within new or renewed affiliate agreements with distributors. Pursuant to these agreements, we incurred $9 million of management service fee expenses for both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019.

Equity method investees

In conjunction with the RSN Acquisition on August 23, 2019, as discussed in *Note 2. Acquisitions of Assets*, we assumed a minority interest in four mobile truck companies, which we account for as equity method investments. During both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019, we made payments to these investments totaling $4 million for mobile truck related services.

Programming Rights

We have rights agreements covering the broadcast of regular season games with 5 professional teams, of whom have affiliates which have non-controlling equity interests in certain of our RSNs. These agreements expire on various dates during the fiscal years ended 2030 through 2033. Program rights fees paid by the Company to the teams, in total, were $38 million for both the three months ended September 30, 2019 and for the period April 29, 2019 to September 30, 2019.

9. FAIR VALUE MEASUREMENTS:

Accounting guidance provides for valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). A fair value hierarchy using three broad levels prioritizes the inputs to valuation techniques used to measure fair value. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The following table sets forth the face value and fair value of our notes and debentures for the periods presented (in millions):

	As of September 30, 2019	
	Face Value (a)	**Fair Value**
Level 2:		
5.375% Senior Secured Notes due 2026 (b)	$ 3,050	$ 3,164
6.625% Senior Unsecured Notes due 2027 (b)	$ 1,825	$ 1,893
Term Loan (b)	$ 3,300	$ 3,321

(a) Amounts are carried on our consolidated balance sheets net of debt discount and deferred financing cost, which are excluded in the above table, of $176 million as of September 30, 2019.

(b) The Senior Notes and Term Loan were issued in August 2019. For additional information, see *Note 3. Notes Payable and Commercial Bank Financing*.

10. PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is generally computed under the straight-line method over the following estimated useful lives:

Operating equipment	1 - 10 years
Leasehold improvements	1 - 10 years
Office furniture and equipment	1 - 9 years

Acquired property and equipment as discussed in *Note 2. Acquisitions of Assets* is depreciated on a straight-line basis over the respective estimated remaining useful lives.

Property and equipment consisted of the following as of September 30, 2019 (in millions):

	As of September 30, 2019	
Operating equipment	$	19
Leasehold improvements		6
Office furniture and equipment		1
Construction in progress		1
		27
Less: accumulated depreciation		(1)
	$	26