# DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE PERIOD APRIL 29, 2019 (DATE OF INCEPTION) TO DECEMBER 31, 2019

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**Report of Independent Registered Public Accounting Firm**

To the Audit Committee of Diamond Sports Intermediate Holdings LLC:

We have audited the accompanying consolidated financial statements of Diamond Sports Intermediate Holdings LLC and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations and comprehensive income, of changes in member's equity and redeemable noncontrolling interests and of cash flows for the period from April 29, 2019 to December 31, 2019.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Diamond Sports Intermediate Holdings LLC and its subsidiaries as of December 31, 2019, and the results of their operations and their cash flows for the period from April 29, 2019 to December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP
Baltimore, Maryland
May 11, 2020

**DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC**
**CONSOLIDATED BALANCE SHEET**
**(in millions)**

| | As of December 31, 2019 |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents | $ 949 |
| Accounts receivable, net of allowance for doubtful accounts of $3 | 510 |
| Prepaid expenses and other current assets | 172 |
| Total current assets | 1,631 |
| Property and equipment, net | 30 |
| Operating lease assets | 38 |
| Goodwill | 2,615 |
| Customer relationships, net | 5,289 |
| Other definite-lived intangible assets, net | 1,241 |
| Other assets | 404 |
| Total assets (a) | $ 11,248 |
| | |
| **LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND MEMBER'S EQUITY** | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | $ 228 |
| Current portion of notes payable and commercial bank financing | 33 |
| Current portion of operating lease liabilities | 16 |
| Other current liabilities | 123 |
| Total current liabilities | 400 |
| Notes payable and commercial bank financing, less current portion | 7,955 |
| Operating lease liabilities, less current portion | 23 |
| Other long-term liabilities | 352 |
| Total liabilities (a) | 8,730 |
| | |
| Commitments and contingencies (See *Note 6*) | |
| Redeemable noncontrolling interests | 378 |
| | |
| Member's equity: | |
| Member's equity | 2,055 |
| Accumulated deficit | (151) |
| Total Diamond Sports Intermediate Holdings member's equity | 1,904 |
| Noncontrolling interests | 236 |
| Total member's equity | 2,140 |
| Total liabilities, redeemable noncontrolling interests, and member's equity | $ 11,248 |

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

(a) Our consolidated total assets as of December 31, 2019 include total assets of variable interest entities (VIEs) of $110 million which can only be used to settle the obligations of the VIEs. Our consolidated total liabilities as of December 31, 2019 include total liabilities of VIEs of $8 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 OPERATION AND COMPREHENSIVE INCOME
### (in millions)

| | The Period April 29, 2019 to December 31, 2019 |
|---|---|
| **Statements of Operations** | |
| REVENUES: | |
| Total revenues | $ 1,139 |
| | |
| OPERATING EXPENSES: | |
| Media programming and production expenses | 769 |
| Media selling, general and administrative expenses | 90 |
| Depreciation of property and equipment | 4 |
| Corporate general and administrative expenses | 93 |
| Amortization of definite-lived intangible and other assets | 153 |
| Total operating expenses | 1,109 |
| Operating income | 30 |
| | |
| OTHER INCOME (EXPENSE): | |
| Interest expense including amortization of debt discount and deferred financing costs | (200) |
| Income from equity method investments | 18 |
| Other income, net | 9 |
| Total other expense, net | (173) |
| NET LOSS | (143) |
| Net income attributable to the redeemable noncontrolling interests | (3) |
| Net income attributable to the noncontrolling interests | (5) |
| NET LOSS ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS | $ (151) |
| | |
| **Statement of Comprehensive Income** | |
| COMPREHENSIVE LOSS | $ (143) |
| Comprehensive income attributable to the redeemable noncontrolling interests | (3) |
| Comprehensive income attributable to the noncontrolling interests | (5) |
| COMPREHENSIVE LOSS ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS | $ (151) |

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

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

| | The Period April 29, 2019 to December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | | Diamond Sports Intermediate Holdings LLC Member | | | |
| | Redeemable Noncontrolling Interests | Member's Equity | Accumulated Deficit | Noncontrolling Interests | Total Member's Equity |
| BALANCE, April 29, 2019 | $ — | $ — | $ — | $ — | $ — |
| Capital contributions from parent | — | 2,385 | | — | 2,385 |
| Distributions to parent | — | (330) | — | — | (330) |
| Noncontrolling interests acquired in business combinations | 380 | — | — | 248 | 248 |
| Distributions to noncontrolling interests | (5) | — | — | (17) | (17) |
| Net income (loss) | 3 | — | (151) | 5 | (146) |
| BALANCE, December 31, 2019 | $ 378 | $ 2,055 | $ (151) | $ 236 | $ 2,140 |

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

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

| | | The Period April 29, 2019 to December 31, 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ | (143) |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation of property and equipment | | 4 |
| Amortization of definite-lived intangible and other assets | | 153 |
| Amortization of sports programming rights | | 637 |
| Sports programming rights payments | | (578) |
| Income from equity method investments | | (18) |
| Change in assets and liabilities, net of acquisitions: | | |
| Decrease in accounts receivable | | 96 |
| Decrease in prepaid expenses and other current assets | | 4 |
| Increase in accounts payable and accrued and other current liabilities | | 146 |
| Other, net | | 22 |
| Net cash flows from operating activities | | 323 |
| | | |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | | (9) |
| Acquisition of businesses, net of cash acquired | | (8,993) |
| Purchases of investments | | (346) |
| Net cash flows used in investing activities | | (9,348) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from notes payable and commercial bank financing, net of original issuance discount of $17 | | 8,159 |
| Repayments of notes payable and commercial bank financing | | (8) |
| Contributions from parent | | 2,385 |
| Distributions to parent | | (330) |
| Debt issuance costs | | (174) |
| Distributions to noncontrolling interests | | (22) |
| Other, net | | (36) |
| Net cash flows from financing activities | | 9,974 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 949 |
| CASH AND CASH EQUIVALENTS, beginning of period | | — |
| CASH AND CASH EQUIVALENTS, end of period | $ | 949 |

The accompanying notes are an integral part of these 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", or sometimes referred to as "we" or "our"), 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), completed on August 23, 2019. Additionally, DSG has an ownership interest in Sports Network, LLC which consolidates Marquee Sports Network, LLC (Marquee). 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, on a combined basis, own the exclusive rights to air, among other sporting events, the games of 44 professional sports teams and the RSNs are renegotiating rights with one team. The operations of the Company from April 29, 2019 to the acquisition date of the Acquired RSNs were immaterial.

***Basis of Presentation***

The 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.

***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.

***Use of Estimates***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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.

The impact of the outbreak of the novel coronavirus (COVID-19) continues to create significant uncertainty and disruption in the global economy and financial markets. It is reasonably possible that these uncertainties could materially impact our estimates related to, but not limited to, revenue recognition, goodwill and intangible assets, and sports programming rights. As a result, many of our estimates and assumptions require increased judgment and carry a higher degree of variability and volatility. Our estimates may change as new events occur and additional information emerges, and such changes are recognized or disclosed in our consolidated financial statements.

***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 December 31, 2019, three customers accounted for 27%, 23%, and 14%, respectively, of our accounts receivable, net. For purposes of this disclosure, a single customer may include multiple entities under common control.

***Sports Programming Rights***

We have multi-year program rights agreements that provide the Company with the right to produce and telecast professional live sports games within a specified territory in exchange for a rights fee. A prepaid asset is recorded for rights acquired related to future games upon payment of the contracted fee. The assets recorded for the acquired rights are classified as current or non-current based on the period when the games are expected to be aired. Liabilities are recorded for any program rights obligations that have been incurred but not yet paid at period end. We amortize these programing rights as an expense over each season based upon contractually stated rates. Amortization is accelerated in the event that the stated contractual rates over the term of the rights agreement results in an expense recognition pattern that is inconsistent with the projected growth of revenue over the contractual term.

On March 12, 2020, the NBA and NHL suspended their seasons as a result of the COVID-19 pandemic. On this date, the Company suspended the recognition of amortization expense associated with program rights agreements with teams within these leagues. Amortization expense will resume over the modified seasons when the games commence. The timing and format of the remaining 2019-2020 NBA and NHL seasons is uncertain. On March 12, 2020, MLB also announced the delay of the 2020 regular season. This delay did not have a material effect on amortization expense for the year ended December 31, 2019 or three months ended March 31, 2020 as the season has not yet commenced; however, the season delay will impact the timing and potentially the amount of amortization recognized in future periods.

Certain rights agreements with professional teams contain provisions which require the rebate of rights fees paid by the Company if a contractually minimum number of live games are not delivered. The Company did not record any receivables associated with these rebate provisions as of December 31, 2019.

***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 December 31, 2019 consisted primarily of our $362 million 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 record our proportionate share of the net income generated by the investment within income from equity method investments within our consolidated statements of operations. During the period April 29, 2019 to December 31, 2019 we recorded income of $16 million related to our investment, which represents our proportionate share of net income from the date of our investment on August 29, 2019.

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 December 31, 2019 (in millions):

| | As of December 31, 2019 | |
|---|---|---|
| Compensation and employee benefits | $ | 26 |
| Interest | | 122 |
| Programming related obligations | | 60 |
| Accounts payable and other operating expenses | | 20 |
| Total accounts payable and accrued liabilities | $ | 228 |

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 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 December 31, 2019 was $59 million.

***Revenue Recognition***

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

| | The Period April 29, 2019 to December 31, 2019 |
|---|---|
| Distribution revenue | $ 1,029 |
| Advertising revenue | 103 |
| Other media revenues | 7 |
| Total revenues | $ 1,139 |

*Distribution Revenue.* We generate distribution revenue through fees received from MVPDs and vMVPDs for the right to distribute our RSNs. 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 the signal or 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 120 days. Historical adjustments to subscriber estimates have not been material.

Certain of our distribution arrangements contain provisions that require the Company to deliver a minimum number of live professional sports games during a defined period which usually corresponds with a calendar year. If the minimum threshold is not met, we may be obligated to refund a portion of the distribution fees received if shortfalls are not cured within a specified period of time. Our ability to meet these requirements is primarily driven by the delivery of games by the professional sports leagues. The Company has not historically paid any material rebates under these contractual provisions as it is unusual for there to be an event which is significant enough to preclude the Company from meeting or exceeding these thresholds. The COVID-19 pandemic has resulted in significant disruptions to the normal operations of the professional sports leagues resulting in delays and uncertainty with respect to regularly scheduled games. Decisions made by the leagues regarding the timing and format of the revised 2020 seasons may result in our inability to meet these minimum requirements and the need to reduce revenue based upon estimated rebates due to our distribution customers.

*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 December 31, 2019, three customers accounted for 30%, 23%, and 14%, respectively, of our total revenues. For purposes of this disclosure, a single customer may include multiple entities under common control. There was no revenue from these customers prior to the acquisition of the Acquired RSNs.

***Financial Instruments***

Financial instruments, as of December 31, 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.

***Distributions to Parent***

In December 2019 and January 2020, the Company distributed $300 million and $200 million, respectively, to Diamond Sports Holdings, LLC (DSH), an indirect parent of the Company, for the purposes of the redemption of a portion of DSH's preferred equity.

Additionally, during the period April 29, 2019 through December 31, 2019, the Company made additional distributions to DSH for the payment of dividends on its preferred equity totaling $33 million.

***Subsequent Events***

We have evaluated subsequent events through May 11, 2020 and determined that no events or transactions, other than as described above under *Distributions to Parent* , under *Bank Credit Agreement* within *Note 3. Notes Payable and Commercial Bank Financing*, and within *Note 4. Redeemable Noncontrolling Interests*, met the definition of a subsequent event for purposes of recognition or disclosure in the accompanying consolidated financial statements.

The Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business, including how it has and will impact its advertisers, distributors, and professional sports leagues. While the Company did not incur significant disruptions from the COVID-19 pandemic during the year ended December 31, 2019 or three months ended March 31, 2020, the Company expects the effect of the COVID-19 pandemic to intensify during the three month period ended June 30, 2020. The Company is currently unable to predict the extent of the impact that the COVID-19 pandemic will have on its financial condition, results of operations and cash flows in future periods due to numerous uncertainties.

## 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 $9,817 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):

| | Initial Allocation (a) | Adjustments | Updated Allocation |
|---|---|---|---|
| Cash and cash equivalents | $ 823 | $ 1 | $ 824 |
| Accounts receivable, net | 604 | 2 | 606 |
| Prepaid expenses and other current assets | 176 | (1) | 175 |
| Property and equipment, net | 25 | — | 25 |
| Customer relationships, net | 6,220 | (781) | 5,439 |
| Other definite-lived intangible assets, net | 1,456 | (170) | 1,286 |
| Other assets | 52 | — | 52 |
| Accounts payable and accrued liabilities | (261) | 80 | (181) |
| Other long-term liabilities | (579) | 183 | (396) |
| Goodwill | 1,924 | 691 | 2,615 |
| Fair value of identifiable net assets acquired | $ 10,440 | $ 5 | $ 10,445 |
| Redeemable noncontrolling interests | (380) | — | (380) |
| Noncontrolling interests | (231) | (17) | (248) |
| Gross purchase price | $ 9,829 | $ (12) | $ 9,817 |
| Purchase price, net of cash acquired | $ 9,006 | $ (13) | $ 8,993 |

(a) As reported in our September 30, 2019 financial statements.

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 interest using valuation techniques including income and cost approaches. The fair value estimates are based on, but not limited to, projected revenue, projected margins, and discount rates used to present value future cash flows. The adjustments to the initial purchase price are based on more detailed information obtained about the specific assets acquired and liabilities assumed. The adjustments made to the initial allocation did not result in material changes to the amortization expense recorded in previous quarters. The allocation is preliminary pending a final determination of the fair value of the assets and liabilities.

The definite-lived intangible assets of $6,725 million includes $5,439 million of customer relationships, primarily relating to MVPDs, $1,271 million of contract assets with sports teams, and $15 million of tradenames/trademarks. The intangible assets will be amortized on a straight-line basis over a weighted average useful life of 2 years for tradenames/trademarks, 12 years for contracts with sports teams and 13 years for customer relationships. 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 the period April 29, 2019 to December 31, 2019, we recognized $93 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):

| | The year ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Total revenues | $ 3,588 | $ 3,819 |
| Net income | $ 154 | $ 521 |
| Net income attributable to Diamond Sports Intermediate Holdings | $ 71 | $ 421 |

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 December 31, 2019 (in millions):

| | As of December 31, 2019 |
|---|---|
| Bank credit agreement: | |
| Term Loan, due August 24, 2026 | $ 3,292 |
| Senior notes: | |
| 5.375% Secured Notes, due August 15, 2026 | 3,050 |
| 6.625% Notes, due August 15, 2027 | 1,825 |
| Total outstanding principal | 8,167 |
| Less: Deferred financing costs and discount | (179) |
| Less: Current portion | (33) |
| Net carrying value of long-term debt | $ 7,955 |

Notes payable and commercial bank financing as of December 31, 2019 matures as follows (in millions):

| | | |
|---|---|---|
| 2020 | $ | 33 |
| 2021 | | 33 |
| 2022 | | 33 |
| 2023 | | 33 |
| 2024 | | 33 |
| 2025 and thereafter | | 8,002 |
| Total minimum payments | | 8,167 |
| Less: Deferred financing costs and discount | | (179) |
| Net carrying value of debt | $ | 7,988 |

Interest expense on our consolidated statements of operations was $200 million for the period April 29, 2019 to December 31, 2019. Interest expense included $9 million in amortization of deferred financing costs and debt discount for the period April 29, 2019 to December 31, 2019. We recorded $191 million of debt issuance costs and original issuance discount during the period April 29, 2019 to December 31, 2019. Debt issuance costs and original issuance discount are presented as a direct deduction from the carrying amount of an associated debt liability, except for debt issuance 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%.

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.

Additionally, in connection with the Bank Credit Agreement, we obtained a $650 million five-year revolving credit facility (the Revolving Credit Facility), priced at LIBOR plus 3.00%, subject to reduction based on a first lien net leverage ratio, 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 December 31, 2019, there were no outstanding borrowings and $650 million available under the Revolving Credit Facility. On March 17, 2020, we drew down $225 million under the Revolving Credit Facility. Following the March 17, 2020 draw, we had $425 million in available borrowing capacity under the Revolving Credit Facility. The March 17, 2020 draw on Revolving Credit Facility was a precautionary measure to preserve the Company's financial flexibility in light of the current uncertainty in the global economy resulting from the novel coronavirus pandemic ("COVID-19"). If needed, the proceeds will be available to be used for working capital and general corporate purposes.

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. It also includes a financial maintenance covenant only applicable if borrowings under the respective revolving credit facility exceed 35% of the total commitments of the facility, whereby the first lien leverage ratio (as defined in the respective credit agreements) would need to be below 6.25x. As of December 31, 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.

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. As of December 31, 2019, this redeemable noncontrolling interest was recorded at $378 million which represents the $376 million plus $2 million of undistributed noncontrolling interest income. In January 2020, the noncontrolling equity holder exercised their right to sell their interest to the Company for $376 million. This transaction closed in January 2020.

## 5. LEASES:

We adopted the guidance under ASC 842 upon formation of the Company. 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 the period April 29, 2019 to December 31, 2019 was $6 million.

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 December 31, 2019 (in millions):

| | | |
|---|---|---|
| 2020 | $ | 17 |
| 2021 | | 12 |
| 2022 | | 4 |
| 2023 | | 2 |
| 2024 | | 3 |
| 2025 and thereafter | | 5 |
| Total undiscounted obligations | | 43 |
| Less imputed interest | | (4) |
| Present value of lease obligations | $ | 39 |

The following table summarizes supplemental balance sheet information related to our outstanding operating lease obligations as of December 31, 2019 (in millions, except lease term and discount rate):

| | As of December 31, 2019 | |
|---|---|---|
| Lease assets, non-current | $ | 38 |
| | | |
| Lease liabilities, current | $ | 16 |
| Lease liabilities, non-current | | 23 |
| Total lease liabilities | $ | 39 |
| | | |
| Weighted average remaining lease term (in years) | | 3.79 |
| Weighted average discount rate | | 4.0% |

The following table presents other information related to leases for the period April 29, 2019 to December 31, 2019 (in millions):

| | The Period April 29, 2019 to December 31, 2019 | |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ | 6 |
| Leased assets obtained in exchange for new lease liabilities | $ | 19 |

## 6. COMMITMENTS AND CONTINGENCIES:

### *Sports 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 December 31, 2019. These commitments assume that sports teams fully deliver the contractually committed games.

| (in millions) | | |
|---|---|---|
| 2020 | $ | 1,828 |
| 2021 | | 1,783 |
| 2022 | | 1,529 |
| 2023 | | 1,478 |
| 2024 | | 1,409 |
| 2025 and thereafter | | 8,215 |
| Total | $ | 16,242 |

### *Other Liabilities*

In connection with the RSN Acquisition, we assumed certain fixed payment obligations which are payable through 2027. We recorded these obligations in purchase accounting at estimated fair value. As of December 31, 2019, $56 million was recorded within other current liabilities and $145 million was recorded within other long-term liabilities on our consolidated balance sheet. Imputed interest expense of $4 million was recorded for the period April 29, 2019 to December 31, 2019.

In connection with the RSN Acquisition, we assumed certain variable payment obligations which are payable through 2030. These contractual obligations are based upon the excess cash flow of certain RSNs. We recorded these obligations in purchase accounting at estimated fair value. As of December 31, 2019, $34 million was recorded within other current liabilities and $205 million was recorded within other long-term liabilities on our consolidated balance sheet. These obligations are recorded at fair value on a recurring basis. Total measurement adjustments of $8 million were recorded for the period April 29, 2019 to December 31, 2019. For further information, see *Note 9. Fair Value Measurements*.

### *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 associated with Marquee. Marquee is party to a long term telecast rights agreement which provides 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 December 31, 2019, were as follows (in millions):

| | As of December 31, 2019 |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents | $ 39 |
| Accounts receivable, net | 12 |
| Other current assets | 10 |
| Total current assets | 61 |
| | |
| Property and equipment, net | 8 |
| Operating lease assets | 8 |
| Goodwill | 1 |
| Definite-lived intangible assets, net | 32 |
| Total assets | $ 110 |
| | |
| **LIABILITIES** | |
| Current liabilities: | |
| Other current liabilities | $ 2 |
| | |
| Operating lease liabilities, less current portion | 6 |
| Total liabilities | $ 8 |

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 December 31, 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 December 31, 2019, we have a $27 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 $35 million of expense for the period April 29, 2019 to December 31, 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 certain mobile production businesses, which we account for as equity method investments. During the period April 29, 2019 to December 31, 2019, we made payments to these investments totaling $12 million for mobile production related services.

***Sports Programming Rights***

For the period April 29, 2019 to December 31, 2019, the Company paid $73 million, under sports programming rights agreements covering the broadcast of regular season games, to five professional teams who have non-controlling equity interests in certain of our RSNs. These agreements expire on various dates during the fiscal years ended 2030 through 2033.

## 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 carrying value and fair value of our financial assets and liabilities for the periods presented (in millions):

| | As of December 31, 2019 | |
|---|---|---|
| | **Carrying Value (a)** | **Fair Value** |
| Level 1: | | |
| Money market funds | $ 559 | $ 559 |
| | | |
| Level 2: | | |
| 6.625% Senior Unsecured Notes due 2027 (b) | 1,825 | 1,775 |
| 5.375% Senior Secured Notes due 2026 (b) | 3,050 | 3,085 |
| Term Loan (b) | 3,292 | 3,284 |
| | | |
| Level 3: | | |
| Variable payment obligations (c) | 239 | 239 |

(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 $179 million as of December 31, 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*.

(c) The Company records its variable payment obligations at fair value on a recurring basis. These liabilities are further described in *Other Liabilities* within *Note 6. Commitments and Contingencies*. Significant unobservable inputs used in the fair value measurement are projected future operating income before depreciation and amortization; and weighted average discount rate of 9%. Significant increases (decreases) in projected future operating income would generally result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in discount rates, would result in a significantly (lower) higher fair value measurement.

The following table summarizes the changes in financial liabilities measured at fair value on a recurring basis and categorized as Level 3 under the fair value hierarchy (in millions):

| | **Variable Payment Obligations** |
|---|---|
| Fair value at April 29, 2019 | $ — |
| Liabilities acquired in the acquisition of the RSNs | 264 |
| Payments | (33) |
| Measurement adjustments | 8 |
| Fair value at December 31, 2019 | $ 239 |

## 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 | 5 - 10 years |
| Leasehold improvements | Lesser of 10 - 30 years or lease term |
| Office furniture and equipment | 5 - 10 years |

Property and equipment consisted of the following as of December 31, 2019 (in millions):

| | As of December 31, 2019 |
|---|---|
| Operating equipment | $ 21 |
| Leasehold improvements | 6 |
| Office furniture and equipment | 1 |
| Construction in progress | 6 |
| | 34 |
| Less: accumulated depreciation | (4) |
| | $ 30 |

## 11. GOODWILL AND DEFINITE-LIVED INTANGIBLE ASSETS:

Goodwill, which arises from the purchase price exceeding the assigned value of the net assets of an acquired business, represents the value attributable to unidentifiable intangible elements being acquired. As a result of our 2019 acquisitions, we acquired $2,615 million of goodwill, of which approximately $1 million was related to consolidated VIEs as of December 31, 2019.

The following table shows the gross carrying amount and accumulated amortization of definite-lived intangibles (in millions):

| | December 31, 2019 | | |
|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net |
| Amortized intangible assets: | | | |
| Customer relationships (a) | $ 5,439 | $ (150) | $ 5,289 |
| | | | |
| Favorable sports contracts | 1,271 | (43) | 1,228 |
| Other | 15 | (2) | 13 |
| Total other definite-lived intangible assets, net | $ 1,286 | $ (45) | $ 1,241 |

(a) Approximately $32 million of definite-lived intangible assets relate to consolidated VIEs as of December 31, 2019.

Definite-lived intangible assets and other assets subject to amortization are being amortized on a straight-line basis over their estimated useful lives. The definite-lived intangible assets are amortized over a weighted average useful life of 13 years for customer relationships and 12 years for favorable sports contracts. The total weighted average useful life of definite-lived intangible assets and other assets subject to amortization acquired as a result of the acquisitions discussed in *Note 2. Acquisitions and Dispositions of Assets* is 13 years. The amortization expense of the definite-lived intangible and other assets for the years ended December 31, 2019 was $195 million.

The following table shows the estimated annual amortization expense of the definite-lived intangible assets for the next five years (in millions):

| | | |
|---|---|---|
| 2020 | $ | 571 |
| 2021 | | 536 |
| 2022 | | 523 |
| 2023 | | 512 |
| 2024 | | 507 |
| 2025 and thereafter | | 3,881 |
| Amortization of definite-lived intangible assets | $ | 6,530 |