DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020

DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC
TABLE OF CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED):

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

	As of March 31, 2020	As of December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 483	$ 949
Accounts receivable, net of allowance for doubtful accounts of $1 and $3, respectively	518	510
Prepaid sports rights	338	113
Prepaid expenses and other current assets	24	59
Total current assets	1,363	1,631
Property and equipment, net	35	30
Operating lease assets	43	38
Goodwill	2,615	2,615
Customer relationships, net	5,184	5,289
Other definite-lived intangible assets, net	1,226	1,241
Other assets	381	404
Total assets (a)	$ 10,847	$ 11,248
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND MEMBER'S EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 137	$ 228
Current portion of notes payable and commercial bank financing	33	33
Current portion of operating lease liabilities	18	16
Other current liabilities	116	123
Total current liabilities	304	400
Notes payable and commercial bank financing, less current portion	8,172	7,955
Operating lease liabilities, less current portion	26	23
Other long-term liabilities	354	352
Total liabilities (a)	8,856	8,730
Commitments and contingencies (See *Note 5*)		
Redeemable noncontrolling interests	—	378
Member's equity:		
Member's equity	1,857	2,055
Accumulated deficit	(107)	(151)
Total Diamond Sports Intermediate Holdings member’s equity	1,750	1,904
Noncontrolling interests	241	236
Total member's equity	1,991	2,140
Total liabilities, redeemable noncontrolling interests, and member's equity	$ 10,847	$ 11,248

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

(a) Our consolidated total assets as of March 31, 2020 and December 31, 2019 include total assets of variable interest entities (VIEs) of $109 million and $110 million, respectively, which can only be used to settle the obligations of the VIEs. Our consolidated total liabilities as of March 31, 2020 include total liabilities of VIEs of $11 million and $8 million, respectively, for which the creditors of the VIEs have no recourse to us. See *Note 6. Variable Interest Entities*.

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

		Three Months Ended March 31, 2020
Statement of Operations		
REVENUES:		
Total revenues	$	812
OPERATING EXPENSES:		
Media programming and production expenses		478
Media selling, general and administrative expenses		57
Depreciation of property and equipment		3
Corporate general and administrative expenses		2
Amortization of definite-lived intangible and other assets		107
Total operating expenses		647
Operating income		165
OTHER INCOME (EXPENSE):		
Interest expense including amortization of debt discount and deferred financing costs		(123)
Gain from extinguishment of debt		2
Income from equity method investments		6
Other income, net		2
Total other expense, net		(113)
NET INCOME		52
Net income attributable to the noncontrolling interests		(8)
NET INCOME ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS	$	44
Statement of Comprehensive Income		
COMPREHENSIVE INCOME	$	52
Comprehensive income attributable to the noncontrolling interests		(8)
COMPREHENSIVE INCOME ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS	$	44

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)

	Three Months Ended March 31, 2020				
		Diamond Sports Intermediate Holdings LLC Member			
	Redeemable Noncontrolling Interests	Member's Equity	Accumulated Deficit	Noncontrolling Interests	Total Member's Equity
BALANCE, December 31, 2019	$ 378	$ 2,055	$ (151)	$ 236	$ 2,140
Distributions to parent	—	(198)	—	—	(198)
Redemption of redeemable noncontrolling interests	(378)	—	—	—	—
Distributions to noncontrolling interests	—	—	—	(3)	(3)
Net income	—	—	44	8	52
BALANCE, March 31, 2020	$ —	$ 1,857	$ (107)	$ 241	$ 1,991

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

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

	The Three Months Ended March 31, 2020
CASH FLOWS USED IN OPERATING ACTIVITIES:	
Net income	$ 52
Adjustments to reconcile net loss to net cash flows from operating activities:	
Depreciation of property and equipment	3
Amortization of definite-lived intangible and other assets	107
Amortization of sports programming rights	391
Sports programming rights payments	(612)
Income from equity method investments	(6)
Distributions from investments	24
Gain from extinguishment of debt	(2)
Change in assets and liabilities, net of acquisitions:	
Increase in accounts receivable	(6)
Decrease in prepaid expenses and other current assets	47
Decrease in accounts payable and accrued and other current liabilities	(100)
Other, net	8
Net cash flows used in operating activities	(94)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of property and equipment	(4)
Distributions from investments	4
Net cash flows from investing activities	—
CASH FLOWS USED IN FINANCING ACTIVITIES:	
Proceeds from notes payable and commercial bank financing	225
Repayments of notes payable and commercial bank financing	(11)
Distributions to parent	(198)
Distributions to noncontrolling interests	(3)
Distributions to redeemable noncontrolling interests	(378)
Other, net	(7)
Net cash flows used in financing activities	(372)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(466)
CASH AND CASH EQUIVALENTS, beginning of period	949
CASH AND CASH EQUIVALENTS, end of period	$ 483

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" 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 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 6. 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 March 31, 2020 are unaudited. The unaudited consolidated financial statements do not include all disclosures normally included with audited consolidated financial statements. The unaudited consolidated statements of operations presented in the accompanying consolidated financial statements are not necessarily representative of operations for an entire year.

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.

As of March 31, 2020, 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.

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.

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 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. As of March 31, 2020, the Company has not recorded any receivables associated with these rebate provisions.

Other Assets

Other assets as of March 31, 2020 consisted primarily of our $341 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 three months ended March 31, 2020, we recorded income of $5 million related to our investment.

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.

Revenue Recognition

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

	Three Months Ended March 31, 2020
Distribution revenue	$ 752
Advertising revenue	55
Other media revenues	5
Total revenues	$ 812

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.

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 three months ended March 31, 2020, three customers accounted for 30%, 24%, and 15%, respectively, of our total revenues and 26%, 25%, and 15% of our accounts receivable, net. 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.

Distributions to Parent

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

Subsequent Events

We have evaluated subsequent events through May 11, 2020 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.

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 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 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	$	824
Accounts receivable, net		606
Prepaid expenses and other current assets		175
Property and equipment, net		25
Customer relationships, net		5,439
Other definite-lived intangible assets, net		1,286
Other assets		52
Accounts payable and accrued liabilities		(181)
Other long-term liabilities		(396)
Goodwill		2,615
Fair value of identifiable net assets acquired	$	10,445
Redeemable noncontrolling interests		(380)
Noncontrolling interests		(248)
Gross purchase price		9,817
Purchase price, net of cash acquired	$	8,993

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 are primarily comprised of customer relationships, which represent existing advertiser relationships and contractual relationships with MVPDs of $5,439 million, the fair value of contracts with sports teams of $1,271 million, and tradenames/trademarks of $15 million. The intangible assets will be amortized over a weighted average useful life of 2 years for tradenames/trademarks, 13 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.

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 March 31, 2019	
Total revenues	$	949
Net income	$	95
Net income attributable to Diamond Sports Intermediate Holdings	$	63

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:

Bank Credit Agreement

On March 17, 2020, we drew down $225 million under the $650 million five-year revolving credit facility (the Revolving Credit Facility) priced at LIBOR plus 3.00%. As of March 31, 2020, there were $225 million outstanding borrowings and $425 million available under the Revolving Credit Facility. The Bank Credit Agreement contain various restrictions and covenants, including 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 March 31, 2020, we were in compliance with all covenants.

The draw on the Revolving Credit Facility was a precautionary measure to preserve the Company's financial flexibility in light of the current uncertainly 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.

Senior Notes

On March 23, 2020, we redeemed, at a discount, $5 million aggregate principal amount of the 6.625% Notes due 2027 (the 6.625% Notes). We recognized a gain on extinguishment of the 6.625% Notes of $2 million for the three months ended March 31, 2020. As of March 31, 2020, the 6.625% Notes balance, net of deferred financing costs, was $1,781 million.

4. REDEEMABLE NONCONTROLLING INTERESTS:

A noncontrolling equity holder of one of our subsidiaries had the right to sell their interest to the Company at a fair market sale value of $376 million, plus any undistributed income, which was exercised and settled in January 2020.

5. 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 March 31, 2020. These commitments assume that sports teams fully deliver the contractually committed games.

(in millions)		
2020 (remainder)	$	1,223
2021		1,784
2022		1,529
2023		1,479
2024		1,409
2025 and thereafter		8,215
Total	$	15,639

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 March 31, 2020, $56 million was recorded within other current liabilities and $147 million was recorded within other long-term liabilities in our consolidated balance sheets. Interest expense of $2 million was recorded for the three months ended March 31, 2020.

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 March 31, 2020, $30 million was recorded within other current liabilities and $205 million was recorded within other long-term liabilities in our consolidated balance sheets. These obligations are recorded at fair value on a recurring basis. Total measurement adjustments of $3 million were recorded for the three months ended March 31, 2020. For further information, see *Note 8. 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.

6. 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 in our consolidated balance sheets as of the dates presented, were as follows (in millions):

	As of March 31, 2020	As of December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17	$ 39
Accounts receivable, net	18	12
Other current assets	26	10
Total current assets	61	61
Property and equipment, net	10	8
Operating lease assets	7	8
Goodwill	3	1
Definite-lived intangible assets, net	28	32
Total assets	$ 109	$ 110
LIABILITIES		
Current liabilities:		
Other current liabilities	$ 5	$ 2
Operating lease liabilities, less current portion	6	6
Total liabilities	$ 11	$ 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 March 31, 2020, all of the liabilities are non-recourse to us. The risk and reward characteristics of the VIEs are similar.

7. RELATED PERSON TRANSACTIONS:

Transactions with Sinclair Television Group, Inc.

As of March 31, 2020, we have a $29 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 to be paid to STG for these services is $72 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 distribution agreements with MVPDs and vMVPDs. Pursuant to these agreements, we incurred $23 million of expense for the three months ended March 31, 2020.

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 three months ended March 31, 2020, we made payments to these investments totaling $7 million for mobile production related services.

Sports Programming Rights

For the three months ended March 31, 2020, the Company paid $70 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.

8. 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 March 31, 2020		As of December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Level 1:				
Money market funds	$ 256	$ 256	$ 559	$ 559
Level 2 (a):				
6.625% Senior Unsecured Notes due 2027	1,820	1,217	1,825	1,775
5.375% Senior Secured Notes due 2026	3,050	2,478	3,050	3,085
Term Loan	3,284	2,528	3,292	3,284
Revolving credit facility (b)	225	225	—	—
Level 3:				
Variable payment obligations (c)	235	235	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 $173 million and $179 million as of March 31, 2020 and December 31, 2019, respectively.

(b) On March 17, 2020, we drew down $225 million under the DSG Revolving Credit Facility. See *Note 3. Notes Payable and Commercial Bank Financing* for further information.

(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 5. 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 December 31, 2019	$ 239
Payments	(7)
Measurement adjustments	3
Fair value at March 31, 2020	$ 235