DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 June 30, 2020	As of December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 436	$ 949
Accounts receivable, net of allowance for doubtful accounts of less than $1 and $3, respectively	455	510
Prepaid sports rights	725	113
Prepaid expenses and other current assets	43	59
Total current assets	1,659	1,631
Property and equipment, net	37	30
Operating lease assets	39	38
Goodwill	2,615	2,615
Customer relationships, net	5,079	5,289
Other definite-lived intangible assets, net	1,223	1,241
Other assets	382	404
Total assets (a)	$ 11,034	$ 11,248
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND MEMBER'S EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 164	$ 228
Current portion of notes payable and commercial bank financing	33	33
Current portion of operating lease liabilities	18	16
Due to affiliates	65	26
Other current liabilities	131	97
Total current liabilities	411	400
Notes payable and commercial bank financing, less current portion	7,926	7,955
Operating lease liabilities, less current portion	21	23
Other long-term liabilities	433	352
Total liabilities (a)	8,791	8,730
Commitments and contingencies (See *Note 5*)		
Redeemable noncontrolling interests	—	378
Member's equity:		
Member's equity	1,833	2,055
Retained earnings (accumulated deficit)	171	(151)
Accumulated other comprehensive loss	(9)	—
Total Diamond Sports Intermediate Holdings member’s equity	1,995	1,904
Noncontrolling interests	248	236
Total member's equity	2,243	2,140
Total liabilities, redeemable noncontrolling interests, and member's equity	$ 11,034	$ 11,248

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

(a) Our consolidated total assets as of June 30, 2020 and December 31, 2019 include total assets of variable interest entities (VIEs) of $175 million and $110 million, respectively, which can only be used to settle the obligations of the VIEs. Our consolidated total liabilities as of June 30, 2020 include total liabilities of VIEs of $67 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 June 30, 2020	Six Months Ended June 30, 2020
Statements of Operations		
REVENUES:		
Total revenues	$ 616	$ 1,428
OPERATING EXPENSES:		
Media programming and production expenses	51	528
Media selling, general and administrative expenses	55	112
Depreciation of property and equipment	3	6
Corporate general and administrative expenses	2	4
Amortization of definite-lived intangible and other assets	106	213
Total operating expenses	217	863
Operating income	399	565
OTHER INCOME (EXPENSE):		
Interest expense including amortization of debt discount and deferred financing costs	(117)	(240)
Gain on extinguishment of debt	3	5
Income from equity method investments	2	8
Other income, net	—	1
Total other expense, net	(112)	(226)
NET INCOME	287	339
Net income attributable to the noncontrolling interests	(9)	(17)
NET INCOME ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS	$ 278	$ 322
Statements of Comprehensive Income		
NET INCOME	$ 287	$ 339
Share of other comprehensive loss of equity method investments	(9)	(9)
COMPREHENSIVE INCOME	$ 278	$ 330
Comprehensive income attributable to the noncontrolling interests	(9)	(17)
COMPREHENSIVE INCOME ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS	$ 269	$ 313

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)

	Six months ended June 30, 2020					
		Diamond Sports Intermediate Holdings LLC Member				
	Redeemable Noncontrolling Interests	Member's Equity	Retained Earnings (Accumulated Deficit)	Noncontrolling Interests	Accumulated Other Comprehensive Loss	Total Member's Equity
BALANCE, December 31, 2019	$ 378	$ 2,055	$ (151)	$ 236	$ —	$ 2,140
Distributions to parent	—	(222)	—	—	—	(222)
Redemption of redeemable noncontrolling interests	(378)	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	(5)	—	(5)
Other comprehensive loss	—	—	—	—	(9)	(9)
Net income	—	—	322	17		339
BALANCE, June 30, 2020	$ —	$ 1,833	$ 171	$ 248	$ (9)	$ 2,243

	Three Months Ended June 30, 2020					
		Diamond Sports Intermediate Holdings LLC Member				
	Redeemable Noncontrolling Interests	Member's Equity	Retained Earnings (Accumulated Deficit)	Noncontrolling Interests	Accumulated Other Comprehensive Loss	Total Member's Equity
BALANCE, March 31, 2020	$ —	$ 1,857	$ (107)	$ 241	$ —	$ 1,991
Distributions to parent	—	(24)	—	—	—	(24)
Distributions to noncontrolling interests	—	—	—	(2)	—	(2)
Other comprehensive loss	—	—	—	—	(9)	(9)
Net income	—	—	278	9	—	287
BALANCE, June 30, 2020	$ —	$ 1,833	$ 171	$ 248	$ (9)	$ 2,243

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)

	Six Months Ended June 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 339
Adjustments to reconcile net income to net cash flows from operating activities:	
Depreciation of property and equipment	6
Amortization of definite-lived intangible and other assets	213
Amortization of sports programming rights	396
Sports programming rights payments	(1,025)
Income from equity method investments	(8)
Distributions from investments	25
Gain on extinguishment of debt	(5)
Change in assets and liabilities, net of acquisitions:	
Decrease in accounts receivable	58
Decrease in prepaid expenses and other current assets	74
Decrease in accounts payable and accrued and other current liabilities	(31)
Increase in other long-term liabilities	85
Other, net	19
Net cash flows from operating activities	146
CASH FLOWS USED IN INVESTING ACTIVITIES:	
Acquisition of property and equipment	(12)
Distributions from investments	9
Net cash flows used in investing activities	(3)
CASH FLOWS USED IN FINANCING ACTIVITIES:	
Proceeds from notes payable and commercial bank financing	225
Repayments of notes payable and commercial bank financing	(260)
Distributions to parent	(222)
Distributions to noncontrolling interests	(5)
Redemption of redeemable noncontrolling interests	(378)
Other, net	(16)
Net cash flows used in financing activities	(656)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(513)
CASH AND CASH EQUIVALENTS, beginning of period	949
CASH AND CASH EQUIVALENTS, end of period	$ 436

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 have reached an agreement in principle for 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 and six months ended June 30, 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.

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, program contract costs, sports programming rights, and income taxes. 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 National Basketball Association (NBA), the National Hockey League (NHL) and Major League Baseball (MLB) suspended or delayed the start of their seasons as a result of the COVID-19 pandemic. On that date, the Company suspended the recognition of amortization expense associated with prepaid program rights agreements with teams within these leagues. Amortization expense will resume for the NBA, NHL, and MLB over the modified seasons when the games commence during the third quarter of 2020.

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. Rights fees paid in advance of expense recognition, inclusive of any rebates due to the Company, are included within prepaid sports rights on our consolidated balance sheets.

Other Assets

Other assets as of June 30, 2020 consisted primarily of our $329 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 and six months ended June 30, 2020, we recorded income of $2 million and $7 million, respectively, 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.

Non-cash Investing and Financing Activities

Leased assets obtained in exchange for new operating lease liabilities were $8 million during the six months ended June 30, 2020.

Revenue Recognition

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

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Distribution revenue	$ 610	$ 1,362
Advertising revenue	3	58
Other media revenues	3	8
Total revenues	$ 616	$ 1,428

Distribution Revenue. We generate distribution revenue through fees received from multi-channel video programming distributors (MVPDs) and virtual MVPDs (vMVPDs, and together with MVPDs, "Distributors") 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 or tournaments 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 during the second quarter of 2020 regarding the timing and format of the revised 2020 seasons have resulted, in some cases, in our inability to meet these minimum requirements and the need to reduce revenue based upon estimated rebates due to our distribution customers. These estimated rebates will be recognized over the measurement period of the rebate which in this case will be during the year ended December 31, 2020. For both the three and six months ended June 30, 2020, we reduced revenue and accrued corresponding rebates to Distributors of $124 million. The foregoing rebates assume that the leagues will complete their respective revised 2020 seasons as currently scheduled. However, there can be no assurance that will occur and any changes to the revised 2020 seasons may cause the actual rebates paid to the Distributors to differ from the amount set forth above. See *Subsequent Events* within *Note 1. Nature of Operations and Summary of Significant Accounting Policies.*

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 June 30, 2020, three customers accounted for 30%, 28%, and 14%, respectively, of our total revenues. For the six months ended June 30, 2020, three customers accounted for 30%, 26%, and 14%, respectively, of our total revenues. As of June 30, 2020, three customers accounted for 30%, 27%, and 17%, respectively, 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.

Additionally, during the three and six months ended June 30, 2020, the Company made additional distributions to DSH for the payment of dividends on its preferred equity totaling $24 million.

Subsequent Events

We have evaluated subsequent events through August 10, 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 already impacted, and will impact, its advertisers, distributors, and agreements with professional sports leagues. On July 23, 2020, the MLB commenced its revised 60 game 2020 season. Since the beginning of the season, the MLB has postponed multiple regularly scheduled games due to COVID-19 outbreaks affecting multiple teams. The MLB has since rescheduled these games. The NBA, which resumed its 2020 season on July 31, 2020, and the NHL, which resumed its 2020 playoffs on August 1, 2020, have not postponed any additional games since their respective seasons resumed. However, there can be no assurance that the MLB, NBA, or NHL will complete the remainder of their respective seasons as scheduled. Any reduction in the actual number of games played by the leagues may have an adverse impact on our operations and cash flows. The Company is currently unable to predict the full extent 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 MLB teams, 16 NBA teams, and 12 NHL 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 Distributors 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.

For the three and six months ended June 30, 2020, revenue of the Acquired RSNs included in our consolidated statements of operations was $598 million and $1,403 million, respectively, and operating income of the Acquired RSNs included in our consolidated statements of operations was $391 million and $562 million, respectively.

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 June 30, 2019	Six Months Ended June 30, 2019
Total revenues	$ 992	$ 1,941
Net income	$ 61	$ 169
Net income attributable to Diamond Sports Intermediate Holdings	$ 35	$ 111

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

The bank credit agreement (Bank Credit Agreement) provides a $650 million five-year revolving credit facility (the Revolving Credit Facility), priced at LIBOR plus 3.00%. On March 17, 2020, we drew $225 million under the Revolving Credit Facility as a precautionary measure given the COVID-19 pandemic. During the quarter ended June 30, 2020, the Company fully repaid the amount outstanding under the Revolving Credit Facility.

The Bank Credit Agreement includes a financial maintenance covenant, the first lien leverage ratio (as defined in the Bank Credit Agreement), which requires a ratio of less than 6.25x, measured as of the end of each quarter. This financial maintenance covenant is only applicable if borrowings under the Revolving Credit Facility, at the end of each quarter, exceed 35% of the total commitments of the facility. Since there were no outstanding borrowings under the Revolving Credit Facility as of June 30, 2020, compliance with the financial maintenance covenant was not required. As of June 30, 2020, the first lien leverage ratio exceeded 6.25x. We do not expect that the first lien leverage ratio will be below 6.25x for the duration of 2020, which will restrict our ability to fully utilize the Revolving Credit Facility. We do not currently expect to have more than the 35% of the capacity of the Revolving Credit Facility outstanding as of any quarterly measurement date, therefore we do not expect we will be subject to the financial maintenance covenant. The Bank Credit Agreement contains other restrictions and covenants which the Company was in compliance with as of June 30, 2020.

Senior Notes

On March 23, 2020, we purchased $5 million aggregate principal amount of the 6.625% Notes due 2027 (the 6.625% Notes) in open market transactions for consideration of $3 million. In June 2020, we purchased $10 million aggregate principal amount of the 6.625% Notes in open market transactions for consideration of $7 million. The 6.625% Notes acquired in March 2020 and June 2020 were canceled immediately following their acquisition. We recognized a gain on extinguishment of the 6.625% Notes of $3 million and $5 million for the three and six months ended June 30, 2020, respectively.

On June 10, 2020, we exchanged $66.5 million aggregate principal amount of the 6.625% Notes for cash payments of $10 million, including accrued but unpaid interest, and $31 million aggregate principal amount of newly issued DSG senior secured notes, which bear interest at a rate of 12.750% per annum and mature on December 1, 2026 (the 12.750% Secured Notes), issued at a premium of $25 million. As of June 30, 2020, the balance of the 6.625% Notes, net of deferred financing costs, was $1,708 million and the balance of the 12.750% Secured Notes was $56 million, including the original issuance premium of $25 million.

Prior to August 15, 2022, we may redeem the 12.750% Secured 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 12.750% Secured 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 12.750% Secured 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 the 12.750% Secured 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 12.750% Secured Notes are 102.688%, 101.344%, and 100%, respectively.

DSG’s obligations under the 12.750% Secured Notes are jointly and severally guaranteed by the Company and certain wholly-owned subsidiaries of the Company.

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 June 30, 2020. These commitments assume that sports teams fully deliver the contractually committed games, and do not reflect the impact of rebates expected to be paid by the teams.

(in millions)		
2020 (remainder)	$	793
2021		1,775
2022		1,529
2023		1,479
2024		1,409
2025 and thereafter		8,215
Total	$	15,200

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 June 30, 2020, $57 million was recorded within other current liabilities and $144 million was recorded within other long-term liabilities in our consolidated balance sheets. Interest expense of $2 million and $4 million was recorded for the three and six months ended June 30, 2020, respectively.

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 June 30, 2020, $33 million was recorded within other current liabilities and $202 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 and $6 million were recorded for the three and six months ended June 30, 2020, respectively. 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 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 in our consolidated balance sheets as of the dates presented, were as follows (in millions):

	As of June 30, 2020	As of December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29	$ 39
Accounts receivable, net	26	12
Prepaid sports rights	72	10
Other current assets	1	—
Total current assets	128	61
Property and equipment, net	10	8
Operating lease assets	7	8
Goodwill	3	1
Definite-lived intangible assets, net	27	32
Total assets	$ 175	$ 110
LIABILITIES		
Current liabilities:		
Due to affiliates	$ 48	$ —
Other current liabilities	9	$ 2
Total current liabilities	57	2
Operating lease liabilities, less current portion	6	6
Other long-term liabilities	4	—
Total liabilities	$ 67	$ 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 June 30, 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 June 30, 2020, we have a $65 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 Distributors. Pursuant to these agreements, we incurred $25 million and $48 million of expense for the three and six months ended June 30, 2020, respectively.

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 companies, which we account for as equity method investments. For the three and six months ended June 30, 2020, we made payments to these investments totaling $2 million and $9 million, respectively, for production services.

Sports Programming Rights

For the three and six months ended June 30, 2020, the Company paid $136 million and $206 million, respectively, 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 June 30, 2020		As of December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Level 1:				
Money market funds	$ 61	$ 61	$ 559	$ 559
Level 2 (a):				
12.750% Senior Secured Notes due 2026 (b)	31	30	—	—
6.625% Senior Unsecured Notes due 2027 (b)	1,744	929	1,825	1,775
5.375% Senior Secured Notes due 2026	3,050	2,207	3,050	3,085
Term Loan	3,275	2,661	3,292	3,284
Level 3:				
Variable payment obligations (c)	235	235	239	239

(a) Amounts are carried on our consolidated balance sheets net of debt discount, premium, and deferred financing cost, which are excluded in the above table, of $141 million and $179 million as of June 30, 2020 and December 31, 2019, respectively.

(b) On June 10, 2020, we exchanged $66.5 million aggregate principal amount of the 6.625% Notes for cash payments of $10 million, including accrued but unpaid interest, and $31 million aggregate principal amount of the newly issued 12.750% Secured Notes. 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 for the three and six months ended June 30, 2020 (in millions):

	Variable Payment Obligations
Fair value at March 31, 2020	$ 235
Payments	(3)
Measurement adjustments	3
Fair value at June 30, 2020	$ 235

	Variable Payment Obligations
Fair value at December 31, 2019	$ 239
Payments	(10)
Measurement adjustments	6
Fair value at June 30, 2020	$ 235