DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

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

	As of March 31, 2022	As of December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 572	$ 479
Accounts receivable, net of allowance for doubtful accounts of less than $1 million as of both periods	494	559
Prepaid sports rights	302	85
Prepaid expenses and other current assets	26	27
Total current assets	1,394	1,150
Property and equipment, net	94	106
Restricted cash	3	3
Operating lease assets	46	53
Customer relationships, net	3,305	3,380
Other definite-lived intangible assets, net	584	589
Other assets	502	462
Total assets (a)	$ 5,928	$ 5,743
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND MEMBER'S EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 180	$ 261
Current portion of notes payable and commercial bank financing	39	33
Current portion of operating lease liabilities	13	14
Due to affiliates	19	28
Other current liabilities	184	272
Total current liabilities	435	608
Notes payable and commercial bank financing, less current portion	8,445	7,905
Indebtedness to affiliates	163	213
Operating lease liabilities, less current portion	34	41
Other long-term liabilities	148	99
Total liabilities (a)	9,225	8,866
Commitments and contingencies (See *Note 4*)		
Redeemable noncontrolling interests	16	16
Member's equity:		
Member's equity	1,466	1,467
Accumulated deficit	(4,879)	(4,729)
Accumulated other comprehensive income	8	—
Total Diamond Sports Intermediate Holdings member’s deficit	(3,405)	(3,262)
Noncontrolling interests	92	123
Total member's deficit	(3,313)	(3,139)
Total liabilities, redeemable noncontrolling interests, and member's equity	$ 5,928	$ 5,743

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

(a) Our consolidated total assets as of March 31, 2022 and December 31, 2021 include total assets of variable interest entities (VIEs) of $46 million and $112 million, respectively, which can only be used to settle the obligations of the VIEs. Our consolidated total liabilities as of March 31, 2022 and December 31, 2021 include total liabilities of VIEs of $16 million and $44 million, respectively, for which the creditors of the VIEs have no recourse to us. See *Note 5. Variable Interest Entities*.

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

	Three Months Ended March 31,	
	2022	2021
Statements of Operations		
REVENUES:		
Total revenues	$ 709	$ 768
OPERATING EXPENSES:		
Media programming and production expenses	571	657
Media selling, general and administrative expenses	79	65
Depreciation of property and equipment	5	2
Corporate general and administrative expenses	2	3
Amortization of definite-lived intangible assets	75	82
Gain on deconsolidation of subsidiary	(15)	—
Total operating expenses	717	809
Operating loss	(8)	(41)
OTHER INCOME (EXPENSE):		
Interest expense including amortization of debt discount and deferred financing costs	(139)	(108)
Gain on extinguishment of debt	5	—
Income from equity method investments	20	13
Other (expense) income, net	(3)	—
Total other expense, net	(117)	(95)
NET LOSS	(125)	(136)
Net income attributable to the noncontrolling interests	(25)	(34)
NET LOSS ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS	$ (150)	$ (170)
Statements of Comprehensive Income		
NET LOSS	$ (125)	$ (136)
Share of other comprehensive income of equity method investments	8	8
COMPREHENSIVE LOSS	$ (117)	$ (128)
Comprehensive income attributable to the noncontrolling interests	(25)	(34)
COMPREHENSIVE LOSS ATTRIBUTABLE TO DIAMOND SPORTS INTERMEDIATE HOLDINGS	$ (142)	$ (162)

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

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

	Three Months Ended March 31, 2021					
		Diamond Sports Intermediate Holdings LLC				
	Redeemable Noncontrolling Interests	Member's Equity	Accumulated Deficit	Noncontrolling Interests	Accumulated Other Comprehensive (Loss) Income	Total Member's Deficit
BALANCE, December 31, 2020	$ 20	$ 1,472	$ (3,973)	$ 140	$ (7)	$ (2,368)
Distributions to parent	—	(4)	—	—	—	(4)
Distributions to noncontrolling interests	(2)	—	—	(27)	—	(27)
Other comprehensive income	—	—	—	—	8	8
Net (loss) income	—	—	(170)	34	—	(136)
BALANCE, March 31, 2021	$ 18	$ 1,468	$ (4,143)	$ 147	$ 1	$ (2,527)

	Three Months Ended March 31, 2022					
		Diamond Sports Intermediate Holdings LLC				
	Redeemable Noncontrolling Interests	Member's Equity	Accumulated Deficit	Noncontrolling Interests	Accumulated Other Comprehensive Income	Total Member's Deficit
BALANCE, December 31, 2021	$ 16	$ 1,467	$ (4,729)	$ 123	$ —	$ (3,139)
Distributions to parent	—	(1)	—	—	—	(1)
Deconsolidation of subsidiary	—	—	—	(56)	—	(56)
Other comprehensive income	—	—	—	—	8	8
Net (loss) income	—	—	(150)	25	—	(125)
BALANCE, March 31, 2022	$ 16	$ 1,466	$ (4,879)	$ 92	$ 8	$ (3,313)

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

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

	Three Months Ended March 31,	
	2022	**2021**
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss	$ (125)	$ (136)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Amortization of sports programming rights	489	552
Amortization of definite-lived intangible assets	75	82
Depreciation of property and equipment	5	2
Sports programming rights payments	(715)	(607)
Rebate payments to distributors	(24)	(133)
Gain on deconsolidation of subsidiary	(15)	—
Income from equity method investments	(20)	(13)
Distributions from investments	16	12
Gain on extinguishment of debt	(5)	—
Measurement adjustment loss on variable payment obligations	3	1
Change in assets and liabilities, net of deconsolidation of subsidiary:		
Decrease (increase) in accounts receivable	27	(19)
Decrease in prepaid expenses and other current assets	1	29
Decrease in accounts payable and accrued and other current liabilities	(82)	(92)
Increase in other long-term liabilities	7	—
Other, net	9	5
Net cash flows used in operating activities	(354)	(317)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Acquisition of property and equipment	(2)	(7)
Deconsolidation of subsidiary cash	(42)	—
Distributions from investments	2	2
Net cash flows used in investing activities	(42)	(5)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Proceeds from notes payable and commercial bank financing	616	6
Repayments of notes payable, commercial bank financing, and indebtedness to affiliates	(91)	(19)
Distributions to parent	(1)	(4)
Debt issuance costs	(30)	—
Distributions to noncontrolling interests	—	(27)
Distributions to redeemable noncontrolling interests	—	(2)
Other, net	(5)	—
Net cash flows from (used in) financing activities	489	(46)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	93	(368)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of period	482	786
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of period	$ 575	$ 418

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 and its subsidiaries (the "Company" or sometimes referred to as "we" or "our"), a Delaware limited liability company and a subsidiary of Sinclair Broadcast Group, Inc. ("SBG"), was formed on April 29, 2019 as a holding company for Diamond Sports Group, LLC ("DSG"), which 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. The Company is the legal entity that serves as a holding company to DSG and does not have any other operations or balances. Additionally, DSG has an ownership interest in Sports Network, LLC which, prior to the Deconsolidation, as defined below under *Deconsolidation of Marquee Sports Network, LLC*, consolidated Marquee Sports Network, LLC ("Marquee"). On August 29, 2019, a wholly-owned subsidiary of DSG acquired a 20% equity interest in the Yankee Entertainment and Sports Network (the "YES Network"). On March 31, 2021, the 21 Acquired RSNs were rebranded as 19 Bally Sports network brands (the "Bally RSNs"). The Bally RSNs, YES Network, and Marquee own the exclusive rights to air, among other sporting events, the games of professional sports teams in designated local viewing areas, through both live television and over-the-top ("OTT") platforms.

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).

Principles of Consolidation

The consolidated financial statements include our accounts and those of our wholly-owned and majority-owned subsidiaries 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 5. 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.

Deconsolidation of Marquee Sports Network, LLC

On March 1, 2022, the Company and certain subsidiaries of SBG completed the Transaction, as defined under *Credit Agreements and Notes* in *Note 2. Notes Payable, Commercial Bank Financing and Indebtedness to Affiliates*. As part of the Transaction, the governance structure of the Company was modified, including changes to the composition of our Board of Managers, resulting in SBG's loss of voting control of the Company. Prior to March 1, 2022, the power to direct the activities which significantly impacted the economic performance of Marquee was held through a contractual agreement by a related party under common control. As a result, prior to March 1, 2022, we consolidated Marquee as the Company was the party within the related party group most closely associated with Marquee. As of March 1, 2022, the Company was no longer under common control with the party to the contractual agreement. As a result, Marquee was deconsolidated from the Company's consolidated financial statements effective as of March 1, 2022 (the "Deconsolidation"). The consolidated statement of operations therefore includes two months of activity related to Marquee in the fiscal quarter ended March 31, 2022 prior to Deconsolidation. The assets and liabilities of Marquee are no longer included within the Company's consolidated balance sheet as of March 31, 2022. Any discussions related to results, operations, and accounting policies associated with Marquee are referring to the periods prior to Deconsolidation.

Upon Deconsolidation, the Company recognized a gain of approximately $15 million, which is recorded within gain on deconsolidation of subsidiary in our consolidated statements of operations. Subsequent to Deconsolidation, the Company accounted for our equity ownership interest in Marquee under the equity method of accounting. See *Other Assets* below for more information.

Interim Financial Statements

The consolidated financial statements for the three months ended March 31, 2022 and 2021 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 war in Ukraine and 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 further materially impact our estimates related to, but not limited to, revenue recognition, 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 us with the right to produce and telecast professional live sports games within a specified territory in exchange for a rights fee, through both live television and OTT platforms. 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 programming 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.

The National Basketball Association ("NBA") and National Hockey League ("NHL") delayed the start of their 2020-2021 seasons until December 22, 2020 and January 13, 2021, respectively, and both leagues postponed games in the fourth quarter of 2021 and rescheduled these games to be played in the first quarter 2022. The sports rights expense associated with these seasons was recognized over the modified term of these seasons.

On December 2, 2021, Major League Baseball ("MLB") owners locked out players following the expiration of its prior collective bargaining agreement with its players. On March 10, 2022, the MLB owners and players reached a deal on a new five-year collective bargaining agreement and the season began on April 7, 2022 under a full game schedule.

Certain rights agreements with professional teams contain provisions which require the rebate of rights fees paid by the Company if a contractual minimum number of live games are not delivered. The actual amount of rebates to be received will vary depending on changes in the final game counts of each league's respective season. Rights fees paid in advance of expense recognition, inclusive of any contractual rebates due to the Company, are included within prepaid sports rights in our consolidated balance sheets.

Other Assets

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 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.

Other assets, as of December 31, 2021, consisted primarily of our equity method investment in the YES Network of $339 million. Other assets, as of March 31, 2022, consisted primarily of our equity method investments in the YES Network and Marquee of $385 million. Subsequent to the Deconsolidation, we accounted for our equity interest in Marquee under the equity method of accounting. As of March 1, 2022, we reflected the investment in Marquee at fair value, which was determined to be $32 million. See *Deconsolidation of Marquee Sports Network, LLC* within *Note 1. Nature of Operations and Summary of Significant Accounting Policies.* We record our proportionate share of the net income generated by these investments within income from equity method investments in our consolidated statements of operations. For the three months ended March 31, 2022 we recorded income of $19 million and for the three months ended March 31, 2021 we recorded income of $13 million related to these investments, included within income from equity method investments in our consolidated statements of operations. We did not identify any other than temporary impairments associated with these investments during the periods ended March 31, 2022 and December 31, 2021.

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, 2022	Three Months Ended March 31, 2021
Distribution revenue	$ 630	$ 698
Advertising revenue	74	65
Other media revenues	5	5
Total revenues	$ 709	$ 768

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 Bally 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 us 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. Prior to the COVID-19 pandemic, we had not historically paid any material rebates under these contractual provisions as it was unusual for there to be an event which was significant enough to preclude us 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 season and decisions made by the NHL and NBA during the fourth quarter of 2020 and the first and third quarters of 2021 regarding the timing and format of their revised 2020-2021 seasons have resulted, in some cases, in our inability to meet these minimum game requirements and the need to reduce revenue based upon estimated rebates due to our Distributors. Accrued rebates as of March 31, 2022 and December 31, 2021 were $171 million and $210 million, respectively. The decrease in accrued rebates during the three months ended March 31, 2022 includes $24 million of payments and an adjustment of $15 million due to the Deconsolidation. As of March 31, 2022, $43 million and $128 million of rebates were reflected in other long-term liabilities and other current liabilities, respectively, in our consolidated balance sheets. We expect these rebates to be paid during 2022 and 2023. There were no new rebates accrued during the three months ended March 31, 2022 that related to the 2022 seasons, as we do not expect to be in a shortfall position in 2022.

Advertising Revenue. We generate advertising revenue primarily from the sale of advertising spots/impressions within the Bally RSN programming.

In accordance with Accounting Standards Codification 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, 2022, three customers accounted for 28%, 27%, and 18%, respectively, of our total revenues. For the three months ended March 31, 2021, three customers accounted for 29%, 26%, and 19%, respectively, of our total revenues. As of March 31, 2022, three customers accounted for 26%, 21%, and 11%, respectively, of our accounts receivable, net. For purposes of this disclosure, a single customer may include multiple entities under common control.

On November 18, 2020, we and SBG entered into an enterprise-wide commercial agreement with Bally's Corporation ("Bally's") including providing certain branding integrations in our regional sports networks. These branding integrations include naming rights associated with the majority of our regional sports networks (other than Marquee). The initial term of the arrangement is 10 years and we began performing under this arrangement during the year ended December 31, 2021. We recognize revenue related to the contractual fees received from Bally's over the term of the arrangement as our performance obligations are satisfied.

Distributions to Parent

We made distributions to Diamond Sports Holdings LLC ("DSH") for cash tax payments on the paid-in-kind dividends of its preferred equity of $1 million and the payment of cash dividends on its preferred equity of $4 million during the three months ended March 31, 2022 and 2021, respectively. Dividends for the three months ended March 31, 2022 were paid-in-kind and added to the liquidation preference, which was partially offset by certain required cash tax distributions..

The remaining balance of the preferred equity held by DSH and subject to future distributions by DSG was $184 million and $181 million, net of issuance costs, as of March 31, 2022 and December 31, 2021, respectively.

2. NOTES PAYABLE, COMMERCIAL BANK FINANCING, AND INDEBTEDNESS TO AFFILIATES:

Credit Agreements and Notes

On March 1, 2022, we consummated certain financing transactions (the "Transaction"). As part of the Transaction, the Company issued a new $635 million first lien term loan due May 25, 2026 (the "First Lien Term Loan") pursuant to a new first-priority lien credit agreement (the "First Lien Credit Agreement"). The First Lien Term Loan bears interest at a rate per annum equal to an applicable margin of 7.00% in the case of base rate or 8.00%, plus customary credit spread adjustments in the case of Term SOFR rate. The First Lien Term Loan amortizes in equal quarterly installments in an aggregate annual amount equal to 1.00% of the original principal amount of such term loans (commencing with the first full fiscal quarter after the closing date thereof), with the balance being payable on the maturity date. For the three months ended March 31, 2022, the Company capitalized debt issuance costs and an original issuance discount of $49 million associated with the issuance of the First Lien Term Loan which is reflected as a reduction to the outstanding debt balance and will be recognized as interest expense over the term of the outstanding debt utilizing the effective interest method.

In conjunction with the Transaction, the Company completed an exchange transaction whereby participating lenders under DSG's existing bank credit agreement (the "Bank Credit Agreement") exchanged existing term loans into new second-priority lien term loan due August 24, 2026 (the "Second Lien Term Loan") at an equal exchange rate. The Second Lien Term Loan was issued pursuant to a new second-priority lien credit agreement (the "Second Lien Credit Agreement," and together with the First Lien Credit Agreement and the Bank Credit Agreement, the "Credit Agreements") and bears interest at a rate per annum equal to an applicable margin of 2.25% or 3.25% plus customary credit spread adjustments in the case of Term SOFR rate. The Company also completed an exchange of its existing 5.375% Secured Notes into new 5.375% Second Lien Secured Notes due 2026 (the "5.375% Second Lien Secured Notes") at an equal exchange rate. All loans under the Bank Credit Agreement that did not participate in the Transaction (the "Third Lien Term Loan") and all 5.375% Secured Notes that did not participate in the exchange offer rank third in lien priority on shared collateral behind each of the First and Second Lien Credit Facilities and the 5.375% Second Lien Secured Notes.

The existing Revolving Credit Facility was amended to a new second lien revolving credit facility (the "Second Lien Revolving Credit Facility," and together with the Second Lien Term Loan and the First Lien Term Loan, the "First and Second Lien Credit Facilities") to extend the maturity date to May 25, 2026 and reduce the commitments to 35.0%, or $227.5 million, of such lender's total revolving commitments existing under the existing Revolving Credit Facility. The Second Lien Revolving Credit Facility bears interest at a rate per annum equal to an applicable margin of 2.00% in the case of base rate or 3.00% plus customary credit spread adjustments in the case of Term SOFR rate.

As part of the Transaction, the Company redeemed its outstanding 12.750% Secured Notes at a redemption price of $33 million which was equal to the sum of 100% of the principal amount of the 12.750% Secured Notes plus a prepayment premium. The Company recognized a gain on extinguishment of debt of $5 million for the three months ended March 31, 2022.

As of March 31, 2022, $2,998 million of 5.375% Second Lien Secured Notes, $10 million of 5.375% Secured Notes, $598 million under the First Lien Term Loan, $3,159 million under the Second Lien Term Loan, and $4 million under the Third Lien Term Loan were outstanding, net of debt discounts, premiums, and deferred financing costs. As of March 31, 2022, we had $228 million of availability under the Second Lien Revolving Credit Facility. For the three months ended March 31, 2022, we recognized $25 million of financing costs associated with the Transaction, included in interest expense including amortization of debt discount and deferred financing costs in our consolidated statements of income.

The First and Second Lien Credit Agreements contain customary mandatory prepayment requirements, including with respect to excess cash flow, asset sale proceeds, and proceeds from certain incurrences of indebtedness. We may voluntarily repay outstanding loans under the First Lien Term Loan at a prepayment price equal to 100% of the principal amount of the First Lien Term Loan being prepaid plus accrued and unpaid interest, if any, to the prepayment date plus (i) prior to the third anniversary of the closing date of First Lien Term Loan, a make-whole premium. We may voluntarily repay outstanding loans under the Second Lien Credit Facilities at any time without premium or penalty, other than customary breakage costs with respect to Term SOFR (or successor) loans.

All obligations under the First and Second Lien Credit Facilities are secured, subject to permitted liens and other customary exceptions, by: (i) a perfected second priority pledge of (a) all the equity interests of DSG and each wholly owned restricted subsidiary of the Company that is directly held by the Company, DSG or a subsidiary guarantor, (b) subject to certain exceptions, the equity held by such entities in non-wholly owned restricted subsidiaries and (c) in certain limited circumstances, the equity held by such entities in non-subsidiary joint ventures and (ii) perfected second priority security interests in substantially all tangible and intangible personal property of the Company and the subsidiary guarantors.

The First and Second Lien Credit Facilities are jointly and severally guaranteed by the guarantors party thereto, which currently includes the Company and each of its wholly owned direct or indirect domestic subsidiaries. The First and Second Lien Credit Facilities contain affirmative covenants including, among others, a requirement that the direct-to-consumer ("DTC") application and intellectual property developed as part of or derived from the DTC application shall be developed at and at all times be and remain owned by the Company, DSG or guarantors and a requirement to maintain an independent board of DSG (including the selection solely by the required lenders under the First Lien Term Loan of two of the independent board members). The First and Second Lien Credit Facilities also contain negative covenants that, subject to certain exceptions, qualifications and "baskets," generally limit the ability of (i) the Company, DSG 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, enter into certain transactions with affiliates, amend the Management Agreement with Sinclair Television Group, Inc., transfer certain assets to or engage in certain types of transactions with unrestricted subsidiaries or other non-guarantor subsidiaries, transfer content rights, the DTC application and related intellectual property other than to the Company, DSG and the guarantors, and forming and transferring assets to joint ventures and (ii) unrestricted subsidiaries to own or hold assets or engage in certain types of transactions as well as customary events of default, including relating to a change of control. The First and Second Lien Credit Facilities also contain customary events of default, including relating to a change of control. If an event of default occurs, the lenders under the First and Second Lien Credit Agreements will be entitled to take various actions, including the acceleration of amounts due under the First and Second Lien Credit Agreements and all actions permitted to be taken by secured creditors under applicable law.

Accounts Receivable Securitization Facility

On September 23, 2020, SBG and DSG's indirect wholly-owned subsidiary, Diamond Sports Finance SPV, LLC ("DSPV"), entered into a $250 million accounts receivable securitization facility (the "A/R Facility") which matures on September 23, 2023, in order to raise incremental funding for the ongoing business needs of DSG and its subsidiaries. On November 5, 2021, SBG purchased and assumed the lenders' and the administrative agent's rights and obligations under the A/R Facility. In connection therewith, SBG and DSPV entered into an omnibus amendment to the A/R Facility (the Omnibus Loan and Purchase Agreement) to provide greater flexibility to us, including, (i) increasing the maximum facility limit availability from up to $250 million to up to $400 million; (ii) eliminating the early amortization event related to DSG's earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined in the agreement governing the A/R facility, less interest expense covenant; (iii) extending the stated maturity date by one year from September 23, 2023 to September 23, 2024; and (iv) relaxing certain concentration limits thereby increasing the amounts of certain accounts receivable eligible to be sold. The other material terms of the A/R Facility remain unchanged.

The outstanding balance under the A/R Facility was $163 million and $213 million as of March 31, 2022 and December 31, 2021, respectively. Accounts receivable held by DSPV were $204 million and $267 million as of March 31, 2022 and December 31, 2021, respectively.

Our ability to make scheduled payments on our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, competitive, legislative, regulatory and other factors beyond our control. The war in Ukraine and the impact of the COVID-19 pandemic continues to create significant uncertainty and disruption in the global economy and financial markets. Further, our success is dependent upon, among other things, the terms of our agreements with Distributors, OTT and other streaming providers and the successful execution of its DTC strategy.

3. REDEEMABLE NONCONTROLLING INTERESTS:

A noncontrolling equity holder of one of our subsidiaries has the right to sell their interest to the Company at any time during the 30-day period following September 30, 2025. The value of this redeemable noncontrolling interest was $16 million as of both March 31, 2022 and December 31, 2021.

4. 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, 2022. 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)		
2022 (remainder)	$	1,151
2023		1,775
2024		1,708
2025		1,547
2026		1,292
2026 and thereafter		5,329
Total	$	12,802

Other Liabilities

In connection with the acquisition of the Bally RSNs, we assumed certain fixed payment obligations which are payable through 2027. We recorded these obligations in purchase accounting at estimated fair value. As of both March 31, 2022 and December 31, 2021, $32 million was recorded within other current liabilities and $72 million and $71 million, respectively, was recorded within other long-term liabilities in our consolidated balance sheets. Interest expense of $1 million and $2 million was recorded for the three months ended March 31, 2022 and 2021, respectively.

In connection with the acquisition of the Bally RSNs, we assumed certain variable payment obligations which are payable through 2030. These contractual obligations are based upon the excess cash flow of certain Bally RSNs. As of March 31, 2022 and December 31, 2021, $9 million and $8 million, respectively, was recorded within other current liabilities and $21 million and $23 million, respectively, was recorded within other long-term liabilities in our consolidated balance sheets. These obligations are measured at the present value of the estimated amount of cash to be paid over the term of the contracts. We recorded measurement adjustment losses of $3 million and $1 million for the three months ended March 31, 2022 and 2021, respectively, which are reflected in other (expense) income, net in our consolidated statements of operations.

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.

5. 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. Through February 28, 2022, we consolidated Marquee because it was a variable interest entity and we were the primary beneficiary. The power to direct the activities which significantly impacted the economic performance of Marquee was held through a contractual agreement by a related party under common control. We consolidated Marquee as we were the party within the related party group most closely associated with Marquee. As of March 1, 2022, as a result of the Deconsolidation, we are no longer under common control with the party to the contractual agreement that has the power to direct the activities which significantly impacted the economic performance of Marquee and thus, we no longer consolidate Marquee. See *Deconsolidation of Marquee Sports Network, LLC* within *Note 1. Nature of Operations and Summary of Significant Accounting Policies.*

In connection with a prior 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 this regional sports networks, including sales and certain operational services. We consolidate this regional sports network because it is a variable interest entity 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, 2022	As of December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7	$ 43
Accounts receivable, net	11	53
Prepaid sports rights	26	2
Total current assets	44	98
Property and equipment, net	1	9
Operating lease assets	1	5
Total assets	$ 46	$ 112
LIABILITIES		
Current liabilities:		
Due to affiliates	$ —	$ 1
Other current liabilities	16	39
Total current liabilities	16	40
Operating lease liabilities, less current portion	—	4
Total liabilities	$ 16	$ 44

The amounts above represent the assets and liabilities of the VIEs described above, for which we are the primary beneficiary. The assets of each of the VIEs can only be used to settle the obligations of the VIE. As of March 31, 2022, all of the liabilities are non-recourse to us. The risk and reward characteristics of the VIEs are similar.

6. RELATED PERSON TRANSACTIONS:

Transactions with SBG and Subsidiaries

Management Service Fees. In 2019, we entered into a management services agreement with Sinclair Television Group, Inc. ("STG"), a wholly-owned subsidiary of SBG, in which STG provides us with affiliate sales and marketing services and general and administrative services. The contractual annual amount to be paid to STG for these services during the fiscal year ended December 31, 2022 is $75 million, which is subject to increases on an annual basis. Additionally, the agreement contains an incentive fee payable to STG calculated based on certain terms contained within new or renewed distribution agreements with Distributors. As a condition to the Transaction, DSG will defer the cash payment of a portion of its management fee payable to STG over the next five years. Prior to the Deconsolidation, we were party to one other management services agreement with STG, in which STG provided Marquee with affiliate sales and marketing services and general and administrative services. Pursuant to these agreements, we incurred expenses of $36 million and $26 million for the three months ended March 31, 2022 and 2021, respectively.

As of March 31, 2022 and December 31, 2021, we had a payable of $19 million and $28 million, respectively, to STG in connection with such management services agreements and reimbursement of certain expenses paid by STG on behalf of the Company.

Accounts Receivable Securitization Facility. On November 5, 2021, SBG purchased and assumed the lenders' and the administrative agent's rights and obligations under the A/R Facility. In connection therewith, SBG and DSPV entered into the Omnibus Loan and Purchase Agreement to provide greater flexibility to us. For further discussion, see *Accounts Receivable Securitization Facility* under *Note 2. Notes Payable, Commercial Bank Financing, and Indebtedness to Affiliates*. During the three months ended March 31, 2022 we incurred approximately $3 million in interest expense due to SBG under this arrangement, of which $1 million was payable as of March 31, 2022. We made a payment of $50 million to SBG during the three months ended March 31, 2022 related to the A/R Facility.

For the three months ended March 31, 2022 we recorded revenue of $3 million and expenses of $2 million related to certain other transactions between the Company and certain direct and indirect subsidiaries of SBG.

Equity Method Investees

We have a minority interest in certain mobile production businesses, which we account for as equity method investments. We made payments to these businesses for production services totaling $6 million and $8 million for the three months ended March 31, 2022 and 2021, respectively.

Sports Programming Rights

As of March 31, 2022, affiliates of six professional sports teams have non-controlling interests in certain of our Bally RSNs. We paid $119 million and $120 million, net of rebates, for the three months ended March 31, 2022 and 2021, respectively, under sports programming rights agreements covering the broadcast of regular season games to professional sports teams who have non-controlling equity interests in certain of our Bally RSNs. These agreements expire on various dates during the fiscal years ended 2025 through 2032.

Distributions to Parent

We made distributions to DSH for the tax payment of dividends on its preferred equity of $1 million and the payment of dividends on its preferred equity of $4 million for the three months ended March 31, 2022 and 2021, respectively. Dividends for the three months ended March 31, 2022 were paid-in-kind and added to the liquidation preference, which was partially offset by certain required cash tax distributions.

See *Distributions to Parent* within *Note 1. Nature of Operations and Summary of Significant Accounting Policies* for discussion regarding the remaining balance of the preferred equity.

7. 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, 2022		As of December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Level 1:				
Money market funds	$ 317	$ 317	$ 101	$ 101
Level 2 (a):				
12.750% Senior Secured Notes due 2026 (b)	—	—	31	17
6.625% Senior Unsecured Notes due 2027	1,744	362	1,744	490
5.375% Senior Secured Notes due 2026 (b)	10	4	3,050	1,525
5.375% 2L Senior Secured Notes due 2026 (b)	3,040	1,187	—	—
Term Loan - 1L due May 25, 2026 (b)	635	641	—	—
Term Loan - 2L due August 24, 2026 (b)	3,214	1,060	—	—
Term Loan - 3L due August 24, 2026 (b)	4	2	3,226	1,484
Accounts Receivable Securitization Facility	163	163	213	213

(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 $163 million and $113 million as of March 31, 2022 and December 31, 2021, respectively.

(b) On March 1, 2022, we consummated the Transaction. See *Credit Agreements and Notes* under *Note 2. Notes Payable, Commercial Bank Financing, and Indebtedness to Affiliates.*

8. SUBSEQUENT EVENTS:

We have evaluated subsequent events through May 26, 2022 and determined that no events or transactions, other than those discussed below, met the definition of a subsequent event for purposes of recognition or disclosure in the accompanying consolidated financial statements.

On April 14, 2022, we reached a distribution agreement with Charter Communications, Inc. for continued carriage of the Bally RSNs, Marquee, and the YES Network.

DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This report includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about us, including, among other things, the following risks:

COVID-19 risks

- The suspension, and possible cancellation, of some or all of the MLB, NBA and NHL seasons;
- the requirement of our Bally RSNs to pay professional sports team minimum rights fees, but thereafter being unable to obtain rebates from sports teams for fewer games played;
- the need to reimburse Distributors affiliation fees related to canceled professional sporting events;
- loss of advertising revenue due to (i) reluctance of advertisers to purchase advertising spots due to reduced consumer spending as a result of shelter in place and stay at home orders, or lower audience engagement, (ii) potential reduced need for advertisers to advertise for certain goods or services with low supply, due to interruptions in the supply chain, and (iii) adverse business conditions affecting our customers, including our advertisers' going out of business;
- the significant disruption to the operations of the professional sports leagues, Distributor subscriptions and carriage agreements, and the macroeconomy caused by COVID-19 may result in the recognition of further impairment charges on our definite-lived intangible assets;
- we may be unable to access debt on favorable terms, if at all, or a severe disruption and instability in the global financial markets or deterioration in credit and financing conditions may affect our access to capital necessary to fund business operations, pursue acquisition and development opportunities, and refinance existing debt, and increase our future interest expense;
- the interruption to global supply chains caused by COVID-19 could impact our ability to acquire and replace equipment necessary for the continuity of our business;
- the potential effects of COVID-19 on our workforce, including the impact in our operations because employees either contract COVID-19 or leave the workforce, increased health care cost, increased wages due to wage inflation and an inability to attract and retain a quality workforce; and
- cybersecurity and operational risks as a result of work-from-home arrangements.

Industry risks

- The business conditions of our advertisers;
- the performance of internally originated programming;
- subscriber churn due to the impact of technological changes and the proliferation of OTT direct to consumer platforms;
- the loss of appeal of our sports programming, which may be unpredictable;
- the impact of strikes caused by collective bargaining between players and sports leagues;
- the availability and cost of programming from leagues and professional teams, as well as the cost of internally originated programming;
- the impact of Distributors and OTTs offering "skinny" programming bundles that may not include programming that we distribute; and
- the ability to renew media rights agreements with various professional sports teams which have varying durations and terms that are at least as favorable as those in existence.

Risks specific to us

- The impact of the war in Ukraine including related disruption to supply chains and the increased price of energy, all of which affect our operations as well as those of our advertisers;
- our ability to attract and maintain local, national, and network advertising;
- our ability to service our debt obligations and operate our business under restrictions contained in our financing agreements;
- our ability to successfully renegotiate distribution agreements for our existing and acquired businesses with favorable terms;

- our ability to manage operational risks in joint venture arrangements related to our Bally RSNs;
- our ability to implement a sports direct to consumer platform;
- our ability to renew media rights agreements with various professional sports teams and leagues' with favorable terms;
- our ability to generate synergies and leverage new revenue opportunities; and
- our ability to effectively respond to technology affecting our industry.

General risks

- The impact of changes in national and regional economies and credit and capital markets;
- loss of consumer confidence;
- the activities of our competitors;
- terrorist acts of violence or war, such as the war in Ukraine, and other geopolitical events;
- natural disasters and pandemics that impact our Distributors, advertisers, and suppliers; and
- cybersecurity incidents, data privacy, and other information technology failures have, and in the future, may, adversely affect us and disrupt our operations.

Other matters set forth in this report may also cause actual results in the future to differ materially from those described in the forward-looking statements. However, additional factors and risks not currently known to us or that we currently deem immaterial may also cause actual results in the future to differ materially from those described in the forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. In light of these risks, uncertainties, and assumptions, events described in the forward-looking statements discussed in this report might not occur.

The following Management’s Discussion and Analysis provides qualitative and quantitative information about our financial performance and condition and should be read in conjunction with our consolidated financial statements and the accompanying notes to those statements. This discussion consists of the following sections:

Summary of Significant Events — financial events during the three months ended March 31, 2022 and through May 26, 2022.

Results of Operations — an analysis of our revenues and expenses for the three months ended March 31, 2022 and 2021.

Liquidity and Capital Resources — a discussion of our primary sources of liquidity and an analysis of our cash flows from or used in operating activities, investing activities, and financing activities during the three months ended March 31, 2022 and 2021.

SUMMARY OF SIGNIFICANT EVENTS

Transactions

- On March 1, 2022 the Company completed a series of transactions which are expected to provide the Company with approximately $1 billion of liquidity enhancement over the next five years, including a new $635 million First Lien Term Loan and the deferral of a portion of our management fee to STG for the next five years. See *Credit Agreements and Notes* under *Note 2. Notes Payable, Commercial Bank Financing, and Indebtedness to Affiliates* within the *Unaudited Consolidated Financial Statements*.

Distribution

- In January 2022, the Company renewed its extended market and digital distribution rights agreement with the NBA. Under the agreement, the Bally RSNs are permitted to offer streaming content, including live games, on an authenticated and DTC basis, to the local territories of 16 NBA teams. The agreement also includes expanded content and highlight rights as well as access to the distribution of classic games in our local markets. The agreement has a term of one year with three successive one-year renewal offers, subject to compliance with the agreement.

- In April 2022, the Company announced that we and Charter Communications, Inc. reached a comprehensive distribution agreement for continued carriage of the Bally RSNs, Marquee, and the YES Network.

Governance

- In May 2022, the Company announced the appointment of a new Board of Managers to oversee the Company, consisting of seasoned executives from the worlds of sports, media, streaming and related industries. Chris Ripley, the Chief Executive Officer of SBG, will serve on the board and lead SBG's efforts in enhancing the prospects for the Company. The incoming chairman, Randy Freer, a Harvard Advanced Leadership Fellow, is the former CEO of Hulu and previously was President and COO of Fox Networks Group and long-time co-President of Fox Sports Media. Freer will bring to bear his decades of experience in sports media and, more recently, developing a leading streaming business, to assist the Company in its transition to a premier player in sports streaming. David Preschlack, most recently President of NBC Sports Regional Networks, has more than 20 years of experience at NBC, Disney, and ESPN in the sports marketing arena and possesses deep knowledge of the challenges and opportunities facing regional sports networks, and has familiarity with sports gaming industry developments. Maryann Turcke, a senior adviser to NFL Commissioner Roger Goodell, and formerly the Chief Operating Officer of the National Football League, a senior executive for Bell Media and a member of the boards of Royal Bank of Canada and Frontier Communications, will bring her substantial experience at the intersection of media, sports, and telecom to help the Company capitalize on its plans. Bob Whitsitt, previously a Senior Executive in both the NBA and the NFL, has over 30 years of experience in multiple sports industries and business operations, as well as deep relations with team leagues and owners.
- In May 2022, the Company named Michael Schneider Chief Operating Officer and General Manager of Bally Sports+, our new DTC sports division.

RESULTS OF OPERATIONS

Any references to the second, third, or fourth quarters are to the three months ended June 30, September 30, or December 31, respectively, for the year being discussed.

Seasonality / Cyclicality. Our operating results are usually subject to cyclical fluctuations based on the timing and overlap of the MLB, NBA, and NHL seasons. Usually, the second and third quarter operating results are higher than the first and fourth quarter operating results.

The Impact of COVID-19 on our Results of Operations

Overview. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and by the end of the following day, each of the MLB, NBA, and NHL had suspended their seasons. On March 13, 2020, the United States declared a national state of emergency. As of March 31, 2022, the national state of emergency is still in effect, however states have reopened their economies at various levels and various timing, COVID-19 vaccinations are being distributed in mass quantities and all professional sports leagues are currently playing live games. However, with new variants of COVID-19 being detected across multiple countries, it still remains unclear how the current trends of states reopening their economies will be impacted and what the overall impact of COVID-19 will be on our business.

The NBA and NHL delayed the start of their 2020-2021 seasons until December 22, 2020 and January 13, 2021, respectively, and both leagues postponed games in the fourth quarter of 2021 and rescheduled these games to be played in the first quarter of 2022. The sports rights expense associated with these seasons was recognized over the modified term of these seasons. Advertising revenue increased for the three months ended March 31, 2022, when compared to the same period in 2021, largely driven by an increased number of games played in the first quarter of 2022 when compared to the first quarter of 2021. Distribution revenue decreased for the three months ended March 31, 2022, when compared to the same period in 2021, primarily related to elevated subscriber churn. See *Distribution Revenue* in *Revenue Recognition* and *Sports Programming Rights* under *Note 1. Nature of Operations and Summary of Significant Accounting Policies* within the *Unaudited Consolidated Financial Statements* for further discussion on how COVID-19 has impacted distribution revenue and sports rights expense, respectively, including the need for us to provide rebates to our Distributors as well as seek rebate from or reduce future payments to certain of the sports teams.

Business continuity. The COVID-19 pandemic has disrupted our operations. Certain of our facilities have experienced temporary disruptions as a result of the COVID-19 pandemic, and we cannot predict whether our facilities will experience more significant disruptions in the future and how long these disruptions will last. The COVID-19 pandemic has heightened the risk that a significant portion of our workforce will suffer illness or otherwise be unable to work. The COVID-19 pandemic has also resulted in some workers leaving the workforce which has caused wage inflation and made it more difficult for us to find qualified employees. Furthermore, additional reductions in our workforce may become necessary as a result of declines in our business caused by the COVID-19 pandemic. If we take such actions, we cannot assure that we will be able to rehire our workforce once our business has recovered.

Operating Results

The following table sets forth our revenue and expenses for the periods presented (in millions):

	Three Months Ended March 31,		Percent Change Increase / (Decrease)
	2022 (a)	**2021**	
Revenue:			
Distribution revenue	$ 630	$ 698	(10)%
Advertising revenue	74	65	14%
Other media revenue	5	5	—%
Media revenue	$ 709	$ 768	(8)%
Operating Expenses:			
Media programming and production expenses	$ 571	$ 657	(13)%
Media selling, general and administrative expenses	79	65	22%
Depreciation and amortization expenses	80	84	(5)%
Corporate general and administrative	2	3	(33)%
Gain on deconsolidation of subsidiary	(15)	—	n/m
Operating loss	$ (8)	$ (41)	(80)%
Interest expense including amortization of debt discount and deferred financing costs	139	108	29%
Income from equity method investments	$ 20	$ 13	54%

n/m - not meaningful

(a) Marquee was deconsolidated from the Company as of March 1, 2022. Therefore, although not specifically mentioned in each section below, the Deconsolidation is a driver of the changes between the periods due to a full three months of activity being included in the prior period, versus only two months of activity in the current period. See *Deconsolidation of Marquee Sports Network, LLC* under *Note 1. Nature of Operations and Summary of Significant Accounting Policies* within the *Unaudited Consolidated Financial Statements* for further discussion.

Distribution revenue. Distribution revenue, which is generated through fees received from Distributors for the right to distribute our Bally RSNs, decreased $68 million for the three months ended March 31, 2022, when compared to the same period in 2021, primarily due to elevated subscriber churn. We expect distribution revenue to decrease for the three months ended June 30, 2022 as compared to the three months ended March 31, 2022.

Advertising revenue. Advertising revenue is primarily generated from sales of commercial time within the Bally RSN's programming. Advertising revenue increased $9 million for the three months ended March 31, 2022, when compared to the same period in 2021, primarily due to a higher number of professional sports games being played in the first quarter of 2022 when compared to the first quarter of 2021. We expect advertising revenue for the three months ended June 30, 2022 to increase, as compared to the three months ended March 31, 2022, primarily due to a higher number of games played in the second quarter.

Media programming and production expenses. Media programming and production expenses are primarily related to amortization of our sports programming rights with MLB, NBA, and NHL teams, and the costs of producing and distributing content for our brands including live games, pre-game and post-game shows, and backdrop programming.

Media programming and production expenses decreased $86 million for the three months ended March 31, 2022, when compared to the same period in 2021, primarily driven by a $63 million decrease in sports rights amortization expense and a $27 million decrease in production expenses. We expect media programming and production expenses for the three months ended June 30, 2022 to increase as compared to the three months ended March 31, 2022, primarily due to a higher number of games played in the second quarter.

Media selling, general, and administrative expenses. Media selling, general, and administrative expenses increased $14 million for the three months ended March 31, 2022, when compared to the same period in 2021, primarily related to a $9 million increase of management services agreement fees and a $5 million increase in information technology expenses related to the build-out of a new broadcasting facility.

Depreciation and amortization expenses. Depreciation and amortization expenses decreased $4 million for the three months ended March 31, 2022, when compared to the same period in 2021, primarily related to assets retired in 2021.

Gain on deconsolidation of subsidiary. We recognized a gain of $15 million related to the deconsolidation of Marquee. See *Deconsolidation of Marquee Sports Network, LLC* under *Note 1. Nature of Operations and Summary of Significant Accounting Policies* within the *Unaudited Consolidated Financial Statements* for further discussion.

Interest expense including amortization of debt discount and deferred financing costs. Interest expense increased by $31 million for the three months ended March 31, 2022, when compared to the same period in 2021, primarily due to the refinancing activities discussed in *Note 2. Notes Payable, Commercial Bank Financing, and Indebtedness to Affiliates* within the *Unaudited Consolidated Financial Statements.*

Income from equity method investments. For the three months ended March 31, 2022 and 2021 income from equity method investments was $20 million and $13 million, respectively, and is primarily related to our investments in the YES Network and Marquee.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2022, we had net working capital of approximately $959 million, including $572 million in cash and cash equivalent balances. Cash on hand, cash generated by our operations, and borrowing capacity under the Credit Agreements are used as our primary sources of liquidity.

As part of the Transaction, the Company issued a new $635 million First Lien Term Loan due May 25, 2026. The First Lien Term Loan bears interest at a rate per annum equal to an applicable margin of 7.00% in the case of base rate or 8.00%, plus customary credit spread adjustments in the case of Term SOFR rate. The First Lien Term Loan amortizes in equal quarterly installments in an aggregate annual amount equal to 1.00% of the original principal amount of such term loans (commencing with the first full fiscal quarter after the closing date thereof), with the balance being payable on the maturity date.

In conjunction with the Transaction, the Company completed an exchange transaction whereby participating lenders under the Bank Credit Agreement exchanged existing term loans into Second Lien Term Loans due August 24, 2026 at an equal exchange rate. The Second Lien Term Loan bears interest at a rate per annum equal to an applicable margin of 2.25% or 3.25% plus customary credit spread adjustments in the case of Term SOFR rate. The Company also completed an exchange of its existing 5.375% Secured Notes into new 5.375% Second Lien Secured Notes due 2026 at an equal exchange rate. The Third Lien Term Loan and all 5.375% Secured Notes that did not participate in the exchange offer rank third in lien priority on shared collateral behind each of the First and Second Lien Credit Facilities and the 5.375% Second Lien Secured Notes.

The existing Revolving Credit Facility was amended to the new Second Lien Revolving Credit Facility to extend the maturity date to May 25, 2026 and reduce the commitments to 35.0%, or $227.5 million, of such lender's total revolving commitments existing under the existing Revolving Credit Facility. The Second Lien Revolving Credit Facility bears interest at a rate per annum equal to an applicable margin of 2.00% in the case of base rate or 3.00% plus customary credit spread adjustments in the case of Term SOFR rate.

As part of the Transaction, the Company redeemed its outstanding 12.750% Secured Notes at a redemption price of $33 million which was equal to the sum of 100% of the principal amount of the 12.750% Secured Notes plus a prepayment premium.

As of March 31, 2022, our total debt, defined as current and long-term notes payable, commercial bank financing, and indebtedness to affiliates, was $8,647 million, including current debt due within the next 12 months, of $39 million.

We anticipate that existing cash and cash equivalents, cash flow from our operations, and borrowing capacity under the Credit Agreements will be sufficient to satisfy our debt service obligations, capital expenditure requirements, and working capital needs for the next twelve months. However, certain factors, including but not limited to, the severity and duration of the COVID-19 pandemic and war in Ukraine and resulting effect on the economy, our advertisers, Distributors, and their subscribers, could affect our liquidity. For our long-term liquidity needs, in addition to the sources described above, we may rely upon various sources, such as but not limited to, the issuance of long-term debt or the sale of Company assets. However, there can be no assurance that additional financing or capital or buyers of our Company assets will be available, or that the terms of any transactions will be acceptable or advantageous to us.

Sources and Uses of Cash

The following table sets forth our cash flows for the periods presented (in millions):

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net cash flows used in operating activities	$ (354)	$ (317)
Net cash flows used in investing activities	$ (42)	$ (5)
Net cash flows from (used in) financing activities	$ 489	$ (46)

Operating Activities. Net cash flows used in operating activities increased during the three months ended March 31, 2022, when compared to the same period in 2021, primarily related to higher payments for sports programming rights and a decrease in cash collections from distributors, partially offset by lower production and overhead costs and lower distributor rebate payments.

Investing Activities. Net cash flows used in investing activities increased during the three months ended March 31, 2022, when compared to the same period in 2021, primarily as a result of the Deconsolidation. See *Deconsolidation of Marquee Sports Network, LLC* under *Note 1. Nature of Operations and Summary of Significant Accounting Policies* within the *Unaudited Consolidated Financial Statements* for further discussion.

Financing Activities. Net cash flows from financing activities increased during the three months ended March 31, 2022, when compared to the same period in 2021, primarily as a result of the proceeds from the First Lien Term Loan. See *Note 2. Notes Payable, Commercial Bank Financing, and Indebtedness to Affiliates* within the *Unaudited Consolidated Financial Statements* for further discussion.

Nonguarantor and Unrestricted Subsidiary Information - Credit Agreements and Senior Notes

For the trailing four quarters ended March 31, 2022, EBITDA of non-guarantor restricted subsidiaries was 48% of Consolidated EBITDA, as defined in the Credit Agreements and indentures, and one unrestricted subsidiary had an immaterial EBITDA for the trailing four quarters ended March 31, 2022. As of March 31, 2022, 35% of total assets and 2% of total liabilities were attributable to non-guarantor restricted subsidiaries and 4% of total assets and 2% of total liabilities were attributable to one unrestricted subsidiary.