AMC Networks Inc.
Form 10-Q
August 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016
or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 1-35106

AMC Networks Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-5403694
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11 Penn Plaza, New York, NY	10001
(Address of principal executive offices)	(Zip Code)

(212) 324-8500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Exchange Act Rule 12b-2).
Large accelerated filer þ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
The number of shares of common stock outstanding as of July 29, 2016:
Class A Common Stock par value $0.01 per share 59,915,332
Class B Common Stock par value $0.01 per share 11,484,408

AMC NETWORKS INC. AND SUBSIDIARIES
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
AMC NETWORKS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)
(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$643,470	$316,321
Accounts receivable, trade (less allowance for doubtful accounts of $5,502 and $4,307)	726,508	674,611
Amounts due from related parties, net	441	4,062
Current portion of program rights, net	390,162	453,157
Prepaid expenses and other current assets	87,373	72,989
Deferred tax asset, net	30,101	16,198
Total current assets	1,878,055	1,537,338
Property and equipment, net of accumulated depreciation of $231,313 and $209,236	171,092	163,860
Program rights, net	1,123,874	1,027,394
Deferred carriage fees, net	51,689	50,069
Intangible assets, net	532,263	549,180
Goodwill	708,071	736,275
Other assets	200,359	200,799
Total assets	$4,665,403	$4,264,915
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current Liabilities:		
Accounts payable	$89,055	$71,148
Accrued liabilities	235,422	254,086
Current portion of program rights obligations	291,243	289,897
Deferred revenue	93,275	64,229
Current portion of long-term debt	230,551	148,000
Current portion of capital lease obligations	4,405	3,561
Total current liabilities	943,951	830,921
Program rights obligations	385,445	440,591
Long-term debt	2,703,031	2,519,808
Capital lease obligations	38,189	29,779
Deferred tax liability, net	160,597	137,233
Other liabilities	104,272	103,530
Total liabilities	4,335,485	4,061,862
Commitments and contingencies		
Redeemable noncontrolling interests	213,856	211,691
Stockholders' equity (deficiency):		
Class A Common Stock, $0.01 par value, 360,000,000 shares authorized, 62,407,876 and 62,120,102 shares issued and 60,386,220 and 60,909,831 shares outstanding, respectively	624	621
Class B Common Stock, $0.01 par value, 90,000,000 shares authorized, 11,484,408 shares issued and outstanding	115	115
Preferred stock, $0.01 par value, 45,000,000 shares authorized; none issued	—	—
Paid-in capital	120,802	123,157
Accumulated earnings	215,519	24,880
	(100,220)	(51,993)

Treasury stock, at cost (2,021,656 and 1,210,271 shares Class A Common Stock, respectively)		
Accumulated other comprehensive loss	(151,615)	(136,057)
Total AMC Networks stockholders' equity (deficiency)	85,225	(39,277)
Non-redeemable noncontrolling interests	30,837	30,639
Total stockholders' equity (deficiency)	116,062	(8,638)
Total liabilities and stockholders' equity (deficiency)	$4,665,403	$4,264,915

See accompanying notes to condensed consolidated financial statements.

1

AMC NETWORKS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues, net (including revenues, net from related parties of $6,200, $6,493, $12,906 and $13,212, respectively)	$684,832	$601,138	$1,391,411	$1,269,820
Operating expenses:				
Technical and operating (excluding depreciation and amortization)	305,492	259,730	576,537	521,903
Selling, general and administrative (including charges from related parties of $822, $1,269, $1,890 and $2,218, respectively)	179,366	158,880	336,644	313,459
Restructuring expense	389	2,654	354	3,310
Depreciation and amortization	21,553	21,040	41,185	41,567
Total operating expenses	506,800	442,304	954,720	880,239
Operating income	178,032	158,834	436,691	389,581
Other income (expense):				
Interest expense	(32,007)	(32,571)	(63,757)	(65,595)
Interest income	1,671	792	2,393	1,229
Loss on extinguishment of debt	(9)	—	(48,343)	—
Miscellaneous, net	(24,910)	11,384	(25,599)	1,154
Total other income (expense)	(55,255)	(20,395)	(135,306)	(63,212)
Income from operations before income taxes	122,777	138,439	301,385	326,369
Income tax expense	(39,390)	(50,997)	(97,933)	(112,251)
Net income including noncontrolling interests	83,387	87,442	203,452	214,118
Net income attributable to noncontrolling interests	(6,212)	(4,433)	(12,832)	(10,189)
Net income attributable to AMC Networks' stockholders	$77,175	$83,009	$190,620	$203,929
Net income per share attributable to AMC Networks' stockholders:				
Basic	$1.06	$1.15	$2.62	$2.82
Diluted	$1.05	$1.14	$2.60	$2.81
Weighted average common shares:				
Basic weighted average common shares	72,729	72,447	72,654	72,327
Diluted weighted average common shares	73,300	73,128	73,287	72,685

See accompanying notes to condensed consolidated financial statements.

AMC NETWORKS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income including noncontrolling interests	$83,387	$87,442	$203,452	$214,118
Other comprehensive income (loss):				
Foreign currency translation adjustment	(18,389)	24,119	(3,004)	(36,706)
Unrealized (loss) gain on interest rate swaps	(765)	674	(2,343)	1,370
Other comprehensive income (loss), before income taxes	(19,154)	24,793	(5,347)	(35,336)
Income tax (expense) benefit	(8,312)	5,943	(10,211)	3,664
Other comprehensive income (loss), net of income taxes	(27,466)	30,736	(15,558)	(31,672)
Comprehensive income	55,921	118,178	187,894	182,446
Comprehensive income attributable to noncontrolling interests	(4,424)	(4,433)	(11,456)	(10,189)
Comprehensive income attributable to AMC Networks' stockholders	$51,497	$113,745	$176,438	$172,257

See accompanying notes to condensed consolidated financial statements.

AMC NETWORKS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income including noncontrolling interests	$203,452	$214,118
Adjustments to reconcile income from operations to net cash from operating activities:		
Depreciation and amortization	41,185	41,567
Share-based compensation expense related to equity classified awards	19,488	16,089
Amortization and write-off of program rights	373,491	343,161
Amortization of deferred carriage fees	8,187	8,009
Unrealized foreign currency transaction loss (gain)	28,366	(8,345)
Unrealized gain derivative contracts, net	1,064	791
Amortization of deferred financing costs and discounts on indebtedness	4,638	4,476
Loss on extinguishment of debt	48,343	—
Bad debt expense	1,449	1,228
Deferred income taxes	4,225	10,069
Excess tax benefits from share-based compensation arrangements	(781)	(4,038)
Other, net	(1,930)	(246)
Changes in assets and liabilities:		
Accounts receivable, trade (including amounts due from related parties, net)	(45,536)	(18,055)
Prepaid expenses and other assets	(17,090)	(15,359)
Program rights and obligations, net	(466,288)	(412,205)
Income taxes payable	13,636	2,696
Deferred revenue	29,308	33,779
Deferred carriage fees, net	(9,910)	(17,138)
Accounts payable, accrued expenses and other liabilities	(5,733)	(10,356)
Net cash provided by operating activities	229,564	190,241
Cash flows from investing activities:		
Capital expenditures	(24,186)	(33,124)
Payments for acquisition of a business, net of cash acquired	(354)	(6,545)
Purchases of investments	—	(24,250)
Net cash used in investing activities	(24,540)	(63,919)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	982,500	—
Principal payments on long-term debt	(728,449)	(37,000)
Payment of Promissory Note	—	(40,000)
Premium and fees paid on extinguishment of debt	(39,188)	—
Payments for financing costs	(2,070)	—
Deemed repurchases of restricted stock/units	(10,834)	(14,320)
Purchase of treasury stock	(48,227)	—
Proceeds from stock option exercises	1,216	1,031
Excess tax benefits from share-based compensation arrangements	781	4,038
Principal payments on capital lease obligations	(2,075)	(1,449)
Distributions to noncontrolling interest	(8,977)	(3,154)
Contributions from noncontrolling member	—	1,373
Net cash provided by (used in) financing activities	144,677	(89,481)

Net increase in cash and cash equivalents from operations	349,701	36,841
Effect of exchange rate changes on cash and cash equivalents	(22,552)	2,852
Cash and cash equivalents at beginning of period	316,321	201,367
Cash and cash equivalents at end of period	$643,470	$241,060

See accompanying notes to condensed consolidated financial statements.

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(unaudited)

Note 1. Description of Business and Basis of Presentation

Description of Business

AMC Networks Inc. ("AMC Networks") and its subsidiaries (collectively referred to as the "Company") own and operate entertainment businesses and assets. The Company is comprised of two operating segments:

- National Networks: Principally includes activities of our programming businesses which include our five programming networks distributed in the U.S. and Canada. These programming networks include AMC, WE tv, BBC AMERICA, IFC and SundanceTV in the U.S.; and AMC, IFC, and Sundance Channel in Canada. Our programming businesses within the National Networks segment may also sell rights worldwide to their owned original programming. The National Networks operating segment also includes AMC Networks Broadcasting & Technology, the technical services business, which primarily services most of the programming networks included in the National Networks segment.
- International and Other: Principally includes AMC Networks International ("AMCNI"), the Company's international programming businesses consisting of a portfolio of channels in Europe, Latin America, the Middle East and parts of Asia and Africa; IFC Films, the Company's independent film distribution business; AMCNI- DMC, the broadcast solutions unit of certain networks of AMCNI and third-party networks, and various developing on-line content distribution initiatives.

Basis of Presentation

Principles of Consolidation

These unaudited condensed consolidated financial statements include the accounts of AMC Networks and its majority owned or controlled subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Investments in business entities in which the Company lacks control but does have the ability to exercise significant influence over operating and financial policies are accounted for using the equity method of accounting.

Unaudited Interim Financial Statements

These condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 2015 contained in the Company's Annual Report on Form 10-K ("2015 Form 10-K") filed with the SEC. The condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q are unaudited; however, in the opinion of management, such financial statements reflect all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented.

The results of operations for interim periods are not necessarily indicative of the results that might be expected for future interim periods or for the full year ending December 31, 2016.

Program Rights

The Company periodically reviews the programming usefulness of its licensed and owned original program rights based on a series of factors, including expected future revenue generation from airings on the Company's networks and other exploitation opportunities, ratings, type and quality of program material, standards and practices, and fitness for exhibition through various forms of distribution. If it is determined that film or other program rights have no future programming usefulness, a write-off of the unamortized cost is recorded in technical and operating expense. Program rights write-offs included in technical and operating expense of $1,080 and $4,005 were recorded for the three months ended June 30, 2016 and 2015, respectively. Program rights write-offs included in technical and operating expense of $1,080 and $13,580 were recorded for the six months ended June 30, 2016 and 2015, respectively.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Significant estimates and judgments inherent in the preparation of the consolidated financial statements include the valuation of acquisition-related assets and liabilities, the useful lives and methodologies used to amortize and assess recoverability of program rights, the estimated useful lives of intangible assets, valuation and recoverability of goodwill and intangible assets and income tax assets and liabilities.

Reclassifications

Certain reclassifications were made to the prior period amounts to conform to the current period presentation.

Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as the classification of related matters in the statement of cash flows. ASU 2016-09 is effective for the first quarter of 2017. The Company is currently assessing the impact the adoption will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to put most of their leases on the balance sheet, which will be recognized as a right-of-use asset and a lease liability. The Company will be required to classify each separate lease component as an operating or finance lease at the lease commencement date. Initial measurement of the right-of-use asset and lease liability is the same for operating and finance leases, however expense recognition and amortization of the right-of-use asset differs. Operating leases will reflect lease expense on a straight-line basis similar to current operating leases. The straight-line expense will reflect the interest expense on the lease liability (effective interest method) and amortization of the right-of-use asset, which will be presented as a single line item in the operating expense section of the income statement. Finance leases will reflect a front-loaded expense pattern similar to the pattern for current capital leases. ASU 2016-02 is effective for the first quarter of 2019, with early adoption permitted. The Company is currently determining its implementation approach and assessing the impact the adoption will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires deferred tax liabilities and assets be classified as noncurrent in the statement of financial position. ASU 2015-17 is effective for the first quarter of 2017 with early adoption permitted. The adoption of ASU 2015-17 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides new guidance related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires an evaluation of (i) transfer of control, (ii) variable consideration, (iii) allocation of selling price for multiple elements, (iv) intellectual property licenses, (v) time value of money, and (vi) contract costs. The standard also expands the required disclosures related to revenue and cash flows from contracts with customers to provide greater insight into both revenue that has been recognized, and revenue that is expected to be recognized in the future from existing contracts. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which provides clarification on the implementation guidance on principal versus agent considerations outlined in ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which finalized amendments to identifying performance obligations and accounting for licenses of intellectual property. ASU 2014-09, ASU 2016-08 and ASU 2016-10 are effective for the first quarter of 2018, with early adoption permitted and retrospective application required. The Company is currently determining its implementation approach and assessing the impact the adoption will have on its consolidated financial statements.

Note 2. Net Income per Share

The following is a reconciliation between basic and diluted weighted average shares outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic weighted average common shares outstanding	72,729,000	72,447,000	72,654,000	72,327,000
Effect of dilution:				
Stock options	1,000	164,000	26,000	91,000
Restricted stock units	570,000	517,000	607,000	267,000
Diluted weighted average common shares outstanding	73,300,000	73,128,000	73,287,000	72,685,000

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(unaudited)

For the three and six months ended June 30, 2016 and June 30, 2015, there were no restricted stock units that would have been anti-dilutive to the diluted weighted average common shares outstanding. Approximately 137,000 and 125,000 restricted stock units for the three and six months ended June 30, 2016 and June 30, 2015, respectively, have been excluded from diluted weighted average common shares outstanding since a performance condition on these awards was not met in each of the respective periods.

Stock Repurchase Program

On March 4, 2016, the Company's Board of Directors authorized a program to repurchase up to $500,000 of its outstanding shares of common stock (the "2016 Stock Repurchase Program"). For the six months ended June 30, 2016, the Company repurchased 811,385 of its Class A common stock at an average purchase price of approximately $59.44 per share. As of June 30, 2016, the Company has $451,773 available for repurchase under the 2016 Stock Repurchase Program.

Note 3. Restructuring

The Company incurred restructuring expense primarily related to severance charges associated with the elimination of certain positions across the Company.

The following table summarizes the restructuring expense recognized by operating segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
National Networks	$37	$651	$67	$717
International & Other	352	2,003	287	2,593
Total restructuring expense	$389	$2,654	$354	$3,310

The following table summarizes the accrued restructuring costs:

	Severance and employee-related costs	Other exit costs	Total
December 31, 2015	$ 9,498	$512	$10,010
Charges	22	332	354
Cash payments	(8,628)	(390)	(9,018)
Currency translation	(89)	5	(84)
June 30, 2016	$ 803	$459	$1,262

Liabilities for restructuring costs are included in accrued liabilities in the condensed consolidated balance sheet at June 30, 2016.

Note 4. Goodwill and Other Intangible Assets

The carrying amount of goodwill, by operating segment is as follows:

	National Networks	International and Other	Total
December 31, 2015	$244,849	$ 491,426	$736,275
Purchase accounting adjustments	—	(7,246)	(7,246)
Amortization of "second component" goodwill	(1,262)	—	(1,262)
Foreign currency translation	—	(19,696)	(19,696)
June 30, 2016	$243,587	$ 464,484	$708,071

Purchase accounting adjustments included in the International and Other segment relate to the allocation of fair value for a previous acquisition of a small international channel from goodwill primarily to identifiable intangible assets.

The reduction of $1,262 in the carrying amount of goodwill for the National Networks is due to the realization of a tax benefit for the amortization of “second component” goodwill at SundanceTV. Second component goodwill is the amount of tax

7

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
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deductible goodwill in excess of goodwill for financial reporting purposes. In accordance with the authoritative guidance at the time of the SundanceTV acquisition, the tax benefits associated with this excess are applied to first reduce the amount of goodwill, and then other intangible assets for financial reporting purposes, if and when such tax benefits are realized in the Company’s tax returns.

The following tables summarize information relating to the Company’s identifiable intangible assets:

	June 30, 2016			
	Gross	Accumulated Amortization	Net	Estimated Useful Lives
Amortizable intangible assets:				
Affiliate and customer relationships	$538,202	$(124,771)	$413,431	11 to 25 years
Advertiser relationships	46,282	(7,094)	39,188	11 years
Trade names	55,324	(5,685)	49,639	20 years
Other amortizable intangible assets	10,516	(477)	10,039	5 years
Total amortizable intangible assets	650,324	(138,027)	512,297	
Indefinite-lived intangible assets:				
Trademarks	19,966	—	19,966	
Total intangible assets	$670,290	$(138,027)	$532,263	

	December 31, 2015		
	Gross	Accumulated Amortization	Net
Amortizable intangible assets:			
Affiliate and customer relationships	$554,012	$(110,203)	$443,809
Advertiser relationships	46,282	(4,990)	41,292
Trade names	48,522	(4,353)	44,169
Other amortizable intangible assets	15	(5)	10
Total amortizable intangible assets	648,831	(119,551)	529,280
Indefinite-lived intangible assets:			
Trademarks	19,900	—	19,900
Total intangible assets	$668,731	$(119,551)	$549,180

Aggregate amortization expense for amortizable intangible assets for the six months ended June 30, 2016 and 2015 was $19,628 and $21,912, respectively. Estimated aggregate amortization expense for intangible assets subject to amortization for each of the following five years is:

Years Ending December 31,	
2016	$38,315
2017	37,777
2018	37,777
2019	37,772
2020	37,762

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(unaudited)

Note 5. Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2016	December 31, 2015
Interest	$17,613	$ 28,246
Employee related costs	87,784	119,931
Income taxes payable	14,138	2,112
Other accrued expenses	115,887	103,797
Total accrued liabilities	$235,422	$ 254,086

Note 6. Long-term Debt

The Company’s long-term debt consists of the following:

	June 30, 2016	December 31, 2015
Senior Secured Credit Facility: [(a)]		
Term Loan A Facility	$1,332,000	$1,406,000
Senior Notes:		
5.00% Notes due April 2024	1,000,000	—
7.75% Notes due July 2021	45,551	700,000
4.75% Notes due December 2022	600,000	600,000
Total long-term debt	2,977,551	2,706,000
Unamortized discount	(25,775)	(17,911)
Unamortized deferred financing costs	(18,194)	(20,281)
Long-term debt, net	2,933,582	2,667,808
Current portion of long-term debt	230,551	148,000
Noncurrent portion of long-term debt	$2,703,031	$2,519,808

(a) The Company’s $500,000 revolving credit facility remains undrawn at June 30, 2016. Total undrawn revolver commitments are available to be drawn for general corporate purposes of the Company.

5.00% Notes due 2024

On March 30, 2016, the Company issued $1,000,000 in aggregate principal amount of 5.00% senior notes, net of an issuance discount of $17,500, due 2024 (the “5.00% Notes”). AMC Networks used a portion of the net proceeds of this offering to make a cash tender (“Tender Offer”) for its outstanding 7.75% Senior Notes due 2021 (the "7.75% Notes") with the remaining proceeds to be used for general corporate purposes, which may include the redemption of any of the 7.75% Notes not tendered. The 5.00% Notes were issued pursuant to an indenture dated as of March 30, 2016 (the “5.00% Notes Indenture”).

In connection with the issuance of the 5.00% Notes, AMC Networks incurred deferred financing costs of $2,070, which are being amortized, using the effective interest method, to interest expense over the term of the 5.00% Notes. Interest on the 5.00% Notes is payable semi-annually in arrears on April 1 and October 1 of each year.

The 5.00% Notes may be redeemed, in whole or in part, at any time on or after April 1, 2020, at a redemption price equal to 102.5% of the principal amount thereof (plus accrued and unpaid interest thereon, if any, to the date of such redemption), declining annually to 100% of the principal amount thereof (plus accrued and unpaid interest thereon, if any, to the date of such redemption) beginning on April 1, 2022.

The 5.00% Notes are guaranteed on a senior unsecured basis by certain of AMC Networks’ existing and future domestic restricted subsidiaries, in accordance with the 5.00% Notes Indenture. The guarantees under the 5.00% Notes are full and unconditional and joint and several.

The 5.00% Notes Indenture contains certain affirmative and negative covenants applicable to AMC Networks and its restricted subsidiaries including restrictions on their ability to incur additional indebtedness, consummate certain assets sales, make investments in entities that are not restricted subsidiaries, create liens on their assets, enter into certain affiliate transactions and make certain restricted payments, including restrictions on AMC Networks' ability to pay dividends on, or repurchase, its common stock.

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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(unaudited)

7.75% Notes due 2021 Tender Offer

In March 2016, the Company used a portion of the net proceeds of the 5.00% Notes to make a Tender Offer for the 7.75% Notes at a price of $1,058.57 per $1,000 principal amount of notes plus accrued and unpaid interest. Pursuant to the Tender Offer, the Company purchased approximately $654,000 principal amount of the 7.75% Notes for a purchase price of approximately $703,000 including accrued and unpaid interest of $10,567 and related fees. As of June 30, 2016, $45,551 of the 7.75% Notes remain outstanding.

In connection with the Tender Offer, the Company recorded a loss on extinguishment of debt of $48,343 for the six months ended June 30, 2016 which includes $39,188 related to the excess of the redemption price, premium paid and related fees associated with the closing of the Tender Offer and unamortized issuance discount and deferred financing fees related to the 7.75% Notes of $8,185 and $970, respectively.

On June 9, 2016, the Company gave notice to the remaining holders of its 7.75% Notes of its intent to redeem all outstanding 7.75% Notes on July 15, 2016, (the “Redemption Date”). The Company will pay a redemption price equal to 103.875% of the principal amount thereof (plus accrued and unpaid interest thereon to the Redemption Date). Accordingly, the 7.75% Notes are classified as current in the condensed consolidated balance sheet as of June 30, 2016.

Note 7. Fair Value Measurement

The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity’s pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:

- Level I - Quoted prices for identical instruments in active markets.
- Level II - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level III - Instruments whose significant value drivers are unobservable.

The following table presents for each of these hierarchy levels, the Company’s financial assets and liabilities that are measured at fair value on a recurring basis:

	Level I	Level II	Total
At June 30, 2016:			
Assets:			
Cash equivalents	$166,194	$—	$166,194
Foreign currency derivatives	—	5,912	5,912
Liabilities:			
Interest rate swap contracts	$—	$2,513	$2,513
Foreign currency derivatives	—	2,971	2,971
At December 31, 2015:			
Assets:			
Cash equivalents	$2,027	$—	$2,027
Interest rate swap contracts	—	1,449	1,449
Foreign currency derivatives	—	4,421	4,421
Liabilities:			
Interest rate swap contracts	$—	$2,682	$2,682
Foreign currency derivatives	—	3,107	3,107

The Company’s cash equivalents are classified within Level I of the fair value hierarchy because they are valued using quoted market prices.
The Company’s interest rate swap contracts and foreign currency derivatives (see Note 8) are classified within Level II of the fair value hierarchy and their fair values are determined based on a market approach valuation technique that uses readily observable market parameters and the consideration of counterparty risk.

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(unaudited)

The Company does not have any recurring assets or liabilities measured at fair value that would be considered Level III.

Fair value measurements are also used in nonrecurring valuations performed in connection with acquisition accounting. These nonrecurring valuations primarily include the valuation of affiliate and customer relationships intangible assets, advertiser relationship intangible assets and property and equipment. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level III of the fair value hierarchy.

Credit Facility Debt and Senior Notes

The fair values of each of the Company's debt instruments are based on quoted market prices for the same or similar issues or on the current rates offered to the Company for instruments of the same remaining maturities.

The carrying values and estimated fair values of the Company's financial instruments, excluding those that are carried at fair value in the condensed consolidated balance sheets, are summarized as follows:

	June 30, 2016	
	Carrying Amount	Estimated Fair Value
Debt instruments:		
Term Loan A Facility	$1,316,063	$1,312,020
5.00% Notes due April 2024	980,927	990,000
7.75% Notes due July 2021	45,018	47,373
4.75% Notes due December 2022	591,574	595,500
	$2,933,582	$2,944,893

	December 31, 2015	
	Carrying Amount	Estimated Fair Value
Debt instruments:		
Term Loan A Facility	$1,386,869	$1,370,850
7.75% Notes due July 2021	689,910	737,625
4.75% Notes due December 2022	591,029	600,000
	$2,667,808	$2,708,475

Fair value estimates related to the Company's debt instruments presented above are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgments and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Note 8. Derivative Financial Instruments

Interest Rate Risk

To manage interest rate risk, the Company enters into interest rate swap contracts to adjust the amount of total debt that is subject to variable interest rates.

As of June 30, 2016, the Company had interest rate swap contracts outstanding with notional amounts aggregating $400,000, which consists of interest rate swap contracts with notional amounts of $200,000 that are designated as cash flow hedges and interest rate swap contracts with notional amounts of $200,000 that are not designated as hedging instruments. The Company's outstanding interest rate swap contracts have varying maturities ranging from August 2016 to October 2018. At June 30, 2016, the Company's interest rate swap contracts designated as cash flow hedges were highly effective.

Foreign Currency Exchange Rate Risk

The Company is exposed to foreign currency risk to the extent that the Company enters into transactions denominated in currencies other than its subsidiaries' respective functional currencies (non-functional currency risk), such as affiliation agreements, programming contracts, certain trade receivables, accounts payable and intercompany amounts that are denominated in a currency other than the applicable functional currency of a subsidiary.

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(unaudited)

The fair values of the Company's derivative financial instruments included in the condensed consolidated balance sheets are as follows:

	Balance Sheet Location	June 30, 2016	December 31, 2015
Derivatives designated as hedging instruments:			
Assets:			
Interest rate swap contracts	Other assets	$ —	$ 1,449
Liabilities:			
Interest rate swap contracts	Other liabilities	894	—
Derivatives not designated as hedging instruments:			
Assets:			
Foreign currency derivatives	Prepaid expenses and other current assets	1,630	1,331
Foreign currency derivatives	Other assets	4,282	3,090
Liabilities:			
Interest rate swap contracts	Accrued liabilities	115	660
Interest rate swap contracts	Other liabilities	1,504	2,022
Foreign currency derivatives	Accrued liabilities	1,073	1,429
Foreign currency derivatives	Other liabilities	1,899	1,678

The amounts of gains and losses related to the Company's derivative financial instruments designated as hedging instruments are as follows:

	Gain or (Loss) on Derivatives Recognized in OCI		Location of Gain or (Loss) in Earnings	Gain or (Loss) Reclassified from Accumulated OCI into Earnings (a)	
	Three Months Ended June 30,			Three Months Ended June 30,	
	2016	2015		2016	2015
Derivatives in cash flow hedging relationships:					
Interest rate swap contracts	$ (934)	$ (197)	Interest expense	$ (169)	$ (871)

(a) There were no gains or losses recognized in earnings related to any ineffective portion of hedging relationships or related to any amount excluded from the assessment of hedge effectiveness for the three months ended June 30, 2016 and 2015.

	Gain or (Loss) on Derivatives Recognized in OCI		Location of Gain or (Loss) in Earnings	Gain or (Loss) Reclassified from Accumulated OCI into Earnings (a)	
	Six Months Ended June 30,			Six Months Ended June 30,	
	2016	2015		2016	2015
Derivatives in cash flow hedging relationships:					
Interest rate swap contracts	$ (2,675)	$ (469)	Interest expense	$ (332)	$ (1,839)

(a) There were no gains or losses recognized in earnings related to any ineffective portion of hedging relationships or related to any amount excluded from the assessment of hedge effectiveness for the six months ended June 30, 2016 and 2015.

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(unaudited)

The amounts of gains and losses related to the Company's derivative financial instruments not designated as hedging instruments are as follows:

	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives Three Months Ended June 30,		Amount of Gain or (Loss) Recognized in Earnings on Derivatives Six Months Ended June 30,	
		2016	2015	2016	2015
Derivatives not designated as hedging relationships:					
Interest rate swap contracts	Interest expense	$(49)	$(74)	$(229)	$(495)
Foreign currency derivatives	Miscellaneous, net	2,158	(1,993)	2,210	(1,500)
Total		$2,109	$(2,067)	$1,981	$(1,995)

Note 9. Income Taxes

For the three and six months ended June 30, 2016, income tax expense was $39,390 and $97,933, respectively, representing an effective tax rate of 32% for both periods. The effective tax rate differs from the federal statutory rate of 35% due primarily to state and local income tax expense of $2,120 and $5,335, tax benefit from foreign subsidiary earnings indefinitely reinvested outside the U.S. of $5,456 and $8,921, tax benefit from the domestic production activities deduction of $4,413 and $9,735 and tax expense of $2,701 and $4,701 resulting from an increase in the valuation allowances for foreign and local taxes for the three and six months ended June 30, 2016, respectively.

For the three and six months ended June 30, 2015, income tax expense was $50,997 and $112,251, respectively, representing an effective tax rate of 37% and 34%, respectively. The effective tax rate differs from the federal statutory rate of 35% due primarily to state and local income tax expense of $2,726 and $6,560, tax benefit from foreign subsidiary earnings indefinitely reinvested outside the U.S. of $939 and $6,201, tax benefit from the domestic production activities deduction of $5,015 and $10,183 and tax expense of $3,957 and $6,788 resulting from an increase in the valuation allowances for foreign and local taxes for the three and six months ended June 30, 2015, respectively.

At June 30, 2016, the Company had foreign tax credit carry forwards of approximately $41,000, expiring on various dates from 2016 through 2026. For the six months ended June 30, 2016, excess tax benefits of $781 relating to share-based compensation awards and $800 relating to amortization of tax deductible second component goodwill were realized as a reduction in tax liability (as determined on a 'with-and-without' approach).

Note 10. Commitments and Contingencies

Commitments

As of June 30, 2016, the Company's contractual obligations not reflected on the Company's condensed consolidated balance sheet decreased $107,815 to $1,408,248 as compared to $1,516,063 at December 31, 2015. The decrease relates primarily to program rights obligations.

Legal Matters

The Company is party to various lawsuits and claims in the ordinary course of business. Although the outcome of these matters cannot be predicted with certainty and while the impact of these matters on the Company's results of operations in any particular subsequent reporting period could be material, management does not believe that the resolution of these matters will have a material adverse effect on the financial position of the Company or the ability of the Company to meet its financial obligations as they become due.

Note 11. Equity Plans

On June 8, 2016, AMC Networks granted 27,066 restricted stock units (“RSU’s”) under the AMC Networks Inc. Amended and Restated 2011 Non-Employee Directors Plan to non-employee directors that vested on the date of grant.
On March 4, 2016, AMC Networks granted 486,758 RSU’s and 371,109 performance restricted stock units (“PRSU’s”) to certain executive officers and employees under the AMC Networks Inc. Amended and Restated 2011 Employee Stock Plan. The RSU’s vest in equal annual installments over a three year period and the vesting criteria for 137,527 RSU’s include the achievement

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(unaudited)

of certain performance targets by the Company. The PRSU's vest on the third anniversary of the grant date and include the achievement of certain performance targets by the Company.

During the six months ended June 30, 2016, 336,435 RSU's of AMC Networks Class A Common Stock previously issued to employees of the Company vested. On the vesting dates, 140,063 RSU's were surrendered to the Company to cover the required statutory tax withholding obligations and 196,372 new shares of the AMC Networks Class A Common Stock were issued in respect of the remaining vesting RSU's. The units surrendered to satisfy the employees' statutory minimum tax withholding obligations for the applicable income and other employment tax had an aggregate value of $10,834, which has been reflected as a financing activity in the condensed consolidated statement of cash flows for the six months ended June 30, 2016.

Share-based compensation expense included in selling, general and administrative expense, for the three and six months ended June 30, 2016 was $11,322 and $19,488, respectively, and $8,801 and $16,089 for the three and six months ended June 30, 2015, respectively.

As of June 30, 2016, there was $90,598 of total unrecognized share-based compensation cost related to outstanding unvested share-based awards. The unrecognized compensation cost is expected to be recognized over a weighted-average remaining period of approximately 2.7 years.

Note 12. Redeemable Noncontrolling Interests

In connection with a membership interest purchase agreement entered into with BBC Worldwide Americas, Inc. ("BBCWA"), the Company acquired a 49.9% limited liability interest in New Video Channel America L.L.C. ("New Video"). New Video owns the cable channel BBC AMERICA. The terms of the agreement provide BBCWA with a right to put all of its 50.1% noncontrolling interest to the Company at the greater of the then fair value or the fair value of the initial equity interest at inception. The put option is exercisable on the fifteenth and twenty-fifth year anniversary of the Joint Venture agreement.

In connection with the creation of another joint venture entity in 2013, the terms of the agreement provide the noncontrolling member with a right to put all of its interest to the Company at the then fair value.

Because exercise of these put rights is outside the Company's control, the noncontrolling interest in each entity is presented as redeemable noncontrolling interest outside of stockholders' equity (deficiency) on the Company's condensed consolidated balance sheet.

The following table summarizes activity related to redeemable noncontrolling interest for the six months ended June 30, 2016.

	Six Months Ended June 30, 2016
December 31, 2015	$211,691
Net earnings	11,161
Distributions	(8,977)
Other	(19)
June 30, 2016	$213,856

Note 13. Related Party Transactions

Members of the Dolan Family, for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, including trusts for the benefit of the Dolan Family, collectively beneficially own all of the AMC Networks outstanding Class B Common Stock and own less than 2% of the AMC Networks' outstanding Class A Common Stock. Such shares of the AMC Networks Class A Common Stock and Class B Common Stock, collectively, represent approximately 66% of the aggregate voting power of AMC Networks' outstanding common stock. Members of the Dolan Family are also the controlling stockholders of The Madison Square Garden Company ("MSG") and MSG

Networks Inc. (“MSG Networks”). Prior to June 21, 2016, members of the Dolan Family were also the controlling stockholders of Cablevision Systems Corporation (“Cablevision”)

On June 21, 2016, Cablevision was acquired by a subsidiary of Altice N.V. and a change in control occurred which resulted in members of the Dolan Family no longer being controlling stockholders of the surviving company, Altice USA. Accordingly, Altice USA is not a related party of AMC Networks.

The Company and its related parties routinely enter into transactions with each other in the ordinary course of business. Revenues, net from related parties amounted to $6,200 and $6,493 for the three months ended June 30, 2016 and 2015, respectively

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in thousands, except per share amounts)
(unaudited)

and $12,906 and $13,212 for the six months ended June 30, 2016 and 2015, respectively. Amounts charged to the Company, included in selling, general and administrative expenses, pursuant to transactions with its related parties amounted to $822 and $1,269 for the three months ended June 30, 2016 and 2015, respectively and $1,890 and $2,218 for the six months ended June 30, 2016 and 2015, respectively.

On June 16, 2016, AMC Networks entered into an arrangement with the Dolan Family Office, LLC ("DFO"), MSG and MSG Networks providing for the sharing of certain expenses associated with executive office space which will be available to Charles F. Dolan (the Executive Chairman and a director of the Company and a director of MSG and MSG Networks), James L. Dolan (the Executive Chairman and a director of MSG and MSG Networks and a director of the Company), and the DFO which is controlled by Charles F. Dolan. The Company's share of initial set-up costs and office expenses is not material.

Note 14. Cash Flows

The Company's non-cash investing and financing activities and other supplemental data are as follows:

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Non-Cash Investing and Financing Activities:		
Increase in capital lease obligations	$10,983	$ —
Capital expenditures incurred but not yet paid	2,101	1,957
Supplemental Data:		
Cash interest paid	69,449	61,223
Income taxes paid, net	75,450	99,177

Note 15. Accumulated Other Comprehensive Loss

The following table details the components of accumulated other comprehensive loss:

Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Currency Translation Adjustment	