

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

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

FORM 10-Q

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 (I.R.S. Employer
incorporation or organization) Identification No.)

11 Penn Plaza, 10001
New York, NY
(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 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 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 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

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

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
<u>Item 4. Controls and Procedures</u>	<u>45</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>46</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>SIGNATURES</u>	<u>47</u>

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)

Edgar Filing: AMC Networks Inc. - Form 10-Q

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		Six Months Ended	
	June 30,		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)

Edgar Filing: AMC Networks Inc. - Form 10-Q

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.

4

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

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

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:

Edgar Filing: AMC Networks Inc. - Form 10-Q

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 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

6

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, 2016		Six Months Ended June 30, 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)

(unaudited)

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.

9

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(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	Estimated
	Amount	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	Estimated
	Amount	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.

11

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, 2016	2015	Three Months Ended June 30, 2016
Derivatives in cash flow hedging relationships:			
Interest rate swap contracts	\$ (934)	\$ (197)	Interest expense \$ (169) \$ (871)

There were no gains or losses recognized in earnings related to any ineffective portion of hedging relationships or (a) 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, 2016	2015	Six Months Ended June 30, 2016
Derivatives in cash flow hedging relationships:			
Interest rate swap contracts	\$ (2,675)	\$ (469)	Interest expense \$ (332) \$ (1,839)

There were no gains or losses recognized in earnings related to any ineffective portion of hedging relationships or (a) 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	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	Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)	Currency Translation Adjustment	Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance	\$(136,434)	\$377	\$(136,057)	\$(77,492)	\$(1,756)	\$(79,248)
Other comprehensive (loss) before reclassifications	(3,004)	(2,675)	(5,679)	(36,706)	(469)	(37,175)
Amounts reclassified from accumulated other comprehensive loss	—	332	332	—	1,839	1,839
Net current-period other comprehensive (loss) income, before income taxes	(3,004)	(2,343)	(5,347)	(36,706)	1,370	(35,336)
Income tax (expense) benefit	(11,069)	858	(10,211)	4,165	(501)	3,664
Net current-period other comprehensive (loss) income, net of income taxes	(14,073)	(1,485)	(15,558)	(32,541)	869	(31,672)
Ending balance	\$(150,507)	\$(1,108)	\$(151,615)	\$(110,033)	\$(887)	\$(110,920)

Amounts reclassified to net earnings for gains and losses on cash flow hedges designated as hedging instruments are included in interest expense in the condensed consolidated statements of income.

Note 16. Segment Information

The Company classifies its operations into two operating segments: National Networks and International and Other. These reportable segments represent strategic business units that are managed separately.

The Company generally allocates all corporate overhead costs to the Company's two operating segments based upon their

15

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

proportionate estimated usage of services, including such costs as executive salaries and benefits, costs of maintaining corporate headquarters, facilities and common support functions (such as human resources, legal, finance, tax, accounting, audit, treasury, risk management, strategic planning and information technology) as well as sales support functions and creative and production services.

The Company evaluates segment performance based on several factors, of which the primary financial measure is operating segment adjusted operating cash flow (defined as operating income (loss) before depreciation and amortization, share-based compensation expense or benefit, and restructuring expense or credit). The Company has presented the components that reconcile adjusted operating cash flow to operating income, an accepted GAAP measure, and other information as to the continuing operations of the Company's reportable segments below.

	Three Months Ended June 30, 2016			
	National Networks	International and Other	Inter-segment eliminations	Consolidated
Revenues, net				
Advertising	\$239,331	\$25,564	\$—	\$264,895
Distribution	333,302	92,716	(6,081)	419,937
Consolidated revenues, net	\$572,633	\$118,280	\$ (6,081)	\$684,832
Adjusted operating cash flow	\$206,328	\$8,207	\$ (3,239)	\$211,296
Depreciation and amortization	(8,053)	(13,500)	—	(21,553)
Share-based compensation expense	(9,148)	(2,174)	—	(11,322)
Restructuring expense	(37)	(352)	—	(389)
Operating income (loss)	\$189,090	\$ (7,819)	\$ (3,239)	\$178,032
	Three Months Ended June 30, 2015			
	National Networks	International and Other	Inter-segment eliminations	Consolidated
Revenues, net				
Advertising	\$185,712	\$21,778	\$—	\$207,490
Distribution	302,896	91,105	(353)	393,648
Consolidated revenues, net	\$488,608	\$112,883	\$ (353)	\$601,138
Adjusted operating cash flow	\$182,553	\$8,610	\$166	\$191,329
Depreciation and amortization	(7,212)	(13,828)	—	(21,040)
Share-based compensation expense	(7,043)	(1,758)	—	(8,801)
Restructuring expense	(651)	(2,003)	—	(2,654)
Operating income (loss)	\$167,647	\$ (8,979)	\$166	\$158,834

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

	Six Months Ended June 30, 2016			
	National Networks	International and Other	Inter-segment eliminations	Consolidated
Revenues, net				
Advertising	\$503,183	\$48,413	\$—	\$551,596
Distribution	668,086	178,915	(7,186)	839,815
Consolidated revenues, net	\$1,171,269	\$227,328	\$(7,186)	\$1,391,411
Adjusted operating cash flow	\$487,282	\$13,165	\$(2,729)	\$497,718
Depreciation and amortization	(16,022)	(25,163)	—	(41,185)
Share-based compensation expense	(15,370)	(4,118)	—	(19,488)
Restructuring expense	(67)	(287)	—	(354)
Operating income (loss)	\$455,823	\$(16,403)	\$(2,729)	\$436,691
Capital expenditures	\$4,414	\$19,772	\$—	\$24,186

	Six Months Ended June 30, 2015			
	National Networks	International and Other	Inter-segment eliminations	Consolidated
Revenues, net				
Advertising	\$446,151	\$40,581	\$—	\$486,732
Distribution	605,304	178,658	(874)	783,088
Consolidated revenues, net	\$1,051,455	\$219,239	\$(874)	\$1,269,820
Adjusted operating cash flow	\$435,811	\$14,289	\$447	\$450,547
Depreciation and amortization	(14,574)	(26,993)	—	(41,567)
Share-based compensation expense	(12,453)	(3,636)	—	(16,089)
Restructuring expense	(717)	(2,593)	—	(3,310)
Operating income (loss)	\$408,067	\$(18,933)	\$447	\$389,581
Capital expenditures	\$11,484	\$21,640	\$—	\$33,124

Inter-segment eliminations are primarily licensing revenues recognized between the National Networks and International and Other segments as well as revenues recognized by AMC Networks Broadcasting & Technology for transmission revenues recognized from the International and Other operating segment.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Inter-segment revenues				
National Networks	\$(5,991)	\$(336)	\$(6,936)	\$(788)
International and Other	(90)	(17)	(250)	(86)
	\$(6,081)	\$(353)	\$(7,186)	\$(874)

The table below summarizes revenues based on customer location:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
United States	\$542,803	\$472,258	\$1,117,137	\$1,036,083
Europe	103,560	78,056	197,522	153,942
Other	38,469	50,824	76,752	79,795
	\$684,832	\$601,138	\$1,391,411	\$1,269,820

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

The table below summarizes property and equipment based on asset location:

	June 30, 2016	December 31, 2015
Property and equipment, net		
United States	\$89,664	\$93,951
Europe	60,415	48,043
Other	21,013	21,866
	\$171,092	\$163,860

Note 17. Condensed Consolidating Financial Statements

Long-term debt of AMC Networks includes \$45,551 of 7.75% senior notes due July 2021, \$600,000 of 4.75% senior notes due December 2022 and \$1,000,000 of 5.00% senior notes due April 2024. All outstanding senior notes issued by AMC Networks are guaranteed on a senior unsecured basis by certain of its existing and future domestic restricted subsidiaries (the "Guarantor Subsidiaries"). All Guarantor Subsidiaries are owned 100% by AMC Networks. The outstanding notes are fully and unconditionally guaranteed by the Guarantor Subsidiaries on a joint and several basis. Set forth below are condensed consolidating financial statements presenting the financial position, results of operations, comprehensive income, and cash flows of (i) the Parent Company, (ii) the Guarantor Subsidiaries on a combined basis (as such guarantees are joint and several), (iii) the direct and indirect non-guarantor subsidiaries of the Parent Company (the "Non-Guarantor Subsidiaries") on a combined basis and (iv) reclassifications and eliminations necessary to arrive at the information for the Company on a consolidated basis.

Basis of Presentation

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) the Parent Company's interests in the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries, and (ii) the Guarantor Subsidiaries' interests in the Non-Guarantor Subsidiaries, even though all such subsidiaries meet the requirements to be consolidated under GAAP. All intercompany balances and transactions between the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries have been eliminated, as shown in the column "Eliminations."

The accounting basis in all subsidiaries, including goodwill and identified intangible assets, have been allocated to the applicable subsidiaries.

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

Condensed Consolidating Balance Sheet

June 30, 2016

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	\$50,947	\$434,974	\$157,549	\$—	\$643,470
Accounts receivable, trade (less allowance for doubtful accounts)	—	550,996	175,512	—	726,508
Amounts due from related parties, net	—	441	—	—	441
Current portion of program rights, net	—	273,909	116,253	—	390,162
Prepaid expenses, other current assets and intercompany receivable	576	163,799	12,939	(89,941)	87,373
Deferred tax asset, net	24,651	—	5,450	—	30,101
Total current assets	76,174	1,424,119	467,703	(89,941)	1,878,055
Property and equipment, net of accumulated depreciation	—	88,991	82,101	—	171,092
Investment in affiliates	3,174,152	818,715	—	(3,992,867)	—
Program rights, net	—	983,371	140,503	—	1,123,874
Long-term intercompany notes receivable	—	412,948	553	(413,501)	—
Deferred carriage fees, net	—	49,382	2,307	—	51,689
Intangible assets, net	—	185,169	347,094	—	532,263
Goodwill	—	70,438	637,633	—	708,071
Other assets	—	90,802	109,557	—	200,359
Total assets	\$3,250,326	\$4,123,935	\$1,787,451	\$(4,496,309)	\$4,665,403
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable	\$92	\$59,657	\$29,306	\$—	\$89,055
Accrued liabilities and intercompany payable	43,325	148,578	133,460	(89,941)	235,422
Current portion of program rights obligations	—	226,588	64,655	—	291,243
Deferred revenue	—	77,504	15,771	—	93,275
Current portion of long-term debt	230,551	—	—	—	230,551
Current portion of capital lease obligations	—	2,532	1,873	—	4,405
Total current liabilities	273,968	514,859	245,065	(89,941)	943,951
Program rights obligations	—	366,822	18,623	—	385,445
Long-term debt	2,703,031	—	—	—	2,703,031
Capital lease obligations	—	8,028	30,161	—	38,189
Deferred tax liability, net	151,846	—	8,751	—	160,597
Other liabilities and intercompany notes payable	36,256	60,074	421,443	(413,501)	104,272
Total liabilities	3,165,101	949,783	724,043	(503,442)	4,335,485
Commitments and contingencies					
Redeemable noncontrolling interests	—	—	213,856	—	213,856
Stockholders' equity:					
AMC Networks stockholders' equity	85,225	3,174,152	818,715	(3,992,867)	85,225

Edgar Filing: AMC Networks Inc. - Form 10-Q

Non-redeemable noncontrolling interests	—	—	30,837	—	30,837
Total stockholders' equity	85,225	3,174,152	849,552	(3,992,867)	116,062
Total liabilities and stockholders' equity	\$3,250,326	\$4,123,935	\$1,787,451	\$(4,496,309)	\$4,665,403

19

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

Condensed Consolidating Balance Sheet

December 31, 2015

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	\$434	\$ 148,260	\$ 167,627	\$—	\$ 316,321
Accounts receivable, trade (less allowance for doubtful accounts)	—	538,657	135,954	—	674,611
Amounts due from related parties, net	—	3,818	244	—	4,062
Current portion of program rights, net	—	352,664	100,493	—	453,157
Prepaid expenses, other current assets and intercompany receivable	4,158	112,456	12,322	(55,947)	72,989
Deferred tax asset, net	14,039	—	2,159	—	16,198
Total current assets	18,631	1,155,855	418,799	(55,947)	1,537,338
Property and equipment, net	—	93,007	70,853	—	163,860
Investment in affiliates	2,797,938	845,069	—	(3,643,007)	—
Program rights, net	—	889,756	137,638	—	1,027,394
Long-term intercompany notes receivable	—	400,163	676	(400,839)	—
Deferred carriage fees, net	—	47,437	2,632	—	50,069
Intangible assets, net	—	190,041	359,139	—	549,180
Goodwill	—	71,700	664,575	—	736,275
Other assets	1,449	100,620	98,730	—	200,799
Total assets	\$2,818,018	\$ 3,793,648	\$ 1,753,042	\$(4,099,793)	\$ 4,264,915
LIABILITIES AND STOCKHOLDERS' DEFICIENCY					
Current Liabilities:					
Accounts payable	\$6	\$ 44,152	\$ 26,990	\$—	\$ 71,148
Accrued liabilities and intercompany payable	30,857	181,377	97,799	(55,947)	254,086
Current portion of program rights obligations	—	225,375	64,522	—	289,897
Deferred revenue	—	54,921	9,308	—	64,229
Current portion of long-term debt	148,000	—	—	—	148,000
Current portion of capital lease obligations	—	2,393	1,168	—	3,561
Total current liabilities	178,863	508,218	199,787	(55,947)	830,921
Program rights obligations	—	415,419	25,172	—	440,591
Long-term debt	2,519,808	—	—	—	2,519,808
Capital lease obligations	—	9,268	20,511	—	29,779
Deferred tax liability, net	126,415	—	10,818	—	137,233
Other liabilities and intercompany notes payable	32,209	62,805	409,355	(400,839)	103,530
Total liabilities	2,857,295	995,710	665,643	(456,786)	4,061,862
Commitments and contingencies					
Redeemable noncontrolling interests	—	—	211,691	—	211,691
Stockholders' deficiency:					
AMC Networks stockholders' (deficiency) equity	(39,277)	2,797,938	845,069	(3,643,007)	(39,277)
Non-redeemable noncontrolling interests	—	—	30,639	—	30,639

Edgar Filing: AMC Networks Inc. - Form 10-Q

Total stockholders' (deficiency) equity	(39,277)	2,797,938	875,708	(3,643,007)	(8,638)
Total liabilities and stockholders' (deficiency) equity	\$2,818,018	\$3,793,648	\$1,753,042	\$(4,099,793)	\$4,264,915

20

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

Condensed Consolidating Statement of Income

Three Months Ended June 30, 2016

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues, net	\$—	\$ 519,955	\$ 167,267	\$(2,390)	\$ 684,832
Operating expenses:					
Technical and operating (excluding depreciation and amortization)	—	223,254	82,932	(694)	305,492
Selling, general and administrative	—	130,383	50,433	(1,450)	179,366
Restructuring expense	—	112	277	—	389
Depreciation and amortization	—	9,952	11,601	—	21,553
Total operating expenses	—	363,701	145,243	(2,144)	506,800
Operating income	—	156,254	22,024	(246)	178,032
Other income (expense):					
Interest expense, net	(30,172)	9,538	(9,702)	—	(30,336)
Share of affiliates' income (loss)	142,131	(20,997)	—	(121,134)	—
Loss on extinguishment of debt	(9)	—	—	—	(9)
Miscellaneous, net	(170)	(190)	(24,796)	246	(24,910)
Total other income (expense)	111,780	(11,649)	(34,498)	(120,888)	(55,255)
Income (loss) from operations before income taxes	111,780	144,605	(12,474)	(121,134)	122,777
Income tax expense	(34,605)	(2,474)	(2,311)	—	(39,390)
Net income (loss) including noncontrolling interests	77,175	142,131	(14,785)	(121,134)	83,387
Net income attributable to noncontrolling interests	—	—	(6,212)	—	(6,212)
Net income (loss) attributable to AMC Networks' stockholders	\$ 77,175	\$ 142,131	\$ (20,997)	\$(121,134)	\$ 77,175

Condensed Consolidating Statement of Income

Three Months Ended June 30, 2015

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues, net	\$—	\$ 464,368	\$ 136,948	\$(178)	\$ 601,138
Operating expenses:					
Technical and operating (excluding depreciation and amortization)	—	189,500	70,401	(171)	259,730
Selling, general and administrative	—	114,080	44,819	(19)	158,880
Restructuring expense	—	557	2,097	—	2,654
Depreciation and amortization	—	9,203	11,837	—	21,040
Total operating expenses	—	313,340	129,154	(190)	442,304
Operating income	—	151,028	7,794	12	158,834
Other income (expense):					
Interest expense, net	(20,020)	(2,325)	(9,434)	—	(31,779)
Share of affiliates' income	126,287	3,368	—	(129,655)	—
Miscellaneous, net	23,961	(23,601)	11,036	(12)	11,384
Total other income (expense)	130,228	(22,558)	1,602	(129,667)	(20,395)
Income from operations before income taxes	130,228	128,470	9,396	(129,655)	138,439

Edgar Filing: AMC Networks Inc. - Form 10-Q

Income tax expense	(47,219)	(2,183)	(1,595)	—	(50,997)
Net income including noncontrolling interests	83,009	126,287	7,801	(129,655)	87,442
Net income attributable to noncontrolling interests	—	—	(4,433)	—	(4,433)
Net income attributable to AMC Networks' stockholders	\$ 83,009	\$ 126,287	\$ 3,368	\$ (129,655)	\$ 83,009

21

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

Condensed Consolidating Statement of Income

Six Months Ended June 30, 2016

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues, net	\$—	\$ 1,074,484	\$ 321,801	\$(4,874)	\$ 1,391,411
Operating expenses:					
Technical and operating (excluding depreciation and amortization)	—	414,032	163,882	(1,377)	576,537
Selling, general and administrative	—	245,894	94,004	(3,254)	336,644
Restructuring expense	—	42	312	—	354
Depreciation and amortization	—	20,027	21,158	—	41,185
Total operating expenses	—	679,995	279,356	(4,631)	954,720
Operating income	—	394,489	42,445	(243)	436,691
Other income (expense):					
Interest expense, net	(60,742)	18,831	(19,453)	—	(61,364)
Share of affiliates' income (loss)	388,178	(20,145)	—	(368,033)	—
Loss on extinguishment of debt	(48,343)	—	—	—	(48,343)
Miscellaneous, net	(251)	(213)	(25,378)	243	(25,599)
Total other income (expense)	278,842	(1,527)	(44,831)	(367,790)	(135,306)
Income (loss) from operations before income taxes	278,842	392,962	(2,386)	(368,033)	301,385
Income tax expense	(88,222)	(4,784)	(4,927)	—	(97,933)
Net income (loss) including noncontrolling interests	190,620	388,178	(7,313)	(368,033)	203,452
Net income attributable to noncontrolling interests	—	—	(12,832)	—	(12,832)
Net income (loss) attributable to AMC Networks' stockholders	\$ 190,620	\$ 388,178	\$ (20,145)	\$(368,033)	\$ 190,620

Condensed Consolidating Statement of Income

Six Months Ended June 30, 2015

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues, net	\$—	\$ 1,003,811	\$ 266,412	\$(403)	\$ 1,269,820
Operating expenses:					
Technical and operating (excluding depreciation and amortization)	—	386,258	136,022	(377)	521,903
Selling, general and administrative	—	232,567	80,910	(18)	313,459
Restructuring expense	—	672	2,638	—	3,310
Depreciation and amortization	—	18,170	23,397	—	41,567
Total operating expenses	—	637,667	242,967	(395)	880,239
Operating income	—	366,144	23,445	(8)	389,581
Other income (expense):					
Interest expense, net	(40,374)	(12,790)	(11,202)	—	(64,366)
Share of affiliates' income	402,272	7,756	—	(410,028)	—
Miscellaneous, net	(52,352)	45,712	7,786	8	1,154
Total other income (expense)	309,546	40,678	(3,416)	(410,020)	(63,212)
Income from operations before income taxes	309,546	406,822	20,029	(410,028)	326,369

Edgar Filing: AMC Networks Inc. - Form 10-Q

Income tax expense	(105,617)	(4,550)	(2,084)	—	(112,251)
Net income including noncontrolling interests	203,929	402,272	17,945	(410,028)	214,118
Net income attributable to noncontrolling interests	—	—	(10,189)	—	(10,189)
Net income attributable to AMC Networks' stockholders	\$203,929	\$402,272	\$7,756	\$(410,028)	\$203,929

22

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended June 30, 2016

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income including noncontrolling interest	\$ 77,175	\$ 142,131	\$ (14,785)	\$ (121,134)	\$ 83,387
Other comprehensive income (loss):					
Foreign currency translation adjustment	(18,389)	—	(18,389)	18,389	(18,389)
Unrealized loss on interest rate swaps	(765)	—	—	—	(765)
Other comprehensive (loss) income, before income taxes	(19,154)	—	(18,389)	18,389	(19,154)
Income tax expense	(8,312)	—	—	—	(8,312)
Other comprehensive (loss) income, net of income taxes	(27,466)	—	(18,389)	18,389	(27,466)
Comprehensive income	49,709	142,131	(33,174)	(102,745)	55,921
Comprehensive income attributable to noncontrolling interests	—	—	(4,424)	—	(4,424)
Comprehensive income attributable to AMC Networks' stockholders	\$ 49,709	\$ 142,131	\$ (37,598)	\$ (102,745)	\$ 51,497

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended June 30, 2015

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income including noncontrolling interest	\$ 83,009	\$ 126,287	\$ 7,801	\$ (129,655)	\$ 87,442
Other comprehensive income (loss):					
Foreign currency translation adjustment	7,591	7,572	16,528	(7,572)	24,119
Unrealized gain on interest rate swaps	674	—	—	—	674
Other comprehensive income (loss), before income taxes	8,265	7,572	16,528	(7,572)	24,793
Income tax benefit	5,943	—	—	—	5,943
Other comprehensive income, net of income taxes	14,208	7,572	16,528	(7,572)	30,736
Comprehensive income	97,217	133,859	24,329	(137,227)	118,178
Comprehensive income attributable to noncontrolling interests	—	—	(4,433)	—	(4,433)
Comprehensive income attributable to AMC Networks' stockholders	\$ 97,217	\$ 133,859	\$ 19,896	\$ (137,227)	\$ 113,745

Condensed Consolidating Statement of Comprehensive Income

Six Months Ended June 30, 2016

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income including noncontrolling interest	\$ 190,620	\$ 388,178	\$ (7,313)	\$ (368,033)	\$ 203,452
Other comprehensive income (loss):					
Foreign currency translation adjustment	(3,004)	—	(3,004)	3,004	(3,004)

Edgar Filing: AMC Networks Inc. - Form 10-Q

Unrealized loss on interest rate swaps	(2,343)	—	—	—	(2,343)
Other comprehensive (loss) income, before income taxes	(5,347)	—	(3,004)	3,004	(5,347)
Income tax expense	(10,211)	—	—	—	(10,211)
Other comprehensive (loss) income, net of income taxes	(15,558)	—	(3,004)	3,004	(15,558)
Comprehensive income (loss)	175,062	388,178	(10,317)	(365,029)	187,894
Comprehensive income attributable to noncontrolling interests	—	—	(11,456)	—	(11,456)
Comprehensive income (loss) attributable to AMC Networks' stockholders	\$ 175,062	\$ 388,178	\$ (21,773)	\$ (365,029)	\$ 176,438

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

Condensed Consolidating Statement of Comprehensive Income

Six Months Ended June 30, 2015

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income including noncontrolling interest	\$203,929	\$402,272	\$17,945	\$(410,028)	\$214,118
Other comprehensive income (loss):					
Foreign currency translation adjustment	(64,120)	(64,120)	27,414	64,120	(36,706)
Unrealized gain on interest rate swaps	1,370	—	—	—	1,370
Other comprehensive (loss) income, before income taxes	(62,750)	(64,120)	27,414	64,120	(35,336)
Income tax benefit	3,664	—	—	—	3,664
Other comprehensive (loss) income, net of income taxes	(59,086)	(64,120)	27,414	64,120	(31,672)
Comprehensive income	144,843	338,152	45,359	(345,908)	182,446
Comprehensive income attributable to noncontrolling interests	—	—	(10,189)	—	(10,189)
Comprehensive income attributable to AMC Networks' stockholders	\$144,843	\$338,152	\$35,170	\$(345,908)	\$172,257

Condensed Consolidating Statement of Cash Flows

Six Months Ended June 30, 2016

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net cash provided by operating activities	\$277,785	\$306,120	\$16,349	\$(370,690)	\$229,564
Cash flows from investing activities:					
Capital expenditures	—	(15,767)	(8,419)	—	(24,186)
Payments for acquisitions, net of cash acquired	—	—	(354)	—	(354)
(Increase) decrease to investment in affiliates	(359,483)	(31,090)	48,542	342,031	—
Net cash used in investing activities	(359,483)	(46,857)	39,769	342,031	(24,540)
Cash flows from financing activities:					
Proceeds from the issuance of long-term debt	982,500	—	—	—	982,500
Principal payments on long-term debt	(728,449)	—	—	—	(728,449)
Premium and fees paid on extinguishment of debt	(39,188)	—	—	—	(39,188)
Payments for financing costs	(2,070)	—	—	—	(2,070)
Deemed repurchases of restricted stock/units	(10,834)	—	—	—	(10,834)
Purchase of treasury stock	(48,227)	—	—	—	(48,227)
Proceeds from stock option exercises	1,216	—	—	—	1,216
Excess tax benefits from share-based compensation arrangements	781	—	—	—	781
Principal payments on capital lease obligations	—	(1,208)	(867)	—	(2,075)
Distributions to noncontrolling interest	—	—	(8,977)	—	(8,977)
Net cash provided by (used in) financing activities	155,729	(1,208)	(9,844)	—	144,677
	74,031	258,055	46,274	(28,659)	349,701

Edgar Filing: AMC Networks Inc. - Form 10-Q

Net increase (decrease) in cash and cash equivalents
from operations

Effect of exchange rate changes on cash and cash equivalents	(23,518)	28,659	(56,352)	28,659	(22,552)
Cash and cash equivalents at beginning of period	434	148,260	167,627	—	316,321
Cash and cash equivalents at end of period	\$50,947	\$ 434,974	\$ 157,549	\$—	\$ 643,470

24

AMC NETWORKS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Dollars in thousands, except per share amounts)

(unaudited)

Condensed Consolidated Statement of Cash Flows

Six Months Ended June 30, 2015

	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net cash provided by operating activities	\$238,455	\$ 169	\$ 362,865	\$(411,248)	\$ 190,241
Cash flows from investing activities:					
Capital expenditures	(3)	(22,875)	(10,246)	—	(33,124)
Payments for acquisitions, net of cash acquired	—	—	(6,545)	—	(6,545)
Purchases of investments	—	(369)	(23,881)	—	(24,250)
(Increase) decrease to investment in affiliates	(134,957)	127,384	(339,452)	347,025	—
Net cash (used in) provided by investing activities	(134,960)	104,140	(380,124)	347,025	(63,919)
Cash flows from financing activities:					
Principal payments on long-term debt	(37,000)	—	—	—	(37,000)
Payment of Promissory Note	—	—	(40,000)	—	(40,000)
Deemed repurchases of restricted stock/units	(14,320)	—	—	—	(14,320)
Proceeds from stock option exercises	1,031	—	—	—	1,031
Excess tax benefits from share-based compensation arrangements	4,038	—	—	—	4,038
Principal payments on capital lease obligations	—	(1,097)	(352)	—	(1,449)
Distributions to noncontrolling member	—	—	(3,154)	—	(3,154)
Contributions from noncontrolling member	—	—	1,373	—	1,373
Net cash (used in) provided by financing activities	(46,251)	(1,097)	(42,133)	—	(89,481)
Net increase in cash and cash equivalents from operations	57,244	103,212	(59,392)	(64,223)	36,841
Effect of exchange rate changes on cash and cash equivalents	(57,931)	(64,223)	60,783	64,223	2,852
Cash and cash equivalents at beginning of period	1,581	83,676	116,110	—	201,367
Cash and cash equivalents at end of period	\$894	\$ 122,665	\$ 117,501	\$—	\$ 241,060

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains statements that constitute forward-looking information within the meaning of the Private Securities Litigation Reform Act of 1995. In this Management's Discussion and Analysis of Financial Condition and Results of Operations there are statements concerning our future operating results and future financial performance. Words such as "expects," "anticipates," "believes," "estimates," "may," "will," "should," "could," "potential," "continue," "intends," "plans" and similar words and terms used in discussion of future operating results and future financial performance identify forward-looking statements. You are cautioned that any such forward-looking statements are not guarantees of future performance or results and involve risks and uncertainties and that actual results or developments may differ materially from the forward-looking statements as a result of various factors. Factors that may cause such differences to occur include, but are not limited to:

- the level of our revenues;
- market demand for our programming networks and our programming;
- demand for advertising inventory;
- the highly competitive nature of the cable, telecommunications and digital programming industries;
- our ability to maintain and renew distribution or affiliation agreements with video programming distributors;
- the cost of, and our ability to obtain or produce, desirable programming content for our networks, other forms of distribution, including digital and licensing in international markets, as well as our independent film distribution businesses;
- market demand for our owned original programming and our independent film content;
- the security of our program rights and other electronic data;
- the loss of any of our key personnel and artistic talent;
- changes in domestic and foreign laws or regulations under which we operate;
- economic and business conditions and industry trends in the countries in which we operate;
- fluctuations in currency exchange rates and interest rates;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the U.S. or in the countries in which we operate;
- our substantial debt and high leverage;
- reduced access to capital markets or significant increases in costs to borrow;
- the level of our expenses;
- the level of our capital expenditures;
- future acquisitions and dispositions of assets;
- our ability to successfully acquire new businesses and, if acquired, to integrate, and implement our plan with respect to businesses we acquire;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- changes in the nature of key strategic relationships with partners and joint ventures;
- the outcome of litigation and other proceedings;
- whether pending uncompleted transactions, if any, are completed on the terms and at the times set forth (if at all);
- other risks and uncertainties inherent in our programming businesses;
- financial community and rating agency perceptions of our business, operations, financial condition and the industry in which we operate;
- events that are outside our control, such as political unrest in international markets, terrorist attacks, natural disasters and other similar events; and
- the factors described under Item 1A, "Risk Factors" in our 2015 Annual Report on Form 10-K (the "2015 Form 10-K"), as filed with the Securities and Exchange Commission ("SEC").

We disclaim any obligation to update or revise the forward-looking statements contained herein, except as otherwise required by applicable federal securities laws.

All dollar amounts included in the following Management's Discussion and Analysis of Financial Condition and Results of Operations are presented in thousands.

Introduction

Management's discussion and analysis, or MD&A, of our results of operations and financial condition is provided as a supplement to, and should be read in conjunction with, the unaudited condensed consolidated financial statements and notes thereto included elsewhere herein and our 2015 Form 10-K to enhance the understanding of our financial condition, changes in financial condition and results of our operations. Unless the context otherwise requires, all references to "we," "us," "our," "AMC Networks" or the "Company" refer to AMC Networks Inc., together with its subsidiaries. MD&A is organized as follows:

Business Overview. This section provides a general description of our business and our operating segments, as well as other matters that we believe are important in understanding our results of operations and financial condition and in anticipating future trends.

Consolidated Results of Operations. This section provides an analysis of our results of operations for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015. Our discussion is presented on both a consolidated and operating segment basis. Our two operating segments are: (i) National Networks and (ii) International and Other.

Liquidity and Capital Resources. This section provides a discussion of our financial condition as of June 30, 2016, as well as an analysis of our cash flows for the six months ended June 30, 2016 and 2015. The discussion of our financial condition and liquidity includes summaries of (i) our primary sources of liquidity and (ii) our contractual obligations that existed at June 30, 2016 as compared to December 31, 2015.

Critical Accounting Policies and Estimates. This section provides an update, if any, to our significant accounting policies or critical accounting estimates since December 31, 2015.

Business Overview

We manage our business through the following 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.

Financial Results Overview

The tables presented below set forth our consolidated revenues, net, operating income (loss) and adjusted operating cash flow (“AOCF”), defined below, for the periods indicated.

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2016	2015	2016	2015
Revenues, net				
National Networks	\$572,633	\$488,608	\$1,171,269	\$1,051,455
International and Other	118,280	112,883	227,328	219,239
Inter-segment eliminations	(6,081)	(353)	(7,186)	(874)
Consolidated revenues, net	\$684,832	\$601,138	\$1,391,411	\$1,269,820
Operating income (loss)				
National Networks	\$189,090	\$167,647	\$455,823	\$408,067
International and Other	(7,819)	(8,979)	(16,403)	(18,933)
Inter-segment eliminations	(3,239)	166	(2,729)	447
Consolidated operating income	\$178,032	\$158,834	\$436,691	\$389,581
AOCF				
National Networks	\$206,328	\$182,553	\$487,282	\$435,811
International and Other	8,207	8,610	13,165	14,289
Inter-segment eliminations	(3,239)	166	(2,729)	447
Consolidated AOCF	\$211,296	\$191,329	\$497,718	\$450,547

We evaluate segment performance based on several factors, of which the primary financial measure is operating segment AOCF. We define AOCF, which is a financial measure that is not calculated in accordance with generally accepted accounting principles (“GAAP”), as operating income (loss) before depreciation and amortization, share-based compensation expense or benefit, and restructuring expense or credit.

We believe that AOCF is an appropriate measure for evaluating the operating performance on both an operating segment and consolidated basis. AOCF and similar measures with similar titles are common performance measures used by investors, analysts and peers to compare performance in the industry.

Internally, we use revenues, net and AOCF measures as the most important indicators of our business performance, and evaluate management’s effectiveness with specific reference to these indicators. AOCF should be viewed as a supplement to and not a substitute for operating income (loss), net income (loss), cash flows from operating activities and other measures of performance and/or liquidity presented in accordance with GAAP. Since AOCF is not a measure of performance calculated in accordance with GAAP, this measure may not be comparable to similar measures with similar titles used by other companies.

The following is a reconciliation of consolidated operating income to AOCF for the periods indicated:

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Operating income	\$178,032	\$158,834	\$436,691	\$389,581
Share-based compensation expense	11,322	8,801	19,488	16,089
Restructuring expense	389	2,654	354	3,310
Depreciation and amortization	21,553	21,040	41,185	41,567
AOCF	\$211,296	\$191,329	\$497,718	\$450,547

National Networks

In our National Networks segment, which accounted for 84% of our consolidated revenues for the six months ended June 30, 2016, we earn revenue principally from the distribution of our programming and the sale of advertising.

Distribution revenue primarily includes affiliation fees paid by distributors to carry our programming networks and the licensing of original programming for digital, foreign and home video distribution. Affiliation fees paid by distributors represent the largest component of distribution revenue. Our affiliation fee revenues are generally based on a per subscriber fee under multi-year contracts, commonly referred to as “affiliation agreements,” which generally

provide for rate increases. The specific affiliation fee revenues we earn vary from

28

period to period, distributor to distributor and also vary among our networks, but are generally based upon the number of each distributor's subscribers who receive our programming, referred to as viewing subscribers. The terms of certain other affiliation agreements provide that the affiliation fee revenues we earn are a fixed contractual monthly fee, which could be adjusted for acquisitions and dispositions of multichannel video programming systems by the distributor. Revenue from the licensing of original programming for digital and foreign distribution is recognized upon availability or distribution by the licensee.

Under affiliation agreements with our distributors, we have the right to sell a specified amount of national advertising time on our programming networks. Our advertising revenues are more variable than affiliation fee revenues because the majority of our advertising is sold on a short-term basis, not under long-term contracts. Our advertising arrangements with advertisers provide for a set number of advertising units to air over a specific period of time at a negotiated price per unit for which our programming networks generally guarantee specified viewer ratings for their programming.

Our principal goal is to increase our revenues by increasing distribution and penetration of our services, and increasing our ratings. To do this, we must continue to contract for and produce high-quality, attractive programming. As competition for programming increases and alternative distribution technologies continue to emerge and develop in the industry, costs for content acquisition and original programming may increase. There is a concentration of subscribers in the hands of a few distributors, which could create disparate bargaining power between the largest distributors and us by giving those distributors greater leverage in negotiating the price and other terms of affiliation agreements.

Programming expense, included in technical and operating expense, represents the largest expense of the National Networks segment and primarily consists of amortization and impairments or write-offs of programming rights, such as those for original programming, feature films and licensed series, as well as participation and residual costs. The other components of technical and operating expense primarily include distribution and production related costs and program operating costs, such as origination, transmission, uplinking and encryption.

The success of our business depends on original programming, both scripted and unscripted, across all of our networks. In recent years, we have introduced a number of scripted original series. These series generally result in higher audience ratings for our networks than we achieve with other types of programming. Among other things, higher audience ratings drive increased revenues through higher advertising revenues. The timing of exhibition and distribution of original programming varies from period to period, which results in greater variability in our revenues, earnings and cash flows from operating activities. We will continue to increase our investment in programming across all of our channels. There may be significant changes in the level of our technical and operating expenses due to the amortization of content acquisition and/or original programming costs and/or the impact of management's periodic assessment of programming usefulness. Such costs will also fluctuate with the level of revenues derived from owned original programming in each period as these costs are amortized based on the film-forecast-computation method. Most original series require us to make up-front investments, which are often significant amounts. Not all of our programming efforts are commercially successful, which could result in a write-off of program rights. If it is determined that programming rights have no future programming usefulness based on actual demand or market conditions, a write-off of the unamortized cost is recorded in technical and operating expense. Program rights write-offs of \$1,080 and \$4,005 were recorded for the three months ended June 30, 2016 and 2015, respectively. Program rights write-offs of \$1,080 and \$13,580 were recorded for the six months ended June 30, 2016 and 2015, respectively.

International and Other

Our International and Other segment primarily includes the operations of AMC Networks International and IFC Films.

In our International and Other segment, which accounted for 16% of our consolidated revenues for the six months ended June 30, 2016, we earn revenue principally from the international distribution of programming and to a lesser extent, the sale of advertising. Distribution revenue primarily includes affiliation fees paid by distributors to carry our programming networks. Our affiliation fee revenues are generally based on either a per subscriber fee or a fixed contractual monthly fee, under affiliation agreements, which may provide for annual rate increases. Most of these revenues are derived primarily from Europe and to a lesser extent, Latin America, the Middle East and parts of Asia

and Africa. The International and Other segment also includes IFC Films, our independent film distribution business where revenues are derived principally from theatrical, digital and licensing distribution.

Programming and program operating costs, included in technical and operating expense, represents the largest expense of the International and Other segment and primarily consists of amortization of acquired content, costs of dubbing and sub-titling of programs and participation costs. Program operating costs include costs such as origination, transmission, uplinking and encryption.

We view our international expansion as an important long-term strategy. We may experience an adverse impact to the International and Other segment's operating results and cash flows in periods of increased international investment by the Company. Similar to our domestic businesses, the most significant business challenges we expect to encounter in our international business

include programming competition (from both foreign and domestic programmers), limited channel capacity on distributors' platforms, the change in the number of subscribers on those platforms and economic pressures on affiliation fees. Other significant business challenges unique to our international operations include increased programming costs for international rights and translation (i.e. dubbing and subtitling), a lack of availability of international rights for a portion of our domestic programming content, increased distribution costs for cable, satellite or fiber feeds and a limited physical presence in some territories, and our exposure to foreign currency exchange rate risk. See also the risk factors described under Item 1A, "Risk Factors - We face risks from doing business internationally" in our 2015 Form 10-K.

Corporate Expenses

We allocate corporate overhead to each segment based upon its proportionate estimated usage of services. The segment financial information set forth below, including the discussion related to individual line items, does not reflect inter-segment eliminations unless specifically indicated.

Impact of Economic Conditions

Our future performance is dependent, to a large extent, on general economic conditions including the impact of direct competition, our ability to manage our businesses effectively, and our relative strength and leverage in the marketplace, both with suppliers and customers.

Capital and credit market disruptions could cause economic downturns, which may lead to lower demand for our products, such as lower demand for television advertising and a decrease in the number of subscribers receiving our programming networks from our distributors. Additionally, as noted above, we may experience an adverse impact due to the impact of global economic conditions and the related effect on foreign currencies. Events such as these may adversely impact our results of operations, cash flows and financial position.

Consolidated Results of Operations

The amounts presented and discussed below represent 100% of each operating segment's revenues, net and expenses. Where we have management control of an entity, we consolidate 100% of such entity in our consolidated statements of operations notwithstanding that a third-party owns a significant interest in such entity. The noncontrolling owner's interest in the operating results of majority-owned subsidiaries are reflected in net income attributable to noncontrolling interests in our consolidated statements of operations.

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

The following table sets forth our consolidated results of operations for the periods indicated.

	Three Months Ended June 30,		2015		\$ change	% change			
	2016	Amount	% of Revenues, net	Amount			% of Revenues, net		
Revenues, net	\$684,832	100.0	%	\$601,138	100.0	%	\$83,694	13.9	%
Operating expenses:									
Technical and operating (excluding depreciation and amortization)	305,492	44.6		259,730	43.2		45,762	17.6	
Selling, general and administrative	179,366	26.2		158,880	26.4		20,486	12.9	
Restructuring expense	389	0.1		2,654	0.4		(2,265)	(85.3)	
Depreciation and amortization	21,553	3.1		21,040	3.5		513	2.4	
Total operating expenses	506,800	74.0		442,304	73.6		64,496	14.6	
Operating income	178,032	26.0		158,834	26.4		19,198	12.1	
Other income (expense):									
Interest expense, net	(30,336)	(4.4)		(31,779)	(5.3)		1,443	(4.5)	
Loss on extinguishment of debt	(9)	—		—	—		(9)	n/m	
Miscellaneous, net	(24,910)	(3.6)		11,384	1.9		(36,294)	(318.8)	
Total other income (expense)	(55,255)	(8.1)		(20,395)	(3.4)		(34,860)	170.9	
Net income from operations before income taxes	122,777	17.9		138,439	23.0		(15,662)	(11.3)	
Income tax expense	(39,390)	(5.8)		(50,997)	(8.5)		11,607	(22.8)	
Net income including noncontrolling interests	83,387	12.2		87,442	14.5		(4,055)	(4.6)	
Net income attributable to noncontrolling interests	(6,212)	(0.9)		(4,433)	(0.7)		(1,779)	40.1	
Net income attributable to AMC Networks' stockholders	\$77,175	11.3	%	\$83,009	13.8	%	\$(5,834)	(7.0)	%

National Networks Segment Results

The following table sets forth our National Networks segment results for the periods indicated.

	Three Months Ended June 30,		2015		\$ change	% change
	2016		2015			
	Amount	% of Revenues, net	Amount	% of Revenues, net		
Revenues, net	\$572,633	100.0 %	\$488,608	100.0 %	\$84,025	17.2 %
Operating expenses:						
Technical and operating (excluding depreciation and amortization)	240,116	41.9	192,188	39.3	47,928	24.9
Selling, general and administrative	135,337	23.6	120,910	24.7	14,427	11.9
Restructuring expense	37	—	651	0.1	(614)	(94.3)
Depreciation and amortization	8,053	1.4	7,212	1.5	841	11.7
Operating income	\$189,090	33.0 %	\$167,647	34.3 %	\$21,443	12.8 %
Share-based compensation expense	9,148	1.6	7,043	1.4	2,105	29.9
Depreciation and amortization	8,053	1.4	7,212	1.5	841	11.7
Restructuring expense	37	—	651	0.1	(614)	(94.3)
AOCF	\$206,328	36.0 %	\$182,553	37.4 %	\$23,775	13.0 %

International and Other Segment Results

The following table sets forth our International Networks segment results for the periods indicated.

	Three Months Ended June 30,		2015		\$ change	% change
	2016		2015			
	Amount	% of Revenues, net	Amount	% of Revenues, net		
Revenues, net	\$118,280	100.0 %	\$112,883	100.0 %	\$5,397	4.8 %
Operating expenses:						
Technical and operating (excluding depreciation and amortization)	68,215	57.7	68,057	60.3	158	0.2
Selling, general and administrative	44,032	37.2	37,974	33.6	6,058	16.0
Restructuring expense	352	0.3	2,003	1.8	(1,651)	(82.4)
Depreciation and amortization	13,500	11.4	13,828	12.2	(328)	(2.4)
Operating loss	\$(7,819)	(6.6)%	\$(8,979)	(8.0)%	\$1,160	(12.9)%
Share-based compensation expense	2,174	1.8	1,758	1.6	416	23.7
Depreciation and amortization	13,500	11.4	13,828	12.2	(328)	(2.4)
Restructuring expense	352	0.3	2,003	1.8	(1,651)	(82.4)
AOCF	\$8,207	6.9 %	\$8,610	7.6 %	\$(403)	(4.7)%

Revenues, net

Revenues, net increased \$83,694 to \$684,832 for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The net change by segment was as follows:

	Three Months Ended June 30,					
	2016	% of total	2015	% of total	\$ change	% change
National Networks	\$572,633	83.6 %	\$488,608	81.3 %	\$84,025	17.2 %
International and Other	118,280	17.3	112,883	18.8	5,397	4.8
Inter-segment eliminations	(6,081)	(0.9)	(353)	(0.1)	(5,728)	n/m
Consolidated revenues, net	\$684,832	100.0 %	\$601,138	100.0 %	\$83,694	13.9 %

National Networks

The increase in National Networks revenues, net was attributable to the following:

	Three Months Ended June 30,					
	2016	% of total	2015	% of total	\$ change	% change
Advertising	\$239,331	41.8 %	\$185,712	38.0 %	\$53,619	28.9 %
Distribution	333,302	58.2	302,896	62.0	30,406	10.0
	\$572,633	100.0 %	\$488,608	100.0 %	\$84,025	17.2 %

The increase of \$53,619 in advertising revenues was driven primarily by the increase in our original programming at AMC which led to increased demand by advertisers and higher pricing at AMC, in addition to increases at BBC AMERICA, IFC and SundanceTV networks. Most of our advertising revenues vary based on the timing of our original programming series and the popularity of our programming as measured by Nielsen. Due to these factors, we expect advertising revenues to vary from quarter to quarter.

Distribution revenues increased \$30,406 driven by an increase of \$19,220 from licensing and digital distribution revenues derived from our original programming, principally at AMC. In addition, affiliation fee revenues increased due to an increase in rates primarily at AMC as compared to the same period in 2015. Distribution revenues vary based on the impact of renewals of affiliation agreements and the timing of availability of our programming to distributors. Because of these factors, we expect distribution revenues to vary from quarter to quarter.

International and Other

The increase in International and Other revenues, net was attributable to the following:

	Three Months Ended June 30,					
	2016	% of total	2015	% of total	\$ change	% change
Advertising	\$25,564	21.6 %	\$21,778	19.3 %	\$3,786	17.4 %
Distribution	92,716	78.4	91,105	80.7	1,611	1.8
	\$118,280	100.0 %	\$112,883	100.0 %	\$5,397	4.8 %

The increase in advertising revenues is principally due to increased demand for our programming at AMCNI by advertisers, partially offset by the unfavorable impact of foreign currency translation of approximately \$1,200. The increase in distribution revenues resulted principally from an increase of \$4,419 at AMCNI, partially offset by a decrease at IFC Films due to the strong performance of Boyhood in 2015. The unfavorable impact of foreign currency translation at AMCNI on distribution revenue was approximately \$1,800.

Technical and operating expense (excluding depreciation and amortization)

The components of technical and operating expense primarily include the amortization and impairments or write-offs of program rights, such as those for original programming, feature films and licensed series, participation and residual costs, distribution and production related costs and program operating costs, such as origination, transmission, uplinking and encryption.

Technical and operating expense (excluding depreciation and amortization) increased \$45,762 to \$305,492 for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The net change by segment was as follows:

	Three Months Ended June 30,		\$ change	% change
	2016	2015		
National Networks	\$240,116	\$192,188	\$47,928	24.9 %
International and Other	68,215	68,057	158	0.2
Inter-segment eliminations	(2,839)	(515)	(2,324)	n/m
Total	\$305,492	\$259,730	\$45,762	17.6 %
Percentage of revenues, net	44.6 %	43.2 %		

National Networks

The increase in the National Networks segment was attributable to an increase of \$28,724 in program rights amortization expense and an increase of \$19,204 for other direct programming related costs, primarily participation and residuals and development costs. The increase in program rights amortization expense is due to the increased investment in original programming for the three months ended June 30, 2016. Program rights amortization expense includes write-offs of \$1,080 for the three months ended June 30, 2016 based on management's assessment of programming usefulness, primarily at SundanceTV. Program rights amortization expense for the three months ended June 30, 2015 included write-offs of \$4,005 of certain scripted series at SundanceTV based on management's assessment of programming usefulness.

International and Other

The increase in the International and Other segment was primarily due to an increase of \$773 at AMCNI due to an increased investment in programming and an increase of \$763 due to costs incurred at our developing business, partially offset by a decrease of \$1,445 at IFC Films due to a decrease in direct costs related to the success of Boyhood in 2015. Foreign currency translation had a favorable impact to the change in technical and operating expense of approximately \$1,700.

Selling, general and administrative expense

The components of selling, general and administrative expense primarily include sales, marketing and advertising expenses, administrative costs and costs of facilities.

Selling, general and administrative expense increased \$20,486 to \$179,366 for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015. The net change by segment was as follows:

	Three Months Ended June 30,		\$ change	% change
	2016	2015		
National Networks	\$135,337	\$120,910	\$14,427	11.9 %
International and Other	44,032	37,974	6,058	16.0
Inter-segment eliminations	(3)	(4)	1	(25.0)
Total	\$179,366	\$158,880	\$20,486	12.9 %
Percentage of revenues, net	26.2 %	26.4 %		

National Networks

The increase of \$14,427 in selling, general and administrative expense in the National Networks segment was driven by an increase in marketing and advertising sales expense of \$12,821 primarily at AMC due to the promotion of original programming series, and an increase in parent company allocations of \$2,111, partially offset by a decrease of \$1,115 in share-based compensation expense and expenses relating to long-term incentive compensation.

There may be significant changes in the level of our selling, general and administrative expense from quarter to quarter and year to year due to the timing of promotion and marketing of original programming series and subscriber retention marketing efforts.

International and Other

The increase of \$6,058 in selling, general and administrative expense in the International and Other segment was primarily driven by increases at AMCNI due to an increase of \$2,371 in marketing expense, an increase in employee related costs of \$2,594, and an increase in administrative expenses of \$1,222 due to an increase in rent expense and professional fees. In addition, the increase was due to an increase of \$1,902 at our developing business due to increased marketing expenses, offset by a decrease

at IFC Films of \$3,739 due to the timing of promotion of films. Foreign currency translation had a favorable impact to the change in selling, general and administrative expense of approximately \$1,300.

Depreciation and amortization

Depreciation and amortization expense increased \$513 to \$21,553 for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015. The net change by segment was as follows:

	Three Months Ended June 30,			
	2016	2015	\$ change	% change
National Networks	\$8,053	\$7,212	\$ 841	11.7 %
International and Other	13,500	13,828	(328)	(2.4)
	\$21,553	\$21,040	\$ 513	2.4 %

The increase in depreciation and amortization expense at the National Networks segment was attributable to an increase in depreciation expense due to property and equipment additions. The decrease in depreciation and amortization expense at the International and Other segment for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015 was primarily due to the favorable impact of foreign currency translation.

AOCF

The following is a reconciliation of our consolidated operating income to AOCF:

	Three Months Ended June 30,			
	2016	2015	\$ change	% change
Operating income	\$178,032	\$158,834	\$19,198	12.1 %
Share-based compensation expense	11,322	8,801	2,521	28.6
Restructuring expense	389	2,654	(2,265)	(85.3)
Depreciation and amortization	21,553	21,040	513	2.4
Consolidated AOCF	\$211,296	\$191,329	\$19,967	10.4 %

AOCF increased \$19,967 for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The net change by segment was as follows:

	Three Months Ended June 30,			
	2016	2015	\$ change	% change
National Networks	\$206,328	\$182,553	\$23,775	13.0 %
International and Other	8,207	8,610	(403)	(4.7)
Inter-segment eliminations	(3,239)	166	(3,405)	n/m
AOCF	\$211,296	\$191,329	\$19,967	10.4 %

National Networks AOCF increased principally due to an increase in revenues, net of \$84,025, partially offset by an increase in technical and operating expenses of \$47,928 resulting primarily from an increase in amortization and other direct programming related costs and an increase in selling, general and administrative expense of \$12,322. As a result of the factors discussed above impacting the variability in revenues and operating expenses, we expect AOCF to vary from quarter to quarter.

International and Other AOCF decreased slightly principally due to an increase in selling, general and administrative expense of \$5,642, partially offset by an increase in revenues, net of \$5,397.

Miscellaneous, net

The decrease in miscellaneous, net of \$36,294 for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 is primarily the result of unrealized net foreign currency transaction losses of \$39,682 from the translation of monetary assets and liabilities that are denominated in currencies other than the underlying functional currency of the applicable entity, primarily due to intercompany loans, partially offset by an increase in gains on derivative contracts of \$4,151.

Income tax expense

Edgar Filing: AMC Networks Inc. - Form 10-Q

For the three months ended June 30, 2016, income tax expense was \$39,390, representing an effective tax rate of 32%. The effective tax rate differs from the federal statutory rate of 35% due primarily to state and local income tax expense of \$2,120, tax benefit from foreign subsidiary earnings indefinitely reinvested outside of the U.S. of \$5,456, tax benefit from the domestic

production activities deduction of \$4,413 and tax expense of \$2,701 resulting from an increase in the valuation allowance for foreign and local taxes.

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

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

The following table sets forth our consolidated results of operations for the periods indicated.

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015		\$ change	% change
	Amount	% of Revenues, net	Amount	% of Revenues, net		
Revenues, net	\$1,391,411	100.0 %	\$1,269,820	100.0 %	\$121,591	9.6 %
Operating expenses:						
Technical and operating (excluding depreciation and amortization)	576,537	41.4	521,903	41.1	54,634	10.5
Selling, general and administrative	336,644	24.2	313,459	24.7	23,185	7.4
Restructuring expense	354	—	3,310	0.3	(2,956)	(89.3)
Depreciation and amortization	41,185	3.0	41,567	3.3	(382)	(0.9)
Total operating expenses	954,720	68.6	880,239	69.3	74,481	8.5
Operating income	436,691	31.4	389,581	30.7	47,110	12.1
Other income (expense):						
Interest expense, net	(61,364)	(4.4)	(64,366)	(5.1)	3,002	(4.7)
Loss on extinguishment of debt	(48,343)	(3.5)	—	—	(48,343)	n/m
Miscellaneous, net	(25,599)	(1.8)	1,154	0.1	(26,753)	n/m
Total other income (expense)	(135,306)	(9.7)	(63,212)	(5.0)	(72,094)	114.1
Net income from operations before income taxes	301,385	21.7	326,369	25.7	(24,984)	(7.7)
Income tax expense	(97,933)	(7.0)	(112,251)	(8.8)	14,318	(12.8)
Net income including noncontrolling interests	203,452	14.6	214,118	16.9	(10,666)	(5.0)
Net income attributable to noncontrolling interests	(12,832)	(0.9)	(10,189)	(0.8)	(2,643)	25.9
Net income attributable to AMC Networks' stockholders	\$190,620	13.7 %	\$203,929	16.1 %	\$(13,309)	(6.5) %

National Networks Segment Results

The following table sets forth our National Networks segment results for the periods indicated.

	Six Months Ended June 30,		2015		2016		% change
	Amount	% of Revenues, net	Amount	% of Revenues, net	\$ change	% change	
Revenues, net	\$1,171,269	100.0 %	\$1,051,455	100.0 %	\$119,814	11.4 %	
Operating expenses:							
Technical and operating (excluding depreciation and amortization)	446,255	38.1	389,112	37.0	57,143	14.7	
Selling, general and administrative	253,102	21.6	238,985	22.7	14,117	5.9	
Restructuring expense	67	—	717	0.1	(650)	(90.7)	
Depreciation and amortization	16,022	1.4	14,574	1.4	1,448	9.9	
Operating income	\$455,823	38.9 %	\$408,067	38.8 %	\$47,756	11.7 %	
Share-based compensation expense	15,370	1.3	12,453	1.2	2,917	23.4	
Depreciation and amortization	16,022	1.4	14,574	1.4	1,448	9.9	
Restructuring expense	67	—	717	0.1	(650)	(90.7)	
AOCF	\$487,282	41.6 %	\$435,811	41.4 %	\$51,471	11.8 %	

International and Other Segment Results

The following table sets forth our International Networks segment results for the periods indicated.

	Six Months Ended June 30,		2015		2016		% change
	Amount	% of Revenues, net	Amount	% of Revenues, net	\$ change	% change	
Revenues, net	\$227,328	100.0 %	\$219,239	100.0 %	\$8,089	3.7 %	
Operating expenses:							
Technical and operating (excluding depreciation and amortization)	134,731	59.3	134,096	61.2	635	0.5	
Selling, general and administrative	83,550	36.8	74,490	34.0	9,060	12.2	
Restructuring expense	287	0.1	2,593	1.2	(2,306)	(88.9)	
Depreciation and amortization	25,163	11.1	26,993	12.3	(1,830)	(6.8)	
Operating loss	\$(16,403)	(7.2) %	\$(18,933)	(8.6) %	\$2,530	(13.4) %	
Share-based compensation expense	4,118	1.8	3,636	1.7	482	13.3	
Depreciation and amortization	25,163	11.1	26,993	12.3	(1,830)	(6.8)	
Restructuring expense	287	0.1	2,593	1.2	(2,306)	(88.9)	
AOCF	\$13,165	5.8 %	\$14,289	6.5 %	\$(1,124)	(7.9) %	

Revenues, net

Revenues, net increased \$121,591 to \$1,391,411 for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The net change by segment was as follows:

	Six Months Ended June 30,					
	2016	% of total	2015	% of total	\$ change	% change
National Networks	\$1,171,269	84.2 %	\$1,051,455	82.8 %	\$119,814	11.4 %
International and Other	227,328	16.3	219,239	17.3	8,089	3.7
Inter-segment eliminations	(7,186)	(0.5)	(874)	(0.1)	(6,312)	n/m
Consolidated revenues, net	\$1,391,411	100.0 %	\$1,269,820	100.0 %	\$121,591	9.6 %

National Networks

The increase in National Networks revenues, net was attributable to the following:

	Six Months Ended June 30,					
	2016	% of total	2015	% of total	\$ change	% change
Advertising	\$503,183	43.0 %	\$446,151	42.4 %	\$57,032	12.8 %
Distribution	668,086	57.0	605,304	57.6	62,782	10.4
	\$1,171,269	100.0%	\$1,051,455	100.0%	\$119,814	11.4 %

The increase of \$57,032 in advertising revenues was driven by the timing of airing our original programming which led to increased demand by advertisers and higher pricing across all of our networks, with the largest increase at AMC due to the number of original programming series and series premieres. Most of our advertising revenues vary based on the timing of our original programming series and the popularity of our programming as measured by Nielsen. Due to these factors, we expect advertising revenues to vary from quarter to quarter.

Distribution revenues increased \$62,782 due to an increase of \$41,983 principally from digital distribution and licensing revenues derived from our original programming, principally at AMC. In addition, affiliation fee revenues increased due to an increase in rates, primarily at AMC, as compared to the same period in 2015. Distribution revenues vary based on the impact of renewals of affiliation agreements and the timing of availability of our programming to distributors. Because of these factors, we expect distribution revenues to vary from quarter to quarter.

International and Other

The increase in International and Other revenues, net was attributable to the following:

	Six Months Ended June 30,					
	2016	% of total	2015	% of total	\$ change	% change
Advertising	\$48,413	21.3 %	\$40,581	18.5 %	\$7,832	19.3 %
Distribution	178,915	78.7	178,658	81.5	257	0.1
	\$227,328	100.0%	\$219,239	100.0%	\$8,089	3.7 %

The increase in advertising revenues is principally due to increased demand for our programming at AMCNI by advertisers, partially offset by the unfavorable impact of foreign currency translation of approximately \$2,300. The increase in distribution revenues is primarily driven by expanded distribution at AMCNI resulting in an increase in distribution revenue of \$4,235, partially offset by a decrease at IFC Films due to the strong performance of Boyhood in 2015. The unfavorable impact of foreign currency translation at AMCNI on distribution revenue was approximately \$5,200.

Technical and operating expense (excluding depreciation and amortization)

The components of technical and operating expense primarily include the amortization and impairments or write-offs of program rights, such as those for original programming, feature films and licensed series, participation and residual costs, distribution and production related costs and program operating costs, such as origination, transmission, uplinking and encryption.

Technical and operating expense (excluding depreciation and amortization) increased \$54,634 to \$576,537 for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The net change by segment was as follows:

	Six Months Ended June		\$ change	% change
	2016	2015		
National Networks	\$446,255	\$389,112	\$57,143	14.7 %
International and Other	134,731	134,096	635	0.5
Inter-segment eliminations	(4,449)	(1,305)	(3,144)	n/m
Total	\$576,537	\$521,903	\$54,634	10.5 %
Percentage of revenues, net	41.4 %	41.1 %		

National Networks

The increase in the National Networks segment was attributable to an increase of \$27,011 in program rights amortization expense, an increase of \$30,132 for other direct programming related costs, primarily participation and residuals and other development costs. The increase in program rights amortization expense is due an increase in original programming for the six months ended June 30, 2016. Program rights amortization expense includes write-offs of \$1,080 for the six months ended June 30, 2016 based on management's assessment of programming usefulness, primarily at SundanceTV. Program rights amortization expense for the six months ended June 30, 2015 included write-offs of \$13,580 of certain scripted series at SundanceTV, pilot costs at AMC and unscripted series WE tv based on management's assessment of programming usefulness.

There may be significant changes in the level of our technical and operating expenses due to content acquisition and/or original programming costs and/or the impact of management's periodic assessment of programming usefulness. Such costs will also fluctuate with the level of revenues derived from owned original programming in each period as these costs are amortized based on the film-forecast-computation method. As additional competition for programming increases and alternate distribution technologies continue to develop in the industry, costs for content acquisition and original programming may increase.

International and Other

The increase in the International and Other segment was primarily due to an increase at AMCNI due to an increase in program rights amortization expense of \$4,595 due to the increased investment in programming, partially offset by a decrease in other direct programming related costs of \$1,323. In addition, the increase in technical and operating expense was due to an increase in costs at our developing business of \$1,393. Such increases were offset by a decrease of \$4,238 at IFC Films due to a decrease in participation and residuals expense related to the success of Boyhood in 2015. Foreign currency translation had a favorable impact to the change in technical and operating expense of approximately \$4,300.

Selling, general and administrative expense

The components of selling, general and administrative expense primarily include sales, marketing and advertising expenses, administrative costs and costs of facilities.

Selling, general and administrative expense increased \$23,185 to \$336,644 for the six months ended June 30, 2016, as compared to the six months ended June 30, 2015. The net change by segment was as follows:

	Six Months Ended June		\$ change	% change
	2016	2015		
National Networks	\$253,102	\$238,985	\$14,117	5.9 %
International and Other	83,550	74,490	9,060	12.2
Inter-segment eliminations	(8)	(16)	8	(50.0)
Total	\$336,644	\$313,459	\$23,185	7.4 %
Percentage of revenues, net	24.2 %	24.7 %		

National Networks

The increase in selling, general and administrative expense in the National Networks segment was driven by an increase in marketing expenses of \$13,106 primarily at AMC due to the promotion of original programming series. There may be significant changes in the level of our selling, general and administrative expense from quarter to quarter and year to year due to the timing of promotion and marketing of original programming series and subscriber retention marketing efforts.

39

International and Other

Selling, general and administrative expense in the International and Other segment increased \$9,060 for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 driven by increases at AMCNI due to an increase in employee related costs of \$4,147, marketing expense of \$2,612, an increase in administrative expenses of \$2,580 due to an increase in professional fees and rent expense. In addition, the increase was due to an increase of \$4,076 at our developing business principally due to increased marketing expenses, offset by a decrease at IFC Films of \$7,834 due to the timing of promotion of films. Foreign currency translation had a favorable impact to the change in selling, general and administrative expense of approximately \$2,800.

Depreciation and amortization

Depreciation and amortization expense decreased \$382 to \$41,185 for the six months ended June 30, 2016, as compared to the six months ended June 30, 2015. The net change by segment was as follows:

	Six Months Ended June 30,			
	2016	2015	\$ change	% change
National Networks	\$16,022	\$14,574	\$1,448	9.9 %
International and Other	25,163	26,993	(1,830)	(6.8)
	\$41,185	\$41,567	\$(382)	(0.9)%

The increase in depreciation and amortization expense in the National Networks segment was primarily attributable to an increase in depreciation expense due to property and equipment additions. The decrease in depreciation and amortization expense in the International and Other segment was primarily attributable to a decrease in amortization of \$2,052 resulting from a decrease in an asset retirement obligation at AMCNI.

AOCF

The following is a reconciliation of our consolidated operating income to AOCF:

	Six Months Ended June 30,			
	2016	2015	\$ change	% change
Operating income	\$436,691	\$389,581	\$47,110	12.1 %
Share-based compensation expense	19,488	16,089	3,399	21.1
Restructuring expense	354	3,310	(2,956)	(89.3)
Depreciation and amortization	41,185	41,567	(382)	(0.9)
Consolidated AOCF	\$497,718	\$450,547	\$47,171	10.5 %

AOCF increased \$47,171 for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015.

The net change by segment was as follows:

	Six Months Ended June 30,			
	2016	2015	\$ change	% change
National Networks	\$487,282	\$435,811	\$51,471	11.8 %
International and Other	13,165	14,289	(1,124)	(7.9)
Inter-segment eliminations	(2,729)	447	(3,176)	n/m
AOCF	\$497,718	\$450,547	\$47,171	10.5 %

National Networks AOCF increased principally due to an increase in revenues, net of \$119,814, partially offset by an increase in technical and operating expenses of \$57,143 resulting primarily from an increase in other direct programming related costs and an increase in selling, general and administrative expense of \$11,200. As a result of the factors discussed above impacting the variability in revenues and operating expenses, we expect AOCF to vary from quarter to quarter.

International and Other AOCF decreased slightly due to an increase in selling, general and administrative expenses of \$8,578 and an increase in technical and operating expense of \$635 partially offset by an increase in revenues, net of \$8,089. Foreign currency translation had an unfavorable impact on AOCF of approximately \$400.

Loss on extinguishment of debt

The loss on extinguishment of debt for the six months ended June 30, 2016 of \$48,343 represents \$39,188 of premium paid and related fees on the early redemption of our 7.75% Notes as well as a write-off of the related unamortized discount of \$8,185 and unamortized deferred financing costs of \$970. See further discussion below.

Miscellaneous, net

The decrease in miscellaneous, net of \$26,753 for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 is primarily the result of unrealized net foreign currency transaction losses of \$30,800 from the translation of monetary assets and liabilities that are denominated in currencies other than the underlying functional currency of the applicable entity, primarily intercompany loans, partially offset by an increase in the gains on derivative contracts of \$3,710.

Income tax expense

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

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

Liquidity and Capital Resources

Our operations have historically generated positive net cash flow from operating activities. However, each of our programming businesses has substantial programming acquisition and production expenditure requirements. Sources of cash primarily include cash flow from operations, amounts available under our revolving credit facility (as described below) and access to capital markets. Although we currently believe that amounts available under our revolving credit facility will be available when and if needed, we can provide no assurance that access to such funds will not be impacted by adverse conditions in the financial markets. As a public company, we may have access to other sources of capital such as the public bond markets. On March 23, 2016 we filed a Registration Statement on Form S-3 (“Shelf Registration”) with the SEC in which we registered debt securities.

In connection with the Shelf Registration, on March 30, 2016, we 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”). We used a portion of the net proceeds of this offering to make a cash tender (“Tender Offer”) for our outstanding 7.75% senior notes due 2021 (the “7.75% Notes”) at a price of \$1,058.57 per \$1,000 principal amounts of notes plus accrued and unpaid interest. Pursuant to the Tender Offer, we 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. See “Debt Financing Agreements” below.

On March 4, 2016, our Board of Directors authorized a program to repurchase up to \$500,000 of our outstanding shares of common stock (the “2016 Stock Repurchase Program”). Through July 29, 2016, we repurchased 1,282,273 shares of our Class A common stock for \$74,997.

Our principal uses of cash include the acquisition and production of programming, investments and acquisitions, debt service, repurchases of outstanding debt and common stock and payments for income taxes. We continue to increase our investment in original programming, the funding of which generally occurs six to nine months in advance of a program’s airing. We expect this increased investment to continue in 2016. The current portion of long term debt is \$230,551 (which includes required principal payments on our Term Loan A facility over the next twelve months of \$185,000 and \$45,551 related to our 7.75% Notes which were redeemed on July 15, 2016. See “Debt Financing Agreements” below.

As of June 30, 2016, our consolidated cash and cash equivalents includes amounts with a value of approximately \$96,009 held by foreign subsidiaries, some of which have earnings that have not been subject to U.S. tax. Repatriation of earnings not previously subject to U.S. tax would generally require us to accrue and pay U.S. tax on such amount.

Our consolidated financial statements provide for any related tax liability on amounts that may be repatriated, aside from undistributed earnings of certain of our foreign subsidiaries that are intended to be permanently reinvested or repatriated in a tax-free manner. The amount of such undistributed earnings was approximately \$60,000 as of June 30, 2016. Determination of the amount of unrecognized deferred tax liability for temporary differences related to these earnings is not practicable.

We believe that a combination of cash-on-hand, cash generated from operating activities and availability under our revolving credit facility will provide sufficient liquidity to service the principal and interest payments on our indebtedness, along with our other funding and investment requirements over the next twelve months and over the longer term. However, we do not expect to generate sufficient cash from operations to repay at maturity the entirety of the then outstanding balances of our debt. As a result, we will then be dependent upon our ability to access the capital and credit markets in order to repay or refinance the outstanding balances of our indebtedness. Failure to raise significant amounts of funding to repay these obligations at maturity would adversely affect our business. In such a circumstance, we would need to take other actions including selling assets, seeking strategic investments from third parties or reducing other discretionary uses of cash.

Our level of debt could have important consequences on our business including, but not limited to, increasing our vulnerability to general adverse economic and industry conditions, limiting the availability of our cash flow to fund future programming investments, capital expenditures, working capital, business activities and other general corporate requirements and limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate. For information relating to our outstanding debt obligations, refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Debt Financing Agreements" of our 2015 Form 10-K and the discussion below under Debt Financing Agreements.

In addition, economic or market disruptions could lead to lower demand for our services, such as lower levels of advertising. These events would adversely impact our results of operations, cash flows and financial position. The revolving credit facility was not drawn upon at June 30, 2016. The total undrawn revolver commitment is available to be drawn for our general corporate purposes.

AMC Networks was in compliance with all of its debt covenants as of June 30, 2016.

Cash Flow Discussion

The following table is a summary of cash flows provided by (used in) continuing operations and discontinued operations for the six months ended June 30:

	2016	2015
Cash provided by operating activities	\$229,564	\$190,241
Cash used in investing activities	(24,540)	(63,919)
Cash provided by (used in) financing activities	144,677	(89,481)
Net increase in cash and cash equivalents	349,701	36,841

Operating Activities

Net cash provided by operating activities amounted to \$229,564 for the six months ended June 30, 2016 as compared to \$190,241 for the six months ended June 30, 2015. Net cash provided by operating activities for the six months ended June 30, 2016 primarily resulted from \$731,177 of net income before amortization of program rights, loss on extinguishment of debt, depreciation and amortization, and other non-cash items, which was partially offset by payments for program rights of \$466,288, an increase in accounts receivable, trade of \$45,536 primarily related to timing of cash receipts, an increase in prepaid expenses and other assets of \$17,090. Additionally, net cash provided by operating activities increased due to an increase in deferred revenue of \$29,308 primarily related to advertising arrangements.

Net cash provided by operating activities for the six months ended June 30, 2015 primarily resulted from \$626,879 of net income before amortization of program rights, depreciation and amortization, and other non-cash items, which was partially offset by payments for program rights of \$412,205. Additionally, net cash provided by operating activities increased due to an increase in deferred revenue of \$33,779 primarily related to advertising arrangements. Decreases to operating cash flows consisted of an increase in accounts receivable, trade of \$18,182 primarily driven by higher revenues as well as the timing of cash receipts, an increase in prepaid expenses and other assets of \$15,359 primarily related to income taxes paid, a decrease in accounts payable, accrued expenses and other liabilities of \$10,356 due primarily to lower employee related liabilities and a decrease in deferred carriage fees, net of \$17,138 related to deferred carriage payments. Changes in all other assets and liabilities during the six months ended June 30, 2015 resulted in an increase in cash of \$2,823.

Investing Activities

Net cash used in investing activities for the six months ended June 30, 2016 and 2015 was \$24,540 and \$63,919, respectively. Capital expenditures were \$24,186 and \$33,124 for the six months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2015, net cash used in investing activities primarily related to the payment for the acquisition of a small international channel, net of cash acquired of \$6,545 and purchases of investments of \$24,250.

Financing Activities

Net cash provided by financing activities amounted to \$144,677 for the six months ended June 30, 2016 as compared to net cash used in financing activities of \$89,481 for the six months ended June 30, 2015. For the six months ended June 30, 2016, financing activities primarily consisted of cash provided by the issuance of \$1,000,000 of 5.00% Notes, net of an issuance discount of \$17,500, offset by principal payments on long term debt of \$728,449 which included the repayment of \$654,000 of the Company's 7.75% Notes pursuant to the Tender Offer, as well as scheduled repayments of principal on the Company's Term A loan facility of \$74,000. In addition, net cash used in financing activities includes purchases of treasury stock of \$48,227 under our 2016 Stock Repurchase Program, premium payments and fees for the Tender Offer of \$39,188, taxes paid in lieu of shares issued for equity-based compensation of \$10,834 and distributions to a noncontrolling member of \$8,977.

For the six months ended June 30, 2015, financing activities consisted of the repayment of the \$40,000 promissory note issued in connection with the acquisition of New Video, principal payments on long-term debt of \$37,000, taxes paid in lieu of shares issued for equity-based compensation of \$14,320, distributions to a noncontrolling member of \$3,154 and principal payments on capital leases of \$1,449, partially offset by the excess tax benefits from share-based compensation arrangements of \$4,038, contributions from a noncontrolling member of \$1,373 and proceeds from stock option exercises of \$1,031.

Debt Financing Agreements

5.00% Notes due 2024

As noted above, on March 30, 2016, we issued the 5.00% Notes. We used the net proceeds of this offering to fund the Tender Offer of 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.

7.75% Notes due 2021 Tender Offer

We used a portion of the net proceeds of the 5.00% Notes for the Tender Offer for the 7.75% notes due at a price of \$1,058.57 per \$1,000 principal amounts 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. Approximately \$45,551 of the 7.75% Notes remain outstanding as of June 30, 2016.

The Company accepted for payment all 7.75% Notes validly tendered prior to the Expiration Date pursuant to the Tender Offer. Such tendering holders received the purchase price in the amount of \$1,058.57 for each \$1,000 principal amount of 7.75% Notes tendered, plus accrued and unpaid interest to, but not including, the date hereof.

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.

Contractual Obligations

As of June 30, 2016, our contractual obligations not reflected on the 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.

Critical Accounting Policies and Estimates

We describe our significant accounting policies in Note 2 to the Company's Consolidated Financial Statements included in our 2015 Form 10-K. We discuss our critical accounting estimates in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the same 2015 Form 10-K. There have been no significant changes in our significant accounting policies or critical accounting estimates since December 31, 2015.

Recently Issued Accounting Pronouncements

See Note 1 to the accompanying Condensed Consolidated Financial Statements of the Company for a discussion of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

All dollar amounts included in the following discussion under this Item 3 are presented in thousands.

Fair Value of Debt

Based on the level of interest rates prevailing at June 30, 2016, the fair value of our fixed rate debt of \$1,632,873 was more than its carrying value of \$1,617,519 by \$15,354. The fair value of these financial instruments is estimated based on reference to quoted market prices for these or comparable securities. A hypothetical 100 basis point decrease in interest rates prevailing at June 30, 2016 would increase the estimated fair value of our fixed rate debt by approximately \$98,483 to approximately \$1,731,356.

Managing our Interest Rate Risk

To manage interest rate risk, we enter into interest rate swap contracts from time to time to adjust the amount of total debt that is subject to variable interest rates. Such contracts effectively fix the borrowing rates on floating rate debt to limit the exposure against the risk of rising rates. We do not enter into interest rate swap contracts for speculative or trading purposes and we only enter into interest rate swap contracts with financial institutions that we believe are creditworthy counterparties. We monitor the financial institutions that are counterparties to our interest rate swap contracts and to the extent possible diversify our swap contracts among various counterparties to mitigate exposure to any single financial institution.

As of June 30, 2016, we had \$2,933,582 of debt outstanding (excluding capital leases), of which \$1,316,063 is outstanding under the credit facility and is subject to variable interest rates (before consideration of the interest rate swaps contracts described below).

As of June 30, 2016, we had interest rate swap contracts outstanding with notional amounts aggregating \$400,000. The aggregate fair value of interest rate swap contracts at June 30, 2016 was a net liability of \$2,513. As a result of these transactions, the interest rate paid on approximately 69% of the Company's debt (excluding capital leases) as of June 30, 2016 is effectively fixed (55% being fixed rate obligations and 14% effectively fixed through utilization of these interest rate swap contracts). Accumulated other comprehensive loss includes \$1,108 of cumulative unrealized losses, net of tax, on the portion of floating-to-fixed interest rate swap contracts designated as cash flow hedges. At June 30, 2016, our interest rate swap contracts designated as cash flow hedges were highly effective, in all material respects.

A hypothetical 100 basis point increase in interest rates prevailing at June 30, 2016 would not have a material impact on our annual interest expense.

Managing our Foreign Currency Exchange Rate Risk

We are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our subsidiaries' respective functional currencies (non-functional currency risk), such as affiliation agreements, programming contracts, certain trade receivables and accounts payable (including intercompany amounts) that are denominated in a currency other than the applicable functional currency. Changes in exchange rates with respect to amounts recorded in our consolidated balance sheets related to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the

transactions. Moreover, to the extent that our revenue, costs and expenses are denominated in currencies other than our respective functional currencies, we will experience fluctuations in our revenue, costs and expenses solely as a result of changes in foreign currency exchange rates. The Company recognized \$29,192 of foreign currency transaction losses, net for the six months ended June 30, 2016. Such amount is included in miscellaneous, net in the condensed consolidated statement of income.

As a result of our international expansion in recent years, we expect the exposure to foreign currency fluctuations will have a more significant impact on our financial position and results of operations.

To manage foreign currency exchange rate risk, we may enter into foreign currency contracts from time to time with financial institutions to limit our exposure to fluctuations in foreign currency exchange rates. We do not enter into foreign currency contracts for speculative or trading purposes.

We also are exposed to fluctuations of the U.S. dollar (our reporting currency) against the currencies of our operating subsidiaries when their respective financial statements are translated into U.S. dollars for inclusion in our condensed consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) as a separate component of equity. Any increase (decrease) in the value of the U.S. dollar against any foreign currency that is the functional currency of one of our operating subsidiaries will cause us to experience unrealized foreign currency translation losses (gains) with respect to amounts already invested in such foreign currencies. Accordingly, we may experience a negative impact on our comprehensive income (loss) and equity with respect to our holdings solely as a result of changes in foreign currency exchange rates.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation as of June 30, 2016, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

During the six months ended June 30, 2016, there were no changes in the Company's internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Since our 2015 Form 10-K, there have been no material developments in legal proceedings in which we are involved. See Note 10, Commitments and Contingencies to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Set forth below is information concerning acquisitions of AMC Networks Class A Common Stock by the Company during the three months ended June 30, 2016.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2016 to April 30, 2016	—	\$ —	—	\$500,000,000
May 1, 2016 to May 31, 2016	—	\$ —	—	\$500,000,000
June 1, 2016 to June 30, 2016	811,385	\$ 59.44	811,385	\$451,773,000
Total	811,385	\$ 59.44	811,385	\$451,773,000

Item 6. Exhibits.

(a) Index to Exhibits.

- 10.1 Shared Executive Space Cost Sharing Arrangement
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- 101.INS XBRL Instance Document.
- 101.SCHXBRL Taxonomy Extension Schema Document.
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.LABXBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

AMC Networks Inc.

Date: August 4, 2016 By: /s/ Sean S. Sullivan
Sean S. Sullivan
Executive Vice President and Chief Financial Officer