AMC Networks Inc.
Form 10-Q
November 01, 2018

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

FORM 10-Q

þQuarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018
or
¨Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 1-35106

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

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

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

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

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
The number of shares of common stock outstanding as of October 26, 2018:
Class A Common Stock par value $0.01 per share 45,045,190
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
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets	1
Condensed Consolidated Statements of Income	2
Condensed Consolidated Statements of Comprehensive Income	3
Condensed Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3. Quantitative and Qualitative Disclosures About Market Risk	52
Item 4. Controls and Procedures	53
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	54
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	54
Item 5. Other Information	54
Item 6. Exhibits	55
SIGNATURES	56

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

	September 30, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$564,717	$558,783
Accounts receivable, trade (including amounts due from related parties, net, less allowance for doubtful accounts of $12,949 and $9,691)	777,950	775,891
Current portion of program rights, net	470,254	453,450
Prepaid expenses and other current assets	118,569	91,726
Total current assets	1,931,490	1,879,850
Property and equipment, net of accumulated depreciation of $290,229 and $259,919	225,468	183,514
Program rights, net	1,152,451	1,319,279
Deferred carriage fees, net	20,191	29,924
Intangible assets, net	469,757	457,242
Goodwill	705,382	695,158
Deferred tax asset, net	21,677	20,081
Other assets	635,541	447,937
Total assets	$5,161,957	$5,032,985
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$97,508	$102,197
Accrued liabilities	240,892	263,076
Current portion of program rights obligations	356,157	327,549
Deferred revenue	61,289	46,433
Current portion of long-term debt	9,375	—
Current portion of capital lease obligations	4,649	4,847
Total current liabilities	769,870	744,102
Program rights obligations	397,592	534,980
Long-term debt	3,095,628	3,099,257
Capital lease obligations	22,422	26,277
Deferred tax liability, net	154,110	109,698
Other liabilities	178,160	136,122
Total liabilities	4,617,782	4,650,436
Commitments and contingencies		
Redeemable noncontrolling interests	252,536	218,604
Stockholders' equity:		
Class A Common Stock, $0.01 par value, 360,000 shares authorized, 63,235 and 62,721 shares issued and 45,025 and 49,601 shares outstanding, respectively	632	627
Class B Common Stock, $0.01 par value, 90,000 shares authorized, 11,484 shares issued and outstanding	115	115
Preferred stock, $0.01 par value, 45,000 shares authorized; none issued	—	—
Paid-in capital	232,882	191,303
Accumulated earnings	1,157,063	766,725

Treasury stock, at cost (18,210 and 13,120 shares Class A Common Stock, respectively)	(976,840)	(709,440)
Accumulated other comprehensive loss	(150,846)	(114,386)
Total AMC Networks stockholders' equity	263,006	134,944
Non-redeemable noncontrolling interests	28,633	29,001
Total stockholders' equity	291,639	163,945
Total liabilities and stockholders' equity	$5,161,957	$5,032,985

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues, net (including revenues, net from related parties of $1,605, $1,515, $4,779 and $4,594, respectively)	$696,875	$648,023	$2,199,083	$2,078,757
Operating expenses:				
Technical and operating (excluding depreciation and amortization)	346,398	322,743	1,043,572	956,200
Selling, general and administrative (including charges from related parties of $232, $216, $900 and $1,205, respectively)	156,242	138,688	494,067	464,670
Depreciation and amortization	22,011	20,938	64,034	65,037
Impairment and related charges	4,486	11,036	4,486	28,148
Restructuring expense	3,139	1,264	3,139	3,887
Total operating expenses	532,276	494,669	1,609,298	1,517,942
Operating income	164,599	153,354	589,785	560,815
Other income (expense):				
Interest expense	(38,137)	(35,392)	(115,607)	(96,609)
Interest income	5,102	3,582	15,453	10,841
Loss on extinguishment of debt	—	(3,004)	—	(3,004)
Miscellaneous, net	28,762	12,420	30,989	42,448
Total other income (expense)	(4,273)	(22,394)	(69,165)	(46,324)
Income from operations before income taxes	160,326	130,960	520,620	514,491
Income tax expense	(43,666)	(40,124)	(133,092)	(173,399)
Net income including noncontrolling interests	116,660	90,836	387,528	341,092
Net income attributable to noncontrolling interests	(5,403)	(3,834)	(13,220)	(15,276)
Net income attributable to AMC Networks' stockholders	$111,257	$87,002	$374,308	$325,816
Net income per share attributable to AMC Networks' stockholders:				
Basic	$1.96	$1.37	$6.40	$4.94
Diluted	$1.93	$1.35	$6.31	$4.89
Weighted average common shares:				
Basic	56,875	63,683	58,519	65,960
Diluted	57,779	64,447	59,281	66,651

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income including noncontrolling interests	$116,660	$90,836	$387,528	$341,092
Other comprehensive income (loss):				
Foreign currency translation adjustment	(6,094)	15,791	(32,679)	63,475
Unrealized loss on interest rate swaps	—	(174)	—	(35)
Unrealized gain on available for sale securities	—	6,596	—	9,534
Other comprehensive income, before income taxes	(6,094)	22,213	(32,679)	72,974
Income tax expense	—	(2,363)	—	(3,495)
Other comprehensive income, net of income taxes	(6,094)	19,850	(32,679)	69,479
Comprehensive income	110,566	110,686	354,849	410,571
Comprehensive income attributable to noncontrolling interests	(5,218)	(4,633)	(11,954)	(17,997)
Comprehensive income attributable to AMC Networks' stockholders	$105,348	$106,053	$342,895	$392,574

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income including noncontrolling interests	$387,528	$341,092
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	64,034	65,037
Impairment and related charges	4,486	17,112
Share-based compensation expense related to equity classified awards	52,006	41,412
Amortization and write-off of program rights	684,289	667,060
Amortization of deferred carriage fees	13,107	13,204
Unrealized foreign currency transaction gain	(712)	(14,658)
Unrealized gain on derivative contracts, net	(40,848)	(27,598)
Amortization of deferred financing costs and discounts on indebtedness	5,746	6,530
Loss on extinguishment of debt	—	3,004
Bad debt expense	6,155	3,638
Deferred income taxes	39,404	9,325
Other, net	(887)	(4,617)
Changes in assets and liabilities:		
Accounts receivable, trade (including amounts due from related parties, net)	(2,333)	(13,316)
Prepaid expenses and other assets	(27,769)	(69,463)
Program rights and obligations, net	(671,108)	(720,243)
Income taxes payable	(5,005)	(24,538)
Deferred revenue	3,531	(6,529)
Deferred carriage fees, net	(3,200)	(4,246)
Accounts payable, accrued liabilities and other liabilities	(36,612)	(8,633)
Net cash provided by operating activities	471,812	273,573
Cash flows from investing activities:		
Capital expenditures	(60,774)	(61,794)
Return of capital from investees	523	—
Investment in and loans to investees	(90,080)	(43,000)
Payments for acquisition of a business, net of cash acquired	(35,554)	—
Net cash used in investing activities	(185,885)	(104,794)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	—	1,536,000
Principal payments on long-term debt	—	(1,257,965)
Payments for financing costs	—	(10,405)
Deemed repurchases of restricted stock units	(15,734)	(13,373)
Purchase of treasury stock	(267,400)	(347,334)
Proceeds from stock option exercises	4,317	—
Principal payments on capital lease obligations	(3,878)	(3,428)
Distributions to noncontrolling interests	(9,333)	(16,110)
Net cash used in financing activities	(292,028)	(112,615)
Net (decrease) increase in cash and cash equivalents from operations	(6,101)	56,164
Effect of exchange rate changes on cash and cash equivalents	12,035	14,736
Cash and cash equivalents at beginning of period	558,783	481,389

Cash and cash equivalents at end of period	$564,717	$552,289

See accompanying notes to condensed consolidated financial statements.

4

AMC NETWORKS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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: Includes activities of our five national programming networks, AMC Studios operations and AMC Broadcasting & Technology. Our national programming networks are AMC, WE tv, BBC AMERICA, IFC and SundanceTV in the U.S.; and AMC and IFC in Canada. Our AMC Studios operations produces original programming for our programming networks and also licenses such program rights worldwide. AMC Networks Broadcasting & Technology is our technical services business, which primarily services most of the national programming networks.
- 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; Levity Entertainment Group ("Levity") (acquired April 20, 2018), our production services and comedy venues company; and our subscription streaming services, Sundance Now and Shudder. AMCNI – DMC, the broadcast solutions unit of certain networks of AMCNI and third-party networks is included through the date sold, July 12, 2017.

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, 2017 contained in the Company's Annual Report on Form 10-K ("2017 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, 2018.

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 limited, or no, future programming usefulness, a write-off of the unamortized cost is included in technical and operating expense. Program rights write-offs were $11.4 million and $8.0 million for the three months ended September 30, 2018 and September 30, 2017, respectively. Program rights write-offs were $20.6 million and $9.7 million for the nine months ended September 30, 2018 and September 30, 2017, 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 derivative assets and liabilities, certain stock compensation awards, the useful lives and methodologies used to amortize and assess recoverability of program rights, the estimated useful lives of intangible assets, valuation and recoverability of goodwill and intangible assets and income tax assets and liabilities.

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

Financial Assets and Liabilities

The Company adopted Accounting Standards Update ("ASU") No. 2016-01 Financial Instruments-Recognition and Measurement of Financial Assets and Financial Liabilities on January 1, 2018, which requires that investments in equity securities (excluding equity method investments) be measured at fair value with changes in fair value recognized in earnings. Under prior accounting guidance, changes in fair value of available-for-sale equity securities were recorded in other comprehensive income. The adoption did not have a significant impact to these condensed consolidated financial statements.

Adoption of New Revenue Recognition Standard

The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) on January 1, 2018, using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results as of and for the three and nine month periods ended September 30, 2018 reflect the application of the new standard, while the reported results for 2017 have not been adjusted to reflect the new standard and were prepared under prior revenue recognition accounting guidance.

The adoption of the new standard did not result in significant changes in the way the Company records distribution and advertising revenues. However, as a result of applying the new standard, there are certain components of the Company’s distribution revenues where the new standard generally results in earlier recognition of revenue compared to its historical policies due to: (i) the requirement to estimate and recognize variable consideration prior to such amounts becoming fixed and determinable, (ii) recognition of royalties in the period of usage, and (iii) recognition of certain arrangements with minimum guarantees on a time-based (straight-line) basis. See Note 2 for more information.

As a result of adopting Topic 606, the Company recorded an increase to opening retained earnings of approximately $12.8 million, net of tax, as of January 1, 2018.

The following table provides changes to the opening balances of current assets, total assets, current liabilities and total liabilities resulting from the adoption of the new guidance.

(In thousands)	December 31, 2017	Impact of Adoption	January 1, 2018
Current assets	$ 1,879,850	$ 3,658	$ 1,883,508
Total assets	5,032,985	19,899	5,052,884
Current liabilities	744,102	835	744,937
Total liabilities	4,650,436	7,115	4,657,551

The amount by which each financial statement line item has been affected in the current reporting period by the application of Topic 606 compared to historical policies is not material, therefore, comparative disclosures have been omitted.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 requires lessees to record 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 adoption will include updates provided under ASU 2018-10, Codification Improvements to Topic 842, Leases, as well as ASU 2018-11, Leases (Topic 842), Targeted Improvements. The Company is currently determining its implementation approach and assessing the impact the adoption will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820). ASU 2018-13 changes the disclosure requirements for fair value measurements and is effective for the first quarter of 2020, with early adoption permitted. ASU 2018-13 changes disclosure requirements related to transfers between Level I and II assets, as well as several aspects surrounding the valuation process and unrealized gains and losses related to Level III assets. The Company is currently evaluating the impact the adoption of the modified disclosure requirements will have on its consolidated financial statements.

Note 2. Revenue Recognition

Revenue is recognized when, or as, performance obligations under the terms of a contract are satisfied, which generally occurs when, or as, control of the promised products or services is transferred to customers. Revenue is measured as the amount

of consideration the Company expects to receive in exchange for transferring products or services to a customer ("transaction price"). To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing the most likely amount to which the Company expects to be entitled. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information that is reasonably available. Amounts collected on behalf of others (including taxes), where the Company is an agent, are excluded from revenue.

When determining the transaction price of a contract, an adjustment is made if payment from a customer occurs either significantly before or significantly after performance, resulting in a significant financing component. Applying a practical expedient in the new standard, the Company does not assess whether a significant financing component exists if the period between when the Company performs its obligations under the contract and when the customer pays is one year or less.

Contracts with customers may contain multiple performance obligations. For such arrangements, the transaction price is allocated to each performance obligation based on the estimated relative standalone selling prices of the promised products or services underlying each performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price considering available information such as market conditions and internal pricing guidelines related to the performance obligations.

Contracts may be modified to account for changes in contract specifications and requirements. Contract modifications exist when the modification either creates new or changes existing enforceable rights and obligations. The effect of a contract modification on the transaction price and measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

The Company primarily earns revenue from the distribution of its programming services, including licensing of its programming and other content, and advertising. The Company's revenue recognition policies that summarize the nature, amount, timing and uncertainty associated with each major source of revenue from contracts with customers is described below.

Distribution

The majority of the Company's distribution revenues relate to sales-based and usage-based royalties which are recognized on the later of (i) when the subsequent sale or usage occurs and (ii) when the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied or partially satisfied. Occasionally, the Company incurs costs to obtain a distribution contract and these costs are amortized over the period of the related distribution contract as a reduction of revenue.

Subscription fee revenue: Subscription fees are earned from cable and other multichannel video programming distribution platforms, including direct broadcast satellite ("DBS"), platforms operated by telecommunications providers and virtual multichannel video programming distributors (collectively "distributors"), for the rights to use the Company's network programming under multi-year contracts, commonly referred to as "affiliation agreements." The Company's performance obligation under affiliation agreements is a license of functional intellectual property that is satisfied as the Company provides its programming over the term of the agreement. The transaction price is represented by subscription fees that are generally based upon (i) contractual rates applied to the number of the distributor's subscribers who receive or can receive our programming ("rate-per-subscriber"), or (ii) fixed contractual monthly fees ("fixed fee").

For rate-per-subscriber agreements, the Company applies the sales-based or usage-based royalty guidance, and accordingly, recognizes revenue in the period of the distributor's usage, based on the subscription fee earned during the period.

Fixed fee affiliation agreements are generally billed in monthly installments, and such amounts may vary over the term of the contract. In cases where the invoice amount corresponds directly with the value to the affiliate of the performance to-date, the Company recognizes revenue based on the invoiced amount. In cases where changes in fees during the contract term do not correspond directly to the value of the performance to-date (for example, if the fees vary over the contract term due to a significant financing or credit risk component), the Company recognizes the total amount of fixed transaction price over the contract period using a time-based (e.g., straight-line) measure of progress. Certain of the Company's fixed fee affiliation agreements contain guaranteed minimum fees that are recoupable during the term of the agreement, and variable fees based on rates-per-subscriber after the guaranteed minimum is recouped. The Company recognizes revenue for the fixed consideration over the minimum guarantee period and recognizes variable fees only when cumulative consideration exceeds the minimum guarantee.

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

Subscription revenue from the Company's direct-to-consumer subscription streaming services is recognized as the streaming service is provided to customers.

Content licensing revenue: The Company licenses its original programming content to certain distributors under subscription video on-demand ("SVOD"), pay-per-view ("PPV") and electronic sell-through ("EST") arrangements. Under these arrangements, our performance obligation is a license to functional intellectual property that provides the distributor the right to use our programming as it exists at a point in time. The satisfaction of the Company's performance obligation, and related recognition of revenue, occurs when the content is delivered to the licensee and the license period has begun.The Company's performance obligation in a content license arrangement pertains to each distinct unit of content, which is generally each season of an episodic series. The Company typically delivers all episodes of a season for a series concurrently and the licensee's rights to exploit the content is the same across all of the episodes.

For SVOD arrangements, the Company adjusts the transaction price for the time value of money in cases where license fees are paid over several years. SVOD licensing revenue is recognized at the later of the beginning of the license period, or when we provide the programming to the distributor. The Company recognizes a contract asset for the difference between the revenue recognized and the amount we are permitted to invoice.

For PPV and EST license fee arrangements, the Company applies the sales-based or usage-based royalty guidance and recognizes revenue in the period of end-customer purchases, based on the fees earned during the period.

The Company also licenses trademarks, logos, brands, derivative character copyrights, etc. under multi-year arrangements. Under these arrangements, the Company may receive a non-refundable minimum guarantee that is recoupable against a volume-based royalty throughout the term of the agreement. The Company adjusts the transaction price for the time value of money in cases where license fees are paid over several years. The Company recognizes revenue for the minimum guarantee on a straight-line basis over the term of the agreement, and recognizes variable fees only when cumulative consideration exceeds the minimum guarantee.

For production services arrangements, the Company recognizes revenue based on the percentage of cost incurred to total estimated cost of the contract.

The Company's payment terms vary by the type and location of customer. Generally, payment terms are 30-45 days after revenue is earned. In certain limited circumstances, agreements with customers have payment terms in excess of one-year after satisfaction of the performance obligation.

Advertising

The Company generates revenues from the sale of advertising time on its networks. In such arrangements, the Company generally promises to air a certain number of commercials (spots) and to generate guaranteed viewer ratings for an audience demographic (impressions) over a period that generally does not exceed one year. The promise to deliver impressions by airing spots represents the Company's performance obligation. Advertising revenues are recognized as commercials are aired, to the extent that guaranteed viewer ratings are achieved. A contract liability is recognized to the extent the guaranteed viewer ratings are not met, and is subsequently recognized as revenue either when the Company provides the required additional advertising or the guarantee obligation contractually expires, which is generally within one year. Generally, payment terms are 30 days after revenue is earned.

Transaction Price Allocated to Future Performance Obligations

The new standard requires disclosure of the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of September 30, 2018. However, the guidance does not apply to sales-based or usage-based royalty arrangements and also provides certain practical expedients that allow companies to omit this disclosure requirement for (i) contracts with an original expected length of one year or less, (ii) contracts for which revenue is recognized at the amount to which the Company has the right to invoice for services performed and (iii) variable consideration related to a wholly unsatisfied performance obligation.

As of September 30, 2018, other than contracts for which the Company has applied the practical expedients, the aggregate amount of transaction price allocated to remaining performance obligations was not material to our consolidated revenues.

Contract Balances from Contracts with Customers
The timing of revenue recognition, billings and cash collections results in billed receivables, contract assets and contract liabilities in the condensed consolidated balance sheet.

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

For certain types of contracts with customers, the Company may recognize revenue in advance of the contractual right to invoice the customer, resulting in an amount recorded to contract assets. Once the Company has an unconditional right to consideration under a contract, the contract assets are reclassified to account receivables.

When consideration is received, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue when, or as, control of the products or services is transferred to the customer and all revenue recognition criteria have been met. The primary source of the Company’s contract liabilities relates to advertising sales arrangements and content licensing arrangements. As noted above, the Company’s programming networks generally guarantee viewer ratings for its programming. If these guaranteed viewer ratings are not met, the Company is required to provide additional advertising units to the advertiser. For these types of arrangements, a portion of the related revenue is deferred if the guaranteed ratings are not met, representing a contract liability, and is subsequently recognized either when the Company provides the required additional advertising time or the guarantee obligation contractually expires. In certain content licensing arrangements, payment may be received in advance of a distributor's ability to exhibit a program. Such payments are recorded as a contract liability and subsequently recognized when the program becomes available for exhibition.

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers.

(In thousands)	September 30, 2018	December 31, 2017 [(a)]
Balances from contracts with customers:		
Accounts receivable (including long-term, included in Other assets)	$ 986,500	$ 926,089
Contract assets, short-term (included in Other current assets)	13,631	—
Contract assets, long-term (included in Other assets)	5,351	—
Contract liabilities (Deferred revenue)	61,289	46,433

(a) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

Revenue recognized for the nine months ended September 30, 2018 relating to the contract liability at December 31, 2017 was $38.7 million.

Note 3. Net Income per Share

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic weighted average common shares outstanding	56,875	63,683	58,519	65,960
Effect of dilution:				
Stock options	31	4	12	1
Restricted stock units	873	760	750	690
Diluted weighted average common shares outstanding	57,779	64,447	59,281	66,651

Approximately 1.5 million and 1.0 million restricted stock units outstanding as of September 30, 2018 and September 30, 2017, respectively, have been excluded from diluted weighted average common shares outstanding since a performance condition for these awards was not met in each of the respective periods. As of September 30, 2017, there were approximately 0.4 million stock options that would have been anti-dilutive to the diluted weighted average common shares outstanding.

Stock Repurchase Program

On March 7, 2016, the Company announced that its Board of Directors authorized a program to repurchase up to $500 million of its outstanding shares of common stock (the "Stock Repurchase Program"). On June 6, 2017, the Board of Directors approved an increase of $500 million and on June 13, 2018, the Board of Directors approved an additional increase of $500 million in the amount authorized for a total of $1.5 billion authorized under the Stock Repurchase Program. The Stock Repurchase Program has no pre-established closing date and may be suspended or discontinued at any time. For the nine months ended September 30, 2018, the Company repurchased 5.1 million shares of its Class A Common Stock at an average purchase price of approximately

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$52.53 per share. As of September 30, 2018, the Company has $575.2 million available for repurchase under the Stock Repurchase Program.

Note 4. Restructuring

Restructuring expense of $3.1 million for the three and nine months ended September 30, 2018, respectively, due to severance charges incurred related to a management initiative which commenced in the third quarter of 2018, resulting in employee terminations at our corporate headquarters and AMCNI. We expect additional charges in the fourth quarter of 2018. All amounts remain outstanding at September 30, 2018.

Restructuring expense of $1.3 million and $3.9 million for the three and nine months ended September 30, 2017, respectively, related to corporate headquarter severance charges in connection with the restructuring initiative launched during the second half of 2016 and charges incurred at AMCNI related to costs associated with the termination of distribution in certain territories.

Note 5. Business Combinations

Levity Entertainment Group LLC

On April 20, 2018, the Company acquired a 57% controlling interest in Levity Entertainment Group LLC ("Levity"), a production services and comedy venues company, for a total purchase price of $48.4 million. The purchase price consisted of $35.0 million payment for the outstanding Class B Common Units of Levity and the acquisition of Series L Preferred Units for $13.4 million. The Company views this acquisition as complementary to its business and programming content strategy.

The Company accounted for the acquisition of Levity using the acquisition method of accounting. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their estimated respective fair values as of the closing date of the acquisition. Goodwill recognized in connection with this transaction represents primarily the potential economic benefits that the Company believes may arise from the acquisition. The goodwill associated with the Levity acquisition is generally deductible for tax purposes.

The acquisition accounting for Levity as reflected in these condensed consolidated financial statements is preliminary and based on current estimates and currently available information, and is subject to revision based on final determinations of fair value and final allocations of purchase price to the identifiable assets and liabilities acquired. The primary estimated fair values that are not yet finalized relate to the valuation of property and equipment, intangible assets, other assets, current and noncurrent liabilities, and redeemable noncontrolling interests.

The following table summarizes the preliminary valuation of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands).

Cash paid for controlling interest	$48,350
Redeemable noncontrolling interest	30,573
	$78,923
Allocation to net assets acquired:	
Cash	13,471
Other current assets	17,251
Property and equipment	20,663
Intangible assets	46,413
Other noncurrent assets	3,306
Current liabilities	(23,647)
Noncurrent liabilities	(21,394)
Noncontrolling interests acquired	(1,354)
Fair value of net assets acquired	54,709
Goodwill	24,214
	$78,923

Unaudited Pro forma financial information

The following unaudited pro forma financial information is based on (i) the historical financial statements of AMC Networks and (ii) the historical financial statements of Levity and is intended to provide information about how the acquisition may have

10

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

affected the Company's historical consolidated financial statements if it had occurred as of January 1, 2017. The unaudited pro forma information has been prepared for comparative purposes only and includes adjustments for estimated additional depreciation and amortization expense as a result of tangible and identifiable intangible assets acquired. The pro forma information is not necessarily indicative of the results of operations that would have been achieved had the acquisition taken place on the date indicated or that may result in the future.

(In thousands)	Pro Forma Financial Information for the Three months ended September 30, 2017	Nine months ended September 30, 2017
Revenues, net	$689,550	$2,181,295
Income from operations, net of income taxes	$87,728	$326,854
Net income per share, basic	$1.38	$4.96
Net income per share, diluted	$1.36	$4.90

Revenues, net and operating income attributable to Levity of $68.1 million and $2.2 million, respectively are included in the condensed consolidated statement of income from the acquisition date, April 20, 2018, to September 30, 2018. For the nine months ended September 30, 2018, the Company incurred acquisition related costs of $1.3 million which are included in selling, general and administrative expense in the condensed consolidated statement of income.

Note 6. Investments

Equity Method Investments

The Company holds several investments and loans in non-consolidated entities. Equity method investments were $103.2 million at September 30, 2018 and $61.3 million at December 31, 2017. In September 2018, the Company recognized an impairment charge of $3.5 million related to the partial write-down of an equity method investment.

RLJE

On January 5, 2018, a subsidiary of the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with JH Partners Evergreen Fund, L.P., Forrestal, LLC, JH Investment Partners III, L.P., and JH Investment Partners GP Fund III, LLC (collectively, "JH Partners"). Under the terms of the Stock Purchase Agreement, the Company purchased (i) 678,095 shares of common stock of RLJ Entertainment, Inc., ("RLJE"), (ii) 747,945 warrants to purchase shares of common stock of RLJE with an adjusted exercise price of $1.50 per share issued, and (iii) 7,479.432 shares of Series D-1 preferred stock of RLJE. The total purchase price was $17.2 million.

On July 29, 2018, the Company, Digital Entertainment Holdings LLC, a wholly-owned subsidiary of the Company ("DEH"), and River Merger Sub Inc., a wholly-owned subsidiary of DEH ("Merger Sub"), and RLJE entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which the Company has agreed to acquire all of the outstanding shares of RLJE not currently owned by the Company or entities affiliated with Robert L. Johnson. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger Sub will merge with and into RLJE, with RLJE continuing as the surviving corporation and a subsidiary of DEH (the "Merger").

Pursuant to the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each share of RLJE’s common stock, par value $0.001 per share (the "RLJE Common Stock"), issued and outstanding immediately prior to the Effective Time, except for certain excluded shares (which include shares beneficially owned by the Company, DEH and their affiliates), will be automatically converted into the right to receive $6.25 in cash without interest (the "Per Share Merger Consideration"). The Merger Agreement also includes provisions for the payment at the Effective Time of consideration, calculated based on the amount of the Per Share Merger Consideration, to the holders of outstanding RLJE preferred stock who elect to receive such cash consideration and holders of warrants to purchase RLJE Common Stock, except for certain excluded shares (which include shares beneficially owned by the Company,

DEH and their affiliates). Such holders of outstanding RLJE preferred stock will be entitled to receive $7.86 per underlying share of RLJE Common Stock, in accordance with the terms of the RLJE preferred stock, if they elect cash as their consideration. Such holders of outstanding warrants will be paid the difference between $6.25 and the per share exercise price of their warrants.

RLJE - Subsequent Events

On October 31, 2018, the Company completed the acquisition of RLJE pursuant to the terms of the Merger Agreement. At the Effective Time, Merger Sub merged with and into RLJE, with RLJE continuing as the surviving corporation and a wholly owned subsidiary of DEH. The Merger Agreement was approved by the common stockholders of RLJE at a special meeting held

earlier on October 31, 2018. The total cash purchase price paid by the Company to acquire the RLJE securities not previously owned by the Company or entities affiliated with Mr. Johnson is approximately $58.9 million (assuming all preferred stock holders elect cash as their consideration).

Following the Effective Time, DEH was renamed “RLJ Entertainment Holdings LLC” (“RLJE Holdings”). RLJE Holdings is a majority owned subsidiary of the Company, with a minority stake of 17% held by affiliates of Mr. Johnson. The Company has entered into arrangements with Mr. Johnson related to the governance of RLJE Holdings and RLJE following the Merger.

DEH and RLJE were parties to a Credit and Guaranty Agreement entered into on October 14, 2016 pursuant to which DEH provided term loans to RLJE (the “RLJE Term Loans”). In connection with the RLJE Credit and Guaranty Agreement, DEH received Class A, Class B and Class C warrants to purchase at least 20 million shares of RLJE’s common stock, at a price of $3.00 per share (the “RLJE Warrants”).

On October 1, 2018, DEH fully exercised the remainder of its Class A warrant at $3.00 per share and was issued 3.3 million shares of RLJE Common Stock in exchange for the cancellation of $10.0 million of Tranche B of the RLJE Term Loans. On October 1, 2018, DEH also partially exercised its Class B warrant at $3.00 per share and was issued 3.4 million shares of RLJE Common Stock in exchange for the cancellation of $10.1 million of Tranche B of the RLJE Term Loans. As a result of the warrant exercises, the Company obtained a 51% controlling interest in RLJE.

On October 30, 2018, DEH fully exercised the remainder of its Class B warrant at $3.00 per share and was issued 6.6 million shares of RLJE Common Stock in exchange for the cancellation of $19.9 million of Tranche B of the RLJE Term Loans. On October 30, 2018, DEH also fully exercised its Class C warrant at $3.00 per share and was issued 5.0 million shares of RLJE Common Stock in exchange for the cancellation of $15.0 million of Tranche B of the RLJE Term Loans. As a result of the warrant exercises, the full amount of Tranche B of the RLJE Term Loans was cancelled.

In connection with the acquisition of RLJE, on October 31, 2018, RLJE Holdings and RLJE amended and restated the existing Credit and Guaranty Agreement. Pursuant to the amended and restated Credit and Guaranty Agreement, the aggregate principal amount of the RLJE Term Loans were increased by $5 million (for a total of $28 million in outstanding RLJE Term Loans as of October 31, 2018) and the maturity date of the RLJE Term Loans was extended until October 31, 2021. In addition, the amended and restated Credit and Guaranty Agreement permits RLJE to borrow up to an additional $12 million in RLJE Term Loans at any point until October 31, 2021. Interest on the RLJE Term Loans will be payable to RLJE Holdings in cash at a rate of 7.00% per annum.

Marketable Equity Securities

The Company classifies publicly traded investments with readily determinable fair values that are not accounted for under the equity method as marketable equity securities. Marketable equity securities are recorded at cost and adjusted to fair value at each reporting period. The changes in fair value between measurement dates are recorded in realized and unrealized gains (losses) on equity securities, included in Miscellaneous, net in the condensed consolidated statement of income.

Investments in marketable equity securities were $5.3 million at September 30, 2018 and $10.7 million at December 31, 2017 and are included in Other assets in the condensed consolidated balance sheet.

Non-marketable Equity Securities

The Company classifies investments without readily determinable fair values that are not accounted for under the equity method as non-marketable equity securities. The accounting guidance requires non-marketable equity securities to be recorded at cost and adjusted to fair value at each reporting period. However, the guidance allows for a measurement alternative, which is to record the investments at cost, less impairment, if any, and subsequently adjust for observable price changes of identical or similar investments of the same issuer. The Company applies this measurement alternative to its non-marketable equity securities. When an observable event occurs, the Company estimates the fair values of its non-marketable equity securities based on Level 2 inputs that are derived from observable price changes of similar securities adjusted for insignificant differences in rights and obligations. The changes in value are recorded in realized and unrealized gains (losses) on equity securities, included in Miscellaneous,

net in the condensed consolidated statement of income.
On March 5, 2018, the Company made an investment in fuboTV Inc. of $25.0 million, and on April 6, 2018, the Company provided a senior secured term loan to fuboTV Inc. of $25.0 million with a maturity date of April 6, 2023.
In June 2018, the Company recognized an impairment charge of $10.0 million related to the partial write-down of certain non-marketable equity securities.
Investments in non-marketable equity securities were $71.8 million at September 30, 2018 and $46.8 million at December 31, 2017 and are included in Other assets in the condensed consolidated balance sheet.

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

Note 7. Goodwill and Other Intangible Assets

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

(In thousands)	National Networks	International and Other	Total
December 31, 2017	$239,759	$455,399	$695,158
Additions	—	24,214	24,214
Amortization of "second component" goodwill	(984)	—	(984)
Foreign currency translation	—	(13,006)	(13,006)
September 30, 2018	$238,775	$466,607	$705,382

The increase in the carrying amount of goodwill for the International and Other segment relates to the acquisition of Levity (see Note 5).

The reduction of $1.0 million 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 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:

	September 30, 2018			
(In thousands)	Gross	Accumulated Amortization	Net	Estimated Useful Lives
Amortizable intangible assets:				
Affiliate and customer relationships	$543,570	$(188,571)	$354,999	6 to 25 years
Advertiser relationships	46,282	(16,561)	29,721	11 years
Trade names	73,973	(16,344)	57,629	15 to 20 years
Other amortizable intangible assets	13,792	(6,284)	7,508	2 to 15 years
Total amortizable intangible assets	677,617	(227,760)	449,857	
Indefinite-lived intangible assets:				
Trademarks	19,900	—	19,900	
Total intangible assets	$697,517	$(227,760)	$469,757	

	December 31, 2017		
(In thousands)	Gross	Accumulated Amortization	Net
Amortizable intangible assets:			
Affiliate and customer relationships	$527,713	$(167,911)	$359,802
Advertiser relationships	46,282	(13,405)	32,877
Trade names	53,761	(14,420)	39,341
Other amortizable intangible assets	11,401	(6,079)	5,322
Total amortizable intangible assets	639,157	(201,815)	437,342
Indefinite-lived intangible assets:			
Trademarks	19,900	—	19,900
Total intangible assets	$659,057	$(201,815)	$457,242

The increase in amortizable intangible assets is a result of the acquisition of Levity (see Note 5).

Aggregate amortization expense for amortizable intangible assets for the nine months ended September 30, 2018 and 2017 was $29.1 million and $28.5 million, respectively. Estimated aggregate amortization expense for intangible assets subject to

13

amortization for each of the following five years is:

(In thousands)	
Years Ending December 31,	
2018	$38,556
2019	39,389
2020	39,386
2021	39,028
2022	39,025

Note 8. Accrued Liabilities

Accrued liabilities consist of the following:

(In thousands)	September 30, 2018	December 31, 2017
Interest	$ 40,048	$ 30,262
Employee related costs	84,200	117,850
Income taxes payable	13,799	19,558
Other accrued expenses	102,845	95,406
Total accrued liabilities	$ 240,892	$ 263,076

Note 9. Long-term Debt

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

(In thousands)	September 30, 2018	December 31, 2017
Senior Secured Credit Facility: [(a)]		
Term Loan A Facility	$750,000	$750,000
Senior Notes:		
4.75% Notes due August 2025	800,000	800,000
5.00% Notes due April 2024	1,000,000	1,000,000
4.75% Notes due December 2022	600,000	600,000
Total long-term debt	3,150,000	3,150,000
Unamortized discount	(30,360)	(33,776)
Unamortized deferred financing costs	(14,637)	(16,967)
Long-term debt, net	3,105,003	3,099,257
Current portion of long-term debt	9,375	—
Noncurrent portion of long-term debt	$3,095,628	$3,099,257

(a) The Company's $500 million revolving credit facility remains undrawn at September 30, 2018. Total undrawn revolver commitments are available to be drawn for general corporate purposes of the Company.

As a result of the acquisition of Levity, the Company has two lines of credit totaling $5 million. The lines of credit bear interest at the greater of 3.5% or the prime rate and mature on August 25, 2019. There were no outstanding borrowings on either line of credit as of September 30, 2018.

Note 10. 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.

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

- 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 at September 30, 2018 and December 31, 2017:

(In thousands)	Level I	Level II	Level III	Total
At September 30, 2018:				
Assets				
Cash equivalents	$35,709	$—	$ —	$35,709
Marketable securities	5,339	—	—	5,339
Investments	48,987	—	—	48,987
Interest rate swap contracts	—	60	—	60
Foreign currency derivatives	—	3,188	—	3,188
Other derivatives	—	78,586	—	78,586
Liabilities				
Foreign currency derivatives	$—	$3,587	$ —	$3,587
At December 31, 2017:				
Assets				
Cash equivalents	$100,615	$—	$ —	$100,615
Marketable securities	10,709	—	—	10,709
Investments	9,948	—	—	9,948
Interest rate swap contracts	—	1,444	—	1,444
Foreign currency derivatives	—	3,801	—	3,801
Other derivatives	—	6,174	30,891	37,065
Liabilities				
Foreign currency derivatives	$—	$4,475	$ —	$4,475

The Company's cash equivalents and marketable securities 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, foreign currency derivatives and the embedded derivative for the interest on the RLJE Term Loans to be paid in shares of RLJE common stock (see Note 11) are classified within Level II of the fair value hierarchy as their fair values are determined based on a market approach valuation technique that uses readily observable market parameters and the consideration of counterparty risk.

On October 14, 2016, DEH and RLJE entered into a Credit and Guaranty Agreement pursuant to which DEH provided to RLJE the RLJE Term Loans and received the RLJE Warrants. Prior to July 29, 2018, the RLJE Warrants held by the Company were classified within Level III of the fair value hierarchy. The Company determined the value of the RLJE Warrants using a Black Scholes option pricing model. Inputs to the model were stock price volatility, contractual warrant terms (remaining life of the warrants), exercise price, risk-free interest rate, and the RLJE stock price. The equity volatility used was based on the equity volatility of RLJE with an adjustment for the changes in the capital structure of RLJE. In arriving at the concluded value of the warrants, a discount for the lack of marketability (DLOM) of 32% was applied. The DLOM, which is unobservable, is determined using the Finnerty Average-Strike Put Option Marketability Discount Model (Finnerty Model), which was applied with a security-specific volatility for the warrants. As a result of the Merger Agreement entered into on July 29, 2018 (see Note 6), the value of the RLJE Warrants was determined as the difference between the RLJE stock price and the per share exercise price of the RLJE Warrants. As a result of the change in valuation method, a value of $60.0 million was reclassified from Level III to Level II within the fair value hierarchy.

For the three and nine months ended September 30, 2018, the Company recorded a gain of $20.6 million and $30.2 million, respectively, related to the RLJE Warrants which is included in Miscellaneous, net in the condensed consolidated statement of

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

income. For the three and nine months ended September 30, 2017, the Company recorded a gain of $2.0 million and $19.1 million, respectively.

At September 30, 2018, the Company does not have any assets or liabilities measured at fair value on a recurring basis 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:

	September 30, 2018	
(In thousands)	Carrying Amount	Estimated Fair Value
Debt instruments:		
Term Loan A Facility	$739,061	$748,125
4.75% Notes due August 2025	786,026	768,000
5.00% Notes due April 2024	985,700	985,000
4.75% Notes due December 2022	594,216	598,500
	$3,105,003	$3,099,625

	December 31, 2017	
(In thousands)	Carrying Amount	Estimated Fair Value
Debt instruments:		
Term Loan A Facility	$737,140	$748,125
4.75% Notes due August 2025	784,757	793,000
5.00% Notes due April 2024	984,056	1,012,500
4.75% Notes due December 2022	593,304	612,750
	$3,099,257	$3,166,375

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 11. 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 September 30, 2018, the Company had interest rate swap contracts outstanding with notional amounts aggregating $200.0 million that are not designated as hedging instruments. The Company's outstanding interest rate swap contracts matured in October 2018.

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 or our subsidiaries' respective functional currencies (non-functional currency risk), such as affiliation agreements, programming

16

contracts, certain accounts payable and trade receivables (including intercompany amounts) that are denominated in a currency other than the applicable functional currency.

Other Derivatives

The RLJE Warrants held by the Company meet the definition of a derivative and are included in Other assets in the consolidated balance sheet. In addition, the interest on the RLJE Term Loans to be paid in shares of RLJE common stock is an embedded derivative. Both the RLJE Warrants and the embedded derivative for the future interest to be paid in shares of RLJE common stock are remeasured at the end of each period with changes in fair value recorded in the consolidated statements of income. For the three months ended September 30, 2018 and 2017, the Company recorded a gain of $27.2 million and $4.4 million, respectively, and for the nine months ended September 30, 2018 and 2017, the Company recorded a gain of $39.5 million and $26.8 million, respectively, related to these derivatives, which is included in Miscellaneous, net in the condensed consolidated statement of income.

The fair values of the Company's derivative financial instruments not designated as hedging instruments included in the condensed consolidated balance sheets are as follows:

(In thousands)	Balance Sheet Location	September 30, 2018	December 31, 2017
Assets			
Foreign currency derivatives	Prepaid expenses and other current assets	$ 1,187	$ 943
Foreign currency derivatives	Other assets	2,001	2,858
Interest rate swap contracts	Prepaid expenses and other current assets	60	1,444
Other derivatives	Other assets	78,586	37,065
Liabilities			
Foreign currency derivatives	Accrued liabilities	788	1,223
Foreign currency derivatives	Other liabilities	2,799	3,252

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

(In thousands)	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 September 30,			Three Months Ended September 30,	
	2018	2017		2018	2017
Derivatives in cash flow hedging relationships:					
Interest rate swap contracts	$ —	$ 50	Interest expense	$ —	$ 224

(a) There were no gains or losses recognized in earnings related to any ineffective portion of hedging relationships or related to any amount excluded from the assessment of hedge effectiveness for the three months ended September 30, 2018 and 2017.

(In thousands)	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)

	Nine Months Ended September 30,			Nine Months Ended September 30,	
	2018	2017		2018	2017
Derivatives in cash flow hedging relationships:					
Interest rate swap contracts	$ —	$ 306	Interest expense	$ —	$ 341

(a) There were no gains or losses recognized in earnings related to any ineffective portion of hedging relationships or related to any amount excluded from the assessment of hedge effectiveness for the nine months ended September 30, 2018 and 2017.

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

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

(In thousands)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
Interest rate swap contracts	Interest expense	$(700)	$(24)	$(1,384)	$(29)
Foreign currency derivatives	Miscellaneous, net	250	(1,643)	430	(4,487)
Other derivatives	Miscellaneous, net	27,175	4,432	39,464	26,836
Total		$26,725	$2,765	$38,510	$22,320

Note 12. Income Taxes

For the three and nine months ended September 30, 2018, income tax expense was $43.7 million and $133.1 million, respectively, representing an effective tax rate of 27% and 26%, respectively, as compared to the federal statutory rate of 21%. For the three months ended September 30, 2018, the effective tax rate differs from the federal statutory rate primarily due to tax expense from foreign subsidiary earnings indefinitely reinvested outside the U.S. of $5.6 million and state and local income tax expense of $3.4 million. For the nine months ended September 30, 2018, the effective tax rate differs from the federal statutory rate due primarily to tax expense of $15.8 million for an increase in valuation allowances for foreign taxes and U.S. foreign tax credits; state and local income tax expense of $9.5 million; a tax benefit of $8.3 million for the one-time rate change on deferred tax assets and liabilities that resulted from the extension of certain television production cost deductions included in the Bipartisan Budget Act of 2018 (enacted February 9, 2018); and a tax benefit from foreign subsidiary earnings of $0.6 million.

For the three and nine months ended September 30, 2017, income tax expense was $40.1 million and $173.4 million, respectively, representing an effective tax rate of 31% and 34%, respectively. The effective tax rate differs from the federal statutory rate of 35% due primarily to tax benefit from the domestic production activities deduction of $2.8 million and $13.1 million, tax expense of $5.5 million and tax benefit of $1.2 million from foreign subsidiary earnings indefinitely reinvested outside the U.S., tax benefit of $8.4 million and $0.9 million resulting from a decrease in the valuation allowances for foreign and local taxes, tax benefit of $0.6 million and tax expense of $2.0 million relating to uncertain tax positions (including accrued interest) and state and local income tax expense of $2.4 million and $8.4 million for the three and nine months ended September 30, 2017, respectively.

At September 30, 2018, the Company had foreign tax credit carry forwards of approximately $15.6 million, expiring on various dates from 2024 through 2025. These carryforwards have been reduced by a valuation allowance of $15.6 million as it is more likely than not that these carry forwards will not be realized. For the nine months ended September 30, 2018, $1.0 million relating to amortization of tax deductible second component goodwill was realized as a reduction in tax liability (as determined on a 'with-and-without' approach).

Note 13. Commitments and Contingencies

Commitments

As of September 30, 2018, the Company's contractual obligations not reflected on the Company's condensed consolidated balance sheet decreased $244.9 million to $1.1 billion. The decrease relates to payments for program commitments and the expiration of Company guarantees for certain production related costs.

Legal Matters

On December 17, 2013, Frank Darabont ("Darabont"), Ferenc, Inc., Darkwoods Productions, Inc., and Creative Artists Agency, LLC (together, the "2013 Plaintiffs"), filed a complaint in New York Supreme Court in connection with Darabont's rendering services as a writer, director and producer of the television series entitled The Walking Dead and

the agreement between the parties related thereto. The Plaintiffs asserted claims for breach of contract, breach of the covenant of good faith and fair dealing, for an accounting and for declaratory relief. On August 19, 2015, Plaintiffs filed their First Amended Complaint (the "Amended Complaint"), in which they retracted their claims for wrongful termination and failure to apply production tax credits in calculating Plaintiffs' contingent compensation. Plaintiffs also added a claim that Darabont is entitled to a larger share, on a percentage basis, of contingent compensation than he is currently being accorded. On September 26, 2016, Plaintiffs filed their note of issue and certificate of readiness for trial, which included a claim for damages of $280 million The parties each filed motions for summary judgment. Oral arguments of the summary judgment motions took place on September 15, 2017. On April 19, 2018, the Court

18

granted the Company's motion for leave to submit supplemental summary judgment briefing. A hearing on the supplemental summary judgment submissions was held on June 13, 2018. The Company believes that the asserted claims are without merit, denies the allegations and continues to defend the case vigorously. At this time, no determination can be made as to the ultimate outcome of this litigation or the potential liability, if any, on the part of the Company.

On January 18, 2018, the 2013 Plaintiffs filed a second action in New York Supreme Court in connection with Darabont's services on The Walking Dead television series and agreements between the parties related thereto. The claims in the action allegedly arise from Plaintiffs' audit of their participation statements covering the accounting period from inception of The Walking Dead through September 30, 2014. Plaintiffs seek no less than $20 million in damages on claims for breach of contract, breach of the covenant of good faith and fair dealing, and declaratory relief. The Company filed an Answer to the Complaint on April 16, 2018. On August 30, 2018, Plaintiff's filed an Amended Compliant, and on September 19, 2018, the Company answered. The parties have agreed to consolidate this action for a joint trial with the action Plaintiffs filed in the New York Supreme Court on December 17, 2013. The Company believes that the asserted claims are without merit, denies the allegations and will defend the case vigorously. At this time, no determination can be made as to the ultimate outcome of this litigation or the potential liability, if any, on the part of the Company.

On August 14, 2017, Robert Kirkman, Robert Kirkman, LLC, Glen Mazzara, 44 Strong Productions, Inc., David Alpert, Circle of Confusion Productions, LLC, New Circle of Confusion Productions, Inc., Gale Anne Hurd, and Valhalla Entertainment, Inc. f/k/a Valhalla Motion Pictures, Inc. (together, the "California Plaintiffs") filed a complaint in California Superior Court in connection with California Plaintiffs' rendering of services as writers and producers of the television series entitled The Walking Dead, as well as Fear the Walking Dead and/or Talking Dead, and the agreements between the parties related thereto (the "California Action"). The California Plaintiffs asserted that the Company has been improperly underpaying the California Plaintiffs under their contracts with the Company and they assert claims for breach of contract, breach of the covenant of good faith and fair dealing, inducing breach of contract, and liability for violation of Cal. Bus. & Prof. Code § 17200. On August 15, 2017, two of the California Plaintiffs, Gale Anne Hurd and David Alpert (and their associated loan-out companies), along with Charles Eglee and his loan-out company, United Bongo Drum, Inc., filed a complaint in New York Supreme Court alleging nearly identical claims as the California Action (the "New York Action"). Hurd, Alpert, and Eglee filed the New York Action in connection with their contract claims involving The Walking Dead because their agreements contained exclusive New York jurisdiction provisions. On October 23, 2017, the parties stipulated to discontinuing the New York Action without prejudice and consolidating all of the claims in the California Action. The California Plaintiffs seek compensatory and punitive damages and restitution. The Company filed an Answer on April 30, 2018 and believes that the asserted claims are without merit and will vigorously defend against them. At this time, no determination can be made as to the ultimate outcome of this litigation or the potential liability, if any, on the part of the Company.

The Company is party to various lawsuits and claims in the ordinary course of business, including the matters described above. 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 14. Equity Plans

In March 2018, AMC Networks granted 684,737 restricted stock units ("RSUs") and 537,403 performance restricted stock units ("PRSUs") to certain executive officers and employees under the AMC Networks Inc. 2016 Employee Stock Plan. The RSUs vest ratably over a three-year period and the vesting criteria for 195,028 RSUs include the achievement of certain performance targets by the Company. The PRSUs vest on the third anniversary of the grant date.

The target number of PRSUs granted represents the right to receive a corresponding number of shares, subject to adjustment based on the performance of the Company against target performance criteria for a three-year period. The number of shares issuable at the end of the applicable measurement period ranges from 0% to 200% of the target PRSU award.

During the nine months ended September 30, 2018, 720,657 RSUs of AMC Networks Class A Common Stock previously issued to employees of the Company vested. On the vesting date, 295,973 RSUs were surrendered to the Company to cover the required statutory tax withholding obligations and 424,684 new shares of AMC Networks Class A Common Stock were issued in respect of the remaining RSUs. 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 $15.7 million, which has been reflected as a financing activity in the condensed consolidated statement of cash flows for the nine months ended September 30, 2018.

Share-based compensation expense included in selling, general and administrative expense, for the three and nine months ended September 30, 2018 was $16.9 million and $52.0 million, respectively, and $13.8 million and $41.4 million, respectively, for the three and nine months ended September 30, 2017, respectively.

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

As of September 30, 2018, there was $105.4 million 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 2.3 years.

Note 15. Redeemable Noncontrolling Interests

The following table summarizes activity related to redeemable noncontrolling interest for the nine months ended September 30, 2018.

(In thousands)	Nine Months Ended September 30, 2018
December 31, 2017	$218,604
Acquired	30,573
Net earnings	12,692
Distributions	(9,333)
September 30, 2018	$252,536

The redeemable noncontrolling interest acquired relates to acquisition of Levity. The terms of the agreement provide the noncontrolling interest holders with a right to put 50% of their interests to the Company on the fourth anniversary of the agreement and a right to put all of their interests to the Company on the sixth anniversary of the agreement. The put rights are at fair market value.

Note 16. 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 approximately 3% 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 73% 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").

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 $1.6 million and $1.5 million for the three months ended September 30, 2018 and 2017, respectively, and $4.8 million and $4.6 million for the nine months ended September 30, 2018 and 2017, respectively. Amounts charged to the Company, included in selling, general and administrative expenses, pursuant to transactions with its related parties amounted to $0.2 million for the three months ended September 30, 2018 and 2017, respectively, and $0.9 million and $1.2 million for the nine months ended September 30, 2018 and 2017, 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 office expenses is not material.

Note 17. Cash Flows

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

(In thousands)	Nine Months Ended September

	30,	
	2018	2017
Non-Cash Investing and Financing Activities:		
Treasury stock not yet settled	$ —	$ 2,000
Exercise of RLJE Warrants	—	5,001
Capital expenditures incurred but not yet paid	2,835	3,761
Supplemental Data:		
Cash interest paid	97,657	43,442
Income taxes paid, net	96,281	172,129

20

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

Note 18. Segment Information

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

The Company generally allocates all corporate overhead costs within operating expenses to the Company's two operating segments based upon their 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, 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 income ("AOI"), a non-GAAP measure, defined as operating income (loss) before depreciation and amortization, share-based compensation expense or benefit, impairment and related charges (including gains or losses on sales or dispositions of businesses), and restructuring expense or credit. The Company has presented the components that reconcile adjusted operating income to operating income, an accepted GAAP measure, and other information as to the continuing operations of the Company's operating segments below.

	Three Months Ended September 30, 2018			
(In thousands)	National Networks	International and Other	Inter-segment eliminations	Consolidated
Revenues, net				
Advertising	$199,714	$ 20,128	$ —	$ 219,842
Distribution	360,607	131,644	(15,218)	477,033
Consolidated revenues, net	$560,321	$ 151,772	$ (15,218)	$ 696,875
Operating income (loss)	$188,107	$ (16,749)	$ (6,759)	$ 164,599
Share-based compensation expense	13,860	3,074	—	16,934
Restructuring expense	—	3,139	—	3,139
Impairment and related charges	—	4,486	—	4,486
Depreciation and amortization	8,450	13,561	—	22,011
Adjusted operating income	$210,417	$ 7,511	$ (6,759)	$ 211,169

	Three Months Ended September 30, 2017			
(In thousands)	National Networks	International and Other	Inter-segment eliminations	Consolidated
Revenues, net				
Advertising	$197,891	$ 20,691	$ —	$ 218,582
Distribution	343,551	92,069	(6,179)	429,441
Consolidated revenues, net	$541,442	$ 112,760	$ (6,179)	$ 648,023
Operating income (loss)	$179,624	$ (18,782)	$ (7,488)	$ 153,354
Share-based compensation expense	11,598	2,219	—	13,817
Restructuring (credit) expense	(10)	1,274	—	1,264
Impairment and related charges	—	11,036	—	11,036
Depreciation and amortization	8,482	12,456	—	20,938
Adjusted operating income	$199,694	$ 8,203	$ (7,488)	$ 200,409

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

	Nine Months Ended September 30, 2018			
(In thousands)	National Networks	International and Other	Inter-segment eliminations	Consolidated
Revenues, net				
Advertising	$672,273	$66,071	$—	$738,344
Distribution	1,148,365	343,802	(31,428)	1,460,739
Consolidated revenues, net	$1,820,638	$409,873	$(31,428)	$2,199,083
Operating income (loss)	$647,965	$(44,899)	$(13,281)	$589,785
Share-based compensation expense	42,647	9,359	—	52,006
Restructuring expense	—	3,139	—	3,139
Impairment and related charges	—	4,486	—	4,486
Depreciation and amortization	25,358	38,676	—	64,034
Adjusted operating income	$715,970	$10,761	$(13,281)	$713,450
Capital expenditures	$9,511	$51,263	$—	$60,774

	Nine Months Ended September 30, 2017			
(In thousands)	National Networks	International and Other	Inter-segment eliminations	Consolidated
Revenues, net				
Advertising	$690,906	$62,134	$—	$753,040
Distribution	1,070,606	268,267	(13,156)	1,325,717
Consolidated revenues, net	$1,761,512	$330,401	$(13,156)	$2,078,757
Operating income (loss)	$640,855	$(69,222)	$(10,818)	$560,815
Share-based compensation expense	33,717	7,695	—	41,412
Restructuring (credit) expense	(53)	3,940	—	3,887
Impairment and related charges	—	28,148	—	28,148
Depreciation and amortization	25,315	39,722	—	65,037
Adjusted operating income	$699,834	$10,283	$(10,818)	$699,299
Capital expenditures	$20,311	$41,483	$—	$61,794

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.

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Inter-segment revenues				
National Networks	$(10,304)	$(6,179)	$(25,454)	$(13,045)
International and Other	(4,914)	—	(5,974)	(111)
	$(15,218)	$(6,179)	$(31,428)	$(13,156)

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

The table below summarizes revenues based on customer location:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
United States	$550,573	$504,732	$1,737,336	$1,653,342
Europe	108,607	91,447	311,294	278,198
Other	37,695	51,844	150,453	147,217
	$696,875	$648,023	$2,199,083	$2,078,757

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

(In thousands)	September 30, 2018	December 31, 2017
Property and equipment, net		
United States	$182,266	

Effective income tax rate	34.1 %	36.1 %	33.1 %	35.9 %
Diluted earnings per share	$ 0.52	$0.45	$1.50	$1.27

Overview

Bemis Company, Inc. is a leading global manufacturer of packaging and pressure sensitive materials supplying a variety of markets. Historically, about 65 percent of our total net sales are to customers in the food industry. Sales of our packaging products are widely diversified among food categories and can be found in nearly every aisle of the grocery store. Our emphasis on supplying packaging to the food industry has typically provided a more stable market environment for our U.S. Packaging and Global Packaging business segments, which accounted for approximately 89 percent of our net sales in 2012. Our remaining net sales are from our Pressure Sensitive Materials business segment which, while diversified in end use products, is more exposed to economically sensitive end markets.

Market Conditions

The markets into which our products are sold are highly competitive. Our leading market positions in packaging for perishable food and medical device products reflect our focus on value-added, proprietary products that provide food safety and sterility benefits. We also manufacture products for which our technical know-how and economies of scale offer us a competitive advantage. The primary raw materials for our business segments are polymer resins and films, paper, inks, adhesives, aluminum and chemicals.

Facility Consolidation

To improve efficiencies and reduce fixed costs, we initiated a facility consolidation program during the fourth quarter of 2011 and expanded the program in the second quarter of 2012. In total, nine production facilities were closed and most of the production from these facilities has been transferred to other facilities. Total program costs were $153 million which includes $61 million in employee-related costs, $51 million in fixed asset accelerated depreciation and write-downs, and $41 million in other facility consolidation costs. The increase in total program costs, from $141 million, is primarily related to an increase in multi-employer pension plan withdrawal liabilities.

We recorded $15.8 million and $46.0 million of charges associated with the facility consolidation programs during the three and nine months ended September 30, 2013, respectively. These costs have been recorded on the consolidated statement of income as facility consolidation and other costs. We expect no remaining costs during the fourth quarter of 2013. Cash payments for these programs in the nine months ended September 30, 2013 and 2012, totaled $32.7 million and $23.7 million, respectively. Cash payments in the fourth quarter of 2013 are expected to be approximately $23 million.

Acquisitions and Divestiture

Acquisition of Specialty Film Manufacturer in Foshan, China

On July 1, 2013, Bemis acquired Foshan New Changsheng Plastics Films Co., LTD ("NCS"), a specialty film manufacturer located in Foshan, China. NCS is a supplier to the Company's food packaging plant in Dongguan, China and other specialty film product customers. The acquisition of this film platform is expected to provide cost and logistics benefits to support the Company's broader Asia-Pacific growth strategy. The cash purchase price was $72.6 million.

Divestiture of Clysar Plant in Clinton, Iowa

On May 29, 2013, we completed the sale of our Clysar thin gauge shrink film plant. Annual net sales of Clysar films were approximately $70 million and were sold primarily through distributors into the display market. Net proceeds of the transaction totaled $30.4 million, subject to customary post-closing adjustments. A $5.5 million pre-tax gain on the sale was recorded as part of other non-operating income during the nine months ended September 30, 2013.

Acquisition of Australia and New Zealand Distributors

On August 22, 2012, we acquired flexible packaging businesses in Australia and New Zealand. The acquisition of these businesses supports our strategy to enhance our presence in the Asia Pacific region. The combined purchase price was approximately $18.4 million.

Results of Operations — Third Quarter 2013

Consolidated Overview		
(in millions, except per share amounts)	2013	2012
Net sales	$1,258.5	$1,287.8
Net income	54.0	47.4
Diluted earnings per share	0.52	0.45

Net sales for the third quarter of 2013 decreased 2.3 percent compared to the same period of 2012. The impact of currency translation reduced net sales by 1.5 percent. The net impact of acquisitions and divestitures was insignificant. The remaining decrease in net sales primarily reflects the impact of production that was discontinued as part of the facility consolidation program.

Diluted earnings per share for the third quarter of 2013 were $0.52 compared to $0.45 reported in the same quarter of 2012. Results for the third quarter of 2013 included $0.10 of charges associated with facility consolidation and other costs and a $0.02 gain on the sale of land and building. Results for the third quarter of 2012 included a $0.14 charge associated with facility consolidation and other costs and a $0.01 charge associated with acquisition-related earnout payments.

U.S. Packaging Business Segment				
(dollars in millions)	2013		2012	
Net sales	$750.7		$774.9	
Operating profit (See Note 13 to the Condensed Consolidated Financial Statements)	81.8		96.0	
Operating profit as a percentage of net sales	10.9	%	12.4	%

For the third quarter of 2013, U.S. Packaging net sales of $750.7 million represented a decrease of 3.1 percent compared to the same period of 2012, primarily reflecting the impact of the sale of the Clysar plant during the second quarter of 2013. Since early 2012, our facility consolidation program has resulted in the closure of six U.S. Packaging segment manufacturing facilities. Most of the production at these facilities was relocated to the remaining manufacturing locations, while other low margin production was discontinued. Excluding the impact of production that was discontinued as part of the facility consolidation program, as well as the sale of the Clysar facility, net sales increased modestly during the third quarter reflecting an increase in price and mix, substantially offset by lower unit sales volume compared to the third quarter of 2012.

Operating profit for the third quarter of 2013 was $81.8 million, or 10.9 percent of net sales, compared to $96.0 million, or 12.4 percent of net sales in 2012. Operating profit in 2013 and 2012 was negatively impacted by $15.8 million and $11.5 million of facility consolidation and other costs, respectively. Operating profit during the third quarter of 2013 was negatively impacted by lower unit sales volume, partially offset by the benefit of a higher proportion of sales of value-added products. Facility consolidation related cost savings were substantially offset by increased costs associated with the transition of production equipment from plants closed as part of the facility consolidation program to existing facilities. These transition activities are expected to be completed during the fourth quarter of 2013.

Global Packaging Business Segment				
(dollars in millions)	2013		2012	
Net sales	$370.8		$377.5	
Operating profit (See Note 13 to the Condensed Consolidated Financial Statements)	28.3		14.3	
Operating profit as a percentage of net sales	7.6	%	3.8	%

For the third quarter of 2013, Global Packaging net sales of $370.8 million represented a decrease of 1.8 percent compared to the third quarter of 2012. The impact of currency translation reduced net sales by 5.7 percent compared to the previous year, primarily reflecting the weaker Brazilian currency. The acquisition of NCS during the third quarter of 2013 increased net sales by 4.8 percent. In addition, production that was discontinued in conjunction with the facility consolidation reduced net sales by 3.0 percent. Excluding the impact of currency, acquisitions, and the facility consolidation program, net sales increased modestly driven by improved price and mix.

Operating profit for the third quarter of 2013 was $28.3 million, or 7.6 percent of net sales, compared to $14.3 million, or 3.8 percent, of net sales in 2012. The net effect of currency translation decreased operating profit during the third quarter of 2013 by $2.2 million. Operating profit for the third quarter of 2012 was negatively impacted by $9.9 million of facility consolidation costs and $1.1 million of acquisition-related earnout and transaction payments. Increased operating profit reflects the favorable impact of improved price/mix and the benefits from facility consolidation related cost savings during the quarter compared to the prior year.

Pressure Sensitive Materials Business Segment

(in millions)	2013		2012	
Net sales	$137.0		$135.4	
Operating profit (See Note 13 to the Condensed Consolidated Financial Statements)	7.9		7.7	
Operating profit as a percentage of net sales	5.8	%	5.7	%

Pressure Sensitive Materials net sales totaled $137.0 million for the third quarter, a 1.2 percent increase from the same period in 2012. Currency translation increased net sales by 1.7 percent during the period. Excluding the impact of currency, lower net sales reflected higher unit sales of technical products which were more than offset by lower unit sales of value-added graphic products.

Third quarter operating profit was $7.9 million, or 5.8 percent of net sales, compared to $7.7 million, or 5.7 percent of net sales, for the third quarter of 2012. Currency translation did not significantly impact operating profit for the third quarter.

Consolidated Gross Profit

(in millions)	2013		2012	
Gross profit	$247.3		$247.1	
Gross profit as a percentage of net sales	19.7	%	19.2	%

Consolidated gross profit as a percent of net sales increased in the third quarter of 2013, reflecting improvement in procurement processes and improved sales mix compared to the third quarter of 2012.

Consolidated Selling, General, and Administrative Expenses

(in millions)	2013		2012	
Selling, general and administrative expenses (SG&A)	$127.1		$128.4	
SG&A as a percentage of net sales	10.1	%	10.0	%

Consolidated selling, general and administrative expenses were consistent with last quarter, and the Company expects these costs to be relatively stable through the fourth quarter.

Consolidated Other Operating Income

(in millions)	2013		2012	
Other operating income	$(3.0	)	$(2.8	)

Costs associated with acquisitions during the third quarter of 2013 were $0.9 million less than the third quarter of 2012. For the third quarter of 2013, other operating income included $2.3 million of fiscal government incentive income, compared to $3.6 million for the third quarter of 2012. Fiscal government incentives are associated with net sales and manufacturing activities in certain Brazilian operations and are included in global packaging segment operating profit. The decrease in fiscal incentive income primarily reflects reductions of available fiscal incentives.

Consolidated Interest Expense		
(in millions)	2013	2012
Interest expense	$17.0	$17.0
Effective interest rate	4.7 %	4.4 %

Our effective interest rate increased in the third quarter of 2013 compared to the same quarter of 2012 as a lower proportion of our debt were variable rate borrowings that have lower rates.

Other Non-operating Income		
(in millions)	2013	2012
Other non-operating income	(3.3)	(1.3)

A $2.2 million pre-tax gain on the sale of land and building during the third quarter of 2013 related to final settlement associated with a property that was not part of our facility consolidation program.

Consolidated Income Taxes		
(in millions)	2013	2012
Income taxes	$27.9	$26.8
Effective tax rate	34.1 %	36.1 %

We expect the effective tax rate for the remainder of 2013 to be approximately 35 percent. The lower 2013 effective income tax rate reflects the favorable closure of income tax examinations.

Results of Operations — Nine Months Ended September 30, 2013

Consolidated Overview		
(in millions, except per share amounts)	2013	2012
Net sales	$3,810.6	$3,905.3
Net income	156.4	133.7
Diluted earnings per share	1.50	1.27

Net sales for the nine months ended September 30, 2013 decreased 2.4 percent from the same period of 2012. The impact of currency translation reduced net sales by 1.3 percent. The net impact of acquisitions and divestitures was insignificant. The remaining decrease in net sales primarily reflects the impact of production that was discontinued as part of the facility consolidation program.

Diluted earnings per share for the nine months ended September 30, 2013 were $1.50 compared to $1.27 reported in the same period of 2012. Results for 2013 included $0.29 of charges associated with facility consolidation and other costs, a $0.03 gain on the divestiture of our Clysar plant, and a $0.02 gain on the sale of land and building. Results for 2012 included a $0.32 charge associated with facility consolidation and other costs and $0.04 of charges associated with acquisition-related earnout and transaction payments.

U.S. Packaging Business Segment		
(dollars in millions)	2013	2012
Net sales	$2,277.6	$2,328.6
Operating profit (See Note 13 to the Condensed Consolidated Financial Statements)	248.1	255.9

Operating profit as a percentage of net sales	10.9 %	11.0 %

24

U.S. Packaging net sales decreased 2.2 percent in the nine months ended September 30, 2013 compared to the same period of 2012. The decrease is primarily related to the impact of ceasing production of certain products as part of our facility consolidation program and the sale of the Clysar facility.

Operating profit for the nine months ended September 30, 2013 was $248.1 million, or 10.9 percent of net sales, compared to $255.9 million, or 11.0 percent of net sales, in 2012. Operating profit in 2013 and 2012 was negatively impacted by $46.4 million and $31.4 million of facility consolidation and other costs, respectively. Operating profit levels in 2013 benefited from the cost savings associated with facility consolidation activities and the benefit of higher proportion of sales of value-added products.

Global Packaging Business Segment				
(dollars in millions)	2013		2012	
Net sales	$1,113.7		$1,154.1	
Operating profit (See Note 13 to the Condensed Consolidated Financial Statements)	81.6		58.6	
Operating profit as a percentage of net sales	7.3	%	5.1	%

Global Packaging net sales decreased 3.5 percent in the nine months ended September 30, 2013 compared to the same period of 2012. Acquisitions increased net sales by approximately 2.0 percent, which was more than offset by a 4.8 percent decrease in net sales related to currency translation. The remaining decrease relates to the impact of production that was discontinued at three low margin facilities closed during 2012 as part of the facility consolidation program, partially offset by price increases.

Operating profit for the nine months ended September 30, 2013 was $81.6 million, or 7.3 percent of net sales, compared to $58.6 million, or 5.1 percent, of net sales in 2012. The net effect of currency translation decreased operating profit during 2013 by $5.4 million. Operating profit for 2012 was negatively impacted by $17.9 million of facility consolidation costs and $4.6 million of acquisition-related earnout payments.

Pressure Sensitive Materials Business Segment				
(in millions)	2013		2012	
Net sales	$419.3		$422.6	
Operating profit (See Note 13 to the Condensed Consolidated Financial Statements)	21.6		28.3	
Operating profit as a percentage of net sales	5.2	%	6.7	%

Pressure Sensitive Materials net sales decreased 0.8 percent in the nine months ended September 30, 2013 compared to the same period of 2012. The impact of currency translation increased net sales by 1.0 percent. Higher unit sales of low margin label products in the North American operations offset lower sales for value-added graphic products from the European operations. Lower operating profit margins primarily reflect a less favorable sales mix.

Consolidated Gross Profit				
(in millions)	2013		2012	
Gross profit	$740.9		$711.4	
Gross profit as a percentage of net sales	19.4	%	18.2	%

Consolidated gross profit as a percent of net sales increased in the nine months ended September 30, 2013, reflecting the benefits of cost reductions associated with facility consolidation and other costs activities, increases in price/mix and improvements in raw material cost management.

25

Consolidated Selling, General, and Administrative Expenses

(in millions)	2013	2012
Selling, general and administrative expenses (SG&A)	$389.8	$381.6
SG&A as a percentage of net sales	10.2 %	9.8 %

Consolidated selling, general and administrative expenses reflect inflationary increases. SG&A as a percentage of net sales increased due to these inflationary increases and decreases in net sales.

Consolidated Other Operating Income

(in millions)	2013	2012
Other operating income	$(7.7)	$(12.3)

For the nine months ended September 30, 2013, other operating income and expense included $8.5 million of fiscal government incentive income, compared to $13.2 million for the nine months ended September 30, 2012. Fiscal government incentives are associated with net sales and manufacturing activities in certain Brazilian operations and are included in global packaging segment operating profit. The decrease in fiscal incentive income primarily reflects reductions of available fiscal incentives.

Consolidated Interest Expense

(in millions)	2013	2012
Interest expense	$50.6	$54.8
Effective interest rate	4.7 %	4.8 %

Fixed-rate public notes totaling $300 million matured on April 1, 2012 and were refinanced with variable-rate borrowings.

Other Non-operating Income

(in millions)	2013	2012
Other non-operating income	$(6.4)	$(2.2)

A $2.2 million pre-tax gain on the sale of land and building was recorded as part of other non-operating income during the third quarter of 2013. A $5.9 million pre-tax gain on the sale of our Clysar plant was recorded as part of other non-operating income during the second quarter of 2013. We recognized $4.5 million of expense in the first quarter of 2013 for the write-off of indemnification receivables as an offsetting tax liability was reversed in the first quarter (see below).

Consolidated Income Taxes

(in millions)	2013	2012
Income taxes	$77.4	$74.9
Effective tax rate	33.1 %	35.9 %

During the first quarter, a $4.5 million tax benefit was recognized for the reversal of non-U.S. tax liabilities that were assumed in a past acquisition. We also recognized an equal amount of non-operating expense for the write-off of related receivables (see above). These equal and offsetting items had no impact on operating profit, net income or earnings per share. We expect the effective income tax rate for the fourth quarter of 2013 to be approximately 35 percent.

Liquidity and Capital Resources

Net Debt to Total Capitalization

Net debt to total capitalization (which includes total debt net of cash balances divided by total debt net of cash balances plus equity) was 42.7 percent and 44.4 percent at September 30, 2013 and December 31, 2012, respectively. Total debt as of both September 30, 2013 and December 31, 2012 was $1.4 billion.

Cash Flow

Net cash provided by operating activities was $262.4 million for the first nine months of 2013, compared to $290.2 million for the first nine months of 2012. In 2013, cash flow from operations was reduced by $32.7 million of cash paid related to the facility consolidation program and a voluntary contribution to our U.S. defined benefit pension plans totaling $35.0 million. In 2012, cash flow from operations was reduced by $23.7 million of cash paid related to the facility consolidation and a voluntary contribution to our U.S. defined benefit pension plans totaling $23.5 million. Higher working capital levels reflect the impact of price increases on accounts receivable as well as the remaining safety stock in inventory associated with the transition of production between plants during the facility consolidation.

Net cash used in investing activities was $105.5 million for the first nine months of 2013, compared to $107.5 million for the same period of 2012. Cash used for acquisitions increased due to the 2013 acquisition of NCS. Proceeds from sale of property and equipment increased primarily due to sales associated with our facility consolidation program. We received $30.4 million of proceeds related to the divestiture of our Clysar location in 2013.

Net cash used in financing activities was $114.6 million for the nine months ended September 30, 2013, compared to $169.1 million for the same period of 2012. Net cash provided used in financing activities for the current year included the purchase of 1.0 million shares of our common stock for $35.6 million. Net cash used in financing activities for 2012 included $313.6 million repayment of long-term debt, partially offset by borrowing of commercial paper of $222.5 million.

Available Financing

In addition to using cash provided by operating activities, we issue commercial paper to meet our short-term liquidity needs. As of September 30, 2013, our commercial paper debt outstanding was $223.2 million. Based on our current credit rating, we enjoy ready access to the commercial paper markets.

On August 12, 2013, we amended our revolving credit facility to increase the total amount available from $800 million to $1.1 billion and to extend the term from July 21, 2016 to August 12, 2018. This facility is principally used as back-up for our commercial paper program. Our revolving credit facility is supported by a group of major U.S. and international banks. Covenants imposed by the revolving credit facility include minimum net worth calculations and a maximum ratio of debt to total capitalization. The revolving credit agreement includes a $100 million multicurrency limit to support the financing needs of our international subsidiaries. As of September 30, 2013, there was $223.2 million of debt outstanding supported by this credit facility, leaving $876.8 million of available credit. If we were not able to issue commercial paper, we would expect to meet our financial liquidity needs by accessing the bank market, which would increase our borrowing costs. Borrowings under the credit agreement are subject to a variable interest rate.

Liquidity Outlook

We expect cash flow from operations and available liquidity described above to be sufficient to support future operating activities. There can be no assurance, however, that the cost or availability of future borrowings will not be

impacted by future capital market disruptions. In addition, increases in raw material costs would increase our short-term liquidity needs.

Dividends

In February 2013, the Board of Directors approved the 30th consecutive annual increase in the quarterly cash dividend on common stock to $0.26 per share, a 4.0 percent increase.

New Accounting Pronouncements

There has been no new accounting guidance issued or effective during the first nine months of 2013 that is expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

Critical Accounting Estimates and Judgments

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to retirement benefits, intangible assets, goodwill, and expected future performance of operations. Our estimates and judgments are based on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. These critical accounting estimates are discussed in detail in “Management’s Discussion and Analysis — Critical Accounting Estimates and Judgments” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company’s market risk during the nine month period ended September 30, 2013. For additional information, refer to Note 5 and Note 6 to the Condensed Consolidated Financial Statements and to Part II, Item 7A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 4. CONTROLS AND PROCEDURES

The Company’s management, under the direction, supervision, and involvement of the Chief Executive Officer and the Chief Financial Officer, has carried out an evaluation, as of the end of the period covered by this report, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) of the Company. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that disclosure controls and procedures in place at the Company are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There were no changes in the Company’s internal control over financial reporting during the most recent fiscal quarter 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

The material set forth in Note 12 of the Notes to Condensed Consolidated Financial Statements is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Information about our risk factors is contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. We believe that at September 30, 2013 there has been no material change to this information.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company did not repurchase any of its equity securities in the three months ended September 30, 2013. As of September 30, 2013, under authority granted by the Board of Directors, the Company had authorization to repurchase 3,543,800 shares of its common stock.

ITEM 6. EXHIBITS

The Exhibit Index is incorporated herein by reference.

SIGNATURES

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

		BEMIS COMPANY, INC.
Date	November 1, 2013	/s/ Scott B. Ullem Scott B. Ullem, Vice President and Chief Financial Officer
Date	November 1, 2013	/s/ Jerry S. Krempa Jerry S. Krempa, Vice President and Controller

30

Exhibit Index

Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), we have filed certain agreements as exhibits to this Quarterly Report on Form 10-Q. These agreements may contain representations and warranties by the parties thereto. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in our public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof and should not be relied upon.

Exhibit	Description	Form of Filing
3(a)	Restated Articles of Incorporation of the Registrant, as amended. (1)	Incorporated by Reference
3(b)	By-Laws of the Registrant, as amended through November 26, 2012. (2)	Incorporated by Reference
4(a)	Form of Indenture dated as of June 15, 1995, between the Registrant and U.S. Bank Trust National Association (formerly known as First Trust National Association), as Trustee. Copies of constituent instruments defining rights of holders of long-term debt of the Company and Subsidiaries, other than the Indenture specified herein, are not filed herewith, pursuant to Instruction (b)(4)(iii)(A) to Item 601 of Regulation S-K, because the total amount of securities Authorized under any such instrument does not exceed 10% of the total assets of the Company and Subsidiaries on a consolidated basis. The registrant hereby agrees that it will, upon request by the SEC, furnish to the SEC a copy of each such instrument. (3)	Incorporated by Reference
10(a)	Third Amended and Restated Long-Term Credit Agreement dated as of August 12, 2013 among Bemis Company, Inc., various subsidiaries thereof, the Lenders Party, JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, Bank of America, N.A., BNP Paribas and U.S. Bank National Association. (4)	Incorporated by Reference
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO.	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO.	Filed Electronically
32	Section 1350 Certification of CEO and CFO.	Filed Electronically
101	Interactive data files.	Filed Electronically

(1) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (File No. 1-5277).
(2) Incorporated by reference to the Registrant's Form 8-K dated November 26, 2012 (File No. 1-5277).
(3) Incorporated by reference to the Registrant's Current Report on Form 8-K dated June 30, 1995 (File No. 1-5277).
(4) Incorporated by reference to the Registrant's Current Report on Form 8-K dated August 12, 2013 (File No. 1-5277).