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

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

FORM 10-Q

þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended 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
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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	Nine Months Ended September 30, 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.

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.

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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

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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.

	Pro Forma Financial Information for the	
(In thousands)	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	