# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2017**

**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 1-34004**

# SCRIPPS NETWORKS INTERACTIVE, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Ohio** | **61-1551890** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification Number)** |
| **9721 Sherrill Boulevard Knoxville, TN** | **37932** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant's telephone number, including area code: (865) 694-2700**

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer (Do not check if a smaller reporting company) ☐ 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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of July 31, 2017 there were 95,962,256 of the Registrant's Class A Common Shares outstanding and 33,850,481 of the Registrant's Common Voting Shares outstanding.

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**SCRIPPS NETWORKS INTERACTIVE, INC.**

**SCRIPPS NETWORKS INTERACTIVE, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS ( UNAUDITED )**
***(in thousands, except share and par value amounts)***

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 131,557 | $ 122,937 |
| Accounts receivable, net of allowances: 2017 - $14,203; 2016 - $26,118 | 912,018 | 808,133 |
| Programs and program licenses, net | 641,611 | 591,378 |
| Prepaid expenses and other current assets | 68,225 | 135,651 |
| Total current assets | 1,753,411 | 1,658,099 |
| Programs and program licenses, net (less current portion) | 500,256 | 500,022 |
| Investments | 723,740 | 699,481 |
| Property and equipment, net of accumulated depreciation: 2017 - $356,939; 2016 - $354,435 | 315,543 | 286,399 |
| Goodwill, net | 1,756,514 | 1,642,169 |
| Intangible assets, net | 1,122,323 | 1,092,682 |
| Deferred income taxes | 192,753 | 175,291 |
| Other non-current assets | 152,029 | 146,151 |
| **Total Assets** | $ 6,516,569 | $ 6,200,294 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 25,728 | $ 42,223 |
| Accrued liabilities | 134,371 | 152,480 |
| Employee compensation and benefits | 72,296 | 123,506 |
| Program rights payable | 69,959 | 70,403 |
| Deferred revenue | 119,977 | 77,987 |
| Current portion of debt | - | 249,932 |
| Total current liabilities | 422,331 | 716,531 |
| Debt (less current portion) | 2,979,729 | 2,952,454 |
| Other non-current liabilities | 319,736 | 302,881 |
| Total liabilities | 3,721,796 | 3,971,866 |
| Shareholders' equity: | | |
| Scripps Networks Interactive ("SNI") shareholders' equity: | | |
| Preferred stock, $0.01 par - authorized: 25,000,000 shares; none outstanding | — | — |
| Common stock, $0.01 par: | | |
| Class A Common Shares - authorized: 240,000,000 shares; issued and outstanding: 2017 - 95,936,980 shares; 2016 - 95,491,477 shares | 959 | 954 |
| Common Voting Shares - authorized: 60,000,000 shares; issued and outstanding: 2017 - 33,850,481 shares; 2016 - 33,850,481 shares | 339 | 339 |
| Total common stock | 1,298 | 1,293 |
| Additional paid-in capital | 1,425,611 | 1,390,411 |
| Retained earnings | 1,230,668 | 871,766 |
| Accumulated other comprehensive loss | (143,353) | (363,701) |
| SNI shareholders' equity | 2,514,224 | 1,899,769 |
| Non-controlling interest (Note 13) | 280,549 | 328,659 |
| Total equity | 2,794,773 | 2,228,428 |
| **Total Liabilities and Equity** | $ 6,516,569 | $ 6,200,294 |

*See notes to condensed consolidated financial statements.*

**SCRIPPS NETWORKS INTERACTIVE, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS ( UNAUDITED )**
***(in thousands, except per share amounts)***

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Operating revenues: | | | | |
| Advertising | $ 663,034 | $ 646,648 | $ 1,259,749 | $ 1,218,503 |
| Distribution | 239,685 | 223,446 | 478,065 | 451,514 |
| Other | 22,327 | 22,677 | 42,352 | 39,632 |
| Total operating revenues | 925,046 | 892,771 | 1,780,166 | 1,709,649 |
| Operating expenses: | | | | |
| Cost of services, excluding depreciation and amortization | 299,851 | 286,999 | 578,890 | 566,666 |
| Selling, general and administrative | 212,397 | 191,133 | 419,767 | 389,954 |
| Depreciation | 13,660 | 16,089 | 28,620 | 33,386 |
| Amortization | 25,058 | 25,654 | 49,255 | 56,716 |
| Total operating expenses | 550,966 | 519,875 | 1,076,532 | 1,046,722 |
| Operating income | 374,080 | 372,896 | 703,634 | 662,927 |
| Interest expense, net | (24,203) | (33,175) | (48,455) | (66,920) |
| Equity in earnings of affiliates | 20,974 | 21,712 | 41,423 | 47,390 |
| (Loss) gain on derivatives | (3,672) | 8,267 | (6,008) | 11,033 |
| Gain (loss) on sale of investments | 1,416 | (16,373) | 1,416 | 191,824 |
| Miscellaneous, net | 32,181 | (21,672) | 59,721 | (15,606) |
| Income from operations before income taxes | 400,776 | 331,655 | 751,731 | 830,648 |
| Provision for income taxes | 115,099 | 98,303 | 216,239 | 257,350 |
| Net income | 285,677 | 233,352 | 535,492 | 573,298 |
| Less: net income attributable to non-controlling interests | (51,602) | (48,744) | (101,517) | (97,793) |
| Net income attributable to SNI | $ 234,075 | $ 184,608 | $ 433,975 | $ 475,505 |
| | | | | |
| Net income attributable to SNI Class A Common and Common Voting shareholders per share of common stock: | | | | |
| Basic | $ 1.80 | $ 1.42 | $ 3.34 | $ 3.67 |
| Diluted | $ 1.79 | $ 1.42 | $ 3.32 | $ 3.66 |
| Weighted average shares outstanding: | | | | |
| Basic | 130,233 | 129,562 | 130,079 | 129,434 |
| Diluted | 130,884 | 130,141 | 130,790 | 129,971 |

*See notes to condensed consolidated financial statements.*

**SCRIPPS NETWORKS INTERACTIVE, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ( UNAUDITED )**

***(in thousands)***

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Net income | $ 285,677 | $ 233,352 | $ 535,492 | $ 573,298 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments, net of tax: 2017 - ($8) and ($3); 2016 - $2,306 and ($810) | 151,644 | (122,814) | 218,103 | (81,231) |
| Pension Plan and SERP liability adjustments, net of tax: 2017 - $23 and ($476); 2016 - ($380) and ($760) | 1,395 | 666 | 2,268 | 1,332 |
| Comprehensive income | 438,716 | 111,204 | 755,863 | 493,399 |
| Less: comprehensive income attributable to non-controlling interests | (51,623) | (48,181) | (101,540) | (97,995) |
| Comprehensive income attributable to SNI | $ 387,093 | $ 63,023 | $ 654,323 | $ 395,404 |

*See notes to condensed consolidated financial statements.*

**SCRIPPS NETWORKS INTERACTIVE, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS ( UNAUDITED )**
***(in thousands)***

| | Six months ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| **Operating Activities:** | | |
| Net income | $ 535,492 | $ 573,298 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 28,620 | 33,386 |
| Amortization | 49,255 | 56,716 |
| Program amortization | 453,910 | 441,608 |
| Program payments | (501,221) | (477,132) |
| Equity in earnings of affiliates | (41,423) | (47,390) |
| Share-based compensation | 27,598 | 24,679 |
| Loss (gain) on derivatives | 6,008 | (11,033) |
| Gain on sale of investments | (1,416) | (191,824) |
| Dividends received from equity investments | 40,305 | 38,247 |
| Deferred income taxes | (20,922) | (31,190) |
| Changes in working capital accounts: | | |
| Accounts receivable, net | (91,377) | (23,533) |
| Other assets | 8,518 | (9,356) |
| Accounts payable | (18,823) | 26,985 |
| Deferred revenue | 42,061 | 5,629 |
| Accrued / refundable income taxes | 78,462 | 87,453 |
| Other liabilities | (68,039) | (53,241) |
| Other, net | (24,758) | 6,505 |
| Cash provided by operating activities | 502,250 | 449,807 |
| **Investing Activities:** | | |
| Additions to property and equipment | (44,155) | (24,297) |
| Collections of note receivable | 2,533 | 2,135 |
| Purchase of investments | (18,722) | (4,711) |
| Sale of investments | 48,248 | 226,484 |
| Purchase of subsidiary companies, net of cash acquired | (10,320) | — |
| Investment in intangible | — | (11,634) |
| Settlements of derivatives | (6,008) | 11,016 |
| Other, net | (10,286) | (8,443) |
| Cash (used in) provided by investing activities | (38,710) | 190,550 |
| **Financing Activities:** | | |
| Proceeds from debt | 410,000 | — |
| Repayments of debt | (635,000) | (390,000) |
| Purchases of non-controlling interests | — | (99,000) |
| Dividends paid to non-controlling interests | (149,650) | (125,604) |
| Dividends paid | (78,267) | (64,695) |
| Proceeds from stock options | 12,592 | 6,246 |
| Other, net | (25,832) | 1,754 |
| Cash used in financing activities | (466,157) | (671,299) |
| Effect of exchange rate changes on cash and cash equivalents | 11,237 | (6,579) |
| Increase (decrease) in cash and cash equivalents | 8,620 | (37,521) |
| Cash and cash equivalents - beginning of period | 122,937 | 223,444 |
| Cash and cash equivalents - end of period | $ 131,557 | $ 185,923 |
| **Supplemental Cash Flow Disclosures:** | | |
| Interest paid, excluding amounts capitalized | $ 48,672 | $ 52,147 |
| Income taxes paid | $ 161,228 | $ 202,570 |

*See notes to condensed consolidated financial statements.*

**SCRIPPS NETWORKS INTERACTIVE, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY ( UNAUDITED )**
***(in thousands, except per share amounts)***

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Non-controlling Interest | Total Equity | Redeemable Non-controlling Interests |
|---|---|---|---|---|---|---|---|
| December 31, 2015 | $ 1,287 | $ 1,347,491 | $ 305,386 | $ (130,233) | $ 313,245 | $ 1,837,176 | $ 99,000 |
| Comprehensive income | | | 475,505 | (80,101) | 95,833 | 491,237 | 2,162 |
| Redeemable non-controlling interest fair value adjustments | | | 2,162 | | | 2,162 | (2,162) |
| Purchase of non-controlling interest | | | | | | - | (99,000) |
| Dividends paid to non-controlling interests | | | | | (125,604) | (125,604) | |
| Dividends declared and paid: $0.50 per share | | | (64,695) | | | (64,695) | |
| Share-based compensation | | 24,679 | | | | 24,679 | |
| Exercise of employee share options: 169,775 shares issued | 1 | 6,245 | | | | 6,246 | |
| Other share-based compensation, net: 230,094 shares issued; 67,610 shares repurchased | 2 | (2,768) | | | | (2,766) | |
| Impact of ASC 718 implementation | | 66 | (66) | | | - | |
| Tax impact of compensation plans | | (407) | | | | (407) | |
| June 30, 2016 | $ 1,290 | $ 1,375,306 | $ 718,292 | $ (210,334) | $ 283,474 | $ 2,168,028 | $ - |
| | | | | | | | |
| December 31, 2016 | $ 1,293 | $ 1,390,411 | $ 871,766 | $ (363,701) | $ 328,659 | $ 2,228,428 | $ - |
| Comprehensive income | | | 433,975 | 220,348 | 101,540 | 755,863 | |
| Tax impact of purchase of non-controlling interest | | | 3,194 | | | 3,194 | |
| Dividends paid to non-controlling interests | | | | | (149,650) | (149,650) | |
| Dividends declared and paid: $0.60 per share | | | (78,267) | | | (78,267) | |
| Share-based compensation | | 27,598 | | | | 27,598 | |
| Exercise of employee share options: 266,337 shares issued | 3 | 12,589 | | | | 12,592 | |
| Other share-based compensation, net: 260,202 shares issued; 81,036 shares repurchased | 2 | (4,987) | | | | (4,985) | |
| June 30, 2017 | $ 1,298 | $ 1,425,611 | $ 1,230,668 | $ (143,353) | $ 280,549 | $ 2,794,773 | $ - |

*See notes to condensed consolidated financial statements.*

**SCRIPPS NETWORKS INTERACTIVE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 1. Description of Business and Basis of Presentation

As used in the notes to the condensed consolidated financial statements, the terms “SNI,” “Scripps,” “the Company,” “we,” “our,” “us” or similar terms may, depending on the context, refer to Scripps Networks Interactive, Inc., to one or more of its consolidated subsidiary companies or to all of them taken as a whole.

### *Description of Business*

SNI operates in the media industry and has interests in domestic and international television networks and internet-based media properties.

The Company has two reportable segments: U.S. Networks and International Networks.

U.S. Networks includes our six domestic television networks: HGTV, Food Network, Travel Channel, DIY Network, Cooking Channel and Great American Country. Additionally, U.S. Networks includes websites associated with the aforementioned television brands and other internet and digital businesses serving home, food, travel and other lifestyle-related categories. U.S. Networks also includes our digital content studio, Scripps Networks Lifestyle Studio. We own 100.0 percent of each of our networks, with the exception of Food Network and Cooking Channel, of which we own 68.7 percent.

International Networks includes TVN S.A. (“TVN”), which operates a portfolio of free-to-air and pay-TV lifestyle and entertainment networks in Poland, including TVN, TVN24, TVN Style, TTV, TVN Turbo, TVN24 Biznes i Świat and HGTV. Also included in TVN is TVN Media, an advertising sales house. Additionally, International Networks includes the lifestyle-oriented networks available in the United Kingdom (“UK”), other European markets, the Middle East and Africa (“EMEA”), Asia Pacific (“APAC”) and Latin America. International Networks also includes our 50.0 percent share of the results of UKTV, a general entertainment and lifestyle channel platform in the UK.

### *Basis of Presentation*

The condensed consolidated financial statements include the accounts of SNI and its majority-owned or controlled subsidiaries after elimination of intercompany accounts and transactions. Investments in which the Company lacks control but has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method of accounting. Investments in entities in which SNI has no control or significant influence over and is not the primary beneficiary are accounted for using the cost method of accounting.

The results of companies acquired or disposed of are included in the condensed consolidated financial statements from the effective date of acquisition or up to the date of disposal, respectively.

### *Unaudited Interim Financial Statements*

The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. These unaudited condensed consolidated financial statements and the related footnotes hereto should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

In the opinion of management, the accompanying condensed consolidated balance sheets and related interim condensed consolidated statements of operations, comprehensive income, cash flows and shareholders’ equity include all normal recurring adjustments necessary for their fair presentation in conformity with GAAP. The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

### *Use of Estimates*

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect the amounts and related disclosures reported in the condensed consolidated financial statements and accompanying footnotes, including the selection of appropriate accounting principles that reflect the economic substance of the underlying transactions and the assumptions on which to base accounting estimates. In reaching such decisions, judgment is applied based on analysis of the relevant circumstances, including historical experience, actuarial studies and other assumptions. Actual results could differ from estimates.

Interim results are not necessarily indicative of the results that may be expected for any future interim periods or for a full year.

## 2. Accounting Standards Updates

***Issued and Adopted***

In May 2017, the Financial Accounting Standards Board (the "FASB") issued new accounting guidance related to the scope of modification accounting for equity awards, *Compensation – Stock Compensation,* which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The guidance is effective December 15, 2017, and early adoption is permitted. We early adopted this guidance in the second quarter of 2017. This implementation did not have a material effect on our condensed consolidated financial statements or related disclosures.

In March 2017, the FASB issued new accounting guidance related to the presentation of net periodic pension costs and net periodic postretirement benefit costs, *Compensation – Retirement Benefits,* which requires that employers sponsoring postretirement benefit plans disaggregate the service cost component from the other components of net benefit cost. The standard also provides explicit guidance on how to present the service cost and other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization. The guidance is effective December 15, 2017, and early adoption is permitted. We early adopted this guidance in the first quarter of 2017. This implementation did not have a material effect on our condensed consolidated financial statements or related disclosures.

In January 2017, the FASB issued new accounting guidance related to intangibles, *Simplifying the Test for Goodwill Impairment,* which eliminates step two from the goodwill impairment test and requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit to its carrying amount. The guidance also eliminates the requirement to perform a qualitative assessment for any reporting unit with a zero or negative carrying amount. The guidance is effective January 1, 2020, and early adoption is permitted. We early adopted this guidance in the first quarter of 2017. This implementation did not have an effect on our condensed consolidated financial statements or related disclosures.

In January 2017, the FASB issued new accounting guidance related to business combinations, *Clarifying the Definition of a Business,* which clarifies the definition of a business. The guidance, which impacts acquisitions, disposals, goodwill and consolidation, provides a framework to determine when an integrated set of assets and activities is considered a business. The guidance is effective December 15, 2017, and early adoption is permitted. We adopted this guidance in the first quarter of 2017. This implementation did not have an effect on our condensed consolidated financial statements or related disclosures.

***Issued and Not Yet Adopted***

In March 2016, the FASB issued new accounting guidance related to revenue recognition, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations within the new revenue recognition guidance by clarifying the indicators. This guidance updates the revenue recognition guidance issued in May 2014, *Revenue from Contracts with Customers.* In May 2014, the FASB issued new accounting guidance related to revenue recognition, *Revenue from Contracts with Customers,* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The guidance will replace most existing revenue recognition guidance in GAAP. The guidance is effective January 1, 2018, and early adoption is permitted. We have partially completed our assessment of the new guidance to determine the impact it will have on our condensed consolidated financial statements and related disclosures, including identifying new processes and controls to support our revenue recognition under the new guidance. As a result of our assessment, we are tentatively planning on applying the modified retrospective method of adoption for this guidance. We have completed our assessment of the distribution revenue stream related to our top customers and concluded that it will be treated primarily as a license of intellectual property. As a result, we do not expect a material impact on the amount or timing of revenue recognized as a result of the adoption of this guidance. We expect the remainder of our assessment and the resulting changes to our processes and controls to be completed by late 2017.

In February 2016, the FASB issued new accounting guidance related to leases, *Leases,* which requires the recognition of an asset and liability arising from leasing arrangements for leases extending beyond an initial period of twelve months. The guidance will increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective January 1, 2019, and early adoption is permitted. We have partially completed our evaluation of the new guidance to determine the impact it will have on our condensed consolidated financial statements and related disclosures, including identifying new processes and controls to support our lease accounting under the new guidance. We expect the remainder of our assessment and the resulting changes to our processes and controls to be completed by late 2017.

## 3. Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing net income attributable to SNI by the weighted average number of common shares outstanding, including participating securities outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of the potential issuance of common shares. We include all unvested share-based awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, in the calculation of both basic and diluted EPS.

The following table presents information about basic and diluted weighted average shares outstanding:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *( in thousands )* | **2017** | **2016** | **2017** | **2016** |
| Basic weighted average shares outstanding | 130,233 | 129,562 | 130,079 | 129,434 |
| Effect of dilutive securities: | | | | |
| Unvested share units and shares held by employees | 319 | 230 | 299 | 212 |
| Stock options held by employees and directors | 332 | 349 | 412 | 325 |
| Diluted weighted average shares outstanding | 130,884 | 130,141 | 130,790 | 129,971 |
| Anti-dilutive share awards | 694 | 881 | 486 | 1,296 |

For both the three and six months ended June 30, 2017 and June 30, 2016, the anti-dilutive share-based awards were not included in the computation of diluted weighted average shares outstanding.

## 4. Employee Termination Program

### *Reorganization*

During the fourth quarter of 2015, we executed the reorganization (the "Reorganization") and committed to undertaking activities intended to streamline and integrate the management of our domestic networks, creating a cohesive and holistic organization. Our operating results reflect a very small impact for the three and six months ended June 30, 2017 and include expense of $3.9 million and $11.2 million for the three and six months ended June 30, 2016, respectively. The $3.9 million of expense for the three months ended June 31, 2016 was classified as $2.6 million of selling, general and administrative and $1.3 million of cost of services, while the $11.2 million of expense for the six months ended June 31, 2016 was classified as $8.2 million of selling, general and administrative and $3.0 million of cost of services. As a result of the Reorganization, net income attributable to SNI was reduced by $2.4 million and $6.9 million for the three and six months ended June 30, 2016, respectively. The Reorganization was completed in the first quarter of 2017.

A rollforward of the liability related to the Reorganization charges by segment is as follows:

| | June 30, 2017 | | | |
|---|---|---|---|---|
| *(in thousands)* | **U.S. Networks** | **International Networks** | **Corporate and Other** | **Total** |
| Liability as of December 31, 2016 | $ 1,955 | $ - | $ 1,585 | $ 3,540 |
| Net accruals | (142) | - | 39 | (103) |
| Payments | (1,813) | - | (1,624) | (3,437) |
| Liability as of June 30, 2017 | $ - | $ - | $ - | $ - |

| | June 30, 2016 | | | |
|---|---|---|---|---|
| *(in thousands)* | **U.S. Networks** | **International Networks** | **Corporate and Other** | **Total** |
| Liability as of December 31, 2015 | $ 3,258 | $ - | $ 8 | $ 3,266 |
| Net accruals | 7,467 | - | 3,740 | 11,207 |
| Payments | (8,537) | - | (2,617) | (11,154) |
| Non-cash (a) | (422) | - | (1,131) | (1,553) |
| Liability as of June 30, 2016 | $ 1,766 | $ - | $ - | $ 1,766 |

(a) Primarily represents the reclassification of current period charges for share-based compensation.

The liability for the Reorganization is included within accrued liabilities on our 2016 condensed consolidated balance sheets.

## 5. Fair Value Measurement

Fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value are classified in one of three categories described below.

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs, other than quoted market prices in active markets, that are observable either directly or indirectly. Quoted prices for similar instruments in active markets or model driven valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

There have been no transfers of assets or liabilities between the fair value measurement classifications during the periods presented.

***Recurring Measurements***

| | June 30, 2017 | | | |
|---|---|---|---|---|
| *(in thousands)* | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash equivalents | $ 19,637 | $ 19,637 | $ - | $ - |
| Total | $ 19,637 | $ 19,637 | $ - | $ - |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| *(in thousands)* | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash equivalents | $ 658 | $ 658 | $ - | $ - |
| Total | $ 658 | $ 658 | $ - | $ - |

***Other Financial Instruments***

The carrying values of our financial instruments do not materially differ from their estimated fair values as of June 30, 2017 and December 31, 2016, except for debt, which is disclosed in Note 9 – *Debt*, and certain mutual funds held as part of our executive deferred compensation plan, which are disclosed in Note 10 – *Employee Benefit Plans.*

***Non-Recurring Measurements***

The majority of the Company's non-financial instruments, which include goodwill, other intangible assets and property and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur, or at least annually for goodwill, such that a non-financial instrument is required to be evaluated for impairment, a resulting asset impairment would require that the non-financial instrument be recorded at the lower of carrying value or fair value.

## 6. Investments and Acquisitions

***Investments***

Investments consisted of the following:

| *(in thousands)* | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Equity method investments | $ 647,139 | $ 641,327 |
| Cost method investments | 76,601 | 58,154 |
| Total investments | $ 723,740 | $ 699,481 |

Investments accounted for using the equity method include the following:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| UKTV | 50.0% | 50.0% |
| HGTV Magazine | 50.0% | 50.0% |
| Food Network Magazine | 50.0% | 50.0% |
| Everytap | 40.0% | 40.0% |
| HGTV Canada | 33.0% | 33.0% |
| nC+ | 32.0% | 32.0% |
| Food Canada | 29.0% | 29.0% |
| Cooking Channel Canada | 29.0% | 29.0% |
| Onet | - | 25.0% |

***UKTV***

UKTV receives financing through a loan (the "UKTV Loan") provided by us. The UKTV Loan is reported within other non-current assets on our condensed consolidated balance sheets and totaled $98.6 million and $93.9 million as of June 30, 2017 and December 31, 2016, respectively. As a result of this financing arrangement and the level of equity investment at risk, we have determined that UKTV is a variable interest entity ("VIE"). SNI and its partner, BBC Worldwide Limited (the "BBC"), in the venture share equally in the profits of the entity, have equal representation on UKTV's board of directors and share voting control in such matters as approving annual budgets, initiating financing arrangements and changing the scope of the business. However, BBC maintains control over certain operational aspects of the business related to programming content, scheduling and the editorial and creative development of UKTV. Additionally, certain key management personnel of UKTV are employees of BBC. Since we do not control these activities that are critical to UKTV's operating performance, we have determined that we are not the primary beneficiary of the entity and, therefore, account for the investment under the equity method of accounting. The Company's investment in UKTV totaled $311.3 million and $305.1 million as of June 30, 2017 and December 31, 2016, respectively.

A portion of the purchase price from our 50.0 percent investment in UKTV was attributed to amortizable intangible assets, which are included in the carrying value of our UKTV investment. Amortization expense attributed to intangible assets recognized upon acquiring our interest in UKTV reduces the equity in earnings we recognize from our UKTV investment. Accordingly, equity in earnings of affiliates includes our $9.3 million and $13.1 million proportionate share of UKTV's results for the three months ended June 30, 2017 and June 30, 2016, respectively, which were reduced by amortization of $3.0 million and $3.4 million for the three months ended June 30, 2017 and June 30, 2016, respectively. Equity in earnings of affiliates includes our $21.5 million and $24.0 million proportionate share of UKTV's results for the six months ended June 30, 2017 and June 30, 2016, respectively, which were reduced by amortization of $6.0 million and $6.8 million for the six months ended June 30, 2017 and June 30, 2016, respectively.

Amortization that reduces the Company's equity in UKTV's earnings for future periods is expected to be as follows:

| ***( in thousands )*** | **Estimated Amortization*** |
|---|---|
| Remainder of 2017 | $ 6,302 |
| 2018 | $ 12,700 |
| 2019 | $ 12,891 |
| 2020 | $ 12,986 |
| 2021 | $ 11,865 |
| Thereafter | $ 82,875 |

* The functional currency of UKTV is the British Pound ("GBP"), so these amounts are subject to change as the GBP to U.S. Dollar ("USD") exchange rate fluctuates.

***nC+***

The Company, through its ownership of TVN, has an investment in nC+. A portion of the purchase price from our 32.0 percent investment in nC+ was attributed to amortizable intangible assets, which are included in the carrying value of our nC+ investment. Amortization expense attributed to intangible assets recognized upon acquiring our interest in nC+ reduces the equity in earnings we recognize from our nC+ investment. Accordingly, equity in earnings of affiliates includes our $5.7 million and $2.3 million proportionate share of nC+'s results for the three months ended June 30, 2017 and June 30, 2016, respectively.

Amortization that reduces the Company's equity in nC+'s earnings for future periods is expected to be as follows:

| ***( in thousands )*** | | **Estimated Amortization*** |
|---|---|---|
| Remainder of 2017 | $ | 2,186 |
| 2018 | $ | 4,122 |
| 2019 | $ | 4,122 |
| 2020 | $ | 4,122 |
| 2021 | $ | 4,122 |
| Thereafter | $ | 23,644 |

* The functional currency of nC+ is the Polish Zloty ("PLN"), so these amounts are subject to change as the PLN to USD exchange rate fluctuates.

In May 2017, the Company invested $7.0 million in Philo, a cutting-edge campus television solution providing access to students on devices that expand beyond traditional cable systems. In June 2017, the Company invested $10.0 million in fuboTV, Inc., a sports-centric internet television streaming service with popular live sports and entertainment content providing access via multiple devices. These investments were both accounted for under the cost method of accounting.

In February 2016, the Company sold its 7.3 percent equity interest in Fox-BRV Southern Sports Holdings ("Fox Sports South") to the controlling interest holder for $225.0 million upon the exercise of the Company's put right. The sale of this ownership interest resulted in a gain of $208.2 million for the six months ended June 30, 2016, which is recorded in gain (loss) on sale of investments in our condensed consolidated statements of operations and as a gain on sale of investments within operating activities in our condensed consolidated statements of cash flows. The $225.0 million of cash received from the sale of Fox Sports is included in sale of investments within investing activities in our condensed consolidated statements of cash flows. Further, the gain on sale resulted in tax expense of approximately $73.7 million for the six months ended June 30, 2016.

In April 2017, we completed the exercise of our put right and sold our 25.0 percent interest in Onet to the controlling interest holder for PLN 185.0 million. The sale of this ownership interest resulted in a gain of $1.4 million for the three and six months ended June 30, 2017, which is recorded in gain (loss) on sale of investments in our condensed consolidated statements of operations and as a gain on sale of investments within operating activities in our condensed consolidated statements of cash flows. The $48.2 million of cash received from the sale of Onet is included in sale of investments within investing activities in our condensed consolidated statements of cash flows.

***Acquisitions***

In May 2017, we acquired Spoon Media, Inc ("Spoon")., a campus-oriented food resource for millennials, for $11.5 million in cash, which is included in purchase of subsidiary companies, net of cash acquired within investing activities in our condensed consolidated statements of cash flows. As a result of the acquisition we recorded $10.3 million of goodwill.

## 7. Goodwill and Intangible Assets

Goodwill consisted of the following:

| | **June 30, 2017** | | |
|---|---|---|---|
| ***(in thousands)*** | **Gross** | **Accumulated Impairments (1)** | **Net** |
| Goodwill | $ 1,858,778 | $ (102,264) | $ 1,756,514 |

(1) All accumulated impairments to goodwill are within International Networks.

| | **December 31, 2016** | | |
|---|---|---|---|
| ***(in thousands)*** | **Gross** | **Accumulated Impairments (1)** | **Net** |
| Goodwill | $ 1,744,433 | $ (102,264) | $ 1,642,169 |

(1) All accumulated impairments to goodwill are within International Networks.

Activity related to goodwill by business segment consisted of the following:

| *(in thousands)* **Goodwill** | **U.S. Networks** | **International Networks** | **Corporate and Other** | **Total** |
|---|---|---|---|---|
| December 31, 2016 | $ 510,484 | $ 1,131,685 | $ - | $ 1,642,169 |
| Additions - business acquisitions | 10,320 | - | - | 10,320 |
| Foreign currency translation adjustment | - | 104,025 | - | 104,025 |
| June 30, 2017 | $ 520,804 | $ 1,235,710 | $ - | $ 1,756,514 |

Intangible assets consisted of the following:

| *(in thousands)* | | **June 30, 2017** | |
|---|---|---|---|
| **Intangible assets** | **Gross** | **Accumulated Amortization** | **Net** |
| Acquired network distribution rights | $ 739,868 | $ (256,978) | $ 482,890 |
| Customer and advertiser lists | 224,804 | (104,938) | 119,866 |
| Copyrights and other tradenames | 400,816 | (79,824) | 320,992 |
| Broadcast licenses | 129,570 | (11,986) | 117,584 |
| Acquired rights and other | 120,550 | (39,559) | 80,991 |
| Total | $ 1,615,608 | $ (493,285) | $ 1,122,323 |

| *(in thousands)* | | **December 31, 2016** | |
|---|---|---|---|
| **Intangible assets** | **Gross** | **Accumulated Amortization** | **Net** |
| Acquired network distribution rights | $ 717,834 | $ (232,856) | $ 484,978 |
| Customer and advertiser lists | 209,314 | (93,232) | 116,082 |
| Copyrights and other tradenames | 362,236 | (61,286) | 300,950 |
| Broadcast licenses | 114,832 | (7,861) | 106,971 |
| Acquired rights and other | 119,885 | (36,184) | 83,701 |
| Total | $ 1,524,101 | $ (431,419) | $ 1,092,682 |

Amortization expense associated with intangible assets for future periods is expected to be as follows:

| *( in thousands )* | **Estimated Amortization *** |
|---|---|
| Remainder of 2017 | $ 52,003 |
| 2018 | $ 95,774 |
| 2019 | $ 92,109 |
| 2020 | $ 88,339 |
| 2021 | $ 85,713 |
| Thereafter | $ 708,385 |

* The functional currency of certain foreign subsidiaries differs from the USD, so these amounts are subject to change as exchange rates fluctuate.

## 8. Accrued Liabilities

Accrued liabilities consisted of the following:

| *(in thousands)* | | June 30, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| Rent | $ | 17,523 | $ | 19,899 |
| Advertising rebates | | 17,609 | | 15,966 |
| Marketing and advertising | | 14,311 | | 14,385 |
| Interest | | 6,528 | | 6,644 |
| Taxes payable | | 4,425 | | 456 |
| Other accrued expenses | | 73,975 | | 95,130 |
| Total accrued liabilities | $ | 134,371 | $ | 152,480 |

## 9. Debt

Debt consisted of the following:

| | | | | June 30, 2017 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | Maturity | | Gross | | Unamortized Debt Issuance Costs | | Net Carrying Amount |

| *(in thousands)* | Maturity | | Gross | | June 30, 2017 Unamortized Debt Issuance Costs | | Net Carrying Amount |
|---|---|---|---|---|---|---|---|
| Amended Revolving Credit Facility | 2019 - 2020 | | 500,000 | $ | - | | 500,000 |
| 2.75% Senior Notes | 2019 | | 499,157 | | (1,750) | | 497,407 |
| 2.80% Senior Notes | 2020 | | 598,807 | | (2,884) | | 595,923 |
| 3.50% Senior Notes | 2022 | | 399,129 | | (2,700) | | 396,429 |
| 3.90% Senior Notes | 2024 | | 497,292 | | (2,933) | | 494,359 |
| 3.95% Senior Notes | 2025 | | 499,248 | | (3,637) | | 495,611 |
| Total debt | | | 2,993,633 | | (13,904) | | 2,979,729 |
| Current portion of debt | | | - | | - | | - |
| Debt (less current portion) | | $ | 2,993,633 | $ | (13,904) | $ | 2,979,729 |
| Fair value of debt * | | | | | | $ | 3,057,709 |

| *(in thousands)* | Maturity | | Gross | | December 31, 2016 Unamortized Debt Issuance Costs | | Net Carrying Amount |
|---|---|---|---|---|---|---|---|
| Amended Revolving Credit Facility | 2019 - 2020 | | 475,000 | $ | - | | 475,000 |
| Term Loan | 2017 | | 250,000 | | (68) | | 249,932 |
| 2.75% Senior Notes | 2019 | | 498,979 | | (2,124) | | 496,855 |
| 2.80% Senior Notes | 2020 | | 598,602 | | (3,378) | | 595,224 |
| 3.50% Senior Notes | 2022 | | 399,040 | | (2,975) | | 396,065 |
| 3.90% Senior Notes | 2024 | | 497,110 | | (3,133) | | 493,977 |
| 3.95% Senior Notes | 2025 | | 499,200 | | (3,867) | | 495,333 |
| Total debt | | | 3,217,931 | | (15,545) | | 3,202,386 |
| Current portion of debt | | | (250,000) | | 68 | | (249,932) |
| Debt (less current portion) | | $ | 2,967,931 | $ | (15,477) | $ | 2,952,454 |
| Fair value of debt * | | | | | | $ | 3,254,862 |

*The fair value of the Senior Notes was estimated using Level 2 inputs comprised of quoted prices in active markets, market indices and interest rate measurements for debt with similar remaining maturity.

***Revolving Credit Facility***

In May 2015, we entered into the Amended Revolving Credit Facility (the "Amended Revolving Credit Facility"). The Amended Revolving Credit Facility permits borrowings up to an aggregate principal amount of $900.0 million, which may be increased to $1,150.0 million at our option. The Amended Revolving Credit Facility matures in March 2020, with the exception of $32.5 million, which matures in March 2019.

Borrowings under the Amended Revolving Credit Facility incur interest charges based on the Company's credit rating, with drawn amounts incurring interest at LIBOR plus a range of 69 to 130 basis points and a facility fee ranging from 6 to 20 basis points, also subject to the Company's credit ratings.

The Company had outstanding borrowings under the Amended Credit Facility of $500.0 million and $475.0 million as of June 30, 2017 and December 31, 2016, respectively. Interest was calculated at a rate of approximately 2.15% and 1.54% for the three months ended June 30, 2017 and June 30, 2016, respectively. Interest was calculated at a rate of approximately 2.01% and 1.53% for the six months ended June 30, 2017 and June 30, 2016, respectively. Outstanding letters of credit under the Amended Revolving Credit Facility totaled $0.8 million and $0.8 million as of June 30, 2017 and December 31, 2016, respectively.

***Term Loan***

In June 2015, we entered into a $250.0 million senior unsecured Term Loan (the "Term Loan") agreement. The Term Loan had a maturity date of June 2017, with outstanding borrowings incurring interest at LIBOR plus a range of 62.5 to 137.5 basis points, subject to the Company's credit ratings. The weighted average interest rate on the Term Loan was 2.09% and 1.53% for the three months ended June 30, 2017 and June 30, 2016, respectively. The weighted average interest rate on the Term Loan was 1.98% and 1.52% for the six months ended June 30, 2017 and June 30, 2016, respectively. The Term Loan was repaid in accordance with its terms in the second quarter of 2017 and is classified within current portion of debt on our 2016 condensed consolidated balance sheet.

***Debt Issuance Costs***

Amounts capitalized and included as a reduction against debt on our condensed consolidated balance sheets included $13.9 million and $15.5 million of debt issuance costs as of June 30, 2017 and December 31, 2016, respectively. Debt issuance costs of $0.9 million and $1.1 million related to the Amended Credit Facility are included within other non-current assets on our condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016, respectively. We amortized $1.3 million and $2.5 million of debt issuance and debt discount costs within interest expense in our condensed consolidated statements of operations for the three and six months ended June 30, 2017, respectively. We amortized $ 1.9 million and $3.6 million of debt issuance and debt discount costs within interest expense in our condensed consolidated statements of operations for the three and six months ended June 30, 2016, respectively.

***Debt Covenants***

The Amended Revolving Credit Facility and all of our Senior Notes include certain affirmative and negative covenants, including limitations on the incurrence of additional indebtedness and maintenance of a maximum leverage ratio.

**10. Employee Benefit Plans**

We sponsor the Pension Plan, which covers certain of our U.S.-based employees. Expense recognized in relation to the Pension Plan is based upon actuarial valuations. Inherent in those valuations are key assumptions including discount rates and, where applicable, expected returns on assets and projected future salary rates. The discount rates used in the valuation of the Pension Plan are evaluated annually based on current market conditions. Benefits are generally based on the employee's compensation and years of service.

We also have a non-qualified Supplemental Executive Retirement Plan ("SERP"). The SERP, which is unfunded, provides defined pension benefits, in addition to what is provided under the Pension Plan, to eligible executives based on average earnings, years of service and estimated age at retirement.

In 2009, the Pension Plan was amended whereby no additional service benefits can be earned by participants after December 31, 2009. The amount of eligible compensation that is used to calculate a plan participant's pension benefit will continue to include any compensation earned by the employee through December 31, 2019, after which time all plan participants will have a frozen pension benefit.

The measurement date used for the Pension Plan and SERP is December 31. The expense components consisted of the following:

| | Pension Plan | | SERP | |
|---|---|---|---|---|
| | Three months ended June 30, | | Three months ended June 30, | |
| *(in thousands)* | 2017 | 2016 | 2017 | 2016 |
| Interest cost | $ 827 | $ 776 | $ 409 | $ 433 |
| Expected return on plan assets, net of expenses | (1,002) | (822) | - | - |
| Amortization of net loss | 765 | 530 | 607 | 516 |
| Total | $ 590 | $ 484 | $ 1,016 | $ 949 |

| | Pension Plan | | SERP | |
|---|---|---|---|---|
| | Six months ended June 30, | | Six months ended June 30, | |
| *(in thousands)* | 2017 | 2016 | 2017 | 2016 |
| Interest cost | $ 1,654 | $ 1,552 | $ 818 | $ 866 |
| Expected return on plan assets, net of expenses | (2,004) | (1,644) | - | - |
| Amortization of net loss | 1,530 | 1,060 | 1,215 | 1,032 |
| Total | $ 1,180 | $ 968 | $ 2,033 | $ 1,898 |

We made contributions of $0.5 million to fund the Pension Plan during the three months ended June 30, 2017 and did not make any contributions during the three months ended June 30, 2016. We made contributions of $0.5 million and $10.0 million to fund the Pension Plan during the six months ended June 30, 2017 and June 30, 2016, respectively We anticipate contributing $1.0 million to fund the Pension Plan during the remainder of 2017.

We made $0.1 million and $0.1 million in SERP benefit payments for the three months ended June 30, 2017 and June 30, 2016 respectively. We made $0.4 million and $1.8 million in SERP benefit payments for the six months ended June 30, 2017 and June 30, 2016 respectively. We anticipate making an additional $6.1 million in SERP benefit payments during the remainder of 2017.

***Executive Deferred Compensation Plan***

We have an unqualified executive deferred compensation plan (“Deferred Compensation Plan”) that is available to certain management level employees and directors of the Company. Under the Deferred Compensation Plan, participants may elect to defer receipt of a portion of their annual base compensation and/or bonus. The Deferred Compensation Plan is an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits. We use corporate-owned life insurance contracts held in a rabbi trust to support the plan. We had investments within this rabbi trust valued at $48.7 million as of June 30, 2017, including $36.8 million of cash surrender value of Company-owned life insurance contracts and $11.9 million held in mutual funds. We had investments within this rabbi trust valued at $45.0 million as of December 31, 2016, including $34.4 million of cash surrender value of Company-owned life insurance contracts and $10.6 million held in mutual funds. These mutual funds are valued using Level 1 and Level 2 inputs. These instruments are included within other non-current assets on our condensed consolidated balance sheets. Gains or losses related to these insurance contracts and mutual fund investments are included within miscellaneous, net in our condensed consolidated statements of operations. The unsecured obligation to pay the deferred compensation totaled $62.1 million and $48.7 million as of June 30, 2017 and December 31, 2016, respectively. The long-term portion of the unsecured obligation totaled $59.8 million and $47.0 million as of June 30, 2017 and December 31, 2016, respectively, and is included within other non-current liabilities on our condensed consolidated balance sheets. The short-term portion of the unsecured obligation to pay totaled $2.3 million and $1.7 million as of June 30, 2017 and December 31, 2016, respectively, and is included within accrued liabilities on our condensed consolidated balance sheets.

## 11. Other Non-Current Liabilities

Other non-current liabilities consisted of the following:

| *(in thousands)* | As of June 30, 2017 | As of December 31, 2016 |
|---|---|---|
| Pension and post-employment benefits | $ 82,615 | $ 82,734 |
| Deferred compensation | 59,798 | 47,008 |
| Uncertain tax positions | 159,365 | 151,821 |
| Other | 17,958 | 21,318 |
| Other non-current liabilities | $ 319,736 | $ 302,881 |

## 12. Derivative Financial Instruments

In order to minimize earnings and cash flow volatility resulting from currency exchange rate changes, we may enter into derivative instruments, principally forward and option foreign currency contracts. These contracts are designed to hedge anticipated foreign currency transactions and changes in the value of specific assets, liabilities and probable commitments. We do not enter into derivative instruments for speculative trading purposes.

The free-standing derivative forward contracts are used to offset our exposure to the change in value of specific foreign currency denominated assets and liabilities. These derivatives are not designated as hedges. Changes in the value of these contracts are recognized in earnings, thereby offsetting the current earnings effect of the related change in functional currency value of foreign currency denominated assets and liabilities. The gross notional amount of these contracts outstanding was zero as of June 30, 2017 and December 31, 2016, respectively. The cash flow settlements from these derivative contracts are primarily reported within investing activities in the condensed consolidated statements of cash flows.

We recognized $3.7 million and $6.0 million of net losses from derivatives for the three and six months ended June 30, 2017, respectively, and $8.2 million and $11.0 million of net gains from derivatives for the three and six months ended June 30, 2016, respectively, which are included within (loss) gain on derivatives in the condensed consolidated statements of operations. Additionally, we recorded foreign currency transaction net gains of $31.3 million and $61.0 million for the three and six months ended June 30, 2017, respectively, and foreign currency transaction net losses of $23.3 million and $14.4 million for the three and six months ended June 30, 2016, respectively, which are included within miscellaneous, net in our condensed consolidated statements of operations.

## 13. Redeemable Non-controlling Interests and Non-controlling Interest

***Redeemable Non-controlling Interests***

A non-controlling owner previously held a 35.0 percent residual interest in the Travel Channel. The owner of the non-controlling interest had a put option requiring us to purchase their interest, and we had a call option to acquire their interest. In February 2016, we exercised our call option for an agreed upon price of $99.0 million. We now own 100.0 percent of Travel Channel.

A non-controlling owner previously held a 30.0 percent interest in Food Network Latin America (“FNLA”). In December 2016, we purchased the remaining interest in FNLA from the non-controlling interest holders for $4.5 million.

The following table summarizes the activity for account balances whose fair value measurements are estimated utilizing Level 3 inputs:

| *(in thousands)* | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Beginning period balance | $ - | $ 99,000 |
| Net income | - | 2,162 |
| Fair value adjustments | - | (2,162) |
| Purchase of non-controlling interest | - | (99,000) |
| Ending period balance | $ - | $ - |

The net income amounts reflected in the table above are reported within net income attributable to non-controlling interests in our condensed consolidated statements of operations.

*Non-controlling Interest*

The Food Network and Cooking Channel are operated and organized under the terms of a general partnership (the "Partnership"). The Company and a non-controlling owner hold interests in the Partnership. During the fourth quarter of 2016, the Partnership agreement was extended and specifies a dissolution date of December 31, 2020. If the term of the Partnership is not extended prior to that date, the Partnership agreement permits the Company, as holder of 80.0 percent of the applicable votes, to reconstitute the Partnership and continue its business. If for some reason the Partnership is not continued, it will be required to limit its activities to winding up, settling debts, liquidating assets and distributing proceeds to the partners in proportion to their partnership interests.

## 14. Shareholders' Equity

*Capital Stock*

SNI's capital structure includes Common Voting Shares and Class A Common Shares. Our Amended and Restated Articles of Incorporation provide that the holders of Class A Common Shares, who are not entitled to vote on any other matters except as required by Ohio law, are entitled to elect the greater of three or one-third of the directors. The Common Voting Shares and Class A Common Shares have equal dividend distribution rights.

*Incentive Plans*

The SNI 2015 Amended Long-Term Incentive Plan (the "2015 Amended LTI Plan") provides for long-term equity incentive compensation for key employees and members of the Company's Board of Directors (the "Board"). The 2015 Amended LTI Plan authorizes the grant of discretionary awards for employees and non-employee directors in the form of incentive or non-qualified stock options, stock appreciation rights, restricted shares, restricted stock units ("RSUs"), performance shares, performance-based restricted stock units ("PBRSUs") and other share-based awards and dividend equivalents. The Company has reserved 8.0 million Class A Common Shares for issuance under the 2015 Amended LTI Plan.

The 2015 Amended LTI Plan will remain in effect until February 2025, unless terminated sooner by the Board. Termination will not affect outstanding grants and awards. The 2015 Amended LTI Plan replaced the SNI 2008 Long-Term Incentive Plan (the "Prior LTI Plan"), and no further awards will be made under the Prior LTI Plan. However, awards granted under the Prior LTI Plan remain outstanding in accordance with their terms.

We satisfy stock option exercises and vested stock awards with newly-issued shares. Shares available for future share compensation grants totaled 6.3 million at June 30, 2017.

During the six months ended June 30, 2017, the Company granted 0.4 million RSUs, including PBRSUs, under the 2015 Amended LTI Plan. During the six months ended June 30, 2016, the Company granted 0.6 million stock options and 0.4 million RSUs, including PBRSUs. The number of shares ultimately issued for PBRSUs will depend upon performance compared to specified metrics. The fair values for stock options are estimated on the grant date using a lattice-based binomial model. Assumptions utilized in the model are evaluated and revised, as necessary, to reflect market conditions and experience.

Share-based compensation was as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2017 | 2016 | 2017 | 2016 |
| Stock options | $ 324 | $ 1,540 | $ 604 | $ 6,335 |
| RSUs and PBRSUs | 7,162 | 5,430 | 26,994 | 18,344 |
| Total share-based compensation | $ 7,486 | $ 6,970 | $ 27,598 | $ 24,679 |

Unrecognized share-based compensation expense was as follows as of June 30, 2017:

| *(in thousands)* | Amount | Weighted-Average Period |
|---|---|---|
| Stock options | $ 1,002 | 1.1 years |
| RSUs and PBRSUs | 30,676 | 2.0 years |
| Total unrecognized share-based compensation | $ 31,678 | |

*Share Repurchase Programs*

We have share repurchase programs ("Repurchase Programs") authorized by the Board that permit us to acquire the Company's Class A Common Shares. We did not repurchase any shares during the six months ended June 30, 2017 and June 30, 2016, respectively.

As of June 30, 2017, $1,512.5 million in authorization remains available for repurchase under the Repurchase Programs. All shares repurchased under the Repurchase Programs are retired and returned to authorized and unissued shares. There is no expiration date for the Repurchase Programs, and we are under no commitment or obligation to repurchase any particular amount of Class A Common Shares under the Repurchase Programs.

## 15. Comprehensive Income

Changes in the accumulated other comprehensive income or loss ("AOCI") balance by component consisted of the following:

| | Three months ended June 30, 2017 | | | Three months ended June 30, 2016 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | Foreign Currency Translation | Pension Plan and SERP Liability | Total Accumulated Other Comprehensive (Loss) Income | Foreign Currency Translation | Pension Plan and SERP Liability | Total Accumulated Other Comprehensive (Loss) Income |
| Beginning period balance | $ (258,251) | $ (38,120) | $ (296,371) | $ (57,421) | $ (31,328) | $ (88,749) |
| Other comprehensive (loss) before reclassifications | 151,623 | — | 151,623 | (122,251) | — | (122,251) |
| Amounts reclassified from AOCI | — | 1,395 | 1,395 | — | 666 | 666 |
| Net current-period other comprehensive (loss) | 151,623 | 1,395 | 153,018 | (122,251) | 666 | (121,585) |
| Ending period balance | $ (106,628) | $ (36,725) | $ (143,353) | $ (179,672) | $ (30,662) | $ (210,334) |

| | Six months ended June 30, 2017 | | | Six months ended June 30, 2016 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | Foreign Currency Translation | Pension Plan and SERP Liability | Total Accumulated Other Comprehensive (Loss) Income | Foreign Currency Translation | Pension Plan and SERP Liability | Total Accumulated Other Comprehensive (Loss) Income |
| Beginning period balance | $ (324,708) | $ (38,993) | $ (363,701) | $ (98,239) | $ (31,994) | $ (130,233) |
| Other comprehensive (loss) income before reclassifications | 218,080 | — | 218,080 | (81,433) | — | (81,433) |
| Amounts reclassified from AOCI | — | 2,268 | 2,268 | — | 1,332 | 1,332 |
| Net current-period other comprehensive (loss) income | 218,080 | 2,268 | 220,348 | (81,433) | 1,332 | (80,101) |
| Ending period balance | $ (106,628) | $ (36,725) | $ (143,353) | $ (179,672) | $ (30,662) | $ (210,334) |

Amounts reported in the table above are net of income tax.

Amounts reclassified to net earnings for Pension Plan and SERP liability adjustments relate to the amortization of actuarial losses. These amounts are included within selling, general and administrative in our condensed consolidated statements of operations and totaled $1.4 million and $2.8 million for the three and six months ended June 30, 2017, respectively and $1.0 million and $2.0 million for the three and six months ended June 30, 2016, respectively (see Note 10 - *Employee Benefit Plans*).

## 16. Segment Information

The Company has two reportable segments: U.S. Networks and International Networks which are determined based on our management and internal reporting structure.

U.S. Networks includes our six domestic television networks: HGTV, Food Network, Travel Channel, DIY Network, Cooking Channel and Great American Country. Additionally, U.S. Networks includes websites associated with the aforementioned television brands and other internet and digital businesses serving home, food, travel and other lifestyle-related categories. U.S. Networks also includes our digital content studio, Scripps Lifestyle Studios. We own 100.0 percent of each of our networks, with the exception of Food Network and Cooking Channel, of which we own 68.7 percent. Each of our networks is distributed by cable and satellite operators, telecommunication suppliers and other digital providers, such as those providing streaming or on-demand services. U.S. Networks generates revenues primarily from advertising sales and distribution fees earned from the right to distribute our programming content. U.S. Networks also earns revenues from licensing content to third parties and brands for consumer products.

International Networks includes the TVN portfolio of networks and other lifestyle-oriented networks available in the UK, EMEA, APAC and Latin America. International Networks also includes our 50.0 percent share of the results of UKTV, a general entertainment and lifestyle channel platform in the UK.

Corporate and Other includes the results of businesses not separately identified as reportable segments for external financial reporting purposes and will continue to be disclosed separately from the results of U.S. Networks and International Networks. The Company generally does not allocate employee-related corporate overhead costs to its reportable segments, but rather classifies these expenses within Corporate and Other.

Intersegment revenue eliminations are included in Corporate and Other and totaled $7.3 million and $14.5 million for the three and six months ended June 30, 2017, respectively, and $6.5 million and $13.1 million for the three and six months ended June 30, 2016, respectively.

Our Chief Operating Decision Maker ("CODM"), whom we have identified as our Chief Executive Officer ("CEO"), evaluates the operating performance of our businesses and makes decisions about the allocation of resources to the businesses using a measure we refer to as segment profit (loss). Segment profit (loss) is defined as income (loss) from operations before income taxes excluding depreciation, amortization, goodwill write-downs, interest expense, equity in earnings of affiliates, gain (loss) on derivatives, gain (loss) on sale of investments and other miscellaneous non-operating expenses which are included in net income (loss) determined in accordance with GAAP.

Information regarding our segments is as follows:

| | Three months ended June 30, 2017 | | | |
|---|---|---|---|---|
| *(in thousands)* | U.S. Networks | International Networks | Corporate and Other | Consolidated |
| Operating revenues: | | | | |
| Advertising | $ 552,652 | $ 110,382 | $ — | $ 663,034 |
| Distribution | 211,902 | 27,783 | — | 239,685 |
| Other | 14,489 | 15,097 | (7,259) | 22,327 |
| Total operating revenues | 779,043 | 153,262 | (7,259) | 925,046 |
| Cost of services, excluding depreciation and amortization | 222,790 | 83,335 | (6,274) | 299,851 |
| Selling, general and administrative | 157,531 | 31,147 | 23,719 | 212,397 |
| Segment profit (loss) | 398,722 | 38,780 | (24,704) | 412,798 |
| Depreciation | 9,961 | 3,045 | 654 | 13,660 |
| Amortization | 9,994 | 15,064 | — | 25,058 |
| Operating income (loss) | 378,767 | 20,671 | (25,358) | 374,080 |
| Interest (expense) income, net | (144) | 206 | (24,265) | (24,203) |
| Equity in earnings of affiliates | 7,846 | 13,128 | — | 20,974 |
| Loss on derivatives | — | — | (3,672) | (3,672) |
| Gain on sale of investments | — | 1,416 | — | 1,416 |
| Miscellaneous, net | 3,481 | 7,896 | 20,804 | 32,181 |
| Income (loss) from operations before income taxes | $ 389,950 | $ 43,317 | $ (32,491) | $ 400,776 |
| | | | | |
| Additions to property and equipment: | $ 13,212 | $ 7,100 | $ — | $ 20,312 |

| (in thousands) | U.S. Networks | International Networks | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | Three months ended June 30, 2016 | | | |
| Operating revenues: | | | | |
| Advertising | $ 540,979 | $ 105,669 | $ — | $ 646,648 |
| Distribution | 196,073 | 27,378 | (5) | 223,446 |
| Other | 15,269 | 13,997 | (6,589) | 22,677 |
| Total operating revenues | 752,321 | 147,044 | (6,594) | 892,771 |
| Cost of services, excluding depreciation and amortization | 211,040 | 80,666 | (4,707) | 286,999 |
| Selling, general and administrative | 140,142 | 29,009 | 21,982 | 191,133 |
| Segment profit (loss) | 401,139 | 37,369 | (23,869) | 414,639 |
| Depreciation | 12,716 | 3,114 | 259 | 16,089 |
| Amortization | 10,022 | 15,632 | — | 25,654 |
| Operating income (loss) | 378,401 | 18,623 | (24,128) | 372,896 |
| Interest expense, net | (69) | (7,076) | (26,030) | (33,175) |
| Equity in earnings of affiliates | 9,014 | 12,698 | — | 21,712 |
| Gain on derivatives | — | — | 8,267 | 8,267 |
| Loss on sale of investments | (16,373) | — | — | (16,373) |
| Miscellaneous, net | 18,952 | 23,823 | (64,447) | (21,672) |
| Income (loss) from operations before income taxes | $ 389,925 | $ 48,068 | $ (106,338) | $ 331,655 |
| | | | | |
| Additions to property and equipment: | $ 8,567 | $ 4,385 | $ — | $ 12,952 |

| (in thousands) | U.S. Networks | International Networks | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | Six months ended June 30, 2017 | | | |
| Operating revenues: | | | | |
| Advertising | $ 1,064,707 | $ 195,042 | $ — | $ 1,259,749 |
| Distribution | 423,042 | 55,023 | — | 478,065 |
| Other | 28,183 | 28,722 | (14,553) | 42,352 |
| Total operating revenues | 1,515,932 | 278,787 | (14,553) | 1,780,166 |
| Cost of services, excluding depreciation and amortization | 428,112 | 162,669 | (11,891) | 578,890 |
| Selling, general and administrative | 305,524 | 61,828 | 52,415 | 419,767 |
| Segment profit (loss) | 782,296 | 54,290 | (55,077) | 781,509 |
| Depreciation | 21,460 | 5,917 | 1,243 | 28,620 |
| Amortization | 19,912 | 29,343 | — | 49,255 |
| Operating income (loss) | 740,924 | 19,030 | (56,320) | 703,634 |
| Interest (expense) income, net | (264) | 353 | (48,544) | (48,455) |
| Equity in earnings of affiliates | 13,089 | 28,334 | — | 41,423 |
| Loss on derivatives | — | — | (6,008) | (6,008) |
| Gain on sale of investments | — | 1,416 | — | 1,416 |
| Miscellaneous, net | 5,964 | 27,799 | 25,958 | 59,721 |
| Income (loss) from operations before income taxes | $ 759,713 | $ 76,932 | $ (84,914) | $ 751,731 |
| | | | | |
| Additions to property and equipment: | $ 25,468 | $ 14,447 | $ 5,844 | $ 45,759 |

| (in thousands) | U.S. Networks | International Networks | Corporate and Other | Consolidated |
|---|---|---|---|---|
| | Six months ended June 30, 2016 | | | |
| Operating revenues: | | | | |
| Advertising | $ 1,028,264 | $ 190,239 | $ — | $ 1,218,503 |
| Distribution | 398,169 | 53,350 | (5) | 451,514 |
| Other | 28,083 | 24,793 | (13,244) | 39,632 |
| Total operating revenues | 1,454,516 | 268,382 | (13,249) | 1,709,649 |
| Cost of services, excluding depreciation and amortization | 414,399 | 161,724 | (9,457) | 566,666 |
| Selling, general and administrative | 279,481 | 59,500 | 50,973 | 389,954 |
| Segment profit (loss) | 760,636 | 47,158 | (54,765) | 753,029 |
| Depreciation | 26,911 | 5,955 | 520 | 33,386 |
| Amortization | 20,043 | 36,673 | — | 56,716 |
| Operating income (loss) | 713,682 | 4,530 | (55,285) | 662,927 |
| Interest expense, net | (86) | (13,943) | (52,891) | (66,920) |
| Equity in earnings of affiliates | 16,746 | 30,644 | — | 47,390 |
| Gain on derivatives | — | — | 11,033 | 11,033 |
| Gain on sale of investments | 191,824 | — | — | 191,824 |
| Miscellaneous, net | 22,440 | 54,880 | (92,926) | (15,606) |
| Income (loss) from operations before income taxes | $ 944,606 | $ 76,111 | $ (190,069) | $ 830,648 |
| | | | | |
| Additions to property and equipment: | $ 17,238 | $ 7,059 | $ — | $ 24,297 |

| (in thousands) | Three months ended June 30, 2017 | 2016 |
|---|---|---|
| Operating revenues by geographic location: | | |
| United States | $ 782,550 | $ 755,427 |
| Poland | 123,938 | 120,095 |
| Other International | 18,558 | 17,249 |
| Total operating revenues | $ 925,046 | $ 892,771 |

| (in thousands) | Six months ended June 30, 2017 | 2016 |
|---|---|---|
| Operating revenues by geographic location: | | |
| United States | $ 1,520,644 | $ 1,457,315 |
| Poland | 223,222 | 217,853 |
| Other International | 36,300 | 34,481 |
| Total operating revenues | $ 1,780,166 | $ 1,709,649 |

| (in thousands) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Long-lived assets by geographic location: | | |
| United States | $ 1,821,665 | $ 1,809,919 |
| Poland | 2,359,587 | 2,172,743 |
| Other International | 389,153 | 384,242 |
| Total long-lived assets | $ 4,570,405 | $ 4,366,904 |

| (in thousands) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Assets by segment: | | |
| U.S. Networks | $ 2,904,340 | $ 2,800,137 |
| International Networks | 3,257,923 | 2,991,607 |
| Corporate and Other | 354,306 | 408,550 |
| Total assets | $ 6,516,569 | $ 6,200,294 |

No single customer provides more than 10.0 percent of our revenues.

Assets held by our businesses and physically located outside of the United States totaled $3,224.1 million and $2,955.8 million at June 30, 2017 and December 31, 2016, respectively.

**17. Subsequent Events**

On July 30, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Discovery Communications, Inc., (“Discovery”) and Skylight Merger Sub, Inc., a wholly-owned subsidiary of Discovery (“Merger Sub”) pursuant to which Merger Sub will merge with and into the Company with the Company surviving as a wholly-owned subsidiary of Discovery (the “Merger”). The transaction reflects a total enterprise value for the Company of approximately $14.6 billion.

Subject to the terms and conditions set forth in the Merger Agreement, including the collar mechanism described below, holders of the Company’s Class A Common Shares and Common Voting Shares, collectively the “SNI Shares” will receive $63.00 in cash and $27.00 (based on Discovery’s July 21, 2017 closing price) in Discovery’s Series C Common Shares (“Series C Shares”) for each SNI Share, (the “Merger Consideration”).

The stock portion of the Merger Consideration will be subject to a collar based on the volume weighted average price of Discovery’s Series C Shares measured cumulatively over the 15 trading days ending on the third trading day prior to closing (the “Average Discovery Price”). Holders of SNI Shares will receive 1.2096 Series C Shares if the Average Discovery Price is less than $22.32, and 0.9408 Series C Shares if the Average Discovery Price is greater than $28.70. If the Average Discovery Price is greater than or equal to $22.32 but less than or equal to $28.70, holders of SNI Shares will receive a number of Series C Shares between 1.2096 and 0.9408 equal to $27.00 in value. If the Average Discovery Price is between $22.32 and $25.51, Discovery has the option to pay additional cash instead of issuing more shares.

The Merger was approved unanimously by the Board of Directors of SNI and unanimously among those voting by the Board of Directors of Discovery and is subject to review by regulatory authorities in the U.S. and other jurisdictions. The transaction is expected to close in the first quarter of 2018. The full terms of the agreement are included in the Merger Agreement dated July 30, 2017, which was included as Exhibit 2.1 to the Form 8-K filed with the SEC on July 31, 2017.

In connection with the Merger Agreement, we have made certain representations, warranties and covenants, including, among other things, customary covenants to conduct business in the ordinary course consistent with past practice and to refrain from taking specified actions without Discovery’s consent during the period prior to closing.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of financial condition and results of operations is based on the condensed consolidated financial statements and the notes thereto. This discussion and analysis should be read in conjunction with those condensed consolidated financial statements.

## FORWARD-LOOKING STATEMENTS

This discussion and the information contained in the condensed consolidated financial statements and notes thereto contain certain forward-looking statements that are based on our current expectations. Forward-looking statements are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from expectations expressed in forward-looking statements. Such risks, trends and uncertainties, which in most instances are beyond our control, include without limitation, changes in advertising demand and other economic conditions; changing consumers' tastes and viewing habits; program costs; labor relations; technological developments; risks related to international operations; competitive pressures; industry consolidation; interest rates; regulatory rulings; reliance on third-party vendors for various products and services; and other risks, trends and uncertainties disclosed in our annual report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K") and other filings with the Securities and Exchange Commission. The words "believe," "expect," "anticipate," "estimate," "intend" and similar expressions identify forward-looking statements. All forward-looking statements, which are as of the date of this filing, should be evaluated with the understanding of their inherent uncertainty. We undertake no obligation to publicly update any forward-looking statements to reflect events or circumstances after the date as of which the statement is made.

## OVERVIEW

We are a global media company with respected high-profile brands and are a leading developer of lifestyle-oriented content, providing primarily home, food, travel and other lifestyle-related programming. Our content is distributed via multiple methods, including television, the internet, digital platforms and licensing arrangements. The SNI portfolio of networks includes HGTV, Food Network, Travel Channel, DIY Network, Cooking Channel and Great American Country within and outside the United States, with the exception of Great American Country, which is only distributed in the United States, and Fine Living, Asian Food Channel ("AFC") and TVN's portfolio of networks outside the United States. Additionally, outside the United States, we participate in UKTV, a joint venture with the BBC. Our businesses engage audiences and efficiently serve advertisers by producing and delivering entertaining and highly-useful content that focuses on specifically-defined topics of interest.

We intend to expand and enhance our lifestyle brands by: growing our brands through the creation of popular new programming and content; reaching additional demographics; extending distribution on various platforms, such as over-the-top and digital entrants providing streaming and/or on-demand services; and increasing our international footprint. We have a large library of content which we produced and own the rights to indefinitely, enabling us to exploit original programming quickly and/or repackage content in a cost-effective manner.

We are focused on strengthening our networks and expanding reach, including in both the digital arena and international market. As part of our effort to expand in the digital arena, we launched Scripps Lifestyle Studios in the fourth quarter of 2015.

The Company has two reportable segments: U.S. Networks and International Networks.

The growth of our international business, through acquisition and joint ventures, as well as organically, has been and continues to be, a strategic priority for the Company. In the second quarter of 2017, we launched Food Network as a free-to-air channel in Italy. In the first quarter of 2017, we launched HGTV in Poland, expanding the reach of our brand internationally. During the fourth quarter of 2016, Cooking Channel launched in Canada in partnership with Corus Entertainment, marking the first time this network was made available outside the United States and Caribbean. Also in the fourth quarter of 2016, we launched HGTV in the Middle East and North Africa. In the second quarter of 2016, HGTV launched as a free-to-air channel in New Zealand in partnership with Top TV and Blue Ant Media. During 2015, we acquired TVN, a Polish media company, which operates a portfolio of 13 free-to-air and pay-TV lifestyle and entertainment networks. Also in 2015, we expanded distribution of Travel Channel as a 24/7 free-to-air channel in the UK; expanded distribution of Food Network across Latin America and HGTV in APAC; launched Food Network in Australia in partnership with SBS; and secured a large volume output deal with Nine in Australia to launch Food Network and HGTV-branded programming blocks on newly-launched 9LIFE, Australia's first free-to-air lifestyle network.

Consolidated operating revenues increased $32.3 million, or 3.6 percent, while consolidated income from operations before income taxes increased $69.1 million, or 20.8 percent, for the three months ended June 30, 2017 compared with the same period in 2016, primarily driven by a $54.6 million increase in foreign currency transaction net gains, which are included in miscellaneous, net, a $9.0

million decrease in interest expense, net, as a result of debt repayment in 2016 and a $1.4 million gain on sale of investments in the second quarter of 2017 compared with a $16.4 million loss on sale of investments in the second quarter of 2016.

Consolidated operating revenues increased $70.5 million, or 4.1 percent, while consolidated income from operations before income taxes decreased $78.9 million, or 9.5 percent, for the six months ended June 30, 2017 compared with the same period in 2016, primarily driven by the $191.8 million gain on sale of investments in 2016, partially offset by the aforementioned increase in consolidated operating revenues, a $75.4 million increase in foreign currency transaction net gains, which are included within other miscellaneous, net and an $18.5 million decrease in interest expense, net, as a result of debt repayments in 2016.

U.S. Networks continues to account for the majority of the Company's performance. U.S. Networks generated operating revenues of $779.0 million, representing 84.2 percent of consolidated operating revenues, for the three months ended June 30, 2017 compared with $752.3 million, representing 84.3 percent of consolidated operating revenues, for the three months ended June 30, 2016. U.S. Networks generated operating revenues of $1,515.9 million, representing 85.2 percent of consolidated operating revenues, for the six months ended June 30, 2017 compared with $1,454.5 million, representing 85.1 percent of consolidated operating revenues, for the six months ended June 30, 2016.

International Networks generated operating revenues of $153.3 million, representing 16.6 percent of consolidated operating revenues, for the three months ended June 30, 2017 compared with $147.0 million, representing 16.5 percent of consolidated operating revenues, for the three months ended June 30, 2016. International Networks generated operating revenues of $278.8 million, representing 15.7 percent of consolidated operating revenues, for the six months ended June 30, 2017 compared with $268.4 million, representing 15.7 percent of consolidated operating revenues, for the six months ended June 30, 2016.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect amounts and related disclosures reported in the condensed consolidated financial statements and accompanying footnotes, including the selection of appropriate accounting principles that reflect the economic substance of the underlying transactions and assumptions on which to base accounting estimates. In reaching such decisions, judgment is applied based on analysis of the relevant circumstances, including historical experience, actuarial studies and other assumptions. We are committed to incorporating accounting principles, assumptions and estimates that promote the representational faithfulness, verifiability, neutrality and transparency of the accounting information included in our condensed consolidated financial statements.

Note 2- *Summary of Significant Accounting Policies* to the consolidated financial statements included in the 2016 Form 10-K describes the significant accounting policies we have selected for use in the preparation of our condensed consolidated financial statements and related disclosures. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made and if different estimates that reasonably could have been used could materially change the financial statements. We believe the accounting for programs and program licenses, acquisitions, goodwill, finite-lived intangible assets, income taxes and revenue recognition to be our most critical accounting policies and estimates. A detailed description of these accounting policies is included in the Critical Accounting Policies and Estimates section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2016 Form 10-K. We adopted four accounting standard updates during the six months ended June 30, 2017 (see Note 2 – *Accounting Standards Updates)*.

**RESULTS OF OPERATIONS**

***Consolidated Results of Operations***
***Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016***

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| *( in thousands)* | **2017** | **2016** | **$ Change Fav / (Unfav)** | **% Change Fav / (Unfav)** |
| Operating revenues: | | | | |
| Advertising | $ 663,034 | $ 646,648 | $ 16,386 | 2.5% |
| Distribution | 239,685 | 223,446 | 16,239 | 7.3% |
| Other | 22,327 | 22,677 | (350) | (1.5)% |
| Total operating revenues | 925,046 | 892,771 | 32,275 | 3.6% |
| Operating expenses: | | | | |
| Cost of services, excluding depreciation and amortization | 299,851 | 286,999 | (12,852) | (4.5)% |
| Selling, general and administrative | 212,397 | 191,133 | (21,264) | (11.1)% |
| Depreciation | 13,660 | 16,089 | 2,429 | 15.1% |
| Amortization | 25,058 | 25,654 | 596 | 2.3% |
| Total operating expenses | 550,966 | 519,875 | (31,091) | (6.0)% |
| Operating income | 374,080 | 372,896 | 1,184 | 0.3% |
| Interest expense, net | (24,203) | (33,175) | 8,972 | 27.0% |
| Equity in earnings of affiliates | 20,974 | 21,712 | (738) | (3.4)% |
| (Loss) gain on derivatives | (3,672) | 8,267 | (11,939) | (144.4)% |
| Gain (loss) on sale of investments | 1,416 | (16,373) | 17,789 | 108.6% |
| Miscellaneous, net | 32,181 | (21,672) | 53,853 | 248.5% |
| Income from operations before income taxes | 400,776 | 331,655 | 69,121 | 20.8% |
| Provision for income taxes | 115,099 | 98,303 | (16,796) | (17.1)% |
| Net income | 285,677 | 233,352 | 52,325 | 22.4% |
| Less: net income attributable to non-controlling interests | (51,602) | (48,744) | (2,858) | (5.9)% |
| Net income attributable to SNI | $ 234,075 | $ 184,608 | $ 49,467 | 26.8% |

Consolidated total operating revenues increased $32.3 million, or 3.6 percent, for the three months ended June 30, 2017 compared with the same period in 2016, with growth in both advertising sales and distribution fees.

Consolidated advertising sales increased $16.4 million, or 2.5 percent, for the three months ended June 30, 2017 compared with the respective period in 2016, primarily driven by strong pricing in the U.S. market, partially offset by impressions delivered. Advertising sales are affected by the strength of advertising markets and general economic conditions and fluctuate based on the success of our programming, as measured by viewership, and seasonality. The amount of advertising sales we earn is a function of pricing negotiated with advertisers, number of advertising spots sold and impressions delivered. Consolidated advertising sales represented 71.7 percent and 72.4 percent of consolidated total operating revenues during the three months ended June 30, 2017 and June 30, 2016, respectively.

Consolidated advertising sales growth was supplemented by a $16.2 million, or 7.3 percent, increase in consolidated distribution fees for the three months ended June 30, 2017 compared with the respective period in 2016, primarily driven by negotiated contractual rate increases, and, to a lesser extent, revenues generated by over-the-top and non-linear distribution platforms, partially offset by a decrease in the number of subscribers receiving our networks. Distribution agreements with cable and satellite distributors and telecommunication service providers require distributors to pay us fees over the terms of the agreements in exchange for certain rights to distribute our content. The revenues earned from our distribution agreements depend on the rates negotiated in the agreements and the number of subscribers that receive our networks. Consolidated distribution fees represented 25.9 percent and 25.0 percent of consolidated total operating revenues during the three months ended June 30, 2017 and June 30, 2016, respectively.

Cost of services, which consists of program amortization and the costs associated with distributing our content, increased $12.9 million, or 4.5 percent, for the three months ended June 30, 2017 compared with the respective period in 2016. Program amortization, which represents the largest expense and is the primary driver of fluctuations in cost of services, increased $14.6 million, or 6.6 percent, for the three months ended June 30, 2017 compared with the same period in 2016 and represented 43.1 percent and 42.8 percent of consolidated total operating expenses during the three months ended June 30, 2017 and June 30, 2016, respectively. Cost of services included $1.3 million of Reorganization costs incurred during the three months ended June 30, 2016.

Selling, general and administrative, which primarily consists of employee costs, marketing and advertising expenses, administrative costs and costs of facilities, increased $21.3 million, or 11.1 percent, for the three months ended June 30, 2017 compared with the respective period in 2016, primarily driven by marketing and technology expenses. Selling, general and administrative included $2.6 million of Reorganization costs and $0.8 million of TVN transaction and integration expenses incurred during the three months ended June 30, 2016.

Interest expense, net primarily reflects the interest incurred on our outstanding borrowings. Interest expense, net decreased $9.0 million, or 27.0 percent, for the three months ended June 30, 2017 compared with the same period in 2016 driven by less debt outstanding as of June 30, 2017. Our debt outstanding as of June 30, 2017, included $1,500.0 million of Senior Notes issued in June 2015, comprised of $600.0 million aggregate principal amount of 2.80% Senior Notes due 2020 (the "2020 Notes"), $400.0 million aggregate principal amount of 3.50% Senior Notes due 2022 (the "2022 Notes") and $500.0 million aggregate principal amount of 3.95% Senior Notes due 2025 (the "2025 Notes"). Also outstanding as of June 30, 2017, were $500.0 million aggregate principal amount of 2.75% Senior Notes due 2019 (the "2019 Notes") and $500.0 million aggregate principal amount of 3.90% Senior Notes due 2024 (the "2024 Notes"), as well as $500.0 million drawn on the Amended Revolving Credit Facility. In addition to what was outstanding as of June 30, 2017, we had $500.0 million aggregate principal amount of Senior Notes due 2016 (the "2016 Notes"), the 7.85% TVN Senior Notes due 2020 (the "2020 TVN Notes") and the Term Loan outstanding as of June 30, 2016. Interest expense, net also includes interest income of $1.2 million and $1.3 million related to the UKTV Loan for the three months ended June 30, 2017 and 2016, respectively.

Gain (loss) on sale of investments increased $17.8 million for the three months ended June 30, 2017 compared with the same period in 2016, primarily driven by a $16.4 million loss recognized on the sale of our interest in a cost method investment in the second quarter of 2016.

Miscellaneous, net includes foreign currency transaction gains and losses, which totaled $31.3 million of net gains and $23.3 million of net losses for the three months ended June 30, 2017 and June 30, 2016, respectively.

Our effective income tax rate was 28.7 percent for the three months ended June 30, 2017 compared with 29.6 percent for the three months ended June 30, 2016, primarily driven by an increase in tax benefits resulting from differences in the U.S. statutory rate and that of foreign jurisdictions as well as recognition of tax benefits related to certain investments in foreign jurisdictions, partially offset by changes in uncertain tax positions.

***Consolidated Results of Operations***
***Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016***

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| *( in thousands)* | **2017** | **2016** | **$ Change Fav / (Unfav)** | **% Change Fav / (Unfav)** |
| Operating revenues: | | | | |
| Advertising | $ 1,259,749 | $ 1,218,503 | $ 41,246 | 3.4% |
| Distribution | 478,065 | 451,514 | 26,551 | 5.9% |
| Other | 42,352 | 39,632 | 2,720 | 6.9% |
| Total operating revenues | 1,780,166 | 1,709,649 | 70,517 | 4.1% |
| Operating expenses: | | | | |
| Cost of services, excluding depreciation and amortization | 578,890 | 566,666 | (12,224) | (2.2)% |
| Selling, general and administrative | 419,767 | 389,954 | (29,813) | (7.6)% |
| Depreciation | 28,620 | 33,386 | 4,766 | 14.3% |
| Amortization | 49,255 | 56,716 | 7,461 | 13.2% |
| Total operating expenses | 1,076,532 | 1,046,722 | (29,810) | (2.8)% |
| Operating income | 703,634 | 662,927 | 40,707 | 6.1% |
| Interest expense, net | (48,455) | (66,920) | 18,465 | 27.6% |
| Equity in earnings of affiliates | 41,423 | 47,390 | (5,967) | (12.6)% |
| (Loss) gain on derivatives | (6,008) | 11,033 | (17,041) | (154.5)% |
| Gain on sale of investments | 1,416 | 191,824 | (190,408) | (99.3)% |
| Miscellaneous, net | 59,721 | (15,606) | 75,327 | 482.7% |
| Income from operations before income taxes | 751,731 | 830,648 | (78,917) | (9.5)% |
| Provision for income taxes | 216,239 | 257,350 | 41,111 | 16.0% |
| Net income | 535,492 | 573,298 | (37,806) | (6.6)% |
| Less: net income attributable to non-controlling interests | (101,517) | (97,793) | (3,724) | (3.8)% |
| Net income attributable to SNI | $ 433,975 | $ 475,505 | $ (41,530) | (8.7)% |

Consolidated total operating revenues increased $70.5 million, or 4.1 percent, for the six months ended June 30, 2017 compared with the same period in 2016, with growth in both advertising sales and distribution fees.

Consolidated advertising sales increased $41.2 million, or 3.4 percent, for the six months ended June 30, 2017 compared with the respective period in 2016, primarily driven by strong pricing in the U.S. market, partially offset by impressions delivered. Consolidated advertising sales represented 70.8 percent and 71.3 percent of consolidated total operating revenues during the six months ended June 30, 2017 and June 30, 2016, respectively.

Consolidated advertising sales growth was supplemented by a $26.6 million, or 5.9 percent, increase in consolidated distribution fees for the six months ended June 30, 2017 compared with the respective period in 2016, primarily driven by negotiated contractual rate increases, and, to a lesser extent, revenues generated by over-the-top and non-linear distribution platforms, partially offset by a decrease in the number of subscribers receiving our networks. Consolidated distribution fees represented 26.9 percent and 26.4 percent of consolidated total operating revenues during the six months ended June 30, 2017 and June 30, 2016, respectively.

Cost of services, increased $12.2 million, or 2.2 percent, for the six months ended June 30, 2017 compared with the respective period in 2016. Program amortization increased $12.3 million, or 2.8 percent, for the six months ended June 30, 2017 compared with the same period in 2016 and represented 42.2 percent and 42.2 percent of consolidated total operating expenses during the six months ended June 30, 2017 and June 30, 2016, respectively. Cost of services included $3.0 million of Reorganization costs incurred during the six months ended June 30, 2016.

Selling, general and administrative increased $29.8 million, or 7.6 percent, for the six months ended June 30, 2017 compared with the respective period in 2016, primarily driven by marketing and technology expenses. Selling, general and administrative included $8.3 million of Reorganization costs and $2.1 million of TVN transaction and integration expenses incurred during the six months ended June 30, 2016.

Interest expense, net primarily reflects the interest incurred on our outstanding borrowings. Interest expense, net decreased $18.5 million, or 27.6 percent, for the six months ended June 30, 2017 compared with the same period in 2016 driven by less debt outstanding as of June 30, 2017. Our debt outstanding as of June 30, 2017, included the 2020 Notes, the 2022 Notes and the 2025 Notes. Also outstanding as of June 30, 2017, were the 2019 Notes and the 2024 Notes, as well as $500.0 million drawn on the Amended Revolving Credit Facility. In addition to what was outstanding as of June 30, 2017, we had the 2016 Notes, the 2020 TVN Notes and the Term Loan outstanding as of June 30, 2016. Interest expense, net also includes interest income of $2.3 million and $2.6 million related to the UKTV Loan for the six months ended June 30, 2017 and 2016, respectively.

Gain on sale of investments decreased $190.4 million for the six months ended June 30, 2017 compared with the same period in 2016 primarily due to the sale of our 7.3 percent equity interest in Fox Sports South in the first quarter of 2016.

Miscellaneous, net includes foreign currency transaction gains and losses, which totaled $61.0 million of net gains and $14.4 million of net losses for the six months ended June 30, 2017 and June 30, 2016, respectively.

Our effective income tax rate was 28.8 percent for the six months ended June 30, 2017 compared with 31.0 percent for the six months ended June 30, 2016, primarily driven by an increase in tax benefits resulting from differences in the U.S. statutory rate and that of foreign jurisdictions as well as the recognition of tax benefits related to certain investments in foreign jurisdictions, partially offset by changes in uncertain tax positions.–

**Business Segment Results**

As discussed in Note 16 - *Segment Information* to the condensed consolidated financial statements, our CODM evaluates the operating performance of our businesses and makes decisions about the allocation of resources to the businesses using a measure we refer to as segment profit (loss). Segment profit (loss) is defined as income (loss) from operations before income taxes, excluding depreciation, amortization, goodwill write-downs, interest expense, equity in earnings of affiliates, gain (loss) on derivatives, gain (loss) on sale of investments, other miscellaneous non-operating expenses and income taxes, which are included in net income (loss) determined in accordance with GAAP.

Depreciation and amortization charges are a result of decisions made in prior periods regarding the allocation of resources and are, therefore, excluded from segment profit (loss). Also excluded from segment profit (loss) are financing, tax structuring and acquisition and divestiture decisions, which are generally made by corporate executives. Excluding these items from the performance measure of our businesses enables management to evaluate operating performance based on current economic conditions and decisions made by the managers of the businesses in the current period.

Consolidated segment profit (loss) is the aggregate of the segment profit for each of our two reportable segments. Consolidated segment profit (loss) is a financial measure that is not intended to replace income (loss) from operations before income taxes, the most directly comparable GAAP financial measure. Our management believes that segment profit (loss) is a useful measure of the operating profitability of our business since the measure allows for an evaluation of the performance of our segments without regard to the effect of interest, depreciation and amortization and certain other items. For this reason, operating performance measures, such as consolidated segment profit (loss), are used by analysts and investors in our industry. Consolidated segment profit (loss) is not a measure of consolidated operating results under GAAP and should not be considered superior to, as a substitute for or as an alternative to, income (loss) from operations before income taxes or any other measure of consolidated operating results under GAAP.

Information regarding the operating performance of our business segments, including a reconciliation of consolidated segment profit to income from operations before income taxes in accordance with GAAP, is as follows:

***Consolidated Results of Operations***
***Three months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016***

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| *(in thousands)* | 2017 | 2016 | $ Change Fav / (Unfav) | % Change Fav / (Unfav) |
| Operating revenues: | | | | |
| U.S. Networks | $ 779,043 | $ 752,321 | $ 26,722 | 3.6% |
| International Networks | 153,262 | 147,044 | 6,218 | 4.2% |
| Corporate and Other | (7,259) | (6,594) | (665) | (10.1)% |
| Operating revenues | 925,046 | 892,771 | 32,275 | 3.6% |
| Cost of services, excluding depreciation and amortization | 299,851 | 286,999 | (12,852) | (4.5)% |
| Selling, general and administrative | 212,397 | 191,133 | (21,264) | (11.1)% |
| Total segment profit | 412,798 | 414,639 | (1,841) | (0.4)% |
| Depreciation | 13,660 | 16,089 | 2,429 | 15.1% |
| Amortization | 25,058 | 25,654 | 596 | 2.3% |
| Total operating income | 374,080 | 372,896 | 1,184 | 0.3% |
| Interest expense, net | (24,203) | (33,175) | 8,972 | 27.0% |
| Equity in earnings of affiliates | 20,974 | 21,712 | (738) | (3.4)% |
| (Loss) gain on derivatives | (3,672) | 8,267 | (11,939) | (144.4)% |
| Gain (loss) on sale of investments | 1,416 | (16,373) | 17,789 | 108.6% |
| Miscellaneous, net | 32,181 | (21,672) | 53,853 | 248.5% |
| Income from operations before income taxes | $ 400,776 | $ 331,655 | $ 69,121 | 20.8% |
| Segment profit (loss): | | | | |
| U.S. Networks | $ 398,722 | $ 401,139 | $ (2,417) | (0.6)% |
| International Networks | 38,780 | 37,369 | 1,411 | 3.8% |
| Corporate and Other | (24,704) | (23,869) | (835) | (3.5)% |
| Total segment profit | $ 412,798 | $ 414,639 | $ (1,841) | (0.4)% |

***Consolidated Results of Operations***
***Six months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016***

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| *(in thousands)* | 2017 | 2016 | $ Change Fav / (Unfav) | % Change Fav / (Unfav) |
| Operating revenues: | | | | |
| U.S. Networks | $ 1,515,932 | $ 1,454,516 | $ 61,416 | 4.2% |
| International Networks | 278,787 | 268,382 | 10,405 | 3.9% |
| Corporate and Other | (14,553) | (13,249) | (1,304) | (9.8)% |
| Total operating revenues | 1,780,166 | 1,709,649 | 70,517 | 4.1% |
| Cost of services, excluding depreciation and amortization | 578,890 | 566,666 | (12,224) | (2.2)% |
| Selling, general and administrative | 419,767 | 389,954 | (29,813) | (7.6)% |
| Total segment profit | 781,509 | 753,029 | 28,480 | 3.8% |
| Depreciation | 28,620 | 33,386 | 4,766 | 14.3% |
| Amortization | 49,255 | 56,716 | 7,461 | 13.2% |
| Operating income | 703,634 | 662,927 | 40,707 | 6.1% |
| Interest expense, net | (48,455) | (66,920) | 18,465 | 27.6% |
| Equity in earnings of affiliates | 41,423 | 47,390 | (5,967) | (12.6)% |
| (Loss) gain on derivatives | (6,008) | 11,033 | (17,041) | (154.5)% |
| Gain on sale of investments | 1,416 | 191,824 | (190,408) | (99.3)% |
| Miscellaneous, net | 59,721 | (15,606) | 75,327 | 482.7% |
| Income from operations before income taxes | $ 751,731 | $ 830,648 | $ (78,917) | (9.5)% |
| Segment profit (loss): | | | | |
| U.S. Networks | $ 782,296 | $ 760,636 | $ 21,660 | 2.8% |
| International Networks | 54,290 | 47,158 | 7,132 | 15.1% |
| Corporate and Other | (55,077) | (54,765) | (312) | (0.6)% |
| Total segment profit | $ 781,509 | $ 753,029 | $ 28,480 | 3.8% |

**U.S. Networks**

U.S. Networks includes our six national television networks: HGTV, Food Network, Travel Channel, DIY Network, Cooking Channel and Great American Country. Additionally, U.S. Networks includes websites associated with the aforementioned television brands and other internet and digital businesses serving home, food, travel and other lifestyle-related categories. U.S. Networks also includes our digital content studio, Scripps Lifestyle Studios. We own 100.0 percent of each of our networks, with the exception of Food Network and Cooking Channel, of which we own 68.7 percent.

***U.S. Networks' Results of Operations***
***Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016***

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| *(in thousands)* | 2017 | 2016 | $ Change Fav / (Unfav) | % Change Fav / (Unfav) |
| Operating revenues: | | | | |
| Advertising | $ 552,652 | $ 540,979 | $ 11,673 | 2.2% |
| Distribution | 211,902 | 196,073 | 15,829 | 8.1% |
| Other | 14,489 | 15,269 | (780) | (5.1)% |
| Operating revenues | 779,043 | 752,321 | 26,722 | 3.6% |
| Cost of services, excluding depreciation and amortization | 222,790 | 211,040 | (11,750) | (5.6)% |
| Selling, general and administrative | 157,531 | 140,142 | (17,389) | (12.4)% |
| Segment profit | 398,722 | 401,139 | (2,417) | (0.6)% |
| Depreciation | 9,961 | 12,716 | 2,755 | 21.7% |
| Amortization | 9,994 | 10,022 | 28 | 0.3% |
| Operating income | 378,767 | 378,401 | 366 | 0.1% |
| Interest expense, net | (144) | (69) | (75) | (108.7)% |
| Equity in earnings of affiliates | 7,846 | 9,014 | (1,168) | (13.0)% |
| Loss on sale of investments | — | (16,373) | 16,373 | 100.0% |
| Miscellaneous, net | 3,481 | 18,952 | (15,471) | (81.6)% |
| Income from operations before income taxes | $ 389,950 | $ 389,925 | $ 25 | 0.0% |
| | | | | |
| Supplemental information: | | | | |
| Program amortization | $ 198,135 | $ 185,780 | $ (12,355) | (6.7)% |
| Program payments | $ 202,443 | $ 193,503 | $ (8,940) | (4.6)% |
| Capital expenditures | $ 13,212 | $ 8,567 | $ (4,645) | (54.2)% |

U.S. Networks generated operating revenues of $779.0 million, an increase of $26.7 million, or 3.6 percent, for the three months ended June 30, 2017 compared with the same period in 2016, with growth in both advertising sales and distribution fees.

U.S. Networks operating revenues included a $11.7 million, or 2.2 percent, increase in advertising sales for the three months ended June 30, 2017 compared with the respective period in 2016, primarily driven by strong pricing, partially offset by impressions delivered. U.S. Networks' advertising sales represented 70.9 percent and 71.9 percent of U.S. Networks' total operating revenues during the three months ended June 30, 2017 and June 30, 2016, respectively.

Advertising sales growth was supplemented by a $15.8 million, or 8.1 percent, increase in distribution fees for the three months ended June 30, 2017 compared with the respective period in 2016, primarily driven by negotiated contractual rate increases, and, to a lesser extent, revenues generated from over-the-top and non-linear distribution platforms, partially offset by a decrease in the number of subscribers receiving our networks. U.S. Networks' distribution fees represented 27.2 percent and 26.1 percent of U.S. Networks' total operating revenues during the three months ended June 30, 2017 and June 30, 2016, respectively.

Cost of services increased $11.8 million, or 5.6 percent, for the three months ended June 30, 2017 compared with the respective period in 2016, primarily driven by investments in programming. Program amortization increased $12.4 million, or 6.7 percent for the three months ended June 30, 2017 compared with the same period in 2016 and represented 49.5 percent and 49.7 percent of U.S. Networks' total operating expenses during the three months ended June 30, 2017 and June 30, 2016, respectively. Cost of services included $1.3 million of Reorganization costs incurred during the three months ended June 30, 2016.

Selling, general and administrative increased $17.4 million, or 12.4 percent, for the three months ended June 30, 2017 compared with the respective period in 2016, primarily driven by marketing and technology expenses. Selling, general and administrative included $2.4 million of Reorganization costs incurred during the three months ended June 30, 2016.

Loss on sale of investments increased $16.4 million for the three months ended June 30, 2017 compared with the same period in 2016 due to the sale of our interest in a cost method investment in the second quarter of 2016.

***U.S. Networks' Results of Operations***
***Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016***

| *(in thousands)* | Six months ended June 30, 2017 | 2016 | $ Change Fav / (Unfav) | % Change Fav / (Unfav) |
|---|---|---|---|---|
| Segment operating revenues: | | | | |
| Advertising | $ 1,064,707 | $ 1,028,264 | $ 36,443 | 3.5% |
| Distribution | 423,042 | 398,169 | 24,873 | 6.2% |
| Other | 28,183 | 28,083 | 100 | 0.4% |
| Segment operating revenues | 1,515,932 | 1,454,516 | 61,416 | 4.2% |
| Cost of services, excluding depreciation and amortization | 428,112 | 414,399 | (13,713) | (3.3)% |
| Selling, general and administrative | 305,524 | 279,481 | (26,043) | (9.3)% |
| Segment profit | 782,296 | 760,636 | 21,660 | 2.8% |
| Depreciation | 21,460 | 26,911 | 5,451 | 20.3% |
| Amortization | 19,912 | 20,043 | 131 | 0.7% |
| Segment operating income | 740,924 | 713,682 | 27,242 | 3.8% |
| Interest expense, net | (264) | (86) | (178) | (207.0)% |
| Equity in earnings of affiliates | 13,089 | 16,746 | (3,657) | (21.8)% |
| Gain on sale of investments | — | 191,824 | (191,824) | (100.0)% |
| Miscellaneous, net | 5,964 | 22,440 | (16,476) | (73.4)% |
| Income from operations before income taxes | $ 759,713 | $ 944,606 | $ (184,893) | (19.6)% |
| | | | | |
| Supplemental segment information: | | | | |
| Program amortization | $ 377,502 | $ 364,856 | $ (12,646) | (3.5)% |
| Program payments | $ 397,363 | $ 390,258 | $ (7,105) | (1.8)% |
| Capital expenditures | $ 25,468 | $ 17,238 | $ (8,230) | (47.7)% |

U.S. Networks generated operating revenues of $1,515.9 million, an increase of $61.4 million, or 4.2 percent, for the six months ended June 30, 2017 compared with the same period in 2016, with growth in both advertising sales and distribution fees.

U.S. Networks operating revenues included a $36.4 million, or 3.5 percent, increase in advertising sales for the six months ended June 30, 2017 compared with the respective period in 2016, primarily driven by strong pricing, partially offset by impressions delivered. U.S. Networks' advertising sales represented 70.2 percent and 70.7 percent of U.S. Networks' total operating revenues during the six months ended June 30, 2017 and June 30, 2016, respectively.

Advertising sales growth was supplemented by a $24.9 million, or 6.2 percent, increase in distribution fees for the six months ended June 30, 2017 compared with the respective period in 2016, primarily driven by negotiated contractual rate increases, and, to a lesser extent, revenues generated from over-the-top and non-linear distribution platforms, partially offset by a decrease in the number of subscribers receiving our networks. U.S. Networks' distribution fees represented 27.9 percent and 27.4 percent of U.S. Networks' total operating revenues during the six months ended June 30, 2017 and June 30, 2016, respectively.

Cost of services increased $13.7 million, or 3.3 percent, for the six months ended June 30, 2017 compared with the respective period in 2016, primarily driven by investments in programming. Program amortization increased $12.6 million, or 3.5 percent for the six months ended June 30, 2017 compared with the same period in 2016 and represented 48.7 percent and 49.2 percent of U.S. Networks' total operating expenses during the six months ended June 30, 2017 and June 30, 2016, respectively. Cost of services included $3.0 million of Reorganization costs incurred during the six months ended June 30, 2016.

Selling, general and administrative increased $26.0 million, or 9.3 percent, for the six months ended June 30, 2017 compared with the respective period in 2016, primarily driven by marketing and technology expenses. Selling, general and administrative included $4.5 million of Reorganization costs incurred during the six months ended June 30, 2016.

Gain on sale of investments decreased $191.8 million for the six months ended June 30, 2017 compared with the same period in 2016 primarily due to the sale of our 7.3 percent equity interest in Fox Sports South in the first quarter of 2016 and the sale of a cost method investment in the second quarter of 2016.

***U.S. Networks' Supplemental Information***
***Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016***

| *(in thousands)* | Three months ended June 30, 2017 | 2016 | $ Change Fav / (Unfav) | % Change Fav / (Unfav) |
|---|---|---|---|---|
| Operating revenues by network: | | | | |
| HGTV | $ 302,064 | $ 282,753 | $ 19,311 | 6.8% |
| Food Network | 245,510 | 240,902 | 4,608 | 1.9% |
| Travel Channel | 85,447 | 85,884 | (437) | (0.5)% |
| DIY Network | 43,883 | 46,996 | (3,113) | (6.6)% |
| Cooking Channel | 37,926 | 36,823 | 1,103 | 3.0% |
| Great American Country | 7,248 | 8,234 | (986) | (12.0)% |
| Digital Businesses | 46,680 | 40,916 | 5,764 | 14.1% |
| Other | 10,414 | 9,943 | 471 | 4.7% |
| Intrasegment eliminations | (129) | (130) | 1 | 0.8% |
| Total segment operating revenues | $ 779,043 | $ 752,321 | $ 26,722 | 3.6% |

***U.S. Networks' Supplemental Information***
***Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016***

| *(in thousands)* | Six months ended June 30, 2017 | 2016 | $ Change Fav / (Unfav) | % Change Fav / (Unfav) |
|---|---|---|---|---|
| Operating revenues by network: | | | | |
| HGTV | $ 588,140 | $ 554,468 | $ 33,672 | 6.1% |
| Food Network | 488,873 | 470,200 | 18,673 | 4.0% |
| Travel Channel | 167,712 | 166,651 | 1,061 | 0.6% |
| DIY Network | 84,363 | 88,509 | (4,146) | (4.7)% |
| Cooking Channel | 74,516 | 69,792 | 4,724 | 6.8% |
| Great American Country | 14,431 | 15,520 | (1,089) | (7.0)% |
| Digital | 76,911 | 69,888 | 7,023 | 10.0% |
| Other | 21,615 | 20,103 | 1,512 | 7.5% |
| Intrasegment eliminations | (629) | (615) | (14) | (2.3)% |
| Total segment operating revenues | $ 1,515,932 | $ 1,454,516 | $ 61,416 | 4.2% |

**International Networks**

International Networks includes the TVN portfolio of networks and other lifestyle-oriented networks available in the UK, EMEA, APAC and Latin America. International Networks also includes our 50.0 percent share of the results of UKTV, a general entertainment and lifestyle platform in the UK.

***International Networks' Results of Operations***
***Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016***

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| *(in thousands)* | 2017 | 2016 | $ Change Fav / (Unfav) | % Change Fav / (Unfav) |
| Operating revenues: | | | | |
| Advertising | $ 110,382 | $ 105,669 | $ 4,713 | 4.5% |
| Distribution | 27,783 | 27,378 | 405 | 1.5% |
| Other | 15,097 | 13,997 | 1,100 | 7.9% |
| Operating revenues | 153,262 | 147,044 | 6,218 | 4.2% |
| Cost of services, excluding depreciation and amortization | 83,335 | 80,666 | (2,669) | (3.3)% |
| Selling, general and administrative | 31,147 | 29,009 | (2,138) | (7.4)% |
| Segment profit | 38,780 | 37,369 | 1,411 | 3.8% |
| Depreciation | 3,045 | 3,114 | 69 | 2.2% |
| Amortization | 15,064 | 15,632 | 568 | 3.6% |
| Operating income | 20,671 | 18,623 | 2,048 | 11.0% |
| Interest income (expense), net | 206 | (7,076) | 7,282 | 102.9% |
| Equity in earnings of affiliates | 13,128 | 12,698 | 430 | 3.4% |
| Gain on sale of investments | 1,416 | — | 1,416 | NM |
| Miscellaneous, net | 7,896 | 23,823 | (15,927) | (66.9)% |
| Income from operations before income taxes | $ 43,317 | $ 48,068 | $ (4,751) | (9.9)% |
| | | | | |
| Supplemental information: | | | | |
| Program amortization | $ 44,993 | $ 41,335 | $ (3,658) | (8.8)% |
| Program payments | $ 55,484 | $ 37,875 | $ (17,609) | (46.5)% |
| Capital expenditures | $ 7,100 | $ 4,385 | $ (2,715) | (61.9)% |

International Networks generated operating revenues of $153.3 million, an increase of $6.2 million, or 4.2 percent, for the three months ended June 30, 2017 compared with the same period in 2016, with growth in both advertising sales and other revenues.

International Networks' operating revenues included a $4.7 million, or 4.5 percent, increase in advertising sales for the three months ended June 30, 2017 compared with the respective period in 2016. International Networks' advertising sales represented 72.0 percent and 71.9 percent of International Networks' total operating revenues during the three months ended June 30, 2017 and June 30, 2016, respectively.

International Networks' distribution fees represented 18.1 percent and 18.6 percent of International Networks' total operating revenues during the three months ended June 30, 2017 and June 30, 2016, respectively.

Advertising sales growth was supplemented by a $1.1 million, or 7.9 percent, increase in other revenues for the three months ended June 30, 2017 compared with the respective period in 2016, primarily driven by program licensing and production revenues.

Cost of services increased $2.7 million, or 3.3 percent, for the three months ended June 30, 2017 compared with the respective period in 2016. Program amortization increased $3.7 million, or 8.8 percent, for the three months ended June 30, 2017 compared with the respective period in 2016 and represented 33.9 percent and 32.2 percent of International Networks' total operating expenses during the three months ended June 30, 2017 and June 30, 2016, respectively.

Selling, general and administrative increased $2.1 million, or 7.4 percent, for the three months ended June 30, 2017 compared with the respective period in 2016.

***International Networks' Results of Operations***
***Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016***

| (in thousands) | 2017 | 2016 | $ Change Fav / (Unfav) | % Change Fav / (Unfav) |
|---|---|---|---|---|
| | Six months ended June 30, | | | |
| Segment operating revenues: | | | | |
| Advertising | $ 195,042 | $ 190,239 | $ 4,803 | 2.5% |
| Distribution | 55,023 | 53,350 | 1,673 | 3.1% |
| Other | 28,722 | 24,793 | 3,929 | 15.8% |
| Segment operating revenues | 278,787 | 268,382 | 10,405 | 3.9% |
| Cost of services, excluding depreciation and amortization | 162,669 | 161,724 | (945) | (0.6)% |
| Selling, general and administrative | 61,828 | 59,500 | (2,328) | (3.9)% |
| Segment profit | 54,290 | 47,158 | 7,132 | 15.1% |
| Depreciation | 5,917 | 5,955 | 38 | 0.6% |
| Amortization | 29,343 | 36,673 | 7,330 | 20.0% |
| Operating income | 19,030 | 4,530 | 14,500 | 320.1% |
| Interest income (expense), net | 353 | (13,943) | 14,296 | 102.5% |
| Equity in earnings of affiliates | 28,334 | 30,644 | (2,310) | (7.5)% |
| Gain on sale of investments | 1,416 | — | 1,416 | NM |
| Miscellaneous, net | 27,799 | 54,880 | (27,081) | (49.3)% |
| Income from operations before income taxes | $ 76,932 | $ 76,111 | $ 821 | 1.1% |
| | | | | |
| Supplemental segment information: | | | | |
| Program amortization | $ 87,468 | $ 85,721 | $ (1,747) | (2.0)% |
| Program payments | $ 103,858 | $ 86,874 | $ (16,984) | (19.6)% |
| Capital expenditures | $ 14,447 | $ 7,059 | $ (7,388) | (104.7)% |

International Networks generated operating revenues of $278.8 million, an increase of $10.4 million, or 3.9 percent, for the six months ended June 30, 2017 compared with the same period in 2016, with growth in advertising sales, distribution fees and other revenues.

International Networks' operating revenues included a $4.8 million, or 2.5 percent, increase in advertising sales for the six months ended June 30, 2017 compared with the respective period in 2016. International Networks' advertising sales represented 70.0 percent and 70.9 percent of International Networks' total operating revenues during the six months ended June 30, 2017 and June 30, 2016, respectively.

Advertising sales growth was supplemented by a $1.7 million, or 3.1 percent, increase in distribution fees for the six months ended June 30, 2017 compared with the respective period in 2016. International Networks' distribution fees represented 19.7 percent and 19.9 percent of International Networks' total operating revenues during the six months ended June 30, 2017 and June 30, 2016, respectively.

Advertising sales and distribution fees growth was further supplemented by a $3.9 million, or 15.8 percent, increase in other revenues for the six months ended June 30, 2017 compared with the respective period in 2016, primarily driven by program licensing and production revenues.

Cost of services increased $0.9 million, or 0.6 percent, for the six months ended June 30, 2017 compared with the respective period in 2016. Program amortization increased $1.7 million, or 2.0 percent, for the six months ended June 30, 2017 compared with the respective period in 2016 and represented 33.7 percent and 32.5 percent of International Networks' total operating expenses during the six months ended June 30, 2017 and June 30, 2016, respectively.

Selling, general and administrative increased $2.3 million, or 3.9 percent, for the six months ended June 30, 2017 compared with the respective period in 2016.

**Corporate and Other**

Corporate and Other includes the results of businesses not separately identified as reportable segments for external financial reporting purposes and will continue to be disclosed separately from the results of U.S. Networks and International Networks. The Company generally does not allocate employee-related corporate overhead costs to its reportable segments, but rather classifies these expenses within Corporate and Other.

The Corporate and Other loss included $0.7 million of TVN transaction and integration expenses and $0.2 million of Reorganization costs incurred during the three months ended June 30, 2016.

The Corporate and Other loss included $3.7 million of Reorganization costs and $2.1 million of TVN transaction and integration expenses incurred during the six months ended June 30, 2016

**LIQUIDITY AND CAPITAL RESOURCES**

***Liquidity***

Our primary sources of liquidity are cash and cash equivalents on hand, cash flows from operations, available borrowing capacity under our Amended Revolving Credit Facility and access to capital markets. Advertising revenues provided between 70.8 percent and 71.3 percent of consolidated total operating revenues for the year-to-date periods of 2017 and 2016, respectively, so cash flow from operating activities can be adversely affected during recessionary periods. Our cash and cash equivalents totaled $131.6 million at June 30, 2017 and $122.9 million at December 31, 2016. Our Amended Revolving Credit Facility permits $900.0 million in aggregate borrowings, with the option to increase up to $1,150.0 million, and expires in March 2020, with the exception of $32.5 million, which expires in March 2019. There were $500.0 million of outstanding borrowings under the Amended Revolving Credit Facility as of June 30, 2017.

We were in compliance with all financial covenants as of June 30, 2017.

Our cash flow year-to-date has primarily been used to fund investments, develop new businesses, pay dividends on our common stock and repay debt. We expect cash flow from operating activities in 2017 to provide sufficient liquidity to fund our normal operations.

***Cash Flows***

A summary of cash sources and uses was as follows:

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| *(in thousands)* | **2017** | **2016** | **$ Change Fav / (Unfav)** | **% Change Fav / (Unfav)** |
| Cash provided by operating activities | $ 502,250 | $ 449,807 | $ 52,443 | 11.7% |
| Cash (used in) provided by investing activities | (38,710) | 190,550 | (229,260) | (120.3)% |
| Cash used in financing activities | (466,157) | (671,299) | 205,142 | 30.6% |
| Effect of exchange rate of cash and cash equivalents | 11,237 | (6,579) | 17,816 | 270.8% |
| Increase (decrease) in cash and cash equivalents | 8,620 | (37,521) | 46,141 | 123.0% |
| Cash and cash equivalents - beginning of period | 122,937 | 223,444 | (100,507) | (45.0)% |
| Cash and cash equivalents - end of period | $ 131,557 | $ 185,923 | $ (54,366) | (29.2)% |

Cash and cash equivalents increased $8.6 million during the six months ended June 30, 2017 and decreased $37.5 million during the six months ended June 30, 2016. Components of these changes are discussed below in more detail.

*Operating Activities*

Cash provided by operating activities totaled $502.3 million for the six months ended June 30, 2017 and $449.8 million for the six months ended June 30, 2016.

Operating income totaled $703.6 million and $662.9 million for the six months ended June 30, 2017 and June 30, 2016, respectively, with the $40.7 million increase primarily driven by operating revenues.

Program payments exceeded program amortization by $47.3 million and $35.5 million for the six months ended June 30, 2017 and June 30, 2016, respectively, reducing cash provided by operating activities for these periods. Cash provided by operating activities is also impacted by income tax payments and refunds and interest payments. During the six months ended June 30, 2017, we made income tax payments of $161.2 million and interest payments of $48.7 million, and during the six months ended June 30, 2016, we made income tax payments of $202.6 million and interest payments of $52.1 million.

*Investing Activities*

Cash used in investing activities totaled $38.7 million for the six months ended June 30, 2017, and cash provided by investing activities totaled $190.6 million for the six months ended June 30, 2016. Capital expenditures totaled $44.2 million and $24.3 million for the six months ended June 30, 2017 and June 30, 2016, respectively. The increase in capital expenditures year-over-year was driven by investments in technology. During the six months ended June 30, 2017, we made cost investments in Fubo and Philo, both of which are over-the-top distribution platforms. During the six months ended June 30, 2016, we sold our 7.3 percent equity interest in Fox Sports South and received cash proceeds of $225.0 million.

*Financing Activities*

Cash used in financing activities totaled $466.2 million for the six months ended June 30, 2017 and $671.3 million for the six months ended June 30, 2016.

During the six months ended June 30, 2017, we borrowed $410.0 million and made $385.0 million of repayments on our Amended Revolving Credit Facility and paid off the Term Loan with a $250.0 million payment. During the six months ended June 30, 2016, we did not incur borrowings under the Amended Revolving Credit Facility, but made $390.0 million of repayments.

We have paid quarterly dividends since our inception as a public company in July 2008. During the first quarter of 2017, the Board approved an increase in the quarterly dividend rate to $0.30 per share from $0.25 per share. Total dividend payments to holders of our Class A Common Shares and Common Voting Shares totaled $78.3 million and $64.7 million for the six months ended June 30, 2017 and June 30, 2016, respectively. We currently expect that quarterly cash dividends will continue to be paid in the future. However, future dividends are not guaranteed and are subject to our earnings, financial condition and capital requirements.

A non-controlling owner held a 35.0 percent residual interest in Travel Channel as of December 31, 2015. In February 2016, we acquired the residual interest for $99.0 million.

Pursuant to the terms of the Food Network Partnership agreement, the Partnership is required to distribute available cash to the general partners. Cash distributions to Food Network's non-controlling interest partner were $149.7 million and $125.6 million for the six months ended June 30, 2017 and June 30, 2016, respectively. We expect cash distributions to non-controlling interest owners to approximate $185.0 million in total for 2017.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk related to interest rates and foreign currency exchange rates. We use, or expect to use, derivative financial instruments to reduce exposure to risks from fluctuations in interest rates and foreign currency exchange rates and to limit the impact of our earnings and cash flows. In accordance with our policy, we do not use derivative instruments unless there is an underlying exposure, and we do not hold or enter into financial instruments for speculative trading purposes.

We are subject to interest rate risk associated with our Amended Revolving Credit Facility as borrowings bear interest at LIBOR plus a spread that is determined by our Company's debt rating. Accordingly, the interest we pay on these borrowings is dependent on interest rate conditions and the timing of our financing needs. Aggregate principal amounts of outstanding debt at June 30, 2017 included $1,488.0 million of Senior Notes issued in June 2015, which includes the 2020 Notes, the 2022 Notes and the 2025 Notes, and $991.8 million of Senior Notes issued in November 2014, which includes the 2019 Notes and the 2024 Notes. A 100 basis point increase or decrease in the blended level of interest rates, respectively, would decrease or increase the total aggregate fair value of all outstanding Senior Notes by approximately $113.5 million and $111.8 million, respectively.

The following table presents additional information about market-risk-sensitive financial instruments:

| | | June 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|
| *(in thousands)* | Maturity | Net Carrying Amount | Fair Value | Net Carrying Amount | Fair Value |
| Financial instruments subject to interest rate risk: | | | | | |
| Amended Revolving Credit Facility | 2019-2020 | $ 500,000 | $ 500,000 | $ 475,000 | $ 475,000 |
| Term Loan | 2017 | - | - | 249,932 | 249,932 |
| 2.75% Senior Notes | 2019 | 497,407 | 505,830 | 496,855 | 506,575 |
| 2.80% Senior Notes | 2020 | 595,923 | 607,008 | 595,224 | 602,946 |
| 3.50% Senior Notes | 2022 | 396,429 | 412,216 | 396,065 | 404,784 |
| 3.90% Senior Notes | 2024 | 494,359 | 518,515 | 493,977 | 507,470 |
| 3.95% Senior Notes | 2025 | 495,611 | 514,140 | 495,333 | 508,155 |
| Total debt | | $ 2,979,729 | $ 3,057,709 | $ 3,202,386 | $ 3,254,862 |

We are also subject to interest rate risk associated with the notes receivable acquired in the UKTV investment (see Note 6 – *Investments*). The UKTV Loan, totaling $98.6 million at June 30, 2017 and $93.9 million at December 31, 2016, accrues interest at variable rates related to either the spread over LIBOR or other identified market indices. Because interest on the note receivable is variable, the carrying amount of such note receivable is believed to approximate fair value.

We conduct business in various countries outside the United States, resulting in exposure to movements in foreign currency exchange rates when translating from the local currency to the functional currency (see Note 12 - *Derivative Financial Instruments*).

**CONTROLS AND PROCEDURES**

The Company's management is responsible for establishing and maintaining adequate internal controls designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The company's internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error, collusion and the improper overriding of controls by management. Accordingly, even effective internal control can only provide reasonable but not absolute assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) was evaluated as of June 30, 2017. This evaluation was carried out under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures are effective as of June 30, 2017.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

We are involved in litigation arising in the ordinary course of business, none of which is expected to result in material loss.

### ITEM 1A. RISK FACTORS

A wide range of risks may affect our business and financial results, now and in the future; however, we consider the risks described in our 2016 Form 10-K to be the most significant.

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

There were no sales of unregistered equity securities during the quarter for which this report is filed.

We have share Repurchase Programs authorized by the Board that permit us to acquire the Company's Class A Common Shares.

As of June 30, 2017, $1,512.5 million in authorization remains available for repurchase under the Repurchase Programs. There is no expiration date for the Repurchase Programs, and we are under no commitment or obligation to repurchase any particular amount of Class A Common Shares under the Repurchase Programs. We did not purchase any equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended June 30, 2017.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the quarter for which this report is filed.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

The information required by this item is filed as part of this Form 10-Q. See Index of Exhibits to this Form 10-Q.

**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.

SCRIPPS NETWORKS INTERACTIVE, INC.

Dated: August 4, 2017

BY: /s/ Lori A. Hickok
Lori A. Hickok
Executive Vice President, Chief Financial Officer and Chief Development Officer
(Principal Financial and Accounting Officer)

INDEX OF EXHIBITS

Number and Description of Exhibit

| | |
|---|---|
| 10.44 | Amendment No. 1 to the Amended and Restated Scripps Family Agreement among The E. W. Scripps Company, Scripps Networks Interactive, Inc. and the Family Shareholders † |
| 10.45 | Employment Agreement between Scripps Networks Interactive, Inc. and Cynthia L. Gibson*† |
| 31(a) | Section 302 Certifications |
| 31(b) | Section 302 Certifications |
| 32(a) | Section 906 Certifications ** |
| 32(b) | Section 906 Certifications ** |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Indicates management contract or compensatory plan, contract or arrangement.

** This exhibit is furnished herewith but will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934.

† Incorporated by reference to the Scripps Networks Interactive, Inc. Quarterly Report on Form 10-Q, filed May 5, 2017

**EXHIBIT 31(a)**
**Section 302 Certifications**

**CERTIFICATIONS**

I, Kenneth W. Lowe, certify that:

1. I have reviewed this report on Form 10-Q of Scripps Networks Interactive, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 4, 2017

BY: /s/ Kenneth W. Lowe
Kenneth W. Lowe
Chairman, President and Chief Executive Officer

**EXHIBIT 31(b)**
**Section 302 Certifications**

**CERTIFICATIONS**

I, Lori A. Hickok, certify that:

1. I have reviewed this report on Form 10-Q of Scripps Networks Interactive, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 4, 2017

BY: /s/ Lori A. Hickok
Lori A. Hickok
Executive Vice President, Chief Financial Officer and Chief Development Officer

**EXHIBIT 32(a)**
**Section 906 Certifications**

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth W. Lowe, Chairman, President and Chief Executive Officer of Scripps Networks Interactive, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2017 (the "Report"), which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth W. Lowe
Kenneth W. Lowe
Chairman, President and Chief Executive Officer

August 4, 2017

**EXHIBIT 32(b)**
**Section 906 Certifications**

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Lori A. Hickok, Chief Financial & Administrative Officer of Scripps Networks Interactive, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2017 (the "Report"), which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lori A. Hickok
Lori A. Hickok
Executive Vice President, Chief Financial Officer and Chief Development Officer

August 4, 2017