

Madison Square Garden Co  
Form 10-Q  
February 03, 2017

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended December 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-36900

(Exact name of registrant as specified in its charter)

Delaware 47-3373056  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

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Two Penn Plaza  
New York, NY 10121  
(212) 465-6000  
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock outstanding as of January 31, 2017:

Class A Common Stock par value \$0.01 per share 49,433,143

Class B Common Stock par value \$0.01 per share 4,529,517

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE MADISON SQUARE GARDEN COMPANY

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

|   | December 31,<br>2016<br>(Unaudited) | June 30,<br>2016 |
|---|-------------------------------------|------------------|
| <b>ASSETS</b>   |                                     |                  |
| Current Assets:   |                                     |                  |
| Cash and cash equivalents   | \$ 1,410,345                        | \$ 1,444,317     |
| Restricted cash   | 19,652                              | 27,091           |
| Accounts receivable, net  | 90,837                              | 75,998           |
| Net related party receivables, current  | 3,996                               | 4,079            |
| Prepaid expenses  | 40,460                              | 27,031           |
| Other current assets  | 23,710                              | 25,337           |
| Total current assets  | 1,589,000                           | 1,603,853        |
| Net related party receivables, noncurrent   | —                                   | 1,710            |
| Investments and loans to nonconsolidated affiliates   | 264,484                             | 263,546          |
| Property and equipment, net of accumulated depreciation and amortization of \$589,646 and \$540,801 as of December 31, 2016 and June 30, 2016, respectively     | 1,131,236                           | 1,160,609        |
| Amortizable intangible assets, net  | 24,297                              | 15,729           |
| Indefinite-lived intangible assets  | 166,850                             | 166,850          |
| Goodwill  | 289,704                             | 277,166          |
| Other assets  | 87,214                              | 54,487           |
| Total assets  | \$ 3,552,785                        | \$ 3,543,950     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                     |                  |
| Current Liabilities:  |                                     |                  |
| Accounts payable  | \$ 29,204                           | \$ 13,935        |
| Net related party payables  | 16,271                              | 15,275           |
| Accrued liabilities:  |                                     |                  |
| Employee related costs  | 85,445                              | 119,357          |
| Other accrued liabilities   | 146,791                             | 133,832          |
| Deferred revenue  | 371,806                             | 332,416          |
| Total current liabilities   | 649,517                             | 614,815          |
| Defined benefit and other postretirement obligations  | 56,436                              | 66,035           |
| Other employee related costs  | 23,828                              | 32,921           |
| Deferred tax liabilities, net   | 194,897                             | 194,583          |
| Other liabilities   | 50,076                              | 49,175           |
| Total liabilities   | 974,754                             | 957,529          |
| Commitments and contingencies (see Note 8)  |                                     |                  |
| The Madison Square Garden Company Stockholders' Equity:   |                                     |                  |
| Class A Common stock, par value \$0.01, 120,000 shares authorized; 19,433 and 19,777 shares outstanding as of December 31, 2016 and June 30, 2016, respectively | 204                                 | 204              |
| Class B Common stock, par value \$0.01, 30,000 shares authorized; 4,530 shares outstanding as of December 31, 2016 and June 30, 2016                            | 45                                  | 45               |
| Preferred stock, par value \$0.01, 15,000 shares authorized; none outstanding as of December 31, 2016 and June 30, 2016   | —                                   | —                |

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|   |              |              |
|---|--------------|--------------|
| Additional paid-in capital  | 2,812,156    | 2,806,352    |
| Treasury stock, at cost, 1,015 and 671 shares as of December 31, 2016 and June 30, 2016, respectively | (166,815 )   | (101,882 )   |
| Accumulated deficit   | (46,587 )    | (75,687 )    |
| Accumulated other comprehensive loss  | (31,773 )    | (42,611 )    |
| Total The Madison Square Garden Company stockholders' equity  | 2,567,230    | 2,586,421    |
| Noncontrolling interests  | 10,801       | —            |
| Total equity  | 2,578,031    | 2,586,421    |
| Total liabilities and equity  | \$ 3,552,785 | \$ 3,543,950 |

See accompanying notes to consolidated and combined financial statements.

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CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

|  | Three Months Ended |           | Six Months Ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | December 31,       |           | December 31,     |           |
|  | 2016               | 2015      | 2016             | 2015      |
| Revenues <sup>(a)</sup>  | \$445,150          | \$410,838 | \$626,845        | \$561,219 |
| Operating expenses:  |                    |           |                  |           |
| Direct operating expenses <sup>(b)</sup>   | 266,673            | 249,632   | 378,080          | 320,982   |
| Selling, general and administrative expenses <sup>(c)</sup>  | 94,260             | 86,262    | 171,281          | 144,630   |
| Depreciation and amortization  | 25,966             | 25,905    | 52,076           | 51,145    |
| Operating income   | 58,251             | 49,039    | 25,408           | 44,462    |
| Other income (expense):  |                    |           |                  |           |
| Earnings (loss) in equity method investments   | (1,188 )           | (2,475 )  | (2,182 )         | 204       |
| Interest income <sup>(d)</sup>   | 2,692              | 1,448     | 5,091            | 2,405     |
| Interest expense   | (491 )             | (514 )    | (901 )           | (1,054 )  |
| Miscellaneous income (expense)   | 1,405              | (4,080 )  | 1,405            | (4,080 )  |
|  | 2,418              | (5,621 )  | 3,413            | (2,525 )  |
| Income from operations before income taxes   | 60,669             | 43,418    | 28,821           | 41,937    |
| Income tax benefit (expense)   | (3,248 )           | 70        | (314 )           | (52 )     |
| Net income   | 57,421             | 43,488    | 28,507           | 41,885    |
| Less: Net loss attributable to noncontrolling interests  | (305 )             | —         | (593 )           | —         |
| Net income attributable to The Madison Square Garden Company's stockholders                        | \$57,726           | \$43,488  | \$29,100         | \$41,885  |
| Basic earnings per common share attributable to The Madison Square Garden Company's stockholders   | \$2.41             | \$1.74    | \$1.21           | \$1.68    |
| Diluted earnings per common share attributable to The Madison Square Garden Company's stockholders | \$2.39             | \$1.74    | \$1.20           | \$1.67    |
| Weighted-average number of common shares outstanding:  |                    |           |                  |           |
| Basic  | 23,971             | 24,971    | 24,013           | 24,949    |
| Diluted  | 24,143             | 25,055    | 24,192           | 25,031    |

<sup>(a)</sup> Include revenues from related parties of \$39,040 and \$41,321 for the three months ended December 31, 2016 and 2015, respectively, and \$72,881 and \$74,880 for the six months ended December 31, 2016 and 2015, respectively.

<sup>(b)</sup> Include net charges from (to) related parties of \$475 and \$1,036 for the three months ended December 31, 2016 and 2015, respectively, and \$689 and \$(35) for the six months ended December 31, 2016 and 2015, respectively.

<sup>(c)</sup> Include net charges to related parties of \$(1,616) and \$(300) for the three months ended December 31, 2016 and 2015, respectively, and \$(3,204) and \$(29,872) for the six months ended December 31, 2016 and 2015, respectively.

<sup>(d)</sup> Includes interest income from nonconsolidated affiliates of \$1,114 and \$671 for the three months ended December 31, 2016 and 2015, respectively, and \$1,979 and \$1,306 for the six months ended December 31, 2016 and 2015, respectively. In addition, interest income includes interest income from MSG Networks of \$307 for the six months ended December 31, 2015.

See accompanying notes to consolidated and combined financial statements.

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THE MADISON SQUARE GARDEN COMPANY  
CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited)  
(in thousands)

|   | Three Months Ended<br>December 31, |          | Six Months Ended<br>December 31, |      |             |
|---|------------------------------------|----------|----------------------------------|------|-------------|
|   | 2016                               | 2015     | 2016                             | 2015 |             |
| Net income  | \$57,421                           | \$43,488 | \$28,507                         |      | \$41,885    |
| Other comprehensive income (loss), before income taxes:                               |                                    |          |                                  |      |             |
| Pension plans and postretirement plan:  |                                    |          |                                  |      |             |
| Net unamortized losses arising during the period                                      | \$—                                | \$—      | \$—                              |      | \$(602)     |
| Amounts reclassified from accumulated other comprehensive loss:                       |                                    |          |                                  |      |             |
| Amortization of net actuarial loss included in net periodic benefit cost              | 344                                | 255      | 688                              |      | 554         |
| Amortization of net prior service credit included in net periodic benefit cost        | (1)331                             | (2)235   | (2)663                           |      | (37 ) (85 ) |
| Net changes related to available-for-sale securities                                  | 3,433                              | —        | 10,175                           |      | —           |
| Other comprehensive income (loss), before income taxes                                | 3,764                              | 235      | 10,838                           |      | (85 )       |
| Reversal of income tax expense related to items of other comprehensive income         | 3,126                              | —        | —                                |      | —           |
| Other comprehensive income (loss)   | 6,890                              | 235      | 10,838                           |      | (85 )       |
| Comprehensive income  | 64,311                             | 43,723   | 39,345                           |      | 41,800      |
| Less: Comprehensive loss attributable to noncontrolling interests                     | (305 )                             | —        | (593 )                           |      | —           |
| Comprehensive income attributable to The Madison Square Garden Company's stockholders | \$64,616                           | \$43,723 | \$39,938                         |      | \$41,800    |

See accompanying notes to consolidated and combined financial statements.

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THE MADISON SQUARE GARDEN COMPANY  
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(in thousands)

|   | Six Months Ended<br>December 31, |             |
|---|----------------------------------|-------------|
|   | 2016                             | 2015        |
| Cash flows from operating activities:   |                                  |             |
| Net income  | \$28,507                         | \$41,885    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |             |
| Depreciation and amortization   | 52,076                           | 51,145      |
| Amortization of deferred financing costs  | 106                              | —           |
| Share-based compensation expense  | 20,098                           | 10,259      |
| Loss (earnings) in equity method investments                                      | 2,182                            | (204 )      |
| Impairment of cost method investment  | —                                | 4,080       |
| Provision for doubtful accounts   | (16                              | ) 62        |
| Change in assets and liabilities, net of acquisitions:                            |                                  |             |
| Accounts receivable, net  | (14,792                          | ) (23,688 ) |
| Net related party receivables   | 2,397                            | (27,176 )   |
| Prepaid expenses and other assets   | (1,602                           | ) (29,640 ) |
| Accounts payable  | 12,549                           | 17,126      |
| Net related party payables  | 996                              | 15,658      |
| Accrued and other liabilities   | (31,930                          | ) (8,545 )  |
| Deferred revenue  | 39,047                           | 63,266      |
| Deferred income taxes   | 314                              | 54          |
| Net cash provided by operating activities   | 109,932                          | 114,282     |
| Cash flows from investing activities:   |                                  |             |
| Capital expenditures, net of acquisitions   | (21,766                          | ) (59,681 ) |
| Payments for acquisition of assets  | (1,000                           | ) (2,000 )  |
| Payments to acquire available-for-sale securities                                 | (23,222                          | ) —         |
| Payments for acquisition of a business, net of cash acquired                      | (13,468                          | ) —         |
| Investments and loans to nonconsolidated affiliates                               | (3,235                           | ) (18,492 ) |
| Capital distribution from equity method investments                               | —                                | 1,043       |
| Net cash used in investing activities   | (62,691                          | ) (79,130 ) |
| Cash flows from financing activities:   |                                  |             |
| Net transfers from MSG Networks and MSG Networks' subsidiaries                    | —                                | 1,525,241   |
| Repurchases of common stock   | (72,277                          | ) (15,716 ) |
| Proceeds from stock option exercises  | 7                                | 57          |
| Taxes paid in lieu of shares issued for equity-based compensation                 | (7,034                           | ) (48 )     |
| Payments for financing costs  | (1,909                           | ) —         |
| Net cash provided by (used in) financing activities                               | (81,213                          | ) 1,509,534 |
| Net increase (decrease) in cash and cash equivalents                              | (33,972                          | ) 1,544,686 |
| Cash and cash equivalents at beginning of period                                  | 1,444,317                        | 14,211      |
| Cash and cash equivalents at end of period  | \$1,410,345                      | \$1,558,897 |
| Non-cash investing and financing activities:                                      |                                  |             |
| Investments and loans to nonconsolidated affiliates                               | \$322                            | \$2,052     |
| Capital expenditures incurred but not yet paid                                    | 2,961                            | 1,617       |
| Non-cash transfers resulting from the Distribution, net                           | —                                | (2,500 )    |



See accompanying notes to consolidated and combined financial statements.

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THE MADISON SQUARE GARDEN COMPANY  
CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)  
(in thousands)

|   | Common<br>Stock<br>Issued | Additional<br>Paid-In<br>Capital | Treasury<br>Stock | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total The<br>Madison<br>Square Garden<br>Company<br>Stockholders' Equity | Noncontrolling<br>Interests | Total Equity |
|---|---------------------------|----------------------------------|-------------------|------------------------|---|--|-----------------------------|--------------|
| Balance as of June 30, 2016   | \$ 249                    | \$ 2,806,352                     | \$(101,882)       | \$(75,687 )            | \$(42,611 )   | \$ 2,586,421   | \$ —                        | \$ 2,586,421 |
| Net income (loss)   | —                         | —                                | —                 | 29,100                 | —   | 29,100   | (593 )                      | 28,507       |
| Other comprehensive income  | —                         | —                                | —                 | —                      | 10,838  | 10,838   | —                           | 10,838       |
| Comprehensive income (loss)   | —                         | —                                | —                 | —                      | —   | 39,938   | (593 )                      | 39,345       |
| Exercise of stock options   | —                         | (39 )                            | 46                | —                      | —   | 7  | —                           | 7            |
| Share-based compensation  | —                         | 20,175                           | —                 | —                      | —   | 20,175   | —                           | 20,175       |
| Tax withholding associated with shares issued for equity-based compensation | —                         | (5,702 )                         | (1,332 )          | —                      | —   | (7,034 )   | —                           | (7,034 )     |
| Common stock issued under stock incentive plans                             | —                         | (8,630 )                         | 8,630             | —                      | —   | —  | —                           | —            |
| Repurchases of common stock   | —                         | —                                | (72,277 )         | —                      | —   | (72,277 )  | —                           | (72,277 )    |
| Noncontrolling interests from acquisition                                   | —                         | —                                | —                 | —                      | —   | —  | 11,394                      | 11,394       |
| Balance as of December 31, 2016   | \$ 249                    | \$ 2,812,156                     | \$(166,815)       | \$(46,587 )            | \$(31,773 )   | \$ 2,567,230   | \$ 10,801                   | \$ 2,578,031 |

|                             | Common<br>Stock<br>Issued | MSG<br>Networks'<br>Investment | Additional<br>Paid-In<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total The<br>Madison Square<br>Garden<br>Company<br>Stockholders' Equity |
|-----------------------------|---------------------------|--------------------------------|----------------------------------|-------------------|----------------------|---|--|
| Balance as of June 30, 2015 | \$ —                      | \$ 1,263,490                   | \$ —                             | \$ —              | \$ —                 | \$(40,215 )   | \$ 1,223,275   |
| Net income (loss)           | —                         | (1,603 )                       | —                                | —                 | 43,488               | —   | 41,885   |
| Other comprehensive loss    | —                         | —                              | —                                | —                 | —                    | (85 )   | (85 )  |
| Comprehensive income        | —                         | —                              | —                                | —                 | —                    | —   | 41,800   |

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|   |        |            |             |            |          |           |           |              |
|---|--------|------------|-------------|------------|----------|-----------|-----------|--------------|
| Exercise of stock options   | —      | —          | 57          | —          | —        | —         | 57        |              |
| Share-based compensation  | —      | —          | 7,208       | —          | —        | —         | 7,208     |              |
| Tax withholding associated with shares issued for equity-based compensation   | —      | —          | (48         | )          | —        | —         | (48       | )            |
| Repurchases of common stock   | —      | —          | —           | (15,716    | )        | —         | (15,716   | )            |
| Net increase in MSG Networks' investment  | —      | 1,525,982  | —           | —          | —        | —         | 1,525,982 |              |
| Conversion of MSG Networks' investment  | 249    | (2,787,869 | )           | 2,787,620  | —        | —         | —         |              |
| Adjustment related to the transfer of Pension Plans and Postretirement Plan liabilities as a result of the Distribution | —      | —          | —           | —          | —        | 5,896     | 5,896     |              |
| Balance as of December 31, 2015   | \$ 249 | \$—        | \$2,794,837 | \$(15,716) | \$43,488 | \$(34,404 | )         | \$ 2,788,454 |

See accompanying notes to consolidated and combined financial statements.

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THE MADISON SQUARE GARDEN COMPANY

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

All amounts included in the following Notes to Consolidated and Combined Financial Statements are presented in thousands, except per share data or as otherwise noted.

Note 1. Description of Business and Basis of Presentation

Description of Business

The Madison Square Garden Company (together with its subsidiaries, the “Company” or “Madison Square Garden”) is a live sports and entertainment business. The Company classifies its business interests into two reportable segments: MSG Entertainment and MSG Sports. MSG Entertainment includes live entertainment events such as concerts, family shows, performing arts and special events, which are presented or hosted in the Company’s diverse collection of venues. MSG Entertainment also includes the Company’s original productions — Christmas Spectacular Starring the Radio City Rockettes (“Christmas Spectacular”) and New York Spectacular Starring the Radio City Rockettes (“New York Spectacular”) — as well as Boston Calling Events LLC, the live events production company that owns and operates the Boston Calling Music Festival. MSG Sports includes the Company’s professional sports franchises: the New York Knicks (the “Knicks”) of the National Basketball Association (the “NBA”), the New York Rangers (the “Rangers”) of the National Hockey League (the “NHL”), the New York Liberty (the “Liberty”) of the Women’s National Basketball Association (the “WNBA”), the Hartford Wolf Pack of the American Hockey League (the “AHL”) and the Westchester Knicks of the NBA Development League (the “NBADL”). The MSG Sports segment is also home to a broad array of other live sporting events, including professional boxing, college basketball, professional bull riding, mixed martial arts, tennis and college wrestling, all of which the Company promotes, produces and/or presents.

The Company conducts a significant portion of its operations at venues that it either owns or operates under long-term leases. The Company owns the Madison Square Garden Arena (“The Garden”) and The Theater at Madison Square Garden in New York City, the Forum in Inglewood, CA and The Chicago Theatre in Chicago. In addition, the Company leases Radio City Music Hall and the Beacon Theatre in New York City, and has a booking agreement with respect to the Wang Theatre in Boston.

The Company was incorporated on March 4, 2015 as an indirect, wholly-owned subsidiary of MSG Networks Inc. (“MSG Networks” or “Former Parent”), formerly known as The Madison Square Garden Company. On September 11, 2015, MSG Networks’ board of directors approved the distribution of all the outstanding common stock of Madison Square Garden to MSG Networks’ shareholders (the “Distribution”), which occurred on September 30, 2015. See Note 1 to the consolidated and combined financial statements included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2016 for more information regarding the Distribution to its common stockholders.

Basis of Presentation

The accompanying unaudited consolidated and combined interim financial statements (referred to as the “Financial Statements” herein) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission for interim financial information, and should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2016. The Financial Statements presented in this Quarterly Report on Form 10-Q are unaudited; however, in the opinion of management, the Financial Statements reflect all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. The results of operations for the periods presented are not necessarily indicative of the results that might be expected for future interim periods or for the full year. The dependence of the MSG Sports segment on revenues from its NBA and NHL sports teams generally means it earns a disproportionate share of its revenues in the second and third quarters of the Company’s fiscal year. The dependence of the MSG Entertainment segment on revenues from the Christmas Spectacular generally means it earns a disproportionate share of its revenues in the second quarter of the Company’s fiscal year.

For the periods after the Distribution, the financial information disclosed is presented on a consolidated basis, as the Company became a standalone public company on September 30, 2015. For the periods prior to the Distribution, the financial information was prepared on a standalone basis derived from the consolidated financial statements and accounting records of Former Parent and are presented as carve-out financial statements as the Company was not a

standalone public company prior to the Distribution. See Note 1 to the consolidated and combined financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016 for more information regarding the basis of presentation for periods before and after the Distribution.

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THE MADISON SQUARE GARDEN COMPANY

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

The combined results of operations for the three months ended September 30, 2015 that is included in the results of operations for the six months ended December 31, 2015 include allocations for certain support functions that were provided on a centralized basis by MSG Networks and not historically recorded at the business unit level, such as expenses related to finance, human resources, information technology, and venue operations, among others. These expenses were allocated on the basis of direct usage when identifiable, with the remainder allocated on a pro-rata basis of combined revenues, headcount or other measures. Management believes the assumptions underlying the combined financial statements, including the assumptions regarding allocating general corporate expenses, are reasonable. Nevertheless, the results of operations for the three months ended September 30, 2015 that are included in the combined financial statements for the six months ended December 31, 2015 do not include all of the actual expenses that would have been incurred by the Company and do not reflect its combined results of operations, financial position and cash flows had it been a separate, standalone public company during the period presented on a combined basis. Actual costs that would have been incurred if the Company had been a separate, standalone public company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

For purposes of the combined financial statements, income tax expense has been recorded as if the Company filed tax returns on a standalone basis separate from Former Parent. This separate return methodology applies to accounting guidance for income taxes in the combined financial statements as if the Company was a standalone public company for the periods prior to the Distribution. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the Company's actual tax balances prior to or subsequent to the Distribution. Prior to the Distribution, the Company's operating results were included in Former Parent's consolidated U.S. federal and state income tax returns. Pursuant to rules promulgated by the Internal Revenue Service and various state taxing authorities, the Company expects to file its initial U.S. income tax return for the period from October 1, 2015 through June 30, 2016. The calculation of the Company's income taxes involves considerable judgment and use of both estimates and allocations.

Note 2. Accounting Policies

Principles of Consolidation and Combination

For the periods prior to the Distribution, the financial statements include certain assets and liabilities that were historically held at Former Parent's corporate level but were specifically identifiable or otherwise attributable to the Company. All intercompany transactions between the Company and Former Parent have been included in the combined financial statements as components of MSG Networks' investment. All significant intracompany transactions and accounts within the Company's consolidated and combined financial statements have been eliminated. Expenses related to corporate allocations prior to the Distribution were considered to be effectively settled in the combined financial statements at the time the transaction was recorded, with the offset recorded against MSG Networks' investment.

Use of Estimates

The preparation of the accompanying Financial Statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of accounts receivable, investments, goodwill, intangible assets, other long-lived assets, tax accruals and other liabilities. In addition, estimates are used in revenue recognition, revenue sharing expense (net of escrow), luxury tax expense, income tax expense, performance and share-based compensation, depreciation and amortization, reserve and recovery for contingencies, litigation matters and other matters, as well as in the valuation of contingent consideration and noncontrolling interests resulting from business combination

transactions. Management believes its use of estimates in the Financial Statements to be reasonable. Management evaluates its estimates on an ongoing basis using historical experience and other factors, including the general economic environment and actions it may take in the future. The Company adjusts such estimates when facts and circumstances dictate. However, these estimates may involve significant uncertainties and judgments and cannot be determined with precision. In addition, these estimates are based on management's best judgment at a point in time and as such these estimates may ultimately differ from actual results. Changes in estimates resulting from weakness in the economic environment or other factors beyond the Company's control could be material and would be reflected in the Company's financial statements in future periods.

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THE MADISON SQUARE GARDEN COMPANY

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Summary of Significant Accounting Policies

The following is an update to the Company's Summary of Significant Accounting Policies disclosed in its Annual Report on Form 10-K for the year ended June 30, 2016:

Business Combinations

The acquisition method of accounting for business combinations requires management to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which the Company is allowed to adjust the provisional amounts recognized for a business combination).

Under the acquisition method of accounting, the Company recognizes separately from goodwill the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree, generally at the acquisition date fair value. The Company measures goodwill as of the acquisition date as the excess of consideration transferred, which is also measured at fair value if the consideration is non-cash, over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Costs that the Company incurs to complete a business combination such as investment banking, legal and other professional fees are not considered part of consideration and the Company charges these costs to selling, general and administrative expense as they are incurred. In addition, the Company recognizes measurement-period adjustments in the period in which the amount is determined, including the effect on earnings of any amounts the Company would have recorded in previous periods if the accounting had been completed at the acquisition date.

On July 1, 2016, the Company acquired a controlling interest in Boston Calling Events LLC ("BCE"). In accordance with Accounting Standards Codification ("ASC") Topic 805, Business Combinations, and ASC Topic 810, Consolidation, the financial position of BCE has been consolidated to the Company's consolidated balance sheet as of December 31, 2016. The results of operations for BCE have been included in the Company's consolidated results of operations from the date of acquisition in the MSG Entertainment segment. The relevant amounts attributable to investors other than the Company are reflected under "Noncontrolling interests" and "Net income (loss) attributable to noncontrolling interests" on the accompanying consolidated balance sheet and consolidated statement of operations, respectively. See Note 3 for more information regarding the Company's acquisition of BCE.

Revenue Recognition

Deferred revenue reported in the accompanying consolidated balance sheets as of December 31, 2016 and June 30, 2016 includes amounts due to the third-party promoters of \$48,458 and \$45,877, respectively.

Recently Issued Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which changes the analysis to be performed in determining whether certain types of legal entities should be consolidated. Specifically, ASU No. 2015-02 (i) modifies the assessment of whether limited partnerships are variable interest entities (each a "VIE") or voting interest entities, (ii) eliminates the presumption that a limited partnership should be consolidated by its general partner, (iii) removes certain conditions for the evaluation of whether a fee paid to a decision maker constitutes a variable interest, and (iv) modifies the evaluation concerning the impact of related parties in the determination of the primary beneficiary of a VIE. This standard was adopted by the Company in the first quarter of fiscal year 2017. The adoption of the standard did not have an impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing



arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract and expense the cost as the services are received. This standard was adopted by the Company in the first quarter of fiscal year 2017 on a prospective basis for all arrangements entered into or materially modified after July

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THE MADISON SQUARE GARDEN COMPANY

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

1, 2016. The adoption of the standard did not have an impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in FASB ASC Topic 605, Revenue Recognition. ASC Topic 606, among other things, (i) is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and (ii) requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU No. 2014-09 for all entities by one year. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue versus Net), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard under ASU No. 2014-09. ASU No. 2016-08 clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the principle in ASU No 2014-09 for determining whether a good or service is separately identifiable from other promises in the contract and, therefore, should be accounted for separately. ASU No. 2016-10 also clarifies that entities are not required to identify promised goods or services that are immaterial in the context of the contract and allows entities to elect to account for shipping and handling activities as a fulfillment cost rather than as an additional promised service. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients, which clarifies the following aspects in ASU No. 2014-09: collectability, presentation of sales taxes and other similar taxes collected from customers, noncash considerations, contract modifications at transition, completed contracts at transition, and technical correction. In December, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which allows entities not to make quantitative disclosures about remaining performance obligations in certain cases and requires entities that use any of the new or previously existing optional exemptions to expand their qualitative disclosures. Early adoption of ASC Topic 606 and the related updates discussed above is permitted and the Company can early adopt ASC Topic 606 and the related updates beginning in the first quarter of fiscal year 2018. If the Company does not apply the early adoption provision, ASC Topic 606 and the related updates will be effective for the Company beginning in the first quarter of fiscal year 2019 using one of two retrospective application methods. The Company is currently evaluating the impact the standard and updates will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This standard, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income and (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. Early adoption is not permitted with the exception of certain provisions related to the presentation of other comprehensive income. This standard will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes existing guidance on accounting for leases in FASB ASC Topic 840, Leases. ASU No. 2016-02, among other things, (i) requires lessees to account for leases as either finance leases or operating leases and generally requires all leases to be recorded on the balance sheet, including those leases classified as operating leases under previous accounting guidance, through the recognition of right-of-use assets and corresponding lease liabilities, and (ii) requires extensive qualitative and quantitative disclosures about leasing activities. The accounting applied by a lessor is largely unchanged from that applied under previous accounting guidance. This standard will be effective for the Company beginning in the first quarter of fiscal year 2020 and is required to be applied using the modified retrospective approach for all leases existing as of the effective date. Early adoption is permitted. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

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THE MADISON SQUARE GARDEN COMPANY

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting. ASU No. 2016-07 eliminates the requirement for an investor to retrospectively apply the equity method when an investment that it had accounted for by another method qualifies for use of the equity method. This standard will be effective for the Company beginning in the first quarter of fiscal year 2018 and is required to be applied prospectively. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-based Payment Accounting. ASU No. 2016-09, among other things, (i) requires the income tax effects of all awards to be recognized in the statement of operations when the awards vest or are settled, (ii) allows an employer to repurchase more of an employee's shares for tax withholding purposes than currently allowable, without triggering liability accounting, and provides companies with the option to make a policy election to account for forfeitures as they occur, and (iii) requires companies to present excess tax benefits as operating activity rather than as financing activity on the statement of cash flows. This standard will be effective for the Company beginning in the first quarter of fiscal year 2018. Early adoption is permitted. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). ASU No. 2016-15 addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This standard will be effective for the Company beginning in the first quarter of fiscal year 2019. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU No. 2016-16 requires entities to recognize income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This standard will be effective for the Company beginning in the first quarter of fiscal year 2019. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash. The primary purpose of ASU No. 2016-18 is to reduce the diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. This standard will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard will be effective retrospectively for the Company beginning in the first quarter of fiscal year 2019. Early adoption is permitted in any interim or annual period. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805) Clarifying the Definition of a Business. The primary purpose of this ASU is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses, which will affect many areas of accounting including acquisitions, disposals, goodwill, and consolidation. This standard will be effective for the Company beginning in the first quarter of fiscal year 2019 and is required to be applied prospectively. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. ASU No. 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This standard will be effective for the Company beginning in the first quarter of fiscal year 2021 is required to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

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THE MADISON SQUARE GARDEN COMPANY

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Note 3. Acquisitions

BCE Acquisition

On July 1, 2016, in connection with the Company's strategy to broaden its live experience offerings, the Company acquired a controlling interest in BCE, the live events production company that owns and operates the Boston Calling Music Festival. The Company acquired net tangible assets of \$2,221. In addition, based on the purchase price allocation, the Company recognized \$11,800 of amortizable intangible assets and \$12,538 of goodwill. See Note 7 for more information regarding the intangible assets and goodwill recognized in this acquisition. The estimated fair value of the noncontrolling interest of \$11,394 was based on the present value of future cash flows, adjusted for the lack of control and lack of marketability associated with the noncontrolling interests and was classified within Level III of the fair value hierarchy as they were valued using unobservable inputs. An additional escrow payment in the amount of \$1,750 was made for potential earn-out. The amounts of revenue and earnings of BCE since the acquisition date included in the Company's consolidated statement of operations for the reporting period were not material. Pro forma information is not provided since the acquisition was not material when compared with the Company's consolidated financial statements.

Investment in Townsquare Media, Inc.

On August 16, 2016, the Company acquired 3,208 shares, or approximately 12%, of the common stock of Townsquare Media, Inc. ("Townsquare") for approximately \$23,099 in cash. Townsquare is a leading media, entertainment and digital marketing solutions company that is listed on the New York Stock Exchange under the symbol "TSQ." This investment is reported in the accompanying consolidated balance sheet as of December 31, 2016 in other assets, and is classified as available-for-sale securities in accordance with ASC Topic 320, Investments — Debt and Equity Securities. Investments in available-for-sale securities are carried at fair market value with the unrealized gains and losses, net of tax, included in the determination of comprehensive income (loss) and reported in stockholders' equity. See Note 9 for more information on the fair value of the investment in Townsquare.

TAO Group Acquisition

On January 31, 2017, in connection with the Company's strategy to broaden its portfolio of live offerings, the Company entered into a transaction agreement pursuant to which it acquired a 62.5% common equity interest and a preferred equity interest in TAO Group Holdings LLC ("TAOH"), which indirectly owns all of the equity of TAO Group Operating LLC ("TAOG"). TAOG is engaged in the management and operation of restaurants and nightclubs in Las Vegas, New York City and Australia (with venues under contract which are expected to open in Los Angeles, Chicago and Singapore in the coming years). The Company paid approximately \$181,000, subject to customary purchase price adjustments, and \$8,700 to acquire preferred equity in TAOH. In addition, the Company will be responsible to pay an earn-out of up to \$25,500, if certain performance conditions based upon earnings growth are met during the first five years following the transaction. The transaction assumed an estimated enterprise value of TAOG of approximately \$400,000, which excludes the potential earn-out amount discussed above.

The purchase price allocation has not been completed as of the date of this filing pending the valuation of assets acquired and liabilities assumed. As a result, the Company is unable to provide amounts recognized as of the acquisition date for major classes of assets acquired and liabilities assumed, including goodwill and intangible assets. Furthermore, the Company is unable to provide the supplemental pro forma revenue and net income of the combined entity, as some of the pro forma adjustments are dependent upon the purchase price allocation. The Company will include this information in the quarterly report on Form 10-Q for the quarter ended March 31, 2017.

In addition, in connection with this transaction, TAO Group Intermediate Holdings LLC ("TAOIH"), a subsidiary of TAOH, TAOG and certain of its subsidiaries obtained a five-year term senior secured term loan facility of \$110,000 from a third party group of lenders to fund the acquisition of the TAOH and a senior secured revolving credit facility

of up to \$12,000 with a term of five years for working capital and general corporate purposes of TAOG. These credit facilities are provided without recourse to the Company or any of its affiliates (other than TAOIH and its subsidiaries). See Note 10 for more information regarding these credit facilities.

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## THE MADISON SQUARE GARDEN COMPANY

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

## Note 4. Computation of Earnings (Loss) per Common Share

The following table presents a reconciliation of weighted-average shares used in the calculations of basic and diluted earnings per common share ("EPS").

|   | Three Months Ended |        | Six Months Ended |        |
|---|--------------------|--------|------------------|--------|
|   | December 31,       |        | December 31,     |        |
|   | 2016               | 2015   | 2016             | 2015   |
| Weighted-average shares for basic EPS                                   | 23,971             | 24,971 | 24,013           | 24,949 |
| Dilutive effect of shares issuable under share-based compensation plans | 172                | 84     | 179              | 82     |
| Weighted-average shares for diluted EPS                                 | 24,143             | 25,055 | 24,192           | 25,031 |
| Anti-dilutive shares  | 7                  | 4      | 6                | 2      |

## Note 5. Team Personnel Transactions

Direct operating expenses in the accompanying consolidated statement of operations include provisions for transactions relating to a player trade and player waiver/contract termination costs ("Team Personnel Transactions"). Team Personnel Transactions were \$980 and \$5,990 for the three and six months ended December 31, 2016, respectively.

## Note 6. Investments and Loans to Nonconsolidated Affiliates

The Company's investments and loans to nonconsolidated affiliates which are accounted for under equity method and cost method of accounting in accordance with ASC Topic 323, Investments - Equity Method and Joint Ventures, and ASC Topic 325, Investments - Other, respectively, consisted of the following:

|   | Ownership Percentage | Investment | Loan      | Total      |
|---|----------------------|------------|-----------|------------|
| December 31, 2016   |                      |            |           |            |
| Equity method investments:                                |                      |            |           |            |
| Azoff MSG Entertainment LLC ("AMSGE")                     | 50 %                 | \$ 108,194 | \$97,500  | \$205,694  |
| Brooklyn Bowl Las Vegas, LLC ("BBLV")                     | (a)                  | —          | 2,662     | (b) 2,662  |
| Tribeca Enterprises LLC ("Tribeca Enterprises")           | 50 %                 | 15,770     | 13,951    | (c) 29,721 |
| Fuse Media LLC ("Fuse Media")                             | 15 %                 | 20,631     | —         | 20,631     |
| Cost method investments                                   |                      | 4,098      | 1,678     | 5,776      |
| Total investments and loans to nonconsolidated affiliates |                      | \$ 148,693 | \$115,791 | \$264,484  |
| June 30, 2016   |                      |            |           |            |
| Equity method investments:                                |                      |            |           |            |
| AMSGE   | 50 %                 | \$ 112,147 | \$97,500  | \$209,647  |
| BBLV  | (a)                  | —          | 2,662     | (b) 2,662  |
| Tribeca Enterprises                                       | 50 %                 | 13,736     | 10,395    | (c) 24,131 |
| Fuse Media  | 15 %                 | 21,634     | —         | 21,634     |
| Cost method investments                                   |                      | 3,794      | 1,678     | 5,472      |
| Total investments and loans to nonconsolidated affiliates |                      | \$ 151,311 | \$112,235 | \$263,546  |

(a) The Company is entitled to receive back its capital, which was 74% of BBLV's total capital as of December 31, 2016 and June 30, 2016, plus a preferred return, after which the Company would own a 20% interest in BBLV.





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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

- (b) Represents outstanding loan balance, inclusive of amounts due to the Company for interest of \$62 as of December 31, 2016 and June 30, 2016.
- (c) Includes outstanding payments-in-kind (“PIK”) interest of \$451 and \$95 as of December 31, 2016 and June 30, 2016, respectively. PIK interest owed does not reduce availability under the revolving credit facility.

As a result of certain legal and regulatory actions against one of the Company’s cost method investments, the Company evaluated whether or not an other-than-temporary impairment of this cost method investment had occurred as of December 31, 2015. This evaluation resulted in the Company recording a pre-tax non-cash impairment charge of \$4,080 to partially write down the carrying value of its cost method investment, which is reflected in miscellaneous expense in the accompanying consolidated and combined statements of operations for the three and six months ended December 31, 2015.

See Note 8 for more information regarding a legal matter related to a company with its majority interest owned by AMSGE.

Note 7. Goodwill and Intangible Assets

The carrying amounts of goodwill, by reportable segment, as of December 31, 2016 and June 30, 2016 are as follows:

|                   | December 31, June 30, |           |
|-------------------|-----------------------|-----------|
|                   | 2016                  | 2016      |
| MSG Entertainment | \$ 71,517             | \$58,979  |
| MSG Sports        | 218,187               | 218,187   |
|                   | \$ 289,704            | \$277,166 |

During the first quarter of fiscal year 2017, the Company performed its annual impairment test of goodwill and determined that there were no impairments of goodwill identified for either of its reporting units. The increase in the carrying amount of goodwill, as compared to June 30, 2016, in the MSG Entertainment segment was due to the purchase price allocation for the BCE acquisition during the first quarter of fiscal year 2017. The goodwill that arose from this acquisition was valued using unobservable inputs within Level III of the fair value hierarchy, primarily from utilizing the discounted cash flow model, which is an income-based approach that allocates to goodwill any acquisition costs not specifically assigned to intangibles, fixed assets or working capital. Goodwill recognized in this acquisition is expected to be deductible for tax purposes. See Note 3 for more information on the allocation of the purchase price and goodwill recognized.

The Company’s indefinite-lived intangible assets as of December 31, 2016 and June 30, 2016 are as follows:

|  |           |
|--|-----------|
| Sports franchises (MSG Sports segment)           | \$101,429 |
| Trademarks (MSG Entertainment segment)           | 62,421    |
| Photographic related rights (MSG Sports segment) | 3,000     |
|  | \$166,850 |

During the first quarter of fiscal year 2017, the Company performed its annual impairment test of identifiable indefinite-lived intangible assets and determined that there were no impairments identified.

The Company’s intangible assets subject to amortization are as follows:

| December 31, 2016                  | Gross    | Accumulated<br>Amortization | Net       |
|------------------------------------|----------|-----------------------------|-----------|
| Season ticket holder relationships | \$73,124 | \$ (61,808 )                | \$ 11,316 |
| Other intangibles                  | 16,017   | (3,036 )                    | 12,981    |
|                                    | \$89,141 | \$ (64,844 )                | \$ 24,297 |



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## THE MADISON SQUARE GARDEN COMPANY

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

| June 30, 2016                      | Gross    | Accumulated<br>Amortization | Net      |
|------------------------------------|----------|-----------------------------|----------|
| Season ticket holder relationships | \$73,124 | \$ (59,178 )                | \$13,946 |
| Other intangibles                  | 4,217    | (2,434 )                    | 1,783    |
|                                    | \$77,341 | \$ (61,612 )                | \$15,729 |

The increase in gross carrying amount of other intangibles, as compared to June 30, 2016, was due to the purchase price allocation for the BCE acquisition during the first quarter of fiscal year 2017. Other amortizable intangible assets acquired from this acquisition include festival rights and a tradename with useful lives ranging from 5 to 15 years. Other amortizable intangible assets acquired were valued using unobservable inputs within Level III of the fair value hierarchy, primarily from utilizing the discounted cash flow models and relief-from-royalty approach. See Note 3 for more information on the allocation of the purchase price and intangible assets recognized.

Amortization expense for intangible assets was \$1,616 and \$1,734 for the three months ended December 31, 2016 and 2015, respectively. For the six months ended December 31, 2016 and 2015, amortization expense for intangible assets was \$3,232 and \$3,469, respectively.

## Note 8. Commitments and Contingencies

## Commitments

As more fully described in Note 7 to the consolidated and combined financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016, the Company's commitments consist primarily of (i) the MSG Sports segment's obligations under employment agreements that the Company has with its professional sports teams' personnel that are generally guaranteed regardless of employee injury or termination, (ii) long-term noncancelable operating lease agreements primarily for entertainment venues and office and storage space, and (iii) revolving credit facilities provided by the Company to AMSGE and Tribeca Enterprises (see Note 6).

## Contingencies

On November 22, 2016, the Company announced that it was notifying customers that it had identified and has addressed a payment card issue that affected cards used at merchandise and food and beverage locations at several of the Company's New York and Chicago venues. After being notified of a transaction pattern indicating a potential data security concern, the Company commenced an investigation and engaged leading computer security firms to examine its network. The Company, working with security firms, promptly fixed the issue and implemented enhanced security measures.

The Company has incurred and expects to incur expenses associated with the payment card incident and will continue to recognize those expenses as incurred. Such expenses were recognized in selling, general and administrative expenses in the accompanying consolidated and combined statements of operations for the three and six months ended December 31, 2016. Payment card networks may demand that the Company pay certain fees and assessments designed to reimburse payment card issuers. During the second quarter of fiscal year 2017, the Company recorded a contingent liability equal to the currently estimable future payments and a receivable in the same amount reflecting probable insurance recoveries, which are reported in other accrued liabilities and other current assets, respectively, in the accompanying consolidated balance sheet as of December 31, 2016. The Company cannot currently reasonably estimate the remaining amount that may be payable to the card companies and associations in connection with the incident. Although the Company expects its insurance coverage will offset most, if not all, of the expenses associated with the incident, the incident could have a material adverse impact on the Company's operating results for a future quarter.

## Legal Matters

## Edgar Filing: Madison Square Garden Co - Form 10-Q

The Company owns 50% of Azoff MSG Entertainment LLC, which in turn owns a majority interest in Global Music Rights, LLC (“GMR”). GMR is primarily a performance rights organization, whose business includes obtaining the right to license the public performance rights of songs composed by leading songwriters to digital and terrestrial radio and other outlets. GMR has been negotiating licensing terms with radio stations and station groups represented by the Radio Music Licensing Committee (“RMLC”), which acts for and on behalf of over 10,000 commercial radio stations. On November 18, 2016, RMLC filed a complaint against GMR in the United States District Court for the Eastern District of Pennsylvania asserting that GMR is

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## THE MADISON SQUARE GARDEN COMPANY

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

violating Section 2 of the Sherman Antitrust Act and seeking an injunction, requiring, among other things, that GMR issue radio stations licenses for GMR's repertory, upon request, at a rate set through a judicial rate-making procedure, that GMR offer "economically viable alternatives to blanket licenses," and that GMR offer only licenses that include GMR's entire repertory. GMR and RLMLC agreed to an interim license arrangement through September 30, 2017, which radio stations may elect to join on or before January 31, 2017. GMR has advised the Company that it believes that the RLMLC Complaint is without merit and is vigorously defending itself. On January 20, 2017, GMR filed a motion to dismiss or to transfer venue, asserting that the Eastern District of Pennsylvania is not a proper venue for the matter, lacks personal jurisdiction of GMR and that in any event the Complaint fails to state a claim. In addition, on December 6, 2016, GMR filed a complaint against RLMLC in the United States District Court for the Central District of California, alleging that RLMLC operates as an illegal cartel that unreasonably restrains trade in violation of Section 1 of the Sherman Antitrust Act and California state law, and seeking an injunction restraining RLMLC and its co-conspirators from enforcing or establishing agreements that unreasonably restrict competition for copyright licenses.

The Company is a defendant in various other lawsuits. Although the outcome of these other lawsuits cannot be predicted with certainty, management does not believe that resolution of these other lawsuits will have a material adverse effect on the Company.

## Note 9. Fair Value Measurements

The following table presents for each of these hierarchy levels, the Company's assets that are measured at fair value on a recurring basis, which include cash equivalents, marketable securities and available-for-sale securities:

|                                     | Fair Value Hierarchy | December 31,<br>2016 | June 30,<br>2016 |
|-------------------------------------|----------------------|----------------------|------------------|
| Assets:                             |                      |                      |                  |
| Commercial Paper                    | I                    | \$ 73,472            | \$ 79,968        |
| Money market accounts               | I                    | 139,543              | 159,881          |
| Time deposits                       | I                    | 1,192,450            | 1,202,681        |
| Marketable securities               | I                    | —                    | 787              |
| Available-for-sale securities       | I                    | 33,397               | —                |
| Total assets measured at fair value |                      | \$ 1,438,862         | \$ 1,443,317     |

All assets listed above are classified within Level 1 of the fair value hierarchy as they are valued using observable inputs that reflect quoted prices for identical assets in active markets. The carrying amounts of the Company's commercial paper, money market accounts and time deposits approximate fair value due to their short-term maturities. The carrying value and fair value of the Company's financial instruments reported in the accompanying consolidated balance sheet are as follows:

|   | December 31,<br>2016 |               | June 30, 2016     |               |
|---|----------------------|---------------|-------------------|---------------|
|   | Carrying<br>Value    | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
| Notes receivable, including interest accruals | \$ 7,090             | \$ 7,090      | \$ 7,090          | \$ 7,090      |
| Marketable securities                         | —                    | —             | 787               | 787           |
| Available-for-sale securities <sup>(a)</sup>  | 33,397               | 33,397        | —                 | —             |

<sup>(a)</sup> Aggregate cost basis for available-for-sale securities, including transaction costs, was \$23,222 as of December 31, 2016. The unrealized gain recorded in accumulated other comprehensive income was \$10,175 as of December 31,

2016.

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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Note 10. Credit Facilities

Knicks Revolving Credit Facility

On September 30, 2016, New York Knicks, LLC (“Knicks LLC”), a wholly owned subsidiary of the Company, entered into a credit agreement (the “Knicks Credit Agreement”) with a syndicate of lenders providing for a senior secured revolving credit facility of up to \$200,000 with a term of five years (the “Knicks Revolving Credit Facility”) to fund working capital needs and for general corporate purposes.

The Knicks Revolving Credit Facility requires Knicks LLC to comply with a debt service ratio of 1.5:1.0 over a trailing four quarter period. As of December 31, 2016, Knicks LLC was in compliance with this financial covenant. All borrowings under the Knicks Revolving Credit Facility are subject to the satisfaction of certain customary conditions. Borrowings bear interest at a floating rate, which at the option of Knicks LLC may be either (i) a base rate plus a margin ranging from 0.00% to 0.125% per annum or (ii) LIBOR plus a margin ranging from 1.00% to 1.125% per annum. Knicks LLC is required to pay a commitment fee ranging from 0.20% to 0.25% per annum in respect of the average daily unused commitments under the Knicks Revolving Credit Facility. The Knicks Revolving Credit Facility was undrawn as of December 31, 2016.

All obligations under the Knicks Revolving Credit Facility are secured by a first lien security interest in certain of Knicks LLC’s assets, including, but not limited to, (i) the Knicks LLC’s membership rights in the NBA and (ii) revenues to be paid to the Knicks LLC by the NBA pursuant to certain U.S. national broadcast agreements.

Subject to customary notice and minimum amount conditions, Knicks LLC may voluntarily prepay outstanding loans under the Knicks Revolving Credit Facility at any time, in whole or in part, without premium or penalty (except for customary breakage costs with respect to Eurocurrency loans). Knicks LLC is required to make mandatory prepayments in certain circumstances, including without limitation if the maximum available amount under the Knicks Revolving Credit Facility is greater than 350% of qualified revenues.

In addition to the financial covenant described above, the Knicks Credit Agreement and the related security agreement contain certain customary representations and warranties, affirmative covenants and events of default. The Knicks Revolving Credit Facility contains certain restrictions on the ability of Knicks LLC to take certain actions as provided in (and subject to various exceptions and baskets set forth in) the Knicks Revolving Credit Facility, including the following: (i) incurring additional indebtedness and contingent liabilities; (ii) creating liens on certain assets; (iii) making restricted payments during the continuance of an event of default under the Knicks Revolving Credit Facility; (iv) engaging in sale and leaseback transactions; (v) merging or consolidating; and (vi) taking certain actions that would invalidate the secured lenders’ liens on any Knicks LLC’s collateral.

In connection with the entry into the Knicks Revolving Credit Facility, the Company incurred \$2,112 for deferred financing costs, which are being amortized to interest expense over the five-year term of the Knicks Revolving Credit Facility. The amount of deferred financing costs, net of amortization, of \$422 and \$1,584 were included in other current assets and other assets, respectively, in the accompanying consolidated balance sheet as of December 31, 2016.

Knicks Unsecured Credit Facility

On September 30, 2016, Knicks LLC entered into an unsecured revolving credit facility with a lender for an initial maximum credit amount of \$15,000 and a one-year term (the “Knicks Unsecured Credit Facility”). This facility was undrawn as of December 31, 2016.

Rangers Revolving Credit Facility

On January 25, 2017, New York Rangers, LLC (“Rangers LLC”), a wholly owned subsidiary of the Company, entered into a credit agreement (the “Rangers Credit Agreement”) with a syndicate of lenders providing for a senior secured



revolving credit facility of up to \$150,000 with a term of five years (the “Rangers Revolving Credit Facility”) to fund working capital needs and for general corporate purposes.

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THE MADISON SQUARE GARDEN COMPANY

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

The Rangers Revolving Credit Facility requires Rangers LLC to comply with a debt service ratio of 1.5:1.0 over a trailing four quarter period. Rangers LLC was in compliance with this financial covenant on the closing date. All borrowings under the Rangers Revolving Credit Facility are subject to the satisfaction of certain customary conditions. Borrowings bear interest at a floating rate, which at the option of Rangers LLC may be either (i) a base rate plus a margin ranging from 0.125% to 0.50% per annum or (ii) LIBOR plus a margin ranging from 1.125% to 1.50% per annum. Rangers LLC is required to pay a commitment fee ranging from 0.375% to 0.625% per annum in respect of the average daily unused commitments under the Rangers Revolving Credit Facility. The Rangers Revolving Credit Facility was undrawn on the closing date.

All obligations under the Rangers Revolving Credit Facility are secured by a first lien security interest in certain of Rangers LLC's assets, including, but not limited to, (i) Rangers LLC's membership rights in the NHL, (ii) revenues to be paid to Rangers LLC by the NHL pursuant to certain U.S. and Canadian national broadcast agreements, and (iii) revenues to be paid to Rangers LLC pursuant to local media contracts.

Subject to customary notice and minimum amount conditions, Rangers LLC may voluntarily prepay outstanding loans under the Rangers Revolving Credit Facility at any time, in whole or in part, without premium or penalty (except for customary breakage costs with respect to Eurocurrency loans). Rangers LLC is required to make mandatory prepayments in certain circumstances, including without limitation if the maximum available amount under the Rangers Revolving Credit Facility is less than 17% of qualified revenues.

In addition to the financial covenant described above, the Rangers Credit Agreement and the related security agreement contain certain customary representations and warranties, affirmative covenants and events of default. The Rangers Revolving Credit Facility contains certain restrictions on the ability of Rangers LLC to take certain actions as provided in (and subject to various exceptions and baskets set forth in) the Rangers Revolving Credit Facility, including the following: (i) incurring additional indebtedness and contingent liabilities; (ii) creating liens on certain assets; (iii) making restricted payments during the continuance of an event of default under the Rangers Revolving Credit Facility; (iv) engaging in sale and leaseback transactions; (v) merging or consolidating; and (vi) taking certain actions that would invalidate the secured lenders' liens on any of Rangers LLC's assets securing the obligations under the Rangers Revolving Credit Facility.

TAO Credit Facilities

On January 31, 2017, TAO Group Intermediate Holdings LLC ("TAOIH"), TAO Group Operating LLC ("TAOG") and certain of its subsidiaries entered into a credit and guaranty agreement with a syndicate of lenders providing for a senior secured term loan facility of \$110,000 with a term of five years (the "TAO Term Loan Facility") to fund, in part, the acquisition of TAOH and a senior secured revolving credit facility of up to \$12,000 with a term of five years (the "TAO Revolving Credit Facility," and together with the TAO Term Loan Facility, the "TAO Credit Facilities") for working capital and general corporate purposes of TAOG. The TAO Credit Facilities were obtained without recourse to MSG or any of its affiliates (other than TAOIH and its subsidiaries).

The TAO Credit Facilities require TAOIH (i) to maintain, for the relevant TAO entities, a minimum consolidated liquidity of \$5,000 at all times, (ii) to comply with a maximum total net leverage ratio of 4.00:1.00 initially and stepping down over time to 2.50:1.00 by the first quarter of fiscal year 2021 and through the remainder of the term of the TAO Credit Facilities, and (iii) to comply with a minimum fixed charge coverage ratio of 1.50:1.00 initially and stepping down over time to 1.15:1.00 by the second quarter of fiscal year 2021 and through the remainder of the term of the TAO Credit Facilities. TAOIH was in compliance with these financial covenants on the closing date.

The TAO entities under the TAO Credit Facilities are also subject to certain limitations with respect to making capital expenditures based upon the total net leverage ratio and other factors. The restrictions on capital expenditures are subject to certain "carry-forward" provisions and other customary carve-outs.

All borrowings under the TAO Credit Facilities are subject to the satisfaction of certain customary conditions, including compliance with a maximum leverage multiple, accuracy of representations and warranties and absence of a default or event of default. Borrowings bear interest at a floating rate, which at the option of TAOG may be either (i) a base rate plus a margin ranging from 6.50% to 7.00% per annum or (ii) LIBOR plus a margin ranging from 7.50% to 8.00% per annum. TAOG is required to pay a commitment fee of 0.50% per annum in respect of the average daily unused commitments under the TAO Revolving Credit Facility.

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## THE MADISON SQUARE GARDEN COMPANY

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

All obligations under the TAO Credit Facilities are secured by a first lien security interest in substantially all of the applicable TAO entities' assets, including, but not limited to, a pledge of all of the capital stock of substantially all of TAOIH's wholly-owned domestic subsidiaries and 65% of the voting capital stock, and 100% of the non-voting capital stock, of each of its first-tier foreign subsidiaries.

Subject to customary notice and minimum amount conditions, TAOG may voluntarily prepay outstanding loans under the TAO Credit Facilities at any time, in whole or in part (subject to customary breakage costs with respect to LIBOR loans) with premiums due in respect of prepayments of the TAO Term Loan Facility or permanent reduction under the TAO Revolving Credit Facility, in each case, starting at 5.0% initially and stepping down to 0% after three years. TAOG is required to make scheduled amortization payments under the TAO Term Loan Facility in consecutive quarterly installments equal to \$687.5 per quarter initially and stepping up over time to \$4,125 per quarter commencing March 31, 2021 through the final maturity date of the TAO Term Loan Facility with the final balance payable on such maturity date. TAOG is also required to make mandatory prepayments under the TAO Credit Facilities in certain circumstances, including, without limitation, 75% of excess cash flow, with a step-down to 50% when the total net leverage ratio is less than 2.00:1.00.

The TAO Credit Facilities contain certain restrictions on the ability of TAOG to take certain actions as provided in (and subject to various exceptions and baskets set forth in) the TAO Credit Facilities, including, without limitation, the following: (i) incurring additional indebtedness; (ii) creating liens on assets; (iii) making distributions, dividends and other restricted payments; (iv) engaging in sale and leaseback transactions; (v) merging or consolidating; (vi) making investments; and (vii) prepaying certain indebtedness.

## Note 11. Accumulated Other Comprehensive Income (Loss)

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

|   | Pension<br>Plans and<br>Postretirement<br>Plan <sup>(a)</sup> | Unrealized Gain<br>on<br>Available-for-sale<br>Securities | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|---|---|--|
| Balance as of June 30, 2016   | \$ (42,611 )  | \$ —  | \$ (42,611 )   |
| Other comprehensive income before reclassifications, before income taxes  | —   | 10,175  | 10,175   |
| Amounts reclassified from accumulated other comprehensive loss, before income taxes                                     | 663   | —   | 663  |
| Other comprehensive income  | 663   | 10,175  | 10,838   |
| Balance as of December 31, 2016   | \$ (41,948 )  | \$ 10,175   | \$ (31,773 )   |
| Balance as of June 30, 2015   | \$ (40,215 )  | \$ —  | \$ (40,215 )   |
| Adjustment related to the transfer of Pension Plans and Postretirement Plan liabilities as a result of the Distribution | 5,896   | —   | 5,896  |
| Other comprehensive loss before reclassifications, before income taxes  | (602 )  | —   | (602 )   |
| Amounts reclassified from accumulated other comprehensive loss, before income taxes                                     | 517   | —   | 517  |
| Other comprehensive loss  | (85 )   | —   | (85 )  |
| Balance as of December 31, 2015   | \$ (34,404 )  | \$ —  | \$ (34,404 )   |

Amounts reclassified from accumulated other comprehensive loss, before income taxes, represent amortization of  
(a) net actuarial loss and net unrecognized prior service credit included in net periodic benefit cost, which is reflected  
in direct

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## THE MADISON SQUARE GARDEN COMPANY

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

operating expenses and selling, general and administrative expenses in the accompanying consolidated and combined statements of operations (see Note 12).

## Note 12. Pension Plans and Other Postretirement Benefit Plan

See Note 9 to the consolidated and combined financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016 for more information regarding the Company's defined benefits pension plans ("Pension Plans") and postretirement benefit plan ("Postretirement Plan") as well as the treatment of the Pension Plans and Postretirement Plan before and after the Distribution.

Components of net periodic benefit cost for the Pension Plans and Postretirement Plan recognized in direct operating expenses and selling, general and administrative expenses in the accompanying consolidated and combined statements of operations for the three and six months ended December 31, 2016 and 2015 are as follows:

|   | Pension Plans |         | Postretirement Plan |       |
|---|---------------|---------|---------------------|-------|
|   | Three Months  |         | Three Months        |       |
|   | Ended         |         | Ended               |       |
|   | December 31,  |         | December 31,        |       |
|   | 2016          | 2015    | 2016                | 2015  |
| Service cost <sup>(a)</sup>                       | \$23          | \$1,502 | \$ 34               | \$ 32 |
| Interest cost <sup>(a)</sup>                      | 1,240         | 1,680   | 40                  | 58    |
| Expected return on plan assets                    | (596 )        | (740 )  | —                   | —     |
| Recognized actuarial loss                         | 344           | 255     | —                   | —     |
| Amortization of unrecognized prior service credit | —             | —       | (13 )               | (20 ) |
| Net periodic benefit cost                         | \$1,011       | \$2,697 | \$ 61               | \$ 70 |

  

|  | Pension Plans |          | Postretirement Plan |        |
|--|---------------|----------|---------------------|--------|
|  | Six Months    |          | Six Months Ended    |        |
|  | Ended         |          | Ended               |        |
|  | December 31,  |          | December 31,        |        |
|  | 2016          | 2015     | 2016                | 2015   |
| Service cost <sup>(a)</sup>                              | \$46          | \$3,014  | \$ 68               | \$ 82  |
| Interest cost <sup>(a)</sup>                             | 2,480         | 3,609    | 81                  | 149    |
| Expected return on plan assets                           | (1,192 )      | (1,480 ) | —                   | —      |
| Recognized actuarial loss                                | 688           | 554      | —                   | —      |
| Amortization of unrecognized prior service cost (credit) | —             | 14       | (25 )               | (51 )  |
| Net periodic benefit cost                                | \$2,022       | \$5,711  | \$ 124              | \$ 180 |

<sup>(a)</sup> Effective July 1, 2016, the Company changed the approach used to measure service and interest cost components of net periodic benefit costs for Pension Plans and Postretirement Plan. Previously, the Company measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plans' obligations. Beginning fiscal year 2017, the Company elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows ("Spot Rate Approach"). The Company believes the Spot Rate Approach provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and their corresponding spot rates on the yield curve. This change does not affect the measurement of the plans' obligations and it is accounted for as a change in accounting estimate,

which is applied prospectively. This change in estimate reduced the Company's pension and postretirement net periodic cost by approximately \$290 and \$580 for the three and six months ended December 31, 2016, respectively, relative to the estimated pension expense had the Company not changed the approach.

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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

The net periodic benefit cost for the Pension Plans for the three months ended September 30, 2015 that is included in the six months ended December 31, 2015 reported in the table above includes \$485 of expenses related to MSG Networks' employees, representing the contributory charge from the Company to MSG Networks for participation in the Pension Plans. In addition, for the three months ended September 30, 2015 that is included in the six months ended December 31, 2015, the Company allocated to MSG Networks \$229 of net periodic benefit cost for the Pension Plans related to corporate employees not specifically identified to either the Company or MSG Networks.

The net periodic benefit cost for the Postretirement Plan for the three months ended September 30, 2015 that is included in the six months ended December 31, 2015 reported in the table above includes \$18 of expenses related to MSG Networks employees, representing the contributory charge from the Company to MSG Networks for participation in the Postretirement Plan. In addition, for the three months ended September 30, 2015 that is included in the six months ended December 31, 2015, the Company allocated to MSG Networks \$11 of net periodic benefit cost for the Postretirement Plan related to corporate employees not specifically identified to either the Company or MSG Networks.

In addition, prior to the Distribution, MSG Networks sponsored the MSG Holdings, L.P. 401(k) Savings Plan and the MSG Holdings, L.P. Excess Savings Plan (collectively, the "Savings Plans"). In connection with the Distribution, the MSG Holdings, L.P. 401(k) Savings Plan was converted into a multiple employer plan and pursuant to the Employee Matters Agreement, the Company became the sponsor and a contributing employer to this plan. For the three months ended December 31, 2016 and 2015, expenses related to the Savings Plans, excluding expenses related to MSG Networks' employees, included in the accompanying consolidated and combined statements of operations were \$1,984 and \$868, respectively. For the six months ended December 31, 2016 and 2015, expenses related to the Savings Plans, excluding expenses related to MSG Networks' employees, included in the accompanying combined statements of operations were \$3,946 and \$1,700. The amount for the three months ended September 30, 2015 that is included in the results of operations for the six months ended December 31, 2015 includes \$89 of expenses related to the Company's corporate employees which were allocated to MSG Networks.

In addition, prior to the Distribution, MSG Networks sponsored the MSG Holdings, L.P. 401(k) Union Plan (the "Union Savings Plan"). In connection with the Distribution, the Union Savings Plan was converted into a multiple employer plan and pursuant to the Employee Matters Agreement, the Company became the sponsor and a contributing employer to this plan. For the three months ended December 31, 2016 and 2015, expenses related to the Union Savings Plan included in the accompanying consolidated and combined statements of operations were \$28 and \$27, respectively. For the six months ended December 31, 2016 and 2015, expenses related to the Union Savings Plan included in the accompanying consolidated and combined statements of operations were \$50 and \$45, respectively.

Note 13. Share-based Compensation

See Note 10 to the consolidated and combined financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016 for more information regarding the Company's 2015 Employee Stock Plan (the "Employee Stock Plan") and its 2015 Stock Plan for Non-Employee Directors, as well as the treatment after the Distribution of share-based payment awards initially granted under MSG Networks' equity award programs.

For the three months ended December 31, 2016 and 2015, share-based compensation expense, reduced for estimated forfeiture, was recognized in the consolidated and combined statements of operations as a component of direct operating expenses or selling, general and administrative expenses and was \$11,743 and \$7,154, respectively. For the six months ended December 31, 2016 and 2015, share-based compensation expense, reduced for estimated forfeiture, was \$20,098 and \$10,259, respectively.





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## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

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## Restricted Stock Units Award Activity

The following table summarizes activity related to holders (including the Company and MSG Networks' employees) of the Company's restricted stock units and performance restricted stock units, collectively referred to as "RSUs," for the six months ended December 31, 2016:

|   | Number of<br>Nonperformance<br>Based Vesting<br>RSUs | Number of<br>Performance<br>Based Vesting<br>RSUs | Weighted-Average<br>Fair Value<br>Per Share At<br>Date of Grant |
|---|--|---|---|
| Unvested award balance, June 30, 2016     | 172  | 313   | \$ 167.51   |
| Granted                                   | 111  | 181   | \$ 170.98   |
| Vested                                    | (64 )  | (24 )   | \$ 143.82   |
| Forfeited                                 | (7 )   | (1 )  | \$ 159.34   |
| Unvested award balance, December 31, 2016 | 212  | 469   | \$ 172.15   |

The fair value of RSUs that vested during the six months ended December 31, 2016 was \$15,209. RSUs granted under the Employee Stock Plan were net share-settled to cover the required statutory tax withholding obligations. To fulfill the employees' statutory minimum tax withholding obligations for the applicable income and other employment taxes, 33 of these RSUs, with an aggregate value of \$5,702 were retained by the Company and reflected as financing activity in the accompanying consolidated statement of cash flows for the six months ended December 31, 2016.

## Note 14. Stock Repurchase Program

On September 11, 2015, the Company's board of directors authorized the repurchase of up to \$525,000 of the Company's Class A Common Stock once the shares of the Company's Class A Common Stock began "regular way" trading on October 1, 2015. Under the authorization, shares of Class A Common Stock may be purchased from time to time in open market transactions, in accordance with applicable insider trading and other securities laws and regulations. The timing and amount of purchases will depend on market conditions and other factors.

During the six months ended December 31, 2016, the Company has repurchased 406 shares for a total cost of \$72,277, including commissions and fees. These acquired shares have been classified as treasury stock in the accompanying consolidated balance sheet as of December 31, 2016. As of December 31, 2016, the Company had \$347,009 of availability remaining under its stock repurchase authorization.

## Note 15. Related Party Transactions

As of December 31, 2016, members of the Dolan family group, for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, including trusts for the benefit of the Dolan family group, collectively beneficially own all of the Company's outstanding Class B Common Stock and own approximately 2.8% of the Company's outstanding Class A Common Stock. Such shares of the Company's Class A Common Stock and Class B Common Stock, collectively, represent approximately 70.8% of the aggregate voting power of the Company's outstanding common stock. Members of the Dolan family are also the controlling stockholders of MSG Networks and AMC Networks Inc. ("AMC Networks"). Prior to June 21, 2016, members of the Dolan Family were also the controlling stockholders of Cablevision Systems Corporation ("Cablevision").

In connection with the Distribution, the Company has entered into various agreements with MSG Networks, including media rights agreements covering the Knicks and the Rangers games, an advertising sales representation agreement, and a transition services agreement ("TSA").

On June 21, 2016, Cablevision was acquired by a subsidiary of Altice N.V. and a change in control occurred, which resulted in members of the Dolan Family no longer being controlling stockholders of the surviving company, Altice

USA. Accordingly, Altice USA is not a related party of the Company, and thus the related party transactions disclosed herein that relate to Altice USA were recognized prior to June 21, 2016. Prior to that, the Company had various agreements with Altice USA. These agreements included arrangements with respect to a number of commercial relationships.

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## THE MADISON SQUARE GARDEN COMPANY

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(Continued)

On June 16, 2016, the Company entered into an arrangement with the Dolan Family Office, LLC (“DFO”), AMC Networks and MSG Networks providing for the sharing of certain expenses associated with executive office space which will be available to James L. Dolan (the Executive Chairman and a director of the Company and MSG Networks and a director of AMC Networks), Charles F. Dolan (the Executive Chairman and a director of AMC Networks and a director of the Company and MSG Networks), and the DFO which is controlled by Charles F. Dolan. Beginning in June 2016, the Company agreed to share certain executive support costs, including office space, executive assistants, security and transportation costs, for (i) the Company’s Executive Chairman with MSG Networks and (ii) the Company’s Vice Chairman with MSG Networks and AMC Networks.

The Company also has certain arrangements with its nonconsolidated affiliates. See Note 6 for information on outstanding loans provided by the Company to its nonconsolidated affiliates.

## Revenues and Operating Expenses

The following table summarizes the composition and amounts of the transactions with the Company’s affiliates, primarily MSG Networks. These amounts are reflected in revenues and operating expenses in the accompanying consolidated and combined statements of operations for the three and six months ended December 31, 2016 and 2015:

|  | Three Months<br>Ended December<br>31, |            | Six Months Ended<br>December 31, |            |
|--|---------------------------------------|------------|----------------------------------|------------|
|  | 2016                                  | 2015       | 2016                             | 2015       |
| Revenues   | \$39,040                              | \$41,321   | \$72,881                         | \$74,880   |
| Operating expenses (credits):                            |                                       |            |                                  |            |
| Corporate general and administrative, net - MSG Networks | \$(2,406 )                            | \$(2,196 ) | \$(4,895 )                       | \$(33,787) |
| Consulting fees  | 942                                   | 366        | 1,919                            | 434        |
| Advertising  | 475                                   | 777        | 595                              | 945        |
| Transactions with Altice USA                             | —                                     | 1,749      | —                                | 2,454      |
| Other, net   | (152 )                                | 40         | (134 )                           | 47         |

## Revenues

In connection with the Distribution, the Company entered into new media rights agreements with MSG Networks covering the Knicks and Rangers, which provide MSG Networks with exclusive media rights to team games in their local markets and a new advertising sales representation agreement pursuant to which the Company has the exclusive right and obligation, for a commission, to sell MSG Networks’ advertising availabilities. Revenues from related parties primarily consist of local media rights recognized by the Company’s Sports segment from the licensing of team-related programming to MSG Networks under these new media rights agreements. Local media rights are generally recognized on a straight-line basis over the fiscal year. In addition, the Company and Tribeca Enterprises have a service agreement pursuant to which the Company provides marketing inventory and consulting services to Tribeca Enterprises for a fee.

## Corporate General and Administrative Expense, net - MSG Networks

For the three months ended December 31, 2016 and 2015, Corporate general and administrative expense, net - MSG Networks amount reflects charges from the Company to MSG Networks under the TSA of \$2,118 and \$2,229, respectively, net of general and administrative costs charged to the Company by MSG Networks. For the six months ended December 31, 2016 and 2015, Corporate general and administrative expense, net - MSG Networks amount reflects charges from the Company to MSG Networks under the TSA of \$4,166 and \$2,229, respectively

Prior to the Distribution, allocations of corporate overhead and shared services expense from Former Parent were based on direct usage or the relative proportion of revenue or headcount. The Company’s corporate overhead expenses

are primarily related to centralized functions, including executive compensation, finance, treasury, tax, internal audit, legal, information technology, human resources and risk management functions.

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Consulting Fees

The Company pays AMSGE and its nonconsolidated affiliates for advisory and consulting services that AMSGE and its nonconsolidated affiliates provide to the Company, and for the reimbursement of certain expenses in connection with such services.

Advertising Expenses

The Company incurs advertising expenses for services rendered by its related parties, primarily MSG Networks and Altice USA, most of which related to the utilization of advertising and promotional benefits by the Company.

Transactions with Altice USA

Amounts represent charges to the Company by Altice USA for corporate general and administrative expenses and telephone and other fiber optic transmission services. In addition, transactions with Altice USA include net charges related to a reciprocal aircraft arrangement between the Company and Altice USA.

Other Operating Expenses, net

The Company and its related parties enter into transactions with each other in the ordinary course of business. Amounts charged to the Company for other transactions with its related parties are net of amounts charged by the Company to the Knickerbocker Group, LLC, an entity owned by James L. Dolan, the Executive Chairman and a director of the Company, for office space equal to the allocated cost of such space and the cost of certain technology services. In addition, other operating expenses include net charges related to a reciprocal aircraft arrangement between the Company and the DFO.

Note 16. Income Taxes

Income tax expense (benefit) for the three months ended December 31, 2016 and 2015 was \$3,248 and \$(70), respectively. The effective tax rate for the three months ended December 31, 2016 and 2015 was 5.4% and (0.2)%, respectively. For the six months ended December 31, 2016 and 2015, income tax expense was \$314 and \$52, respectively. The effective tax rate for the six months ended December 31, 2016 and 2015 was 1.1% and 0.1%, respectively.

The Company's effective tax rate for the three months ended December 31, 2016 is different when compared to the statutory federal rate of 35%, primarily as a result of a reduction of \$22,123 of recorded Federal and state valuation allowances which offsets tax expense that would otherwise have been recorded on operating income. The tax expense also includes \$3,126 to reverse tax benefit recorded on operating losses in the three months ended September 30, 2016, as well as tax expense of \$1,012 primarily related to non-deductible expenses.

The Company's effective tax rate for the six months ended December 31, 2016 is different when compared to the statutory federal rate of 35% as a result of a reduction of \$11,115 of recorded Federal and state valuation allowances which offsets tax expense that would have otherwise been recorded on operating income. The income tax expense also reflects tax expense of \$1,342 primarily related to non-deductible expenses.

The Company's effective tax rates for the three and six months ended December 31, 2015 are different when compared to the statutory federal rate of 35% primarily due to a reduction of approximately \$20,800 in the valuation allowance recorded on the Company's net deferred tax asset established at the time of the Distribution. As part of the Distribution, MSG Networks is responsible for paying taxes on approximately \$348,000 of deferred revenue from ticket sales, sponsorship and suite rentals collected in advance related to the Company's business. This initially created a deferred tax asset for which the Company recorded a full valuation allowance as it was more likely than not that the deferred tax asset would not be realized.

The Company has not recorded any unrecognized tax benefits for uncertain tax positions as of December 31, 2016. The Company's policy is to reflect interest and penalties associated with uncertain tax positions, if any, as a component of income tax expense.



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THE MADISON SQUARE GARDEN COMPANY

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Note 17. Segment Information

The Company is comprised of two reportable segments: MSG Entertainment and MSG Sports. In determining its reportable segments, the Company assessed the guidance of FASB ASC 280-10-50-1, which provides the definition of a reportable segment. In accordance with the FASB guidance, the Company takes into account whether two or more operating segments can be aggregated together as one reportable segment as well as the type of discrete financial information that is available and regularly reviewed by its chief operating decision maker. The Company has evaluated this guidance and determined that there are two reportable segments. The Company allocates certain corporate costs and its venue operating expenses to each of its reportable segments. Allocated venue operating expenses include the non-event related costs of operating the Company's venues, and include such costs as rent for the Company's leased venues, real estate taxes, insurance, utilities, repairs and maintenance, and labor related to the overall management of the venues. Depreciation and amortization expense related to The Garden, The Theater at Madison Square Garden, the Forum, and certain corporate property, equipment and leasehold improvements not allocated to the reportable segments and is reported in "All other."

During the first quarter of fiscal year 2017, the Company refined its approach to allocating corporate, venue operating and other shared expenses. Management analyzed the specific support provided by individual corporate and venue personnel using a detailed efforts-based analysis. The Company considered this approach to better refine segment profitability for users of the financial information and, therefore, made this change in the first quarter of fiscal year 2017. Prior period results are reflected as originally reported and have not been restated. Had the revised approach been used in fiscal year 2016, operating income reported in MSG Sports and MSG Entertainment during the second quarter of fiscal year 2016 would have improved by approximately \$721 and \$34, respectively. For the six months ended December 31, 2015, operating income reported in MSG Sports and MSG Entertainment would have improved by approximately \$2,649 and \$570, respectively. These improvements would have been offset by increases of \$755 and \$3,219 in the operating loss of All other for the three and six months ended December 31, 2015, respectively. The adjusted operating income, as defined below, reported in MSG Sports and MSG Entertainment during the second quarter of fiscal year 2016 would have improved by approximately \$849 and \$662, respectively. For the six months ended December 31, 2015, adjusted operating income reported in MSG Sports and MSG Entertainment would have improved by approximately \$2,486 and \$1,597, respectively. These improvements would have been offset by increases of \$1,511 and \$4,083 in the adjusted operating loss of All other for the three and six months ended December 31, 2015, respectively.

The Company evaluates segment performance based on several factors, of which the key financial measure is their operating income (loss) before (i) depreciation, amortization and impairments of property and equipment and intangible assets, (ii) share-based compensation expense or benefit, (iii) restructuring charges or credits and (iv) gains or losses on sales or dispositions of businesses, which is referred to as adjusted operating income (loss), a non-GAAP measure. The Company believes adjusted operating income (loss) is an appropriate measure for evaluating the operating performance of its business segments and the Company on a consolidated basis. Adjusted operating income (loss) and similar measures with similar titles are common performance measures used by investors and analysts to analyze the Company's performance. The Company uses revenues and adjusted operating income (loss) measures as the most important indicators of its business performance, and evaluates management's effectiveness with specific reference to these indicators. In the first quarter of fiscal 2017, the Company has renamed its non-GAAP performance measure to adjusted operating income (loss) - formerly known as adjusted operating cash flow. There has been no change to the definition.

Adjusted operating income (loss) should be viewed as a supplement to and not a substitute for operating income (loss), net income (loss), cash flows from operating activities, and other measures of performance and/or liquidity



presented in accordance with GAAP. The Company has presented the components that reconcile operating income (loss), the most directly comparable GAAP financial measure, to adjusted operating income (loss).

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## THE MADISON SQUARE GARDEN COMPANY

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

|  | Three Months Ended December 31, 2016 |               |              |            |
|--|--------------------------------------|---------------|--------------|------------|
|  | MSG<br>Entertainment                 | MSG<br>Sports | All<br>Other | Total      |
| Revenues   | \$192,485                            | \$252,665     | \$—          | \$445,150  |
| Direct operating expenses  | 106,464                              | 160,209       | —            | 266,673    |
| Selling, general and administrative expenses                                   | 26,442                               | 49,346        | 18,472       | (a) 94,260 |
| Depreciation and amortization  | 2,833                                | 2,905         | 20,228       | 25,966     |
| Operating income (loss)  | \$56,746                             | \$40,205      | \$(38,700)   | \$58,251   |
| Loss in equity method investments  |                                      |               |              | (1,188 )   |
| Interest income  |                                      |               |              | 2,692      |
| Interest expense   |                                      |               |              | (491 )     |
| Miscellaneous income   |                                      |               |              | (b) 1,405  |
| Income from operations before income taxes                                     |                                      |               |              | \$60,669   |
| Reconciliation of operating income (loss) to adjusted operating income (loss): |                                      |               |              |            |
| Operating income (loss)  | \$56,746                             | \$40,205      | \$(38,700)   | \$58,251   |
| Add back:  |                                      |               |              |            |
| Share-based compensation expense   | 4,076                                | 4,100         | 3,567        | 11,743     |
| Depreciation and amortization  | 2,833                                | 2,905         | 20,228       | 25,966     |
| Adjusted operating income (loss)   | \$63,655                             | \$47,210      | \$(14,905)   | \$95,960   |
| Other information:   |                                      |               |              |            |
| Capital expenditures   | \$5,434                              | \$693         | \$7,297      | \$13,424   |

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## THE MADISON SQUARE GARDEN COMPANY

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

|  | Three Months Ended December 31, 2015 |               |              |                         |
|--|--------------------------------------|---------------|--------------|-------------------------|
|  | MSG<br>Entertainment                 | MSG<br>Sports | All<br>Other | Total                   |
| Revenues <sup>(c)</sup>  | \$181,087                            | \$229,533     | \$218        | \$410,838               |
| Direct operating expenses  | 110,477                              | 139,155       | —            | 249,632                 |
| Selling, general and administrative expenses <sup>(c)</sup>                    | 23,806                               | 47,075        | 15,381       | <sup>(a)</sup> 86,262   |
| Depreciation and amortization  | 2,528                                | 2,769         | 20,608       | 25,905                  |
| Operating income (loss) <sup>(c)</sup>   | \$44,276                             | \$40,534      | \$(35,771)   | \$49,039                |
| Loss in equity method investments  |                                      |               |              | (2,475 )                |
| Interest income  |                                      |               |              | 1,448                   |
| Interest expense   |                                      |               |              | (514 )                  |
| Miscellaneous expense  |                                      |               |              | <sup>(b)</sup> (4,080 ) |
| Income from operations before income taxes                                     |                                      |               |              | \$43,418                |
| Reconciliation of operating income (loss) to adjusted operating income (loss): |                                      |               |              |                         |
| Operating income (loss) <sup>(c)</sup>   | \$44,276                             | \$40,534      | \$(35,771)   | \$49,039                |
| Add back:  |                                      |               |              |                         |
| Share-based compensation expense <sup>(c)</sup>                                | 2,088                                | 2,453         | 2,613        | 7,154                   |
| Depreciation and amortization  | 2,528                                | 2,769         | 20,608       | 25,905                  |
| Adjusted operating income (loss) <sup>(c)</sup>                                | \$48,892                             | \$45,756      | \$(12,550)   | \$82,098                |
| Other information:   |                                      |               |              |                         |
| Capital expenditures   | \$328                                | \$1,562       | \$5,509      | \$7,399                 |

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## THE MADISON SQUARE GARDEN COMPANY

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

|  | Six Months Ended December 31, 2016 |               |              |             |
|--|------------------------------------|---------------|--------------|-------------|
|  | MSG<br>Entertainment               | MSG<br>Sports | All<br>Other | Total       |
| Revenues   | \$303,183                          | \$323,662     | \$—          | \$626,845   |
| Direct operating expenses  | 198,322                            | 179,758       | —            | 378,080     |
| Selling, general and administrative expenses                                   | 49,882                             | 88,859        | 32,540       | (a) 171,281 |
| Depreciation and amortization  | 5,519                              | 5,523         | 41,034       | 52,076      |
| Operating income (loss)  | \$49,460                           | \$49,522      | \$(73,574)   | \$25,408    |
| Loss in equity method investments  |                                    |               |              | (2,182 )    |
| Interest income  |                                    |               |              | 5,091       |
| Interest expense   |                                    |               |              | (901 )      |
| Miscellaneous income   |                                    |               |              | (b) 1,405   |
| Income from operations before income taxes                                     |                                    |               |              | \$28,821    |
| Reconciliation of operating income (loss) to adjusted operating income (loss): |                                    |               |              |             |
| Operating income (loss)  | \$49,460                           | \$49,522      | \$(73,574)   | \$25,408    |
| Add back:  |                                    |               |              |             |
| Share-based compensation expense   | 7,615                              | 7,584         | 4,899        | 20,098      |
| Depreciation and amortization  | 5,519                              | 5,523         | 41,034       | 52,076      |
| Adjusted operating income (loss)   | \$62,594                           | \$62,629      | \$(27,641)   | \$97,582    |
| Other information:   |                                    |               |              |             |
| Capital expenditures   | \$6,794                            | \$2,357       | \$12,615     | \$21,766    |

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## THE MADISON SQUARE GARDEN COMPANY

## NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

|  | Six Months Ended December 31, 2015 |               |              |              |
|--|------------------------------------|---------------|--------------|--------------|
|  | MSG<br>Entertainment               | MSG<br>Sports | All<br>Other | Total        |
| Revenues <sup>(c)</sup>  | \$258,113                          | \$302,681     | \$425        | \$561,219    |
| Direct operating expenses  | 167,478                            | 153,504       | —            | 320,982      |
| Selling, general and administrative expenses <sup>(c)</sup>                    | 41,614                             | 83,035        | 19,981       | (a) 144,630  |
| Depreciation and amortization  | 5,102                              | 5,629         | 40,414       | 51,145       |
| Operating income (loss) <sup>(c)</sup>   | \$43,919                           | \$60,513      | \$(59,970)   | \$44,462     |
| Earnings in equity method investments  |                                    |               |              | 204          |
| Interest income  |                                    |               |              | 2,405        |
| Interest expense   |                                    |               |              | (1,054 )     |
| Miscellaneous expense  |                                    |               |              | (b) (4,080 ) |
| Income from operations before income taxes                                     |                                    |               |              | \$41,937     |
| Reconciliation of operating income (loss) to adjusted operating income (loss): |                                    |               |              |              |
| Operating income (loss) <sup>(c)</sup>   | \$43,919                           | \$60,513      | \$(59,970)   | \$44,462     |
| Add back:  |                                    |               |              |              |
| Share-based compensation expense <sup>(c)</sup>                                | 3,004                              | 4,027         | 3,228        | 10,259       |
| Depreciation and amortization  | 5,102                              | 5,629         | 40,414       | 51,145       |
| Adjusted operating income (loss) <sup>(c)</sup>                                | \$52,025                           | \$70,169      | \$(16,328)   | \$105,866    |
| Other information:   |                                    |               |              |              |
| Capital expenditures   | \$917                              | \$3,329       | \$55,435     | (d) \$59,681 |

(a) Consists of unallocated corporate general and administrative costs.

(b) Miscellaneous income for the three and six months ended December 31, 2016 consists principally of the recovery of certain claims in connection with a third party bankruptcy proceeding. Miscellaneous expenses for the three and six months ended December 31, 2015 primarily include partial write-down of one of the Company's cost method investments (see Note 6).

During the three months ended December 31, 2015, for segment reporting purposes, ad sales commission revenues and associated expenses were allocated 50% to each of our MSG Entertainment and MSG Sports segments.

(c) Effective January 1, 2016, the Company began presenting all of its ad sales commission revenues and associated expenses within the MSG Sports segment. The segments' operating results for the three and six months ended December 31, 2015 have been restated to reflect this change.

(d) Capital expenditures for the six months ended December 31, 2015 are primarily associated with the purchase of an aircraft, as well as certain investments with respect to The Garden.

Substantially all revenues and assets of the Company's reportable segments are attributed to or located in the United States and are primarily concentrated in the New York metropolitan area.

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THE MADISON SQUARE GARDEN COMPANY

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Note 19. Subsequent Events

Rangers Revolving Credit Facility

On January 25, 2017, Rangers LLC, a wholly owned subsidiary of the Company, entered into a credit agreement with a syndicate of lenders providing for a senior secured revolving credit facility. See Note 10 for more information regarding the Company's new Rangers Revolving Credit Facility.

TAO Group Acquisition

On January 31, 2017, the Company entered into a transaction agreement pursuant to which it acquired a 62.5% common equity interest and a preferred equity interest in TAOH. See Note 3 for more information regarding the Company's new acquisition. In addition, in connection with this transaction, TAOIH, TAOG and certain of its subsidiaries obtained a senior secured term loan facility and a senior secured revolving credit facility for working capital and general corporate purposes of TAOG. See Note 10 for more information regarding the TAO Credit Facilities.

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

This Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) contains forward-looking statements. In this MD&A, there are statements concerning the future operating and future financial performance of The Madison Square Garden Company and its direct and indirect subsidiaries (collectively, “we,” “us,” “our,” “Madison Square Garden,” or the “Company”), including higher team personnel compensation and higher revenues as a result of the new NBA national media rights deal. Words such as “expects,” “anticipates,” “believes,” “estimates,” “may,” “will,” “should,” “could,” “potential,” “continue,” “intends,” “plans,” and similar words and terms used in the discussion of future operating and future financial performance identify forward-looking statements. Investors are cautioned that such forward-looking statements are not guarantees of future performance, results or events and involve risks and uncertainties and that actual results or developments may differ materially from the forward-looking statements as a result of various factors. Factors that may cause such differences to occur include, but are not limited to:

- the level of our revenues, which depends in part on the popularity and competitiveness of our sports teams and the level of popularity of the Christmas Spectacular, New York Spectacular and other entertainment events which are presented in our venues;
- costs associated with player injuries, and waivers or contract terminations of players and other team personnel;
- changes in professional sports teams’ compensation, including the impact of signing free agents and trades, subject to league salary caps and the impact of luxury tax;
- the level of our capital expenditures and other investments;
- general economic conditions, especially in the New York City metropolitan area where we conduct the majority of our operations;
- the demand for sponsorship arrangements and for advertising;
- competition, for example, from other teams, other venues and other sports and entertainment options;
- changes in laws, NBA or NHL rules, regulations, guidelines, bulletins, directives, policies and agreements (including the leagues’ respective collective bargaining agreements with their players’ associations, salary caps, revenue sharing, NBA luxury tax thresholds and media rights) or other regulations under which we operate;
- any NBA or NHL work stoppage;
- seasonal fluctuations and other variation in our operating results and cash flow from period to period;
- the level of our expenses, including our corporate expenses as a standalone publicly traded company;
- the successful development of new live productions or enhancements to existing productions and the investments associated with such development or enhancements, including the New York Spectacular;
- the continued popularity and success of the Tao restaurants and nightlife and hospitality venues, as well as its existing brands, and the ability to successfully open and operate new restaurants and nightlife and hospitality venues;
- the ability of BCE to attract attendees and performers to its festival;
- the acquisition or disposition of assets or businesses and/or the impact of, and our ability to successfully pursue, acquisitions or other strategic transactions;
- the operating and financial performance of our strategic acquisitions and investments, including those we do not control;
- the costs associated with, and the outcome of, litigation and other proceedings to the extent uninsured;
- the impact of governmental regulations or laws, including changes in how those regulations and laws are interpreted and the continued benefit of certain tax exemptions and the ability to maintain necessary permits or licenses;
- financial community and rating agency perceptions of our business, operations, financial condition and the industry in which we operate;

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our ownership of professional sports franchises in the NBA and NHL and certain transfer restrictions on our common stock;

the tax free treatment of the Distribution; and

the factors described under “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended June 30, 2016, and described in this quarterly report under “Part II - Item 1A. Risk Factors.”

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

All dollar amounts included in the following MD&A are presented in thousands, except as otherwise noted.

Introduction

This MD&A is provided as a supplement to, and should be read in conjunction with, the Company’s unaudited financial statements and accompanying notes thereto included in this Quarterly Report on Form 10-Q, as well as the Company’s Annual Report on Form 10-K for the year ended June 30, 2016 to help provide an understanding of our financial condition, changes in financial condition and results of operations. Unless the context otherwise requires, all references to “we,” “us,” “our,” “Madison Square Garden” or the “Company” refer collectively to The Madison Square Garden Company, a holding company, and its direct and indirect subsidiaries through which substantially all of our operations are actually conducted. The Company is comprised of two reportable segments: MSG Entertainment and MSG Sports. MSG Entertainment includes live entertainment events such as concerts, family shows, performing arts events and special events, which are presented or hosted in the Company’s diverse collection of venues. MSG Entertainment also includes the Company’s original productions — Christmas Spectacular and New York Spectacular — as well as Boston Calling Events LLC, the live events production company that owns and operates the Boston Calling Music Festival. MSG Sports includes the Company’s professional sports franchises: the Knicks of the NBA, the Rangers of the NHL, the Liberty of the WNBA, the Hartford Wolf Pack of the AHL, and the Westchester Knicks of the NBADL. The MSG Sports segment is also home to a broad array of other live sporting events, including professional boxing, college basketball, professional bull riding, mixed martial arts, tennis and college wrestling, all of which the Company promotes, produces and/or presents.

The Company conducts a significant portion of its operations at venues that it either owns or operates under long-term leases. The Company owns The Garden and The Theater at Madison Square Garden in New York City, the Forum in Inglewood, CA and The Chicago Theatre in Chicago. In addition, the Company leases Radio City Music Hall and the Beacon Theatre in New York City, and has a booking agreement with respect to the Wang Theatre in Boston.

Factors Affecting Results of Operations

The consolidated statement of operations for the three months ended December 31, 2016 and 2015 and for the six months ended December 31, 2016 are presented on a consolidated basis, as the Company became a standalone public company on September 30, 2015. The financial information for the three months ended September 30, 2015 that is included in the results operations for the six months ended December 31, 2015 was prepared on a standalone basis derived from the consolidated financial statements and accounting records of Former Parent and are presented as carve-out financial statements as the Company was not a standalone public company prior to the Distribution. As such, the combined statements of operations for the six months ended December 31, 2015 include allocations for certain support functions that were provided on a centralized basis by MSG Networks and not historically recorded at the business unit level, such as expenses related to finance, human resources, information technology, and venue operations, among others. These expenses were allocated on the basis of direct usage when identifiable, with the remainder allocated on a pro-rata basis of combined revenues, headcount or other measures. Management believes the assumptions underlying the combined financial statements, including the assumptions regarding allocating general corporate expenses, are reasonable. Nevertheless, the results of operations for the three months ended September 30, 2015 that are included in the combined financial statements for the six months ended December 31, 2015 may not include all of the actual expenses that would have been incurred by the Company and may not reflect its combined results of operations, financial position and cash flows had it been a separate, standalone company during the period presented. Actual costs that would have been incurred if the Company had been a separate, standalone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas,



including information technology and infrastructure.

This MD&A is organized as follows:

Results of Operations. This section provides an analysis of our unaudited results of operations for the three and six months ended December 31, 2016 compared to the three and six months ended December 31, 2015 on a consolidated and where applicable, combined and segment basis.

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Liquidity and Capital Resources. This section provides a discussion of our financial condition and liquidity, an analysis of our cash flows for the six months ended December 31, 2016 compared to the six months ended December 31, 2015, as well as certain contractual obligations and off balance sheet arrangements.

Seasonality of Our Business. This section discusses the seasonal performance of our segments.

Recently Issued Accounting Pronouncements and Critical Accounting Policies. This section discusses accounting pronouncements that have been adopted by the Company, recently issued accounting pronouncements not yet adopted by the Company, as well as the results of the Company's annual impairment testing of goodwill and identifiable indefinite-lived intangible assets performed during the first quarter of fiscal year 2017. This section should be read together with our critical accounting policies, which are discussed in our Annual Report on Form 10-K for the year ended June 30, 2016 under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Recently Issued Accounting Pronouncements and Critical Accounting Policies — Critical Accounting Policies" and in the notes to the consolidated and combined financial statements of the Company included therein.

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## Results of Operations

Comparison of the Three Months Ended December 31, 2016 versus the Three Months Ended December 31, 2015

## Consolidated Results of Operations

The table below sets forth, for the periods presented, certain historical financial information.

|   | Three Months Ended |                   | Change   |            |
|---|--------------------|-------------------|----------|------------|
|   | December 31, 2016  | December 31, 2015 | Amount   | Percentage |
| Revenues  | \$445,150          | \$410,838         | \$34,312 | 8 %        |
| Direct operating expenses   | 266,673            | 249,632           | 17,041   | 7 %        |
| Selling, general and administrative expenses                                | 94,260             | 86,262            | 7,998    | 9 %        |
| Depreciation and amortization   | 25,966             | 25,905            | 61       | NM         |
| Operating income  | 58,251             | 49,039            | 9,212    | 19 %       |
| Other income (expense):   |                    |                   |          |            |
| Loss in equity method investments   | (1,188 )           | (2,475 )          | 1,287    | 52 %       |
| Interest income, net  | 2,201              | 934               | 1,267    | 136 %      |
| Miscellaneous income (expense)  | 1,405              | (4,080 )          | 5,485    | 134 %      |
| Income from operations before income taxes                                  | 60,669             | 43,418            | 17,251   | 40 %       |
| Income tax benefit (expense)  | (3,248 )           | 70                | (3,318 ) | NM         |
| Net income  | 57,421             | 43,488            | 13,933   | 32 %       |
| Less: Net loss attributable to noncontrolling interests                     | (305 )             | —                 | (305 )   | NM         |
| Net income attributable to The Madison Square Garden Company's stockholders | \$57,726           | \$43,488          | \$14,238 | 33 %       |

NM — Percentage is not meaningful

During the three months ended December 31, 2015, for segment reporting purposes, ad sales commission revenues and associated expenses were allocated 50% to each of our MSG Entertainment and MSG Sports segments. Effective January 1, 2016, the Company began presenting all of its ad sales commission revenues and associated expenses within the MSG Sports segment. The segments' operating results for the three months ended December 31, 2015 have been restated to reflect this change.

The following is a summary of changes in segments' operating results for the three months ended December 31, 2016 as compared to the prior year period.

| Changes attributable to                                 | Revenues  | Direct operating expenses | Selling, general and administrative expenses | Depreciation and amortization | Operating income (loss) |
|---|-----------|---------------------------|--|-------------------------------|-------------------------|
| MSG Entertainment segment <sup>(a)</sup> <sup>(b)</sup> | \$ 11,398 | \$(4,013 )                | \$ 2,636                                     | \$ 305                        | \$ 12,470               |
| MSG Sports segment <sup>(a)</sup> <sup>(b)</sup>        | 23,132    | 21,054                    | 2,271  | 136                           | (329 )                  |
| Other <sup>(b)</sup>                                    | (218 )    | —                         | 3,091  | (380 )                        | (2,929 )                |
|   | \$34,312  | \$17,041                  | \$ 7,998                                     | \$ 61                         | \$9,212                 |

<sup>(a)</sup> See "Business Segment Results" for a more detailed discussion relating to the operating results of our segments.

See Note 17 to the consolidated and combined financial statements included in "Part I – Item 1. Financial Statements"

<sup>(b)</sup> of this Quarterly Report on Form 10-Q for discussion of the Company's refinement of its methodologies used to allocate its corporate, venue operating and other shared expenses.



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Selling, general and administrative expenses - Other

The increase in Other reflects (i) an increase in employee compensation and related benefits and (ii) higher provision for the Company's New York State and City capital tax partially offset by lower professional fees.

Operating loss - Other

Operating loss in Other for the three months ended December 31, 2016 increased \$2,929, or 8%, to \$38,700. The increase was primarily due the changes in selling, general and administrative expenses - Other, as discussed above.

Loss in equity method investments

Loss in equity method investments for the three months ended December 31, 2016 decreased \$1,287, or 52%, to \$1,188. Earnings (loss) in equity method investments reflects the Company's share of the net earnings (loss) of equity method investments, inclusive of amortization expense for intangible assets associated with these investments. The Company's share of the earnings (loss) of its equity method investments is recorded on a three-month lag basis. The year-over-year decrease in loss reflects a distribution from an equity method investment that was previously written off.

Miscellaneous income (expense)

Miscellaneous income in the current year period consists principally of the recovery of certain claims in connection with a third party bankruptcy proceeding. Miscellaneous expense in the prior year period reflects a pre-tax non-cash impairment charge of \$4,080 to partially write down the carrying value of one of the Company's cost method investments (see Note 6 to the consolidated and combined financial statements included in "Part I - Item 1. Financial Statements" of this Quarterly Report on Form 10-Q).

Income taxes

Income tax expense for the three months ended December 31, 2016 was \$3,248 and income tax benefit for the three months ended December 31, 2015 was \$70.

The effective tax rate for the three months ended December 31, 2016 of 5.4% is different when compared to the statutory federal rate of 35%, primarily as a result of a reduction of \$22,123 of recorded Federal and state valuation allowances which offsets tax expense that would otherwise have been recorded on operating income. The tax expense also includes \$3,126 to reverse tax benefit recorded on operating losses in the three months ended September 30, 2016, as well as tax expense of \$1,012 primarily related to non-deductible expenses.

The effective tax rate for the three months ended December 31, 2015 of (0.2)% is different when compared to the statutory federal rate of 35% primarily due to a reduction of approximately \$20,800 in the valuation allowance recorded on the Company's net deferred tax asset established at the time of the Distribution. As part of the Distribution, MSG Networks is responsible for paying taxes on approximately \$348,000 of deferred revenue from ticket sales, sponsorship and suite rentals collected in advance related to the Company's business. This initially created a deferred tax asset for which the Company recorded a full valuation allowance as it was more likely than not that the deferred tax asset would not be realized. In addition, results for the three months ended December 31, 2015 include a benefit from a change in the state tax rates used to value deferred taxes related to indefinite-lived assets in connection with the filing of the December 31, 2014 state tax returns which included the Company's results. Both the three month and six month results reflect an expense from an increase in the deferred tax liability on indefinite-lived intangible assets that cannot serve as a source of taxable income to support the realization of deferred tax assets.

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## Adjusted operating income

The following is a reconciliation of operating income to adjusted operating income:

|                               | Three Months      |                   | Change   |            |
|-------------------------------|-------------------|-------------------|----------|------------|
|                               | Ended             |                   | Amount   | Percentage |
|                               | December 31, 2016 | December 31, 2015 |          |            |
| Operating income              | \$58,251          | \$49,039          | \$9,212  | 19 %       |
| Share-based compensation      | 11,743            | 7,154             |          |            |
| Depreciation and amortization | 25,966            | 25,905            |          |            |
| Adjusted operating income     | \$95,960          | \$82,098          | \$13,862 | 17 %       |

Adjusted operating income for the three months ended December 31, 2016 increased \$13,862, or 17%, to \$95,960 as compared to the prior year period. The net increase is attributable to the following:

|  |          |
|--|----------|
| Increase in adjusted operating income of the MSG Entertainment segment | \$14,763 |
| Increase in adjusted operating income of the MSG Sports segment        | 1,454    |
| Other net decreases  | (2,355 ) |
|  | \$13,862 |

Other net decreases reflect (i) an increase in employee compensation and related benefits, excluding share-based compensation expense and (ii) higher provision for the Company's New York State and City capital tax partially offset by lower professional fees.

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## Business Segment Results

## MSG Entertainment

The table below sets forth, for the periods presented, certain historical financial information and a reconciliation of operating income to adjusted operating income for the Company's MSG Entertainment segment.

|  | Three Months Ended |                   | Change   |            |
|--|--------------------|-------------------|----------|------------|
|  | December 31, 2016  | December 31, 2015 | Amount   | Percentage |
| Revenues                                     | \$192,485          | \$181,087         | \$11,398 | 6 %        |
| Direct operating expenses                    | 106,464            | 110,477           | (4,013 ) | (4 )%      |
| Selling, general and administrative expenses | 26,442             | 23,806            | 2,636    | 11 %       |
| Depreciation and amortization                | 2,833              | 2,528             | 305      | 12 %       |
| Operating income                             | \$56,746           | \$44,276          | \$12,470 | 28 %       |
| Reconciliation to adjusted operating income: |                    |                   |          |            |
| Share-based compensation                     | 4,076              | 2,088             |          |            |
| Depreciation and amortization                | 2,833              | 2,528             |          |            |
| Adjusted operating income                    | \$63,655           | \$48,892          | \$14,763 | 30 %       |

## Revenues

Revenues for the three months ended December 31, 2016 increased \$11,398, or 6%, to \$192,485 as compared to the prior year period. The net increase is attributable to the following:

|   |          |
|---|----------|
| Increase in revenues from the presentation of the Christmas Spectacular         | \$7,102  |
| Increase in event-related revenues at the Forum                                 | 5,106    |
| Increase in event-related revenues at The Garden                                | 1,470    |
| Increase in venue-related sponsorship and signage and suite rental fee revenues | 1,231    |
| Decrease in event-related revenues at The Theater at Madison Square Garden      | (2,898 ) |
| Decrease in event-related revenues at The Chicago Theatre                       | (619 )   |
| Other net increases   | 6        |
|   | \$11,398 |

The increase in revenues from the presentation of the Christmas Spectacular was primarily due to higher average ticket prices, inclusive of the impact of eliminating high volume buyers, during the current year period as compared to the prior year period. Including performances that took place in January 2017, more than one million tickets were sold during the 2016 holiday season, which represents a low single digit percentage decrease as compared to the 2015 holiday season due to seven fewer scheduled performances partially offset by higher average per-show paid attendance.

The increase in event-related revenues at the Forum was primarily due to additional events and a change in the mix of events held at the venue during the current year period as compared to the prior year period.

The increase in event-related revenues at The Garden was primarily due to a change in the mix of events partially offset by fewer events held at the venue during the current year period as compared to the prior year period.

The increase in venue-related sponsorship and signage and suite rental fee revenues was primarily due to an increase in venue-related sponsorship and signage revenue, as a result of new sponsorship inventory that was not available during the prior year period, as well as increased sales of existing inventory.

The decrease in event-related revenues at The Theater at Madison Square Garden was primarily due to lower performance of a multi-week holiday show as compared to a multi-week holiday show presented during the prior year period.

The decrease in event-related revenues at The Chicago Theatre was primarily due to a change in the mix of events partially offset by additional events held at the venue during the current year period as compared to the prior year period.





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## Direct operating expenses

Direct operating expenses for the three months ended December 31, 2016 decreased \$4,013, or 4%, to \$106,464 as compared to the prior year period. The net decrease is attributable to the following:

|   |           |
|---|-----------|
| Decrease in direct operating expenses associated with the presentation of the Christmas Spectacular | \$(4,876) |
| Decrease in event-related direct operating expenses at The Theater at Madison Square Garden         | (1,395 )  |
| Decrease in event-related direct operating expenses at The Chicago Theatre                          | (765 )    |
| Increase in venue operating costs primarily due to higher labor-related costs                       | 1,630     |
| Increase in event-related direct operating expenses at the Forum                                    | 1,356     |
| Other net increases   | 37        |
|   | \$(4,013) |

The decrease in direct operating expenses associated with the presentation of the Christmas Spectacular was primarily due to a decrease in deferred production cost amortization and lower costs due to operational efficiencies, as well as a decrease in marketing expenses.

The decrease in event-related direct operating expenses at The Theater at Madison Square Garden was primarily due to lower performance of a multi-week holiday show as compared to a multi-week holiday show presented during the prior year period.

The decrease in event-related direct operating expenses at The Chicago Theatre was primarily due to a change in the mix of events partially offset by additional events held at the venue during the current year period as compared to the prior year period.

The increase in event-related direct operating expenses at the Forum was primarily due to additional events partially offset by a change in the mix of events held at the venue during the current year period as compared to the prior year period.

## Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended December 31, 2016 increased \$2,636, or 11%, to \$26,442 as compared to the prior year period mainly due to an increase in corporate general and administrative costs and higher professional fees.

## Operating income

Operating income for the three months ended December 31, 2016 increased \$12,470, or 28%, to \$56,746 as compared to the prior year period primarily due to an increase in revenues and lower direct operating expenses slightly offset by higher selling, general and administrative expenses, as discussed above.

## Adjusted operating income

Adjusted operating income increased for the three months ended December 31, 2016 by \$14,763, or 30%, to \$63,655 as compared to the prior year period primarily due to an increase in revenues and lower direct operating expenses slightly offset by higher selling, general and administrative expenses, as discussed above. The increase in adjusted operating income excludes an increase in share-based compensation expense for the three months ended December 31, 2016 as compared to the prior year period.

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## MSG Sports

The table below sets forth, for the periods presented, certain historical financial information and a reconciliation of operating income to adjusted operating income for the Company's MSG Sports segment.

|  | Three Months |           | Change   |            |   |
|--|--------------|-----------|----------|------------|---|
|  | Ended        |           | Amount   | Percentage |   |
|  | December 31, | 2015      |          |            |   |
|  | 2016         |           |          |            |   |
| Revenues                                     | \$252,665    | \$229,533 | \$23,132 | 10         | % |
| Direct operating expenses                    | 160,209      | 139,155   | 21,054   | 15         | % |
| Selling, general and administrative expenses | 49,346       | 47,075    | 2,271    | 5          | % |
| Depreciation and amortization                | 2,905        | 2,769     | 136      | 5          | % |
| Operating income                             | \$40,205     | \$40,534  |          |            |   |