MSG NETWORKS INC.
Form 10-Q
May 03, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-34434

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

Delaware	27-0624498
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11 Pennsylvania Plaza
New York, NY 10001
(212) 465-6400
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company)
Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
Number of shares of common stock outstanding as of April 30, 2018:

Class A Common Stock par value $0.01 per share	61,723,847
Class B Common Stock par value $0.01 per share	13,588,555

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
MSG NETWORKS INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	March 31, 2018 (unaudited)	June 30, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 194,574	$ 141,087
Accounts receivable, net	109,410	105,030
Related party receivables, net	25,872	17,153
Prepaid income taxes	4,261	14,322
Prepaid expenses	6,215	6,468
Other current assets	3,867	2,343
Total current assets	344,199	286,403
Property and equipment, net	8,796	11,828
Amortizable intangible assets, net	38,068	40,663
Goodwill	424,508	424,508
Other assets	40,007	41,642
Total assets	$ 855,578	$ 805,044
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable	$ 654	$ 1,241
Related party payables	965	2,963
Current portion of long-term debt	72,414	72,414
Income taxes payable	23,990	11,483
Accrued liabilities:		
Employee related costs	11,802	14,238
Other accrued liabilities	15,151	10,050
Deferred revenue	7,000	5,071
Total current liabilities	131,976	117,460
Long-term debt, net of current portion	1,136,121	1,240,431
Defined benefit and other postretirement obligations	29,252	29,979
Other employee related costs	2,975	3,930
Other liabilities	5,427	5,597
Deferred tax liability	243,168	351,854
Total liabilities	1,548,919	1,749,251
Commitments and contingencies (see Note 7)		
Stockholders' Deficiency:		
Class A Common stock, par value $0.01, 360,000 shares authorized; 61,696 and 61,497 shares outstanding as of March 31, 2018 and June 30, 2017, respectively	643	643
Class B Common stock, par value $0.01, 90,000 shares authorized; 13,589 shares outstanding as of March 31, 2018 and June 30, 2017	136	136
Preferred stock, par value $0.01, 45,000 shares authorized; none outstanding	—	—
Additional paid-in capital	3,211	6,909
	(184,449)	(198,800)

Treasury stock, at cost, 2,563 and 2,762 shares as of March 31, 2018 and June 30, 2017, respectively		
Accumulated deficit	(505,209)	(746,539)
Accumulated other comprehensive loss	(7,673)	(6,556)
Total stockholders' deficiency	(693,341)	(944,207)
Total liabilities and stockholders' deficiency	$ 855,578	$ 805,044

See accompanying notes to consolidated financial statements.

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MSG NETWORKS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Revenues	$186,568	$183,247	$525,246	$512,471
Direct operating expenses (including related party expenses of $37,344 and $36,579 for the three months ended March 31, 2018 and 2017, respectively, and $111,357 and $106,748 for the nine months ended March 31, 2018 and 2017, respectively)	80,322	75,528	222,315	206,227
Selling, general and administrative expenses (including related party expenses of $8,719 and $8,145 for the three months ended March 31, 2018 and 2017, respectively, and $18,871 and $17,707 for the nine months ended March 31, 2018 and 2017, respectively)	23,383	21,669	63,255	59,964
Depreciation and amortization	2,279	2,576	7,153	7,734
Operating income	80,584	83,474	232,523	238,546
Other income (expense):				
Interest income	1,195	741	3,072	2,017
Interest expense	(10,932)	(10,204)	(31,817)	(29,433)
Other components of net periodic benefit cost	(407)	(420)	(1,221)	(1,186)
	(10,144)	(9,883)	(29,966)	(28,602)
Income from continuing operations before income taxes	70,440	73,591	202,557	209,944
Income tax benefit (expense)	(23,505)	(29,436)	41,103	(82,173)
Income from continuing operations	46,935	44,155	243,660	127,771
Loss from discontinued operations, net of taxes	—	—	—	(120)
Net income	$46,935	$44,155	$243,660	$127,651
Earnings per share:				
Basic				
Income from continuing operations	$0.62	$0.59	$3.23	$1.70
Loss from discontinued operations	—	—	—	—
Net income	$0.62	$0.59	$3.23	$1.70
Diluted				
Income from continuing operations	$0.62	$0.58	$3.21	$1.69
Loss from discontinued operations	—	—	—	—
Net income	$0.62	$0.58	$3.21	$1.69
Weighted-average number of common shares outstanding:				
Basic	75,540	75,264	75,427	75,194
Diluted	76,017	75,643	75,844	75,505

See accompanying notes to consolidated financial statements.

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MSG NETWORKS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (in thousands)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Net income	$46,935	$44,155	$243,660	$127,651
Other comprehensive income (loss) before income taxes:				
Pension plans and postretirement plan:				
Amounts reclassified from accumulated other comprehensive loss:				
Amortization of net actuarial loss included in net periodic benefit cost	149	175	447	525
Amortization of net prior service credit included in net periodic benefit cost	(3)	(6)	(9)	(18)
Settlement gain	—	—	—	(74)
Other comprehensive income before income taxes	146	169	438	433
Income tax expense related to items of other comprehensive income	(42)	(71)	(164)	(182)
Other comprehensive income	104	98	274	251
Comprehensive income	$47,039	$44,253	$243,934	$127,902

See accompanying notes to consolidated financial statements.

MSG NETWORKS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (in thousands)

	Nine Months Ended March 31, 2018	2017
Cash flows from operating activities from continuing operations:		
Net income	$243,660	$127,651
Loss from discontinued operations, net of taxes	—	120
Income from continuing operations	243,660	127,771
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Depreciation and amortization	7,153	7,734
Amortization of deferred financing costs	2,252	2,253
Share-based compensation expense	10,581	7,438
Provision for doubtful accounts	183	(206)
Change in assets and liabilities:		
Accounts receivable, net	(4,266)	(4,322)
Related party receivables, net	(9,016)	(15,840)
Prepaid expenses and other assets	53	5,207
Accounts payable	(587)	(1,032)
Related party payables, including payable to MSG	(2,003)	(287)
Prepaid/payable for income taxes	22,568	32,115
Accrued and other liabilities	1,194	5,440
Deferred revenue	1,929	(565)
Deferred income taxes	(108,850)	(4,033)
Net cash provided by operating activities from continuing operations	164,851	161,673
Cash flows from investing activities from continuing operations:		
Capital expenditures	(1,470)	(2,576)
Net cash used in investing activities from continuing operations	(1,470)	(2,576)
Cash flows from financing activities from continuing operations:		
Principal repayments on Term Loan Facility (see Note 6)	(106,250)	(98,750)
Proceeds from stock option exercises	—	2
Taxes paid in lieu of shares issued for share-based compensation	(3,644)	(2,271)
Net cash used in financing activities from continuing operations	(109,894)	(101,019)
Net cash provided by continuing operations	53,487	58,078
Cash flows of discontinued operations:		
Net cash used in operating activities	—	(976)
Net cash used in investing activities	—	—
Net cash used in financing activities	—	—
Net cash used in discontinued operations	—	(976)
Net increase in cash and cash equivalents	53,487	57,102
Cash and cash equivalents at beginning of period	141,087	119,568
Cash and cash equivalents at end of period	$194,574	$176,670

See accompanying notes to consolidated financial statements.

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MSG NETWORKS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY
(Unaudited) (in thousands)

	Common Stock Issued	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of June 30, 2017	$ 779	$ 6,909	$(198,800)	$(746,539)	$ (6,556)	$(944,207)
Net income	—	—	—	243,660	—	243,660
Other comprehensive income	—	—	—	—	274	274
Comprehensive income						243,934
Share-based compensation expense	—	10,581	—	—	—	10,581
Tax withholding associated with shares issued for share-based compensation	—	(3,649)	—	—	—	(3,649)
Shares issued upon distribution of Restricted Stock Units	—	(10,630)	14,351	(3,721)	—	—
Reclassification of stranded tax effects	—	—	—	1,391	(1,391)	—
Balance as of March 31, 2018	$ 779	$ 3,211	$(184,449)	$(505,209)	$ (7,673)	$(693,341)

	Common Stock Issued	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance as of June 30, 2016	$ 779	$ —	$(207,796)	$(905,352)	$ (7,589)	$(1,119,958)
Net income	—	—	—	127,651	—	127,651
Other comprehensive income	—	—	—	—	251	251
Comprehensive income						127,902
Exercise of stock options	—	(57)	59	—	—	2
Share-based compensation expense	—	7,438	—	—	—	7,438
Tax withholding associated with shares issued for share-based compensation	—	(1,793)	(423)	(55)	—	(2,271)
Shares issued upon distribution of Restricted Stock Units	—	(544)	8,860	(8,316)	—	—
Adjustments related to the transfer of certain liabilities as a result of the Distribution	—	—	—	(158)	—	(158)
Balance as of March 31, 2017	$ 779	$ 5,044	$(199,300)	$(786,230)	$ (7,338)	$(987,045)

See accompanying notes to consolidated financial statements.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
All amounts included in the following Notes to Consolidated 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

MSG Networks Inc. (together with its subsidiaries, the "Company") owns and operates two regional sports and entertainment networks, MSG Network and MSG+.

On September 30, 2015, the Company distributed to its stockholders all of the outstanding common stock of The Madison Square Garden Company ("MSG") (the "Distribution"). Following the Distribution, the Company no longer consolidates the financial results of MSG for purposes of its own financial reporting. Certain transaction costs related to the Distribution are classified in the consolidated statement of operations for the nine months ended March 31, 2017 as discontinued operations.

The Company operates and reports financial information in one segment. Substantially all revenues and assets of the Company are attributed to or located in the United States and are primarily concentrated in the New York City metropolitan area.

Unaudited Interim Financial Statements

The accompanying interim consolidated unaudited financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and the instructions to Rule 10-01 of Regulation S-X, and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 2017. The financial statements as of March 31, 2018 and for the three and nine months ended March 31, 2018 and 2017 presented in this Quarterly Report on Form 10-Q are unaudited; however, in the opinion of management such financial statements reflect all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. The results of operations for the periods presented are not necessarily indicative of the results that might be expected for future interim periods or for the full year.

Note 2. Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of MSG Networks Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amount of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amount of revenues and expenses. Such estimates include the valuation of accounts receivable, goodwill, intangible assets, other long-lived assets, tax accruals, and other liabilities. In addition, estimates are used in revenue recognition, income tax benefit (expense), performance and share-based compensation, depreciation and amortization, litigation matters, and other matters. Management believes its use of estimates in the consolidated 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.

Recently Adopted Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This standard was early adopted by the Company in the first quarter of fiscal year 2018, and was applied retrospectively. The adoption of this standard resulted in the non-service cost components of net periodic benefit cost to be presented separately from the service cost component, and the non-service cost components to no longer be included in the subtotal for operating income in the consolidated statements of operations. The presentation of the service cost component of net periodic benefit cost remains unchanged within selling, general and administrative expenses and direct operating expenses in the consolidated statements of operations. As this standard was applied retrospectively, the Company reclassified $420 and $1,186 of net periodic benefit cost from selling, general and administrative expenses and direct operating expenses to a separate line item within other income (expense) in the accompanying consolidated statements of operations for the three and nine months ended March 31, 2017, respectively.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This standard was early adopted by the Company in the third quarter of fiscal year 2018. The adoption of this standard resulted in a reclassification of $1,391 from accumulated other comprehensive loss to accumulated deficit for the stranded tax effects resulting from the reduction of the Company's deferred tax assets related to its pension plans and other postretirement benefit plan upon the enactment of the new tax legislation, commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). See Note 13 for more information.

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 Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition. This ASU 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. The ASU also 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, which provides clarification on the implementation guidance on principal versus agent considerations outlined in ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which finalized amendments to identifying performance obligations and accounting for licenses of intellectual property. 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 assessing collectibility, noncash consideration, presentation of sales taxes, completed contracts, and contract modifications at transition. This standard will be effective for the Company beginning in the first quarter of fiscal year 2019, and the Company expects to adopt this standard using the modified retrospective method. The Company has substantially completed the assessment of its significant revenue streams and has begun drafting its revenue recognition policy under the new standard. The Company has not identified any material impact to its consolidated financial statements based on its assessment to date. Continued evaluation of the expected impact of the new guidance or issuance of additional interpretations, if any, could result in an impact that is different from the Company's preliminary conclusions. The Company continues to assess its other revenue streams and expects the remainder of its assessment to be completed by the end of fiscal year 2018.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes the current guidance in ASC Topic 840, Leases. This ASU requires the recognition of lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. The amended guidance also requires additional quantitative and qualitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases in order to provide additional information about the nature of an organization's leasing activities. This standard will be effective for the Company beginning in the first quarter of fiscal year 2020, with early adoption permitted, and the modified retrospective approach required. 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): Classification of Certain Cash Receipts and Cash Payments, which amends ASC Topic 230, Statement of Cash Flows to eliminate the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues. This standard will be effective for the Company beginning in the first quarter of fiscal year 2019, with early adoption permitted and the retrospective approach required. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies 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 effect various areas of accounting including, but not limited to, goodwill and consolidation. This standard will be effective for the Company beginning in

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the first quarter of fiscal year 2019, with early adoption permitted. The standard is to be applied prospectively. The adoption of this guidance 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 Test for Goodwill Impairment, which simplifies the measurement of goodwill impairment by eliminating the requirement of performing a hypothetical purchase price allocation. Instead, impairment will be measured using the difference between the carrying amount and fair value of the reporting unit. The amended guidance also eliminates the requirement for any reporting unit with a zero or a negative carrying amount to perform a qualitative assessment and will require disclosure of the amount of goodwill allocated to each reporting unit with a zero or a negative carrying amount of net assets. This standard will be effective for the Company beginning in the first quarter of fiscal year 2021, with early adoption permitted. The standard is to be applied prospectively. Based on the Company's most recent annual goodwill impairment test completed in the first quarter of fiscal year 2018, the adoption of this guidance is not expected to have any initial impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all of the following characteristics of the modified award are the same as the original award immediately before the original award is modified: (i) the award's fair value, (ii) the award's vesting condition, and (iii) the award's classification as an equity or liability instrument. This standard will be effective for the Company beginning in the first quarter of fiscal year 2019, with early adoption permitted. The standard is to be applied prospectively to an award modified on or after the adoption date. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Note 3. Computation of Earnings per Common Share

Basic earnings per common share ("EPS") is based upon net income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the effect of the assumed vesting of restricted stock units ("RSUs") and exercise of stock options only in the periods in which such effect would have been dilutive.

The following table presents a reconciliation of the weighted-average number of shares used in the calculations of basic and diluted EPS:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Weighted-average number of shares for basic EPS	75,540	75,264	75,427	75,194
Dilutive effect of shares issuable under share-based compensation plans	477	379	417	311
Weighted-average number of shares for diluted EPS	76,017	75,643	75,844	75,505
Anti-dilutive shares	426	—	544	211

Note 4. Goodwill and Intangible Assets

During the first quarter of fiscal year 2018, the Company performed its annual impairment test of goodwill, and there was no impairment of goodwill identified.

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

	March 31, 2018	June 30, 2017
Affiliate relationships	$83,044	$83,044
Less accumulated amortization	(44,976)	(42,381)

	$38,068	$40,663

Affiliate relationships have an estimated useful life of 24 years. Amortization expense for intangible assets was $865 for the three months ended March 31, 2018 and 2017, and $2,595 for the nine months ended March 31, 2018 and 2017.

Note 5. Property and Equipment

As of March 31, 2018 and June 30, 2017, property and equipment consisted of the following assets:

	March 31, 2018	June 30, 2017
Equipment	$42,534	$40,918
Furniture and fixtures	1,708	1,695
Leasehold improvements	19,295	19,285
Construction in progress	429	565
	63,966	62,463
Less accumulated depreciation and amortization	(55,170)	(50,635)
	$8,796	$11,828

Depreciation and amortization expense on property and equipment was $1,414 and $1,711 for the three months ended March 31, 2018 and 2017, respectively, and $4,558 and $5,139 for the nine months ended March 31, 2018 and 2017, respectively.

Note 6. Debt

On September 28, 2015, MSGN Holdings L.P. (“MSGN L.P.”), an indirect wholly-owned subsidiary of the Company through which the Company conducts substantially all of its operations, and MSGN Eden, LLC, an indirect subsidiary of the Company and the general partner of MSGN L.P., Regional MSGN Holdings LLC, a direct subsidiary of the Company and the limited partner of MSGN L.P. (collectively with MSGN Eden, LLC, the “Holdings Entities”), and certain subsidiaries of MSGN L.P. entered into a credit agreement (the “Credit Agreement”) with a syndicate of lenders. The Credit Agreement provides MSGN L.P. with senior secured credit facilities (the “Senior Secured Credit Facilities”) consisting of: (a) an initial $1,550,000 term loan facility (the “Term Loan Facility”) and (b) a $250,000 revolving credit facility (the “Revolving Credit Facility”), each with a term of five years. In connection with the Distribution, $1,450,000 of the proceeds from the Term Loan Facility was contributed to MSG immediately following the closing of the Senior Secured Credit Facilities. Up to $35,000 of the Revolving Credit Facility is available for the issuance of letters of credit. Subject to the satisfaction of certain conditions and limitations, the Credit Agreement allows for the addition of incremental term and/or revolving loan commitments and incremental term and/or revolving loans.

Borrowings under the Credit Agreement bear interest at a floating rate, which at the option of MSGN L.P. may be either (a) base rate, representing the higher of: (i) the New York Fed Bank Rate plus 0.50%; (ii) the U.S. Prime Rate; or (iii) the one-month London Interbank Offered Rate, or LIBOR, plus 1.00% (the “Base Rate”), plus an additional rate ranging from 0.50% to 1.25% per annum (determined based on a total leverage ratio), or (b) a Eurodollar rate (the “Eurodollar Rate”) plus an additional rate ranging from 1.50% to 2.25% per annum (determined based on a total leverage ratio), provided that for the period until the delivery of the compliance certificate for the period ending March 31, 2016, the additional rate used in calculating both floating rates was (i) 1.00% per annum for borrowings bearing interest at the Base Rate, and (ii) 2.00% per annum for borrowings bearing interest at the Eurodollar Rate. Upon a payment default in respect of principal, interest or other amounts due and payable under the Credit Agreement or related loan documents, default interest will accrue on all overdue amounts at an additional rate of 2.00% per annum. The Credit Agreement requires that MSGN L.P. pay a commitment fee of 0.30% in respect of the average daily unused commitments, as well as fronting fees, to banks that issue letters of credit pursuant to the Revolving Credit Facility.

The Credit Agreement generally requires the Holdings Entities and MSGN L.P. and its restricted subsidiaries on a consolidated basis to comply with a maximum total leverage ratio of 6.00:1.00 from the closing date until September 30, 2016 and a maximum total leverage ratio of 5.50:1.00 from October 1, 2016 until maturity, subject, in each case, to upward adjustment during the continuance of certain events. In addition, there is a minimum interest coverage ratio of 2.00:1.00 for the Holdings Entities and MSGN L.P. and its restricted subsidiaries on a consolidated basis. As of

March 31, 2018, the Holdings Entities and MSGN L.P. and its restricted subsidiaries on a consolidated basis were in compliance with the financial covenants of the Credit Agreement. All borrowings under the Credit Agreement are subject to the satisfaction of customary conditions, including absence of a default and accuracy of representations and warranties. As of March 31, 2018, there were no letters of credit issued and outstanding under the Revolving Credit Facility, which provides full borrowing capacity of $250,000. For the nine months ended March 31, 2018, the Company made principal repayments of $106,250, including a voluntary payment of $50,000 made in the third quarter. The Company has made principal payments aggregating $335,000 through March 31, 2018. The Term Loan Facility amortizes quarterly in accordance with its terms through June 30, 2020 with a final maturity date on September 28, 2020.

As of March 31, 2018, the principal repayments required under the Term Loan Facility are as follows:

Remainder of fiscal year ending June 30, 2018	$18,750
Fiscal year ending June 30, 2019	75,000
Fiscal year ending June 30, 2020	114,375
Fiscal year ending June 30, 2021	1,006,875
	$1,215,000

All obligations under the Credit Agreement are guaranteed by the Holdings Entities and MSGN L.P.'s existing and future direct and indirect domestic subsidiaries that are not designated as excluded subsidiaries or unrestricted subsidiaries (the "Subsidiary Guarantors," and together with the Holdings Entities, the "Guarantors"). All obligations under the Credit Agreement, including the guarantees of those obligations, are secured by certain assets of MSGN L.P. and each Guarantor (collectively, "Collateral"), including, but not limited to, a pledge of the equity interests in MSGN L.P. held directly by the Holdings Entities and the equity interests in each Subsidiary Guarantor held directly or indirectly by MSGN L.P. Subject to customary notice and minimum amount conditions, MSGN L.P. may voluntarily prepay outstanding loans under the Credit Agreement at any time, in whole or in part, without premium or penalty (except for customary breakage costs with respect to Eurodollar loans). MSGN L.P. is required to make mandatory prepayments in certain circumstances, including without limitation from the net cash proceeds of certain sales of assets (including Collateral) or casualty insurance and/or condemnation recoveries (subject to certain reinvestment, repair or replacement rights) and the incurrence of certain indebtedness, subject to certain exceptions.

In addition to the financial covenants discussed above, the Credit Agreement and the related security agreement contain certain customary representations and warranties, affirmative covenants, and events of default. The Credit Agreement contains certain restrictions on the ability of the Holdings Entities and MSGN L.P. and its restricted subsidiaries to take certain actions as provided in (and subject to various exceptions and baskets set forth in) the Credit Agreement, including the following: (i) incurring additional indebtedness and contingent liabilities; (ii) creating liens on certain assets; (iii) making investments, loans or advances in or to other persons; (iv) paying dividends and distributions or repurchasing capital stock; (v) changing their lines of business; (vi) engaging in certain transactions with affiliates; (vii) amending specified material agreements; (viii) merging or consolidating; (ix) making certain dispositions; and (x) entering into agreements that restrict the granting of liens. The Holdings Entities are also subject to customary passive holding company covenants.

The Company is amortizing its deferred financing costs on a straight-line basis over the five-year term of the Senior Secured Credit Facilities which approximates the effective interest method. The following table summarizes the presentation of the Term Loan Facility and the related deferred financing costs in the accompanying consolidated balance sheets as of March 31, 2018 and June 30, 2017:

	Term Loan Facility	Deferred Financing Costs	Total
March 31, 2018			
Current portion of long-term debt	$75,000	$ (2,586)	$72,414
Long-term debt, net of current portion	1,140,000	(3,879)	1,136,121
Total	$1,215,000	$ (6,465)	$1,208,535
June 30, 2017			
Current portion of long-term debt	$75,000	$ (2,586)	$72,414
Long-term debt, net of current portion	1,246,250	(5,819)	1,240,431

Total	$1,321,250	$(8,405)	$1,312,845

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In addition, the Company has deferred financing costs related to the Revolving Credit Facility recorded in the accompanying consolidated balance sheets as summarized in the following table: