

MSG NETWORKS INC.  
Form 10-Q  
February 02, 2017  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

(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: 1-34434

---

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

Delaware 27-0624498  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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  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 61,483,687

Class B Common Stock par value \$0.01 per share 43,588,555

Table of Contents

MSG NETWORKS INC.  
INDEX TO FORM 10-Q

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of December 31, 2016 (unaudited) and June 30, 2016</u>	<u>1</u>
<u>Consolidated Statements of Operations for the three and six months ended December 31, 2016 and 2015 (unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended December 31, 2016 and 2015 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows for the six months ended December 31, 2016 and 2015 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Stockholders' Equity (Deficiency) for the six months ended December 31, 2016 and 2015 (unaudited)</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
<u>Item 4. Controls and Procedures</u>	<u>29</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>30</u>
<u>Item 6. Exhibits</u>	<u>30</u>

---

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## MSG NETWORKS INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	December 31, 2016	June 30, 2016
	(unaudited)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 185,143	\$ 119,568
Accounts receivable, net	100,576	101,427
Net related party receivable	15,738	15,492
Prepaid income taxes	15,340	28,384
Prepaid expenses	13,013	13,188
Other current assets	2,590	3,053
Total current assets	332,400	281,112
Property and equipment, net	12,613	14,154
Amortizable intangible assets, net	42,393	44,123
Goodwill	424,508	424,508
Other assets	42,175	42,645
Total assets	\$ 854,089	\$ 806,542
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>		
Current Liabilities:		
Accounts payable	\$ 988	\$ 2,043
Net related party payable	3,740	4,302
Current portion of long-term debt	72,414	64,914
Income taxes payable	8,982	8,662
Accrued liabilities:		
Employee related costs	9,702	10,340
Other accrued liabilities	15,744	15,991
Deferred revenue	3,577	6,143
Total current liabilities	115,147	112,395
Long-term debt, net of current portion	1,376,638	1,412,845
Defined benefit and other postretirement obligations	30,917	31,827
Other employee related costs	4,870	5,550
Related party payable	—	1,710
Other liabilities	5,482	5,612
Deferred tax liability	354,722	356,561
Total liabilities	1,887,776	1,926,500
Commitments and contingencies (see Note 8)		
Stockholders' Deficiency		
Class A Common stock, par value \$0.01, 360,000 shares authorized; 61,484 and 61,354 shares outstanding as of December 31, 2016 and June 30, 2016, respectively	643	643
Class B Common stock, par value \$0.01, 90,000 shares authorized; 13,589 shares outstanding as of December 31, 2016 and June 30, 2016	136	136
Preferred stock, par value \$0.01, 45,000 shares authorized; none outstanding	—	—
Additional paid-in capital	3,113	—
	(197,712 )	(207,796 )

Edgar Filing: MSG NETWORKS INC. - Form 10-Q

Treasury stock, at cost, 2,776 and 2,905 shares as of December 31, 2016 and June 30, 2016, respectively

Accumulated deficit	(832,431	)	(905,352	)
Accumulated other comprehensive loss	(7,436	)	(7,589	)
Total stockholders' deficiency	(1,033,687	)	(1,119,958	)
Total liabilities and stockholders' deficiency	\$ 854,089		\$ 806,542	

See accompanying notes to consolidated financial statements.

1

---

Table of Contents

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Revenues (including related party revenues of \$0 and \$41,673 for the three months ended December 31, 2016 and 2015, respectively, and \$0 and \$82,122 for the six months ended December 31, 2016 and 2015, respectively)	\$175,646	\$169,931	\$329,224	\$318,078
Direct operating expenses (including related party expenses of \$34,905 and \$34,619 for the three months ended December 31, 2016 and 2015, respectively, and \$70,169 and \$68,273 for the six months ended December 31, 2016 and 2015, respectively)	70,076	71,547	131,010	131,649
Selling, general and administrative expenses (including related party expenses of \$6,866 and \$10,420 for the three months ended December 31, 2016 and 2015, respectively, and \$9,562 and \$11,327 for the six months ended December 31, 2016 and 2015, respectively)	23,191	22,370	38,750	63,488
Depreciation and amortization	2,580	3,091	5,158	7,770
Operating income	79,799	72,923	154,306	115,171
Other income (expense):				
Interest income	649	548	1,276	1,084
Interest expense	(9,714 )	(9,712 )	(19,229 )	(11,569 )
	(9,065 )	(9,164 )	(17,953 )	(10,485 )
Income from continuing operations before income taxes	70,734	63,759	136,353	104,686
Income tax expense	(27,479 )	(29,709 )	(52,737 )	(29,305 )
Income from continuing operations	43,255	34,050	83,616	75,381
Loss from discontinued operations, net of taxes	—	(137 )	(120 )	(161,154 )
Net income (loss)	\$43,255	\$33,913	\$83,496	\$(85,773 )
Earnings (loss) per share:				
Basic				
Income from continuing operations	\$0.58	\$0.45	\$1.11	\$1.00
Loss from discontinued operations	—	—	—	(2.14 )
Net income (loss)	\$0.58	\$0.45	\$1.11	\$(1.14 )
Diluted				
Income from continuing operations	\$0.57	\$0.45	\$1.11	\$1.00
Loss from discontinued operations	—	—	—	(2.13 )
Net income (loss)	\$0.57	\$0.45	\$1.11	\$(1.13 )
Weighted-average number of common shares outstanding:				
Basic	75,215	74,959	75,159	75,240
Diluted	75,461	75,373	75,436	75,639

See accompanying notes to consolidated financial statements.



Table of Contents

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

	Three Months Ended		Six Months Ended	
	December 31, 2016	2015	December 31, 2016	2015
Net income (loss)	\$43,255	\$33,913	\$83,496	\$(85,773)
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	175	125	350	501
Amortization of net prior service credit included in net periodic benefit cost	(6 )	(11 )	(12 )	(28 )
Settlement gain	(74 )	—	(74 )	—
Other comprehensive income (loss) before income taxes	95	114	264	(129 )
Income tax expense related to items of other comprehensive income (loss)	(40 )	(47 )	(111 )	(527 )
Other comprehensive income (loss)	55	67	153	(656 )
Comprehensive income (loss)	\$43,310	\$33,980	\$83,649	\$(86,429)

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Six Months Ended December 31,	
	2016	2015
Cash flows from operating activities from continuing operations:		
Net income (loss)	\$83,496	\$(85,773 )
Loss from discontinued operations, net of taxes	120	161,154
Income from continuing operations	83,616	75,381
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Depreciation and amortization	5,158	7,770
Amortization of deferred financing costs	1,502	1,732
Share-based compensation expense	5,049	6,899
Excess tax benefit on share-based awards	—	(4,420 )
Provision for doubtful accounts	(162	) 430
Change in assets and liabilities:		
Accounts receivable, net	1,014	(560 )
Net related party receivable	(246	) (15,829 )
Prepaid expenses and other assets	899	12,235
Accounts payable	(1,055	) (9,401 )
Net related party payable, including payable to MSG	(2,289	) 24,455
Prepaid/payable for income taxes	13,362	38,190
Accrued and other liabilities	(1,310	) (10,649 )
Deferred revenue	(2,566	) 3,106
Deferred income taxes	(1,948	) (10,479 )
Net cash provided by operating activities from continuing operations	101,024	118,860
Cash flows from investing activities from continuing operations:		
Capital expenditures	(2,242	) (1,950 )
Net cash used in investing activities from continuing operations	(2,242	) (1,950 )
Cash flows from financing activities from continuing operations:		
Proceeds from Term Loan Facility (see Note 7)	—	1,550,000
Principal repayments on Term Loan Facility (see Note 7)	(30,000	) —
Cash distributed with MSG	—	(1,467,093
Payments for financing costs	—	) (9,860 )
Proceeds from stock option exercises	—	98
Repurchases of common stock	—	(100,027 )
Taxes paid in lieu of shares issued for equity-based compensation	(2,254	) (11,114 )
Excess tax benefit on share-based awards	—	4,420
Net cash used in financing activities from continuing operations	(32,254	) (33,576 )
Net cash provided by continuing operations	66,528	83,334
Cash flows of discontinued operations:		
Net cash provided by (used in) operating activities	(953	) 4,224
Net cash used in investing activities	—	(68,410 )
Net cash used in financing activities	—	—
Net cash used in discontinued operations	(953	) (64,186 )
Net increase in cash and cash equivalents	65,575	19,148



Edgar Filing: MSG NETWORKS INC. - Form 10-Q

Cash and cash equivalents at beginning of period, including cash in both continuing operations and discontinued operations	119,568	218,685
Cash and cash equivalents at end of period	\$185,143	\$237,833

See accompanying notes to consolidated financial statements.

4

---

Table of Contents

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

	Common Stock Issued	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of June 30, 2016	\$ 779	\$ —	\$(207,796)	\$ (905,352 )	\$ (7,589 )	\$(1,119,958)
Net income	—	—	—	83,496	—	83,496
Other comprehensive income	—	—	—	—	153	153
Comprehensive income	—	—	—	—	—	83,649
Exercise of stock options	—	(57 )	59	—	—	2
Share-based compensation	—	5,049	—	—	—	5,049
Tax withholding associated with shares issued for equity-based compensation	—	(1,793 )	(423 )	(55 )	—	(2,271 )
Shares issued upon distribution of Restricted Stock Units	—	(86 )	10,448	(10,362 )	—	—
Adjustments related to the transfer of certain liabilities as a result of the Distribution	—	—	—	(158 )	—	(158 )
Balance as of December 31, 2016	\$ 779	\$ 3,113	\$(197,712)	\$ (832,431 )	\$ (7,436 )	\$(1,033,687)

	Common Stock Issued	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of June 30, 2015	\$ 779	\$ 1,084,002	\$(143,250)	\$ 807,563	\$ (25,572 )	\$ 1,723,522
Net loss	—	—	—	(85,773 )	—	(85,773 )
Other comprehensive loss	—	—	—	—	(656 )	(656 )
Comprehensive loss	—	—	—	—	—	(86,429 )
Exercise of stock options	—	(4,633 )	5,390	—	—	757
Share-based compensation	—	7,753	—	—	—	7,753
Tax withholding associated with shares issued for equity-based compensation	—	(11,114 )	—	—	—	(11,114 )
Excess tax benefit on share-based awards	—	8,586	—	(4,166 )	—	4,420
Repurchases of common stock	—	—	(100,027 )	—	—	(100,027 )
Shares issued upon distribution of Restricted Stock Units	—	(16,626 )	20,075	(3,449 )	—	—
Distribution of The Madison Square Garden Company	—	(1,067,968 )	—	(1,705,189 )	20,406	(2,752,751 )
Balance as of December 31, 2015	\$ 779	\$ —	\$(217,812)	\$ (991,014 )	\$ (5,822 )	\$(1,213,869)

See accompanying notes to consolidated financial statements.



Table of Contents

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 (“MSGN”) and MSG+, collectively the “MSG Networks.”

The Company was incorporated on July 29, 2009 as an indirect, wholly-owned subsidiary of Cablevision Systems Corporation (“Cablevision”). On February 9, 2010, Cablevision spun off the Company and the Company thereby acquired the subsidiaries of Cablevision that owned, directly and indirectly, all of the partnership interests in MSGN Holdings, L.P., formerly MSG Holdings L.P. (“MSGN L.P.”). MSGN L.P. was the indirect, wholly-owned subsidiary of Cablevision through which Cablevision held the Madison Square Garden businesses. MSGN L.P. is now a wholly-owned subsidiary of the Company, through which the Company conducts substantially all of its operations. On September 30, 2015 (the “Distribution Date”), the Company distributed to its stockholders all of the outstanding common stock of The Madison Square Garden Company (formerly MSG Spinco, Inc., and referred to herein as “MSG”) (the “Distribution”). MSG owns, directly or indirectly, the sports and entertainment businesses previously owned and operated by the Company's sports and entertainment segments, owns, leases or operates the arenas and other venues previously owned, leased or operated by the Company and owns the joint venture interests previously owned by the Company. In the Distribution, each holder of the Company's Class A common stock, par value \$0.01 per share, (“Class A Common Stock”), of record as of the close of business, New York City time, on September 21, 2015 (the “Record Date”), received one share of MSG Class A common stock, par value \$0.01 per share, for every three shares of the Company's Class A Common Stock held on the Record Date. Each record holder of the Company's Class B common stock, par value \$0.01 per share, (“Class B Common Stock”) received one share of MSG Class B common stock, par value \$0.01 per share, for every three shares of the Company's Class B Common Stock held on the Record Date. Following the Distribution, the Company no longer consolidates the financial results of MSG for purposes of its own financial reporting and the historical financial results of MSG have been reflected in the Company's consolidated financial statements as discontinued operations for all periods presented through the Distribution Date.

After giving effect to the Distribution, 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, 2016. The financial statements as of December 31, 2016 and for the three and six months ended December 31, 2016 and 2015 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.

Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

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. See Note 3 for a discussion of media rights prior to the Distribution Date recognized as revenues by MSG from the licensing of team-related programming to the Company.

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 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, goodwill, intangible assets, other long-lived assets, tax accruals and other liabilities. In addition, estimates are used in revenue recognition, income tax 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 April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 and will be applied prospectively to all arrangements entered into or materially modified after the effective date. There was no impact to the financial statements as a result of this adoption.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which changes several aspects of accounting for share-based payment transactions. This standard was early adopted by the Company in the first quarter of fiscal year 2017. The adoption of this standard resulted in: (i) all excess tax benefits and tax deficiencies being recognized in the income statement, rather than additional paid-in capital, on a prospective basis (ii) excess tax benefits or tax deficiencies no longer being classified on the Consolidated Statement of Cash Flows as a financing activity, on a prospective basis (as such prior period amounts have not been adjusted) and (iii) the Company's election to account for forfeitures as they occur, rather than estimate expected forfeitures over the course of a vesting period, on a modified retrospective basis. There was no material impact to the financial statements as a result of this adoption.

Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

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. Early adoption is permitted and the Company can early adopt ASU No. 2014-09 and the related updates beginning in the first quarter of fiscal year 2018. If the Company does not apply the early adoption provision, ASU No. 2014-09 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 this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which 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. This standard will be adopted using a modified retrospective approach. 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 230 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 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. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The standard is to be applied prospectively. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.

Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

## Note 3. Discontinued Operations

As a result of the Distribution, the results of the Company's MSG operations through the Distribution Date, as well as transaction costs related to the Distribution, have been classified in the consolidated statements of operations as discontinued operations for all periods presented. No gain or loss was recognized in connection with the Distribution. Operating results of discontinued operations for the three and six months ended December 31, 2016 and 2015 are summarized below:

	Three Months Ended December 31, 2015	Six Months Ended December 31, 2016	2015
Revenues <sup>(a)</sup>	\$—	\$—	\$150,381
Direct operating expenses	—	—	71,320
Selling, general and administrative expenses	—137	120	57,824
Depreciation and amortization	—	—	23,772
Operating loss	—(137 )	(120 )	(2,535 )
Equity in earnings of equity-method investments	—	—	2,679
Interest income	—	—	635
Interest expense	—	—	(540 )
Income (loss) from discontinued operations before income taxes	—(137 )	(120 )	239
Income tax expense	—	—	(161,393 )
Loss from discontinued operations, net of taxes	\$—(137 )	\$(120 )	\$(161,154 )

Includes rights fees for New York Knicks ("Knicks") and New York Rangers ("Rangers") programming prior to the Distribution Date, which were previously eliminated in consolidation. However, the pre-Distribution Date amounts (a) are presented as revenues in the loss from discontinued operations line with the offsetting expense in direct operating expenses, within continuing operations, in the accompanying consolidated statement of operations for the six months ended December 31, 2015.

Prior to the Distribution, the Company's collections for ticket sales, sponsorships and suite rentals in advance were recorded as deferred revenue and were recognized as revenues when earned for both accounting and tax purposes. In connection with the reorganization transactions related to the Distribution, the tax recognition on most of these deferred revenues was accelerated to the date of the reorganization. The impact of the acceleration of such deferred revenue is reflected in income tax expense of discontinued operations for the six months ended December 31, 2015. The net impact of the Distribution to the Company's stockholders' equity (deficiency) includes cash distributed with MSG of \$1,467,093.

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

Basic earnings (loss) per common share ("EPS") is based upon net income (loss) 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.



Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

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 December 31, 2016		Six Months Ended December 31, 2015	
Weighted-average number of shares for basic EPS	75,215	74,959	75,159	75,240
Dilutive effect of shares issuable under share-based compensation plans	246	414	277	399
Weighted-average number of shares for diluted EPS	75,461	75,373	75,436	75,639
Anti-dilutive shares	535	—	317	—

## Note 5. Goodwill and Intangible Assets

During the first quarter of fiscal year 2017, 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:

	December 31, June 30, 2016	
Affiliate relationships	\$ 83,044	\$83,044
Less accumulated amortization	(40,651 )	(38,921 )
	\$ 42,393	\$44,123

Affiliate relationships have an estimated useful life of 24 years. Amortization expense for intangible assets for continuing operations was \$865 for the three months ended December 31, 2016 and 2015, respectively, and \$1,730 six months ended December 31, 2016 and 2015, respectively.

## Note 6. Property and Equipment

As of December 31, 2016 and June 30, 2016, property and equipment consisted of the following assets:

	December 31, June 30, 2016	
Equipment	\$ 46,893	\$44,508
Furniture and fixtures	1,746	1,744
Leasehold improvements	19,566	19,561
Construction in progress	423	966
	68,628	66,779
Less accumulated depreciation and amortization	(56,015 )	(52,625 )
	\$ 12,613	\$14,154

Depreciation and amortization expense on property and equipment was \$1,715 and \$2,226 for the three months ended December 31, 2016 and 2015, respectively, and \$3,428 and \$6,040 for the six months ended December 31, 2016 and 2015, respectively, which for the fiscal 2016 first quarter included depreciation expense on certain corporate property and equipment that was transferred to MSG in connection with the Distribution, but which did not qualify for discontinued operations reporting.

## Note 7. Debt

On September 28, 2015, MSGN L.P., 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



Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

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 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 Holding 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 and after 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 December 31, 2016, the Holding 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 December 31, 2016, there were no letters of credit issued and outstanding under the Revolving Credit Facility, which provides full borrowing capacity of \$250,000. The Company has made principal payments aggregating \$91,250 through December 31, 2016, which reduced the principal amount of the initial Term Loan Facility for subsequent amortization. The Term Loan Facility amortizes quarterly in accordance with its terms from December 31, 2016 through June 30, 2020 with a final maturity date on September 28, 2020.

As of December 31, 2016, the principal repayments required under the Term Loan Facility are as follows:

Remainder of fiscal year ending June 30, 2017	\$37,500
Fiscal year ending June 30, 2018	75,000
Fiscal year ending June 30, 2019	75,000
Fiscal year ending June 30, 2020	114,375
Fiscal year ending June 30, 2021	1,156,875
	\$1,458,750

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 of the 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

Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

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 Holding 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 sheet as of December 31, 2016 and June 30, 2016:

	Term Loan Facility	Deferred Financing Costs	Total
December 31, 2016			
Current portion of long-term debt	\$75,000	\$(2,586 )	\$72,414
Long-term debt, net of current portion	1,383,750	(7,112 )	1,376,638
Total	\$1,458,750	\$(9,698 )	\$1,449,052
June 30, 2016			
Current portion of long-term debt	\$67,500	\$(2,586 )	\$64,914
Long-term debt, net of current portion	1,421,250	(8,405 )	1,412,845
Total	\$1,488,750	\$(10,991 )	\$1,477,759

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:

	December 31, 2016	June 30, 2016
Other current assets	\$ 417	\$417
Other assets	1,147	1,356

The Company made interest payments under the Credit Agreement of \$17,625 and \$9,118 during the six months ended December 31, 2016 and 2015, respectively.

## Note 8. Commitments and Contingencies

## Commitments

As more fully described in Notes 9 and 10 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016, the Company's contractual obligations consist primarily of its obligations under media rights agreements and long-term noncancelable operating lease agreements.

In addition, see Note 7 for the principal repayments required under the Company's Term Loan Facility.

12

---

Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

## Legal Matters

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

## Note 9. Fair Value Measurements

The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:

Level I — Quoted prices for identical instruments in active markets.

Level II — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level III — Instruments whose significant value drivers are unobservable.

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

	Level I	Level II	Level III	Total
December 31, 2016				
Assets:				
Money market accounts	\$45,014	\$ —	—\$	—\$45,014
Time deposits	135,173	—	—	135,173
Total assets measured at fair value	\$180,187	\$ —	—\$	—\$180,187
June 30, 2016				
Assets:				
Money market accounts	\$68,591	\$ —	—\$	—\$68,591
Time deposits	50,977	—	—	50,977
Total assets measured at fair value	\$119,568	\$ —	—\$	—\$119,568

Money market accounts and time deposits are classified within Level I of the fair value hierarchy as they are valued using observable inputs that reflect quoted prices for identical assets in active markets. The carrying amount of the Company's money market accounts and time deposits approximates fair value due to their short-term maturities.

## Other Financial Instruments

The fair value of the Company's long-term debt (see Note 7) was approximately \$1,451,456 as of December 31, 2016. The Company's long-term debt is classified within Level II of the fair value hierarchy as it is valued using quoted prices of such securities for which fair value can be derived from inputs that are readily observable.

## Note 10. Pension Plans and Other Postretirement Benefit Plan

Prior to the Distribution, the Company sponsored a non-contributory qualified cash balance retirement plan covering its non-union employees (the "MSG Cash Balance Pension Plan") and a non-contributory qualified defined benefit pension plan covering certain of its union employees (the "MSG Union Plan"). Since March 1, 2011, the MSG Cash Balance Pension Plan has also included the assets and liabilities of a frozen (as of December 31, 2007)

non-contributory qualified defined pension plan covering non-union employees hired prior to January 1, 2001. The

MSG Cash Balance Pension Plan was amended to freeze participation and future benefit accruals effective December 31, 2015. Existing account balances under the MSG Cash Balance Pension Plan will continue to be credited with monthly interest in accordance with the terms of the plan. The MSG Cash Balance Pension Plan and MSG Union Plan are collectively referred to as the “MSG Pension Plans.”

The Company currently sponsors (i) a non-contributory qualified defined benefit pension plan covering certain of its union



Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

employees (the “Union Plan”), (ii) an unfunded non-contributory, non-qualified excess cash balance plan covering certain employees who participated in the MSG Cash Balance Pension Plan (the “Excess Cash Balance Plan”), and (iii) an unfunded non-contributory non-qualified defined benefit pension plan for the benefit of certain employees who participated in an underlying qualified plan, which was merged into the MSG Cash Balance Pension Plan on March 1, 2011 (the “Excess Plan”). The Union Plan, Excess Cash Balance Plan and Excess Plan are collectively referred to as the “MSG Networks Plans.”

As of December 31, 2015, the Excess Cash Balance Plan was amended to freeze participation and future benefit accruals. Therefore, after December 31, 2015, no employee of the Company who was not already a participant may become a participant in the plan and no further annual pay credits will be made for any future year. Existing account balances under the plan will continue to be credited with monthly interest in accordance with the terms of the plan. As of December 31, 2007, the Excess Plan was amended to freeze all benefits earned through December 31, 2007 and to eliminate the ability of participants to earn benefits for future service under this plan. Benefits payable to retirees under the Union Plan are based upon years of service and participants’ compensation.

The Company also sponsors a contributory welfare plan which provides certain postretirement healthcare benefits to certain employees hired prior to January 1, 2001 who are eligible to commence receipt of early or normal Retirement Plan benefits under the MSG Cash Balance Pension Plan and their dependents, as well as certain union employees (“Postretirement Plan”).

As of the Distribution Date, the Company and MSG entered into an employee matters agreement (the “Employee Matters Agreement”) which determined each company’s obligations after the Distribution with regard to historic liabilities under the Company’s former pension and postretirement plans. Under the Employee Matters Agreement, the assets and liabilities of the MSG Pension Plans have been transferred to MSG. In addition, the following have been transferred to MSG: liabilities related to (i) current MSG employees who are active participants in the Excess Plan and/or the Excess Cash Balance Plan, (ii) current MSG employees who are eligible for participation in the Postretirement Plan, and (iii) former MSG employees who are retired participants in the Postretirement Plan. The Company has retained liabilities related to (i) its current employees and former employees of the Company or MSG who are active participants in the Excess Plan and/or the Excess Cash Balance Plan, (ii) its current employees who are eligible for participation in the Postretirement Plan, (iii) its former employees who are retired participants in the Postretirement Plan, and (iv) the Union Plan.

Components of net periodic benefit cost for the MSG Networks Plans, MSG Pension Plans and Postretirement Plan recognized in direct operating expenses, selling, general and administrative expenses and loss from discontinued operations in the accompanying consolidated 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	\$133	\$121	\$ 18	\$ 18
Interest cost	332	438	25	32
Expected return on plan assets	(106 )	(110 )	—	—
Recognized actuarial loss <sup>(a)</sup>	175	125	—	—
Amortization of unrecognized prior service credit <sup>(a)</sup>	—	—	(6 )	(11 )
Settlement gain <sup>(a)</sup>	(74 )	—	—	—

Net periodic benefit cost	\$460	\$574	\$ 37	\$ 39
---------------------------	-------	-------	-------	-------

14

---

Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

	Pension Plans Six Months Ended		Postretirement Plan Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Service cost	\$266	\$1,742	\$ 36	\$ 68
Interest cost	664	2,563	50	123
Expected return on plan assets	(212 )	(960 )	—	—
Recognized actuarial loss <sup>(a)</sup>	350	501	—	—
Amortization of unrecognized prior service cost (credit) <sup>(a)</sup>	—	14	(12 )	(42 )
Settlement gain <sup>(a)</sup>	(74 )	—	—	—
Net periodic benefit cost	\$994	\$3,860	\$ 74	\$ 149

<sup>(a)</sup> Reflects amounts reclassified from accumulated other comprehensive loss.

Amounts presented in the table above include net periodic benefit cost related to continuing operations and discontinued operations as noted in the following table:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Continuing operations	\$497	\$613	\$1,068	\$2,046
Discontinued operations	—	—	—	1,963
Total Net Periodic Benefit Cost	\$497	\$613	\$1,068	\$4,009

In addition, prior to the Distribution, the Company sponsored the MSG Holdings, L.P. 401(k) Savings Plan (the "MSG Savings Plan") and the MSG Holdings, L.P. Excess Savings Plan ("Excess Savings Plan"). As a result of the Distribution, the MSG Savings Plan was amended to (i) transfer sponsorship of the plan to MSG, and (ii) become a multiple employer plan in which both MSG and the Company will continue to participate. Pursuant to the Employee Matters Agreement, liabilities relating to current MSG employees who were active participants in the Company's Excess Savings Plan have been transferred to MSG. The Excess Savings Plan has been renamed the MSGN Holdings, L.P. Excess Savings Plan (together with the MSG Savings Plan, the "Savings Plans"). Expenses related to the Savings Plans included in the accompanying consolidated statements of operations for the three and six months ended December 31, 2016 and 2015 are as follows:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Continuing operations	\$ 222	\$ —	-\$399	\$334
Discontinued operations	—	—	—	652
Total Savings Plan Expense	\$ 222	\$ —	-\$399	\$986

Note 11. Share-based Compensation

See Note 14 to the consolidated 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 2010 Employee Stock Plan, as amended (the "Employee Stock Plan") and 2010 Stock Plan For Non-Employee Directors, as amended (the "Non-Employee Director Plan"), as well as certain share-based payment awards granted prior to July 1, 2015. On December 15, 2016, the Company's stockholders amended the Employee Stock Plan to increase the shares available for issuance thereunder by 5,500 and to extend the expiration date by one year to December 15, 2026.

Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Share-based compensation expense, presented within selling, general and administrative expenses and direct operating expenses, was \$3,273 and \$2,652 for the three months ended December 31, 2016 and 2015, respectively, and \$5,049 and \$6,899 for the six months ended December 31, 2016 and 2015, respectively. Share-based compensation expense for discontinued operations was \$808 for the six months ended December 31, 2015.

**Stock Options Award Activity**

In September 2016, the Company granted 1,069 stock options, of which 50% are subject to three-year ratable vesting and the remaining 50% are subject to three-year cliff vesting and the achievement of certain Company performance criteria. These options have an expiration period of 7.5 years. The exercise price of these options is \$17.81.

The Company calculated the fair value of these options on the date of grant using the Black-Scholes option pricing model, which resulted in a grant date fair value of \$4.49 per option.

The following were the key assumptions used to calculate the fair value of this award:

Risk-free interest rate	1.24	%
Expected term	5.25	years
Expected volatility	25.1	%

The Company's computation of expected term was calculated using the simplified method (the average of the vesting period and option term) as prescribed in ASC Topic 718-10-S99. The Company's computation of expected volatility was based on historical volatility of its common stock.

**Restricted Share Units Award Activity**

The following table summarizes activity relating to holders (including Company and MSG employees) of the Company's RSUs for the six months ended December 31, 2016:

	Number of		Weighted-Average
	Nonperformance Based Vesting RSUs	Performance Based Vesting RSUs	Fair Value Per Share At Date of Grant
Unvested award balance, June 30, 2016	321	431	\$ 38.57
Granted	442	262	19.27
Vested	(195 )	(103 )	38.27
Forfeited	(29 )	(14 )	35.57
Unvested award balance, December 31, 2016	539	576	\$ 26.56

The RSUs granted during the six months ended December 31, 2016 included 476 RSUs that are subject to three-year ratable vesting, 169 RSUs subject to three-year cliff vesting, and 59 RSUs granted under the Non-Employee Director Plan which vested upon date of grant. RSUs granted under the Employee Stock Plan and Non-Employee Director Plan will settle in shares of the Company's Class A Common Stock (either from treasury or with newly issued shares), or, at the option of the Compensation Committee, in cash. RSU's granted under the Non-Employee Director Plan will settle on the first business day after ninety days from the date the director's service on the Board of Directors ceases or, if earlier, upon the director's death.

The fair value of RSUs that vested during the six months ended December 31, 2016 was \$5,601. Upon delivery, RSUs granted under the Employee Stock Plan were net share-settled to cover the required statutory tax withholding obligations and the remaining number of shares were issued from the Company's treasury shares. To fulfill the employees' statutory minimum tax withholding obligations for the applicable income and other employment taxes, 125 of these RSUs, with an aggregate value of \$2,271, were retained by the Company and the taxes paid are reflected as a financing activity in the accompanying consolidated statement of cash flows for the six months ended December 31, 2016.

Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Note 12. 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 2.4% 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 69.6% of the aggregate voting power of the Company's outstanding common stock. Members of the Dolan family are also the controlling stockholders of MSG and AMC Networks Inc. ("AMC Networks").

On June 16, 2016, the Company entered into an arrangement with the Dolan Family Office, LLC ("DFO"), MSG and AMC Networks providing for the sharing of certain expenses associated with executive office space which is available to Charles F. Dolan (a director of the Company and MSG and the Executive Chairman and a director of AMC Networks), James L. Dolan (the Executive Chairman and a director of the Company and MSG and a director of AMC 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 and (ii) for the Company's Vice Chairman with MSG and AMC Networks.

In connection with the Distribution, the Company entered into various agreements with MSG, including media rights agreements covering Knicks and Rangers games, an advertising sales representation agreement, a trademark license agreement, a tax disaffiliation agreement, a transition services agreement ("TSA") and certain other arrangements. The Company has entered into various agreements with AMC Networks with respect to a number of ongoing commercial relationships.

Related party transactions included in continuing operations

Rights fees

The Company's media rights agreements with the Knicks and the Rangers, effective as of July 1, 2015, provide the Company with exclusive media rights to team games in their local markets. Prior to the Distribution, these rights fees were eliminated in consolidation; however the amounts recorded prior to the Distribution are presented as revenues in the loss from discontinued operations line with the offsetting expense in direct operating expenses within continuing operations in the accompanying consolidated statement of operations. Rights fees included in the accompanying consolidated statements of operations for the three months ended December 31, 2016 and 2015 were \$33,037 and \$32,800, respectively, and \$66,837 and \$65,300 for the six months ended December 31, 2016 and 2015, respectively.

Origination, master control and technical services

AMC Networks provides certain origination, master control and technical services to the Company. Amounts charged to the Company for the three months ended December 31, 2016 and 2015 were \$1,543 and \$1,459, respectively, and \$2,991 and \$2,876 for the six months ended December 31, 2016 and 2015, respectively.

Commission

The Company entered into an advertising sales representation agreement with MSG, which has a seven year term, pursuant to which MSG has the exclusive right and obligation to sell certain advertising availabilities on our behalf for a commission. All of the Company's advertising sales personnel were transferred to MSG in connection with the Distribution. The amount charged to the Company for the three months ended December 31, 2016 and 2015 was \$5,169 and \$5,498, respectively, and for the six months ended December 31, 2016 and 2015 was \$5,594 and \$5,498, respectively.





Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Other operating expenses

The Company and its related parties enter into transactions with each other in the ordinary course of business. In addition, pursuant to the TSA, the Company began outsourcing to MSG certain business functions that were previously performed by internal resources. These services include information technology, accounting, accounts payable, payroll, tax, legal, human resources, insurance and risk management, investor relations, corporate communications, benefit plan administration and reporting, and internal audit. Net amounts charged to the Company pursuant to the TSA, for expenses associated with executive office space and certain support costs, and for other related party transactions amounted to \$2,022 and \$1,765 for the three months ended December 31, 2016 and 2015, respectively and \$4,309 and \$557 for the six months ended December 31, 2016 and 2015, respectively.

Related party transactions with Cablevision Systems Corporation

Prior to June 21, 2016, members of the Dolan family were also the controlling stockholders of Cablevision Systems Corporation ("Cablevision"). 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 Cablevision (now known as Altice USA). Accordingly, Altice USA is not a related party of the Company. Revenues (primarily from the distribution of programming networks to subsidiaries of Cablevision) and operating expenses that relate to Cablevision prior to its sale, included in continuing operations in the accompanying consolidated statements of operations for the three months ended December 31, 2015 were \$41,669 and \$3,517, respectively, and for the six months ended December 31, 2015 were \$81,447 and \$5,369, respectively.

Related party transactions included in discontinued operations

Related party transactions included in loss from discontinued operations in the accompanying consolidated statement of operations for the three months ended December 31, 2015 include operating expenses charged by related parties of \$137. Related party transactions included in loss from discontinued operations in the accompanying consolidated statement of operations for the six months ended December 31, 2015, include the following: (i) revenues from related parties of \$33,559, (ii) operating expenses charged by related parties of \$964, (iii) interest income from nonconsolidated affiliates of \$635, and (iv) equity in earnings of equity-method investments of \$2,679.

Note 13. Income Taxes

Income tax expense attributable to continuing operations for the three months ended December 31, 2016 of \$27,479 differs from the income tax expense derived from applying the statutory federal rate to pretax income due principally to the impact of state and local income taxes (net of federal benefit) of \$4,906 and a tax return to book provision adjustment in connection with the filing of the Company's state and local income tax returns of \$414. These increases were partially offset by the impact of the tax benefits related to the domestic production activities deduction of \$2,069 and other items of \$529.

Income tax expense attributable to continuing operations for the three months ended December 31, 2015 of \$29,709 differs from the income tax expense derived from applying the statutory federal rate to pretax income due principally to the impact of state and local income taxes (net of federal benefit) of \$4,933 and an increase in state tax rates used to value deferred taxes resulting from the filing of the Company's state and local income tax returns of \$4,489. These increases were partially offset by the tax benefits related to the domestic production activities deduction of \$1,715 and other items of \$313.

Income tax expense attributable to continuing operations for the six months ended December 31, 2016 of \$52,737 differs from the income tax expense derived from applying the statutory federal rate to pretax income due principally to the impact of state and local income taxes (net of federal benefit) of \$9,594. These increases were partially offset by the impact of the tax benefits related to the domestic production activities deduction of \$3,942, a tax return to book provision adjustment in connection with the filing of the Company's federal, state and local income tax returns of \$209 and other items of \$430.

Income tax expense attributable to continuing operations for the six months ended December 31, 2015 of \$29,305 differs from the income tax expense derived from applying the statutory federal rate to pretax income due principally to a reduction in state tax rates used to value deferred taxes resulting from the Distribution of \$16,941 and the tax benefits related to the domestic production activities deduction of \$2,764. These decreases were partially offset by an increase in state tax rates used to value deferred taxes resulting from the filing of the Company's state and local income tax returns of \$4,489, state and local income taxes (net of federal benefit) of \$7,731 and other items of \$151.

Table of Contents

MSG NETWORKS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

During the six months ended December 31, 2016 and 2015, income taxes paid by the Company were \$41,295 and \$193, respectively.

During the third quarter of fiscal year 2015, the Internal Revenue Service notified the Company of its intent to review the federal income tax returns as filed for the tax year ended December 31, 2013. Fieldwork is ongoing. The Company does not expect the examination, when finalized, to result in material changes to the tax returns as filed.

Note 14. Concentration of Risk

Accounts receivable, net on the accompanying consolidated balance sheets as of December 31, 2016 and June 30, 2016 include amounts due from the following individual non-affiliated customers, which accounted for the noted percentages of the gross balance:

	December 31, 2016		June 30, 2016	
Customer A	26 %	26 %	26 %	26 %
Customer B	26 %	25 %	25 %	25 %
Customer C	22 %	22 %	22 %	22 %
Customer D	15 %	14 %	14 %	14 %

Revenues from continuing operations in the accompanying consolidated statements of operations for the three and six months ended December 31, 2016 and 2015 include amounts from the following individual customers, which accounted for the noted percentages of the total:

	Three Months Ended December 31, 2016		Six Months Ended December 31, 2016		Three Months Ended December 31, 2015		Six Months Ended December 31, 2015	
Customer A	24 %	25 %	25 %	26 %	24 %	25 %	26 %	26 %
Customer B	22 %	22 %	24 %	23 %	22 %	24 %	23 %	23 %
Customer C	19 %	19 %	21 %	20 %	19 %	21 %	20 %	20 %
Customer D	10 %	10 %	11 %	11 %	10 %	11 %	11 %	11 %

The accompanying consolidated balance sheets as of December 31, 2016 and June 30, 2016 include the following approximate amounts that are recorded in connection with the Company's license agreement with the New Jersey Devils:

Reported in	December 31, 2016		June 30, 2016	
Prepaid expenses	\$ 3,000	\$ 3,000	\$ 1,000	\$ 1,000
Other current assets	2,000	2,000	2,000	2,000
Other assets	41,000	41,000	41,000	41,000
	\$ 46,000	\$ 46,000	\$ 44,000	\$ 44,000

Table of Contents

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, or MD&A, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Words such as "expects," "anticipates," "believes," "estimates," "may," "will," "should," "could," "potential," "continue," "intends" and similar words and terms used in the discussion of future operating and financial performance and plans 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 demand for our programming among cable, satellite, telephone and other platforms ("Distributors") and the subscribers thereto, and our ability to renew affiliation agreements with our Distributors, as well as the impact of consolidation among Distributors;

- the level of our revenues, which depends in part on the popularity and competitiveness of the sports teams whose games are broadcast on our networks and the popularity of other content aired on our networks;

- the ability of our Distributors to maintain subscriber levels;

- the impact of subscribers downgrading their programming packages to levels that do not include our networks;

- the security of our program signal and electronic data;

- general economic conditions especially in the New York City metropolitan area where we conduct the majority of our operations;

- the demand for advertising and sponsorship arrangements and viewer ratings for our networks;

- competition, for example, from other regional sports networks;

- the relocation or insolvency of professional sports teams with which we have a media rights agreement;

- our ability to maintain, obtain or produce content, together with the cost of such content;

- our ability to renew or replace our media rights agreements with professional sports teams;

- the acquisition or disposition of assets and/or the impact of, and our ability to successfully pursue, acquisitions or other strategic transactions, and the operating and financial performance thereof (including those that 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 and changes in such regulations or laws;

- the impact of league rules, league regulations and/or league agreements and changes thereto;

- our substantial debt and high leverage;

• reduced access to capital markets or significant increases in costs to borrow;

• financial community perceptions of our business, operations, financial condition and the industry in which we operate;

• 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.

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

20

---

Table of Contents

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

Introduction

MD&A is provided as a supplement to, and should be read in conjunction with, the Company's unaudited consolidated financial statements and accompanying notes thereto included in this Quarterly Report on Form 10-Q, as well as our 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,” or the “Company” refer collectively to MSG Networks Inc., a holding company, and its direct and indirect subsidiaries through which substantially all of its operations are conducted. The Company owns and operates two regional sports and entertainment networks, MSG Network (“MSGN”) and MSG+, collectively the “MSG Networks.”

On September 30, 2015 (the “Distribution Date”), the Company distributed to its stockholders all of the outstanding common stock of The Madison Square Garden Company (formerly MSG Spinco, Inc., and referred to herein as “MSG”) (the “Distribution”). MSG owns, directly or indirectly, the sports and entertainment businesses previously owned and operated by the Company's sports and entertainment segments, owns, leases or operates the arenas and other venues previously owned, leased or operated by the Company and owns the joint venture interests previously owned by the Company. In the Distribution, each holder of the Company's Class A common stock, par value \$0.01 per share, (“Class A Common Stock”), of record as of the close of business, New York City time, on September 21, 2015 (the “Record Date”), received one share of MSG Class A common stock, par value \$0.01 per share, for every three shares of the Company's Class A Common Stock held on the Record Date. Each record holder of the Company's Class B common stock, par value \$0.01 per share, (“Class B Common Stock”) received one share of MSG Class B common stock, par value \$0.01 per share, for every three shares of the Company's Class B Common Stock held on the Record Date. Following the Distribution, the Company no longer consolidates the financial results of MSG for purposes of its own financial reporting and the historical financial results of MSG have been reflected in the Company's consolidated financial statements as discontinued operations for all periods presented through the Distribution Date.

After giving effect to the Distribution, the Company operates and reports financial information in one segment.

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 as compared with the three and six months ended December 31, 2015.

**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 as compared with the six months ended December 31, 2015, as well as certain contractual obligations.

**Recently Issued Accounting Pronouncements and Critical Accounting Policies.** This section discusses recently issued accounting pronouncements, as well as the results of the Company's annual impairment testing of goodwill 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 financial statements of the Company included therein.

Table of Contents

## 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 and the percentage that those items bear to revenues.

	Three Months Ended December 31, 2016			2015			Increase (Decrease) in Net Income
	Amount	% of Revenues	%	Amount	% of Revenues	%	
Revenues	\$175,646	100	%	\$169,931	100	%	\$ 5,715
Direct operating expenses	70,076	40	%	71,547	42	%	1,471
Selling, general and administrative expenses	23,191	13	%	22,370	13	%	(821 )
Depreciation and amortization	2,580	1	%	3,091	2	%	511
Operating income	79,799	45	%	72,923	43	%	6,876
Other income (expense):							
Interest expense, net	(9,065 )	(5 )	%	(9,164 )	(5 )	%	99
Income from continuing operations before income taxes	70,734	40	%	63,759	38	%	6,975
Income tax expense	(27,479 )	(16 )	%	(29,709 )	(17 )	%	2,230
Income from continuing operations	43,255	25	%	34,050	20	%	9,205
Loss from discontinued operations, net of taxes	—	NM		(137 )	NM		137
Net income	\$43,255	25	%	\$33,913	20	%	\$ 9,342

NM – Percentage is not meaningful

## Revenues

Revenues for the three months ended December 31, 2016 increased \$5,715, or 3%, to \$175,646 as compared with the prior year period. The net increase was attributable to the following:

Increase in affiliation fee revenue	\$4,376
Increase in advertising revenue	1,327
Other net increases	12
	\$5,715

The increase in affiliation fee revenue was primarily due to higher affiliation rates, partially offset by the impact of a low single-digit percentage decrease in subscribers as compared with the prior year period.

The increase in advertising revenue was primarily due to higher recognition of deferred revenue related to ratings guarantees, partially offset by other net advertising decreases as compared with the prior year period.

## Direct operating expenses

Direct operating expenses for the three months ended December 31, 2016 decreased \$1,471, or 2%, to \$70,076 as compared with the prior year period primarily due to the positive impact of the finalization of a matter related to the sale of Fuse, partially offset by an increase in rights fees expense.

## Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended December 31, 2016 increased \$821, or 4%, to \$23,191 as compared with the prior year period primarily due to higher employee compensation and related benefits, partially offset by lower marketing costs, commissions and other net decreases.

Table of Contents

## Depreciation and amortization

Depreciation and amortization for the three months ended December 31, 2016 decreased \$511, or 17%, to \$2,580 as compared with the prior year period primarily due to the impact of certain property and equipment being fully depreciated during fiscal 2016.

## Operating income

Operating income for the three months ended December 31, 2016 increased \$6,876, or 9%, to \$79,799 as compared with the prior year period primarily due to (as discussed above) higher revenues and, to a lesser extent, lower direct operating expenses and depreciation and amortization, partially offset by higher selling, general and administrative expenses.

## Income taxes

Income tax expense attributable to continuing operations for the three months ended December 31, 2016 of \$27,479 differs from the income tax expense derived from applying the statutory federal rate to pretax income due principally to the impact of state and local income taxes (net of federal benefit) of \$4,906 and a tax return to book provision adjustment in connection with the filing of the Company's state and local income tax returns of \$414. These increases were partially offset by the impact of the tax benefits related to the domestic production activities deduction of \$2,069 and other items of \$529.

Income tax expense attributable to continuing operations for the three months ended December 31, 2015 of \$29,709 differs from the income tax expense derived from applying the statutory federal rate to pretax income due principally to the impact of state and local income taxes (net of federal benefit) of \$4,933 and an increase in state tax rates used to value deferred taxes resulting from the filing of the Company's state and local income tax returns of \$4,489. These increases were partially offset by the tax benefits related to the domestic production activities deduction of \$1,715 and other items of \$313.

## Adjusted operating income

The Company evaluates performance based on several factors, of which the key financial measure is adjusted operating income (which we formerly referred to as adjusted operating cash flow). Although the Company has renamed this non-GAAP measure, the components of adjusted operating income are identical to the components of adjusted operating cash flow. Adjusted operating income is defined as 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. The Company has presented the components that reconcile adjusted operating income to operating income, a GAAP measure.

	Three Months Ended December 31, 2016		2015	Increase (Decrease) in AOI
Operating income	\$79,799	\$72,923		\$ 6,876
Share-based compensation	3,273	2,652		621
Depreciation and amortization	2,580	3,091		(511 )
Adjusted operating income	\$85,652	\$78,666		\$ 6,986

Adjusted operating income for the three months ended December 31, 2016 increased \$6,986, or 9%, to \$85,652 as compared with the prior year period primarily due to (as discussed above) higher revenues and, to a lesser extent, lower direct operating expenses, partially offset by higher selling, general and administrative expenses.



Table of ContentsComparison of the Six Months Ended December 31, 2016 versus the Six Months Ended December 31, 2015  
Consolidated Results of Operations

The table below sets forth, for the periods presented, certain historical financial information and the percentage that those items bear to revenues.

	Six Months Ended December 31, 2016		2015		Increase (Decrease) in Net Income
	Amount	% of Revenues	Amount	% of Revenues	
Revenues	\$329,224	100 %	\$318,078	100 %	\$11,146
Direct operating expenses	131,010	40 %	131,649	41 %	639
Selling, general and administrative expenses	38,750	12 %	63,488	20 %	24,738
Depreciation and amortization	5,158	2 %	7,770	2 %	2,612
Operating income	154,306	47 %	115,171	36 %	39,135
Other income (expense):					
Interest expense, net	(17,953 )	(5 )%	(10,485 )	(3 )%	(7,468 )
Income from continuing operations before income taxes	136,353	41 %	104,686	33 %	31,667
Income tax expense	(52,737 )	(16 )%	(29,305 )	(9 )%	(23,432 )
Income from continuing operations	83,616	25 %	75,381	24 %	8,235
Loss from discontinued operations, net of taxes	(120 )	NM	(161,154 )	(51 )%	161,034
Net income (loss)	\$83,496	25 %	\$(85,773 )	(27 )%	\$169,269

NM – Percentage is not meaningful

For the six months ended December 31, 2015, the reported financial results of the Company reflect the fiscal 2016 first quarter results of the sports and entertainment businesses of MSG as discontinued operations. In addition, results from continuing operations for the first quarter of fiscal year 2016 include certain corporate overhead expenses that the Company did not incur during the six months ending December 31, 2016 and does not expect to incur in future periods, but which did not meet the criteria for inclusion in discontinued operations.

Revenues

Revenues for the six months ended December 31, 2016 increased \$11,146, or 4%, to \$329,224 as compared with the prior year period. The net increase was attributable to the following:

Increase in affiliation fee revenue	\$10,105
Increase in advertising revenue	1,573
Other net decreases	(532 )
	\$11,146

The increase in affiliation fee revenue was primarily due to higher affiliation rates, partially offset by the impact of a low single-digit percentage decrease in subscribers as compared with the prior year period.

The increase in advertising revenue was primarily due to higher recognition of deferred revenue related to ratings guarantees, partially offset by other net advertising decreases as compared with the prior year period.

Direct operating expenses

Direct operating expenses for the six months ended December 31, 2016 decreased \$639 to \$131,010 as compared with the prior year period primarily due to the positive impact of the finalization of a matter related to the sale of Fuse, and other programming-related cost decreases, totaling to \$2,333, partially offset by an increase in rights fees expense of \$1,694.

Table of Contents

## Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended December 31, 2016 decreased \$24,738, or 39%, to \$38,750 as compared with the prior year period primarily due to the absence of certain corporate overhead expenses included in the results of the prior year period. As noted above, the fiscal 2016 first quarter results included certain corporate expenses that the Company did not incur during the six months ending December 31, 2016 and does not expect to incur in future periods. Partially offsetting this decrease are corporate costs which were incurred during fiscal 2017 by MSG Networks Inc. as a standalone public company, including higher employee compensation and related benefits.

## Depreciation and amortization

Depreciation and amortization for the six months ended December 31, 2016 decreased \$2,612, or 34%, to \$5,158 as compared with the prior year period primarily due to the absence of depreciation expense included in the fiscal 2016 first quarter results on certain corporate property and equipment that was transferred to MSG in connection with the Distribution, but which did not meet the criteria for inclusion in discontinued operations, as well as the impact of certain property and equipment being fully depreciated during fiscal 2016.

## Operating income

Operating income for the six months ended December 31, 2016 increased \$39,135, or 34%, to \$154,306 as compared with the prior year period primarily due to (as discussed above) lower selling, general and administrative expenses and, to a lesser extent, higher revenues, lower depreciation and amortization and lower direct operating expenses.

## Interest expense, net

Net interest expense for the six months ended December 31, 2016 increased \$7,468 to \$17,953 as compared with the prior year period primarily due to higher interest expense incurred under the Company's Senior Secured Credit Facilities, which were entered into on September 28, 2015, and accordingly did not begin to accrue interest until that date. Partially offsetting this increase is the absence of the write-off of a portion of the deferred financing costs associated with the Company's former credit facility recorded in the prior year period.

## Income taxes

Income tax expense attributable to continuing operations for the six months ended December 31, 2016 of \$52,737 differs from the income tax expense derived from applying the statutory federal rate to pretax income due principally to the impact of state and local income taxes (net of federal benefit) of \$9,594. These increases were partially offset by the impact of the tax benefits related to the domestic production activities deduction of \$3,942, a tax return to book provision adjustment in connection with the filing of the Company's federal, state and local income tax returns of \$209 and other items of \$430.

Income tax expense attributable to continuing operations for the six months ended December 31, 2015 of \$29,305 differs from the income tax expense derived from applying the statutory federal rate to pretax income due principally to a reduction in state tax rates used to value deferred taxes resulting from the Distribution of \$16,941 and the tax benefits related to the domestic production activities deduction of \$2,764. These decreases were partially offset by an increase in state tax rates used to value deferred taxes resulting from the filing of the Company's state and local income tax returns of \$4,489, state and local income taxes (net of federal benefit) of \$7,731 and other items of \$151.

## Adjusted operating income

The Company has presented the components that reconcile adjusted operating income to operating income, a GAAP measure.

	Six Months Ended		Increase
	December 31,	December 31,	(Decrease)
	2016	2015	in AOI
Operating income	\$ 154,306	\$ 115,171	\$ 39,135
Share-based compensation	5,049	6,899	(1,850 )
Depreciation and amortization	5,158	7,770	(2,612 )
Adjusted operating income	\$ 164,513	\$ 129,840	\$ 34,673

Adjusted operating income for the six months ended December 31, 2016 increased \$34,673, or 27%, to \$164,513 as compared with the prior year period primarily due to (as discussed above) lower selling, general and administrative

expenses and, to a lesser extent, higher revenues and lower direct operating expenses.

25

---

## Table of Contents

### Liquidity and Capital Resources

#### Overview

Our primary sources of liquidity are cash and cash equivalents, cash flows from the operations of our business and available borrowing capacity under our \$250,000 revolving credit facility with a syndicate of lenders, which was undrawn as of December 31, 2016 (see “Financing Agreements - Senior Secured Credit Facilities” below). Our principal uses of cash include working capital-related items, capital spending, taxes and debt service. The Company's use of its available liquidity will be based upon the ongoing review of the funding needs of the business, the optimal allocation of cash resources and the timing of cash flow generation.

We believe we have sufficient liquidity, including approximately \$185,000 in cash and cash equivalents as of December 31, 2016, as well as the available borrowing capacity under our revolving credit facility and our anticipated operating cash flows to fund our business operations and service our outstanding term loan (see “Financing Agreements - Senior Secured Credit Facilities” below) over the next twelve months. However, potential subscriber reductions of our Distributors, changes in the demand for our programming, advertising revenue declines, our ability to maintain or obtain content and other factors could adversely impact our business and results of operations, which might require that we seek alternative sources of funding through the capital and credit markets that may or may not be available to us.

#### Financing Agreements

##### Senior Secured Credit Facilities

On September 28, 2015, MSGN L.P., 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. The remainder of the proceeds from the Term Loan Facility were used by MSGN L.P. to pay for certain fees and expenses associated with the Distribution and the Senior Secured Credit Facilities and the balance was designated for use to fund working capital needs and other general corporate purposes of MSGN L.P. The Revolving Credit Facility was undrawn as of December 31, 2016 and is available to fund working capital needs and other general corporate purposes of MSGN L.P. Up to \$35,000 of the Revolving Credit Facility is available for the issuance of letters of credit.

The Credit Agreement generally requires the Holding 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 and after 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 December 31, 2016, the Holding 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 December 31, 2016, there were no letters of credit issued and outstanding under the Revolving Credit Facility, which provides full borrowing capacity of \$250,000. The Company has made principal payments aggregating \$91,250 through December 31, 2016, which reduced the principal amount of the initial Term

Loan Facility for subsequent amortization. The Term Loan Facility amortizes quarterly in accordance with its terms from December 31, 2016 through June 30, 2020 with a final maturity date on September 28, 2020.

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 Holding 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;

Table of Contents

(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.

See Note 7 to the consolidated financial statements included in "Part I - Item 1. Financial Statements" of this Quarterly Report on Form 10-Q for more information on the Credit Agreement.

Contractual Obligations

As more fully described in Notes 9 and 10 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016, the Company's contractual obligations consist primarily of its obligations under media rights agreements and long-term noncancelable operating lease agreements.

In addition, see Note 7 to the consolidated financial statements included in "Part I - Item 1. Financial Statements" of this Quarterly Report on Form 10-Q for the principal repayments required under the Company's Term Loan Facility.

Cash Flow Discussion

Operating Activities from continuing operations

Net cash provided by operating activities from continuing operations for the six months ended December 31, 2016 decreased by \$17,836 to \$101,024 as compared with the prior year period. This decrease is primarily driven by an increase in income taxes paid and, to a lesser extent, an unfavorable working capital adjustment as compared with the prior year period. These declines were partially offset by an increase in income from continuing operations before income taxes as compared with the prior year period. The unfavorable working capital adjustment primarily represents the absence of a prior period positive working capital contribution relating to the timing of the fiscal 2016 rights payments to MSG under the Knicks and Rangers media rights agreements which was partially offset by other items, including the timing of certain receipts.

Investing Activities from continuing operations

Net cash used in investing activities from continuing operations for the six months ended December 31, 2016 increased by \$292 to \$2,242 as compared with the prior year period due to higher capital expenditures in the current year period.

Financing Activities from continuing operations

Net cash used in financing activities from continuing operations for the six months ended December 31, 2016 decreased by \$1,322 to \$32,254 as compared with the prior year period primarily due to the cash distributed with MSG in connection with the Distribution and, to a lesser extent, the impact of cash used in the prior year period for repurchases of the Company's Class A Common Stock under a share repurchase program which was terminated effective as of the Distribution Date and other net decreases. These decreases in net cash used in financing activities from continuing operations were largely offset by the proceeds from the Term Loan Facility received in the prior year period and principal payments on our Term Loan Facility during the current year period.

Table of Contents

Recently Issued Accounting Pronouncements and Critical Accounting Policies

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. Early adoption is permitted and the Company can early adopt ASU No. 2014-09 and the related updates beginning in the first quarter of fiscal year 2018. If the Company does not apply the early adoption provision, ASU No. 2014-09 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 this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which 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. This standard will be adopted using a modified retrospective approach. 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 230 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 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. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The standard is to be applied prospectively. The Company is currently evaluating the impact this standard will have on its consolidated financial statements.



Table of Contents

Critical Accounting Policies

The following discussion has been included to provide the results of our annual impairment testing of goodwill performed during the first quarter of fiscal year 2017. There have been no material changes to the Company's critical accounting policies from those set forth in our Annual Report on Form 10-K for the year ended June 30, 2016.

Goodwill

The goodwill balance reported on the Company's balance sheet as of December 31, 2016 is \$424,508. Goodwill is tested annually for impairment as of August 31<sup>st</sup> and at any time upon the occurrence of certain events or substantive changes in circumstances. After giving effect to the Distribution, the Company has one reporting unit for evaluating goodwill impairment. The Company has the option to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. If the Company can support the conclusion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company would not need to perform the two-step impairment test for that reporting unit.

During the first quarter of fiscal year 2017, the Company performed its annual impairment test of goodwill. The Company elected to perform the qualitative assessment of impairment. This assessment considered factors such as:

- Macroeconomic conditions;
- Industry and market considerations;
- Cost factors;
- Overall financial performance;
- Other relevant company-specific factors such as changes in management, strategy or customers; and
- Relevant specific events such as changes in the carrying amount of net assets.

Based on this impairment test, there was no impairment of goodwill identified.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the disclosures on this matter made in the Company's Annual Report on Form 10-K for the year ended June 30, 2016.

Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have performed an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this report. Based on that evaluation the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016.

In addition, no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15 or 15d-15 of the Exchange Act) occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits

(a) Index to Exhibits

EXHIBIT NO.	DESCRIPTION
10.1	Employment Agreement, dated September 16, 2016 between James L. Dolan and MSG Networks Inc.
31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 2nd day of February, 2017.  
MSG Networks Inc.

By: /S/ BRET RICHTER  
Name: Bret Richter  
Title: Executive Vice President,  
Chief Financial Officer and Treasurer