

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 March 31, 2021
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
(State or other jurisdiction of
incorporation or organization)

27-0624498
(I.R.S. Employer
Identification No.)

11 Pennsylvania Plaza
New York, NY 10001
(212) 465-6400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock	MSGN	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of shares of common stock outstanding as of April 30, 2021:

Class A Common Stock par value \$0.01 per share	—	43,459,880
Class B Common Stock par value \$0.01 per share	—	13,588,555

[Table of Contents](#)

MSG NETWORKS INC.
INDEX TO FORM 10-Q

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2021 (unaudited) and June 30, 2020</u>	<u>1</u>
<u>Consolidated Statements of Operations for the three and nine months ended March 31, 2021 and 2020 (unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended March 31, 2021 and 2020 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows for the nine months ended March 31, 2021 and 2020 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Stockholders' Deficiency for the three and nine months ended March 31, 2021 and 2020 (unaudited)</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>Item 4. Controls and Procedures</u>	<u>33</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>34</u>
<u>Item 1A. Risk Factors</u>	<u>34</u>
<u>Item 6. Exhibits</u>	<u>36</u>
<u>Signature</u>	<u>37</u>

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MSG NETWORKS INC. CONSOLIDATED BALANCE SHEETS (in thousands, except per share data)

	March 31, 2021 (unaudited)	June 30, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 324,067	\$ 196,837
Accounts receivable, net	86,455	105,549
Related party receivables, net	25,659	14,190
Prepaid income taxes	1,500	461
Prepaid expenses	8,385	11,063
Other current assets	8,742	4,541
Total current assets	454,808	332,641
Property and equipment, net	7,258	8,758
Amortizable intangible assets, net	27,688	30,283
Goodwill	424,508	424,508
Operating lease right-of-use assets	13,286	17,153
Other assets	44,209	37,460
Total assets	\$ 971,757	\$ 850,803
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable	\$ 235	\$ 2,115
Related party payables	6,210	1,472
Current portion of long-term debt	48,239	37,229
Current portion of operating lease liabilities	5,125	5,492
Income taxes payable	3,116	641
Accrued liabilities:		
Employee related costs	15,652	14,187
Other accrued liabilities	17,434	10,116
Deferred revenue	572	2,753
Total current liabilities	96,583	74,005
Long-term debt, net of current portion	1,007,598	1,043,780
Long-term operating lease liabilities	9,960	13,780
Defined benefit and other postretirement obligations	25,150	25,860
Other employee related costs	5,538	5,149
Other liabilities	1,483	1,536
Deferred tax liability	244,321	239,542
Total liabilities	1,390,633	1,403,652
Commitments and contingencies (see Note 9)		
Stockholders' Deficiency:		
Class A Common Stock, par value \$0.01, 360,000 shares authorized; 43,460 and 43,122 shares outstanding as of March 31, 2021 and June 30, 2020, respectively	643	643
Class B Common Stock, par value \$0.01, 90,000 shares authorized; 13,589 shares outstanding as of March 31, 2021 and June 30, 2020	136	136
Preferred stock, par value \$0.01, 45,000 shares authorized; none outstanding	—	—
Additional paid-in capital	17,490	12,731
Treasury stock, at cost, 20,799 and 21,137 shares as of March 31, 2021 and June 30, 2020, respectively	(450,053)	(457,363)
Retained earnings (accumulated deficit)	20,845	(100,792)
Accumulated other comprehensive loss	(7,937)	(8,204)
Total stockholders' deficiency	(418,876)	(552,849)
Total liabilities and stockholders' deficiency	\$ 971,757	\$ 850,803

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2020	2021	2020
Revenues (including related party revenues of \$180 and \$0 for each of the three and nine months ended March 31, 2021 and 2020, respectively)	\$ 177,853	\$ 184,972	\$ 481,455	\$ 533,683
Direct operating expenses (including related party expenses of \$36,692 and \$39,876 for the three months ended March 31, 2021 and 2020, respectively, and \$112,852 and \$118,763 for the nine months ended March 31, 2021 and 2020, respectively)	74,392	83,762	196,497	236,487
Selling, general and administrative expenses (including related party expenses of \$9,468 and \$8,381 for the three months ended March 31, 2021 and 2020, respectively, and \$16,716 and \$20,398 for the nine months ended March 31, 2021 and 2020, respectively)	31,743	25,831	75,962	80,173
Depreciation and amortization	1,833	1,716	5,463	5,123
Operating income	69,885	73,663	203,533	211,900
Other income (expense):				
Interest income	481	900	1,446	3,734
Interest expense	(4,958)	(9,419)	(15,320)	(30,168)
Debt refinancing expense	—	—	—	(2,764)
Other components of net periodic benefit cost	(207)	(258)	(620)	(774)
Miscellaneous income	1,252	—	1,252	—
	(3,432)	(8,777)	(13,242)	(29,972)
Income from operations before income taxes	66,453	64,886	190,291	181,928
Income tax expense	(20,870)	(18,616)	(68,174)	(52,627)
Net income	\$ 45,583	\$ 46,270	\$ 122,117	\$ 129,301
Earnings per share:				
Basic	\$ 0.79	\$ 0.77	\$ 2.13	\$ 1.98
Diluted	\$ 0.78	\$ 0.77	\$ 2.11	\$ 1.97
Weighted-average number of common shares outstanding:				
Basic	57,505	60,011	57,358	65,194
Diluted	58,235	60,315	57,775	65,553

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2021	2020	2021	2020
Net income	\$ 45,583	\$ 46,270	\$ 122,117	\$ 129,301
Other comprehensive income (loss) before income taxes:				
Pension plans and postretirement plan:				
Amounts reclassified from accumulated other comprehensive loss:				
Amortization of net actuarial loss included in net periodic benefit cost	126	134	378	402
Amortization of prior service credit included in net periodic benefit cost	—	(1)	—	(3)
Other comprehensive income before income taxes	126	133	378	399
Income tax expense related to items of other comprehensive income	(37)	(37)	(111)	(112)
Other comprehensive income	89	96	267	287
Comprehensive income	\$ 45,672	\$ 46,366	\$ 122,384	\$ 129,588

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 122,117	\$ 129,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,463	5,123
Amortization of deferred financing costs	1,210	1,591
Debt refinancing expense	—	455
Share-based compensation expense	14,217	13,852
Provision for doubtful accounts	(277)	45
Change in assets and liabilities:		
Accounts receivable, net	18,760	(223)
Related party receivables, net	(11,540)	(12,622)
Prepaid expenses and other assets	(8,529)	663
Accounts payable	(339)	364
Related party payables, including payable to MSGS and MSGE	4,738	747
Prepaid/payable for income taxes	1,436	6,141
Accrued and other liabilities	8,538	(4,692)
Deferred revenue	(2,181)	861
Deferred income taxes	4,870	(1,635)
Net cash provided by operating activities	158,483	139,971
Cash flows from investing activities:		
Capital expenditures	(2,980)	(2,211)
Net cash used in investing activities	(2,980)	(2,211)
Cash flows from financing activities:		
Principal repayments on term loan facilities (see Note 7)	(26,125)	(28,125)
Proceeds from senior secured credit facilities (see Note 7)	—	100,000
Payments for financing costs	—	(3,969)
Share repurchase costs	—	(289,557)
Taxes paid in lieu of shares issued for share-based compensation	(2,148)	(4,235)
Net cash used in financing activities	(28,273)	(225,886)
Net increase (decrease) in cash and cash equivalents	127,230	(88,126)
Cash and cash equivalents at beginning of period	196,837	226,423
Cash and cash equivalents at end of period	\$ 324,067	\$ 138,297

See accompanying notes to consolidated financial statements.

MSG NETWORKS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2021 AND 2020
(Unaudited) (in thousands)

	Common Stock Issued	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
Balance as of December 31, 2020	\$ 779	\$ 14,166	\$ (450,053)	\$ (24,738)	\$ (8,026)	\$ (467,872)
Net income	—	—	—	45,583	—	45,583
Other comprehensive income	—	—	—	—	89	89
Comprehensive income						45,672
Share-based compensation expense	—	3,324	—	—	—	3,324
Tax withholding associated with shares issued for share-based compensation	—	—	—	—	—	—
Balance as of March 31, 2021	<u>\$ 779</u>	<u>\$ 17,490</u>	<u>\$ (450,053)</u>	<u>\$ 20,845</u>	<u>\$ (7,937)</u>	<u>\$ (418,876)</u>

	Common Stock Issued	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
Balance as of December 31, 2019	\$ 779	\$ 3,650	\$ (417,162)	\$ (202,982)	\$ (7,297)	\$ (623,012)
Net income	—	—	—	46,270	—	46,270
Other comprehensive income	—	—	—	—	96	96
Comprehensive income						46,366
Share-based compensation expense	—	3,753	—	—	—	3,753
Repurchases of Class A Common Stock	—	—	(39,140)	—	—	(39,140)
Balance as of March 31, 2020	<u>\$ 779</u>	<u>\$ 7,403</u>	<u>\$ (456,302)</u>	<u>\$ (156,712)</u>	<u>\$ (7,201)</u>	<u>\$ (612,033)</u>

MSG NETWORKS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY (continued)
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2021 AND 2020
(Unaudited) (in thousands)

	Common Stock Issued	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
Balance as of June 30, 2020	\$ 779	\$ 12,731	\$ (457,363)	\$ (100,792)	\$ (8,204)	\$ (552,849)
Net income	—	—	—	122,117	—	122,117
Other comprehensive income	—	—	—	—	267	267
Comprehensive income						122,384
Cumulative effect of adoption of ASU 2016-13, credit losses	—	—	—	(480)	—	(480)
Share-based compensation expense	—	14,217	—	—	—	14,217
Tax withholding associated with shares issued for share-based compensation	—	(2,148)	—	—	—	(2,148)
Shares issued upon distribution of Restricted Stock Units	—	(7,310)	7,310	—	—	—
Balance as of March 31, 2021	<u>\$ 779</u>	<u>\$ 17,490</u>	<u>\$ (450,053)</u>	<u>\$ 20,845</u>	<u>\$ (7,937)</u>	<u>\$ (418,876)</u>

	Common Stock Issued	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
Balance as of June 30, 2019	\$ 779	\$ 9,916	\$ (179,561)	\$ (282,414)	\$ (7,488)	\$ (458,768)
Net income	—	—	—	129,301	—	129,301
Other comprehensive income	—	—	—	—	287	287
Comprehensive income						129,588
Share-based compensation expense	—	13,852	—	—	—	13,852
Repurchases of Class A Common Stock	—	—	(292,470)	—	—	(292,470)
Tax withholding associated with shares issued for share-based compensation	—	(4,235)	—	—	—	(4,235)
Shares issued upon distribution of Restricted Stock Units	—	(12,130)	15,729	(3,599)	—	—
Balance as of March 31, 2020	<u>\$ 779</u>	<u>\$ 7,403</u>	<u>\$ (456,302)</u>	<u>\$ (156,712)</u>	<u>\$ (7,201)</u>	<u>\$ (612,033)</u>

See accompanying notes to consolidated financial statements.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Note 1. Description of Business and Basis of Presentation

Description of Business

MSG Networks Inc. (together with its subsidiaries, the “Company”), incorporated on July 29, 2009, owns and operates two regional sports and entertainment networks, MSG Network and MSG+ (collectively, “MSG Networks”). MSG Networks feature a wide range of compelling sports content, including exclusive live local games and other programming of the New York Knicks (the “Knicks”) of the National Basketball Association (“NBA”); the New York Rangers (the “Rangers”), New York Islanders (the “Islanders”), New Jersey Devils (the “Devils”) and Buffalo Sabres of the National Hockey League (“NHL”); as well as significant coverage of the New York Giants and Buffalo Bills of the National Football League.

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.

On March 25, 2021, the Company, Madison Square Garden Entertainment Corp. (together with its subsidiaries, “MSGE”), and Broadway Sub Inc., a direct wholly-owned subsidiary of MSGE (“Merger Sub”), entered into an Agreement and Plan of Merger (the “Merger Agreement”). Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company with the Company surviving and continuing as the surviving corporation (the “Merger”). If the Merger is completed, (i) each share of the Company’s Class A common stock, par value \$0.01 per share (“Class A Common Stock”), issued and outstanding immediately prior to the effective time of the Merger will be automatically converted into the right to receive, in the aggregate, a number of shares of Class A common stock, par value \$0.01 per share, of MSGE (“MSGE Class A Common Stock”) such that each holder of record of shares of the Company’s Class A Common Stock will have the right to receive, in the aggregate, such number of shares of MSGE Class A Common Stock equal to the total number of shares of the Company’s Class A Common Stock held of record immediately prior to the effective time *multiplied by* 0.172, with such product rounded up to the next whole share, (ii) each share of the Company’s Class B common stock, par value \$0.01 per share (“Class B Common Stock”), issued and outstanding immediately prior to the effective time of the Merger will be automatically converted into the right to receive, in the aggregate, a number of shares of Class B common stock, par value \$0.01 per share, of MSGE (“MSGE Class B Common Stock”) such that each holder of record of shares of the Company’s Class B Common Stock will have the right to receive, in the aggregate, a number of shares of MSGE Class B Common Stock equal to the total number of shares of the Company’s Class B Common Stock held of record immediately prior to the effective time *multiplied by* 0.172, with such product rounded up to the next whole share, in each case except for shares held by MSGE, Merger Sub or any of the MSGE subsidiaries or the Company or any of the Company’s subsidiaries as treasury stock (in each case not held on behalf of third parties) and (iii) the shares of the Company’s Class A Common Stock will be delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934, as amended.

The Merger was recommended to the Company’s Board of Directors (the “Board”) for approval by a special committee composed solely of independent, disinterested directors and advised by independent financial and legal advisors. The closing of the Merger is expected to occur in the third calendar quarter of 2021, subject to the satisfaction of certain regulatory approvals and other customary closing conditions. The Merger Agreement provides certain termination rights for each of MSGE and the Company, including, among others, if the consummation of the Merger does not occur on or before December 20, 2021. Should certain events occur under the specified circumstances outlined in the Merger Agreement, the Company will be required to pay MSGE a termination fee of \$18,900.

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, 2020. The financial statements as of March 31, 2021 and for the three and nine months ended March 31, 2021 and 2020 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.

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.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amount of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amount of revenues and expenses. Such estimates include the valuation of accounts receivable, investments, goodwill, other long-lived assets, pension and other postretirement benefit obligations and the related net periodic benefit cost, tax accruals, and other assets and liabilities. In addition, estimates are used in revenue recognition, rights fees expense, 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. Due to the novel coronavirus (“COVID-19”) pandemic, in March 2020, the 2019-20 NHL and NBA seasons were suspended. The leagues resumed play several months later, with the Rangers and Islanders participating in the NHL's return to play. The NHL and NBA subsequently completed their seasons in September and October 2020, respectively, which impacted the start and length of each league's 2020-21 regular season. The NBA started its regular season on December 22, 2020 with a reduced schedule of 72 games, while the NHL regular season began on January 13, 2021 and has been reduced to a 56-game schedule. Other accrued liabilities in the accompanying consolidated balance sheet as of March 31, 2021 includes accruals for affiliate fee rebates of \$5,600.

Our estimates have been prepared based on these facts, and we will continue to monitor updates made by the NBA and NHL with regards to league play and the impact on the Company's use of estimates. 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, including government and league actions taken to contain or mitigate the COVID-19 pandemic, could be material and would be reflected in the Company's financial statements in future periods.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments — Credit Losses* and the subsequent ASUs that amended the application of ASU No. 2016-13, which introduces a new impairment model for most financial assets and certain other instruments, including accounts receivable. Under the new standard, the Company is required to use a forward looking “expected loss” model that has replaced the former “incurred loss” model, which generally will result in earlier recognition of allowances for losses. The Company adopted this standard on July 1, 2020 on a modified retrospective basis, recording \$480, net of tax, as a cumulative effect adjustment to retained earnings (accumulated deficit).

In March 2019, the FASB issued ASU No. 2019-02, *Entertainment — Films — Other Assets — Film Costs (Subtopic 926-20) and Entertainment — Broadcasters — Intangibles — Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials*, which amends Accounting Standards Codification (“ASC”) Subtopic 920-350 to align the accounting for production costs of an episodic television series with that for the costs of producing films. The Company adopted this standard on a prospective basis, effective July 1, 2020. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-14, *Compensation — Retirement Benefits — Defined Benefit Plans — General (Topic 715-20): Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans*, which removes, adds, or clarifies disclosure requirements relating to defined benefit plans to improve disclosure effectiveness. This standard will be effective for the Company beginning in the fourth quarter of fiscal year 2021, with early adoption permitted.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

The standard is to be applied retroactively to all periods presented. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU eliminates certain exceptions to the general approach in ASC Topic 740 and includes methods of simplification to the existing guidance. This standard will be effective for the Company beginning in the first quarter of fiscal year 2022, with early adoption permitted. The standard is to be applied prospectively to all periods presented. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU, and the subsequent ASU that amended its application, provide temporary optional expedients and exceptions to the guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate and other interbank offered rates to alternative reference rates. This standard was effective upon issuance, and may be applied prospectively through December 31, 2022. The Company is currently evaluating the impact this standard will have on its consolidated financial statements, if elected.

Note 3. Revenue and Accounts Receivable

The Company generates revenues principally from affiliation fees charged to cable, satellite, telephone and other platforms ("Distributors") for the right to carry its networks, as well as from the sale of advertising. The Company's advertising revenue is largely derived from the sale of inventory in its live professional sports programming, and as such, a disproportionate share of this revenue has historically been earned in the Company's second and third fiscal quarters. Due to the COVID-19 pandemic, the NBA and NHL 2020-21 regular seasons were delayed and are scheduled to primarily occur during the third and fourth quarters of fiscal year 2021. The Company's revenue recognition policies that describe the nature, amount, timing and uncertainty associated with each major source of revenue from contracts with customers are summarized below.

Affiliation Fee Revenue

Affiliation fee revenue is earned from Distributors for the right to carry the Company's networks under contracts, commonly referred to as "affiliation agreements." The Company's performance obligation under its affiliation agreements is satisfied as the Company provides its programming over the term of the affiliation agreement.

Affiliation fee revenue constituted at least 90% of the Company's consolidated revenues for the nine months ended March 31, 2021. However, given the timing of advertising revenue as stated above, affiliation fee revenue constituted less than 90% of its consolidated revenues for the three months ended March 31, 2021. Substantially all of the Company's affiliation agreements are sales-based and usage-based royalty arrangements, which are recognized as the sale or usage occurs. The transaction price is represented by affiliation fees that are generally based upon contractual rates applied to the number of the Distributor's subscribers who receive or can receive the Company's programming. Such subscriber information is generally not received until after the close of the reporting period, and in these cases, the Company estimates the number of subscribers. Historical adjustments to recorded estimates have not been material.

Advertising Revenue

The Company primarily earns advertising revenue through the sale of commercial time and other advertising inventory during its programming. In general, these advertising arrangements either do not exceed one year or are primarily multi-year media banks, the elements of which are agreed upon each year. Advertising revenue is recognized as advertising is aired. In certain advertising arrangements, the Company guarantees specified viewer ratings for its programming. In such cases, the promise to deliver the guaranteed viewer ratings by airing the advertising represents the Company's performance obligation. A contract liability is recognized as deferred revenue to the extent any guaranteed viewer ratings are not met and the customer is expected to exercise any right for additional advertising time, and is subsequently recognized as revenue either when the Company provides the required additional advertising time, or additional performance requirements become remote, which may be at the time the guarantee obligation contractually expires.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Principal versus Agent Revenue Recognition

The Company has an advertising sales representation agreement with MSGE that provides for MSGE to act as its advertising sales representative and includes the exclusive right and obligation to sell certain advertising availabilities on the Company's behalf for a commission (see Note 14). The Company reports advertising revenue on a gross basis as it is primarily responsible for the fulfillment of advertising orders.

Noncash Consideration

The Company enters into nonmonetary transactions, primarily with its Distributors, that involve the exchange of products or services, such as advertising and promotional benefits, for the Company's services. For arrangements that are subject to sales-based and usage-based royalty guidance, the Company measures noncash consideration that it receives at fair value as the sale or usage occurs. For other arrangements, the Company measures the estimated fair value of the noncash consideration that it receives at contract inception. If the Company cannot reasonably estimate the fair value of the noncash consideration, the Company measures the fair value of the consideration indirectly by reference to the standalone selling price of the services promised to the customer in exchange for the consideration.

Transaction Price Allocated to Future Performance Obligations

Substantially all of the Company's affiliation agreements are licenses of functional intellectual property where revenue is derived from sales-based and usage-based royalty arrangements, and generally the Company's advertising arrangements either do not exceed one year or are primarily multi-year media banks, the elements of which are agreed upon each year. For these types of arrangements, the Company applies a practical expedient that allows it to omit disclosure of the aggregate amount of consideration the Company expects to receive in exchange for transferring services to a customer (transaction price) that is allocated to performance obligations that have not yet been satisfied. As of March 31, 2021, the aggregate amount of transaction price allocated to remaining performance obligations, other than for contracts that the Company has applied the practical expedient, was \$3,580, of which \$2,578 will be recognized through fiscal year 2022 and \$1,002 thereafter.

Contract Balances from Contracts with Customers

An account receivable is recorded when there is an unconditional right to consideration based on a contract with a customer. The Company's payment terms generally do not exceed 60 days after revenue is earned. For certain types of contracts with customers, the Company may recognize revenue in advance of the contractual right to invoice the customer, resulting in an amount recorded to contract assets. Once the Company has an unconditional right to consideration under these contracts, the contract assets are reclassified to accounts receivable.

When consideration is received from a customer prior to transferring services to the customer under the terms of a contract, a contract liability (deferred revenue) is recorded. Deferred revenue is recognized as revenue when, or as, control of the services is transferred to the customer and all revenue recognition criteria have been met.

The following table provides information about current contract balances from contracts with customers:

	March 31, 2021	June 30, 2020
Accounts receivable (including advertising receivables, which are included in related party receivables, net)	\$ 121,018	\$ 124,325
Contract asset, short-term (included in other current assets)	\$ 254	\$ —
Contract asset, long-term (included in other assets)	\$ 80	\$ 37
Deferred revenue, short-term	\$ 572	\$ 2,753
Deferred revenue, long-term (included in other liabilities)	\$ —	\$ 69

Accounts receivable is presented net of an estimate for lifetime expected credit losses. The Company analyzes historical losses, economic conditions, receivables aging, customer specific risks, and other factors to estimate its allowance for credit losses. The Company's allowance for credit losses was \$1,822 and \$1,418 as of March 31, 2021 and June 30, 2020, respectively.

The amount of revenue recognized during the nine months ended March 31, 2021 related to deferred revenue (contract liability) recorded as of June 30, 2020 was \$2,654.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Note 4. Computation of Earnings per Common Share

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2020	2021	2020
Weighted-average number of shares for basic EPS	57,505	60,011	57,358	65,194
Dilutive effect of shares issuable under share-based compensation plans	730	304	417	359
Weighted-average number of shares for diluted EPS	58,235	60,315	57,775	65,553
Anti-dilutive shares	2,553	2,981	2,912	2,727

Note 5. Goodwill and Amortizable Intangible Assets

During the first quarter of fiscal year 2021, the Company performed its annual impairment test of goodwill. As the Company's one reporting unit had a negative carrying value of net assets, there was no impairment of goodwill identified.

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

	March 31, 2021	June 30, 2020
Affiliate relationships	\$ 83,044	\$ 83,044
Less: accumulated amortization	(55,356)	(52,761)
	<u>\$ 27,688</u>	<u>\$ 30,283</u>

Affiliate relationships have an estimated useful life of 24 years. Amortization expense for intangible assets was \$865 for the three months ended March 31, 2021 and 2020, and \$2,595 for the nine months ended March 31, 2021 and 2020.

Note 6. Property and Equipment

As of March 31, 2021 and June 30, 2020, property and equipment consisted of the following assets:

	March 31, 2021	June 30, 2020
Equipment	\$ 30,242	\$ 28,902
Furniture and fixtures	1,764	1,726
Leasehold improvements	18,646	18,585
Construction in progress	206	277
	<u>50,858</u>	<u>49,490</u>
Less: accumulated depreciation and amortization	(43,600)	(40,732)
	<u>\$ 7,258</u>	<u>\$ 8,758</u>

Depreciation and amortization expense on property and equipment was \$968 and \$851 for the three months ended March 31, 2021 and 2020, respectively, and \$2,868 and \$2,528 for the nine months ended March 31, 2021 and 2020, respectively.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Note 7. Debt*Former Senior Secured Credit Facilities*

On September 28, 2015, MSGN Holdings, L.P. (“MSGN L.P.”), an indirect wholly-owned subsidiary of the Company through which the Company conducts substantially all of its operations, 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 “Former Credit Agreement”) with a syndicate of lenders. The Former Credit Agreement provided MSGN L.P. with senior secured credit facilities that consisted of: (a) an initial \$1,550,000 term loan facility and (b) a \$250,000 revolving credit facility.

Amended and Restated Senior Secured Credit Facilities

On October 11, 2019, MSGN L.P., the Holdings Entities and certain subsidiaries of MSGN L.P. amended and restated the Former Credit Agreement in its entirety (the “Credit Agreement”). The Credit Agreement provides MSGN L.P. with senior secured credit facilities (the “Senior Secured Credit Facilities”) consisting of: (i) an initial \$1,100,000 term loan facility (the “Term Loan Facility”) and (ii) a \$250,000 revolving credit facility (the “Revolving Credit Facility”), each with a term of five years. Proceeds from the Term Loan Facility were used by MSGN L.P. to repay outstanding indebtedness under the Former Credit Agreement. 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 (i) a base rate plus an additional rate ranging from 0.25% to 1.25% per annum (determined based on a total net leverage ratio) (the “Base Rate”), or (ii) a Eurodollar rate plus an additional rate ranging from 1.25% to 2.25% per annum (determined based on a total net leverage ratio) (the “Eurodollar Rate”). Upon a payment default in respect of principal, interest or other amounts due and payable under the Credit Agreement or related loan documents, default interest will accrue on all overdue amounts at an additional rate of 2.00% per annum. The Credit Agreement requires that MSGN L.P. pay a commitment fee ranging from 0.225% to 0.30% (determined based on a total net leverage ratio) in respect of the average daily unused commitments under the Revolving Credit Facility. MSGN L.P. will also be required to pay customary letter of credit fees, as well as fronting fees, to banks that issue letters of credit.

The Credit Agreement generally requires the Holdings Entities and MSGN L.P. and its restricted subsidiaries on a consolidated basis to comply with a maximum total leverage ratio of 5.50:1.00, subject, at the option of MSGN L.P. to an upward adjustment to 6.00:1.00 during the continuance of certain events. In addition, the Credit Agreement requires a minimum interest coverage ratio of 2.00:1.00 for the Holdings Entities and MSGN L.P. and its restricted subsidiaries on a consolidated basis. As of March 31, 2021, the Holdings Entities and MSGN L.P. and its restricted subsidiaries on a consolidated basis were in compliance with the applicable financial covenants. All borrowings under the Credit Agreement are subject to the satisfaction of customary conditions, including absence of a default and accuracy of representations and warranties. As of March 31, 2021, there were no letters of credit issued and outstanding under the Revolving Credit Facility, which provides full borrowing capacity of \$250,000.

The Term Loan Facility amortizes quarterly in accordance with its terms beginning March 31, 2020 through September 30, 2024 with a final maturity date on October 11, 2024.

As of March 31, 2021, the principal repayments required under the Term Loan Facility are as follows:

Remainder of fiscal year ending June 30, 2021	\$	12,375
Fiscal year ending June 30, 2022		49,500
Fiscal year ending June 30, 2023		66,000
Fiscal year ending June 30, 2024		82,500
Fiscal year ending June 30, 2025		849,750
	\$	1,060,125

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

All obligations under the Credit Agreement are guaranteed by the Holdings Entities and MSGN L.P.'s existing and future direct and indirect domestic subsidiaries that are not designated as excluded subsidiaries or unrestricted subsidiaries (the "Subsidiary Guarantors," and together with the Holdings Entities, the "Guarantors"). All obligations under the Credit Agreement, including the guarantees of those obligations, are secured by certain assets of MSGN L.P. and each Guarantor (collectively, "Collateral"), including, but not limited to, a pledge of the equity interests in MSGN L.P. held directly by the Holdings Entities and the equity interests in each Subsidiary Guarantor held directly or indirectly by MSGN L.P.

Subject to customary notice and minimum amount conditions, MSGN L.P. may voluntarily prepay outstanding loans under the Credit Agreement at any time, in whole or in part, without premium or penalty (except for customary breakage costs with respect to Eurodollar loans). MSGN L.P. is required to make mandatory prepayments in certain circumstances, including without limitation from the net cash proceeds of certain sales of assets (including Collateral) or casualty insurance and/or condemnation recoveries (subject to certain reinvestment, repair or replacement rights) and the incurrence of certain indebtedness, subject to certain exceptions.

In addition to the financial covenants discussed above, the Credit Agreement and the related security agreement contain certain customary representations and warranties, affirmative covenants, and events of default. The Credit Agreement contains certain restrictions on the ability of 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 Merger will not result in a change of control or acceleration of debt payments under the Credit Agreement. The Merger Agreement restricts the Company's ability to redeem, repurchase, prepay, guarantee or otherwise become liable for any material indebtedness without the prior consent of MSGE.

The Company is amortizing deferred financing costs of the Term Loan Facility using the effective interest method over its five-year term.

The following table summarizes the presentation of the Term Loan Facility, and the related deferred financing costs, in the accompanying consolidated balance sheets as of March 31, 2021 and June 30, 2020:

	Term Loan Facilities	Deferred Financing Costs	Net
March 31, 2021			
Current portion of long-term debt	\$ 49,500	\$ (1,261)	\$ 48,239
Long-term debt, net of current portion	1,010,625	(3,027)	1,007,598
Total	<u>\$ 1,060,125</u>	<u>\$ (4,288)</u>	<u>\$ 1,055,837</u>
June 30, 2020			
Current portion of long-term debt	\$ 38,500	\$ (1,271)	\$ 37,229
Long-term debt, net of current portion	1,047,750	(3,970)	1,043,780
Total	<u>\$ 1,086,250</u>	<u>\$ (5,241)</u>	<u>\$ 1,081,009</u>

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

	March 31, 2021	June 30, 2020
Other current assets	\$ 343	\$ 343
Other assets	866	1,123

Total amortization of deferred financing costs was \$1,210 and \$1,591 for the nine months ended March 31, 2021 and 2020, respectively, and is included in interest expense in the accompanying consolidated statements of operations.

The Company made interest payments under the Credit Agreement and Former Credit Agreement of \$14,102 and \$28,809 during the nine months ended March 31, 2021 and 2020, respectively.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Note 8. Leases

The Company has various operating leases for office and studio space, as well as equipment, expiring at various dates through fiscal year 2025. The Company currently has no finance leases. Some leases include options to extend the lease term, generally at the Company's discretion. The depreciable life of leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The leases generally provide for fixed annual rentals plus certain other costs. Certain leases include variable payments based on the Company's use of the respective assets. The Company's lease agreements do not include any material residual value guarantees or material restrictive covenants. Since the Company's leases do not provide an implicit interest rate, the Company uses its incremental borrowing rate as of the lease commencement date to determine the present value of future lease payments. Upon the adoption of ASC *Topic 842, Leases*, the Company used the incremental borrowing rate on July 1, 2019 for all operating leases that commenced prior to that date.

Lease cost consists of the following:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2020	2021	2020
Operating lease cost	\$ 1,381	\$ 1,412	\$ 4,160	\$ 4,156
Variable lease cost	611	550	655	1,331
Total lease cost	<u>\$ 1,992</u>	<u>\$ 1,962</u>	<u>\$ 4,815</u>	<u>\$ 5,487</u>

The following table summarizes the weighted-average remaining lease term and discount rate for operating leases:

	March 31, 2021	March 31, 2020
Weighted-average discount rate for operating leases	3.33 %	3.28 %
Weighted-average remaining operating lease term in years	2.96	3.68

As of March 31, 2021, the maturities of the Company's operating lease liabilities are as follows:

Remainder of fiscal year ending June 30, 2021	\$ 1,485
Fiscal year ending June 30, 2022	5,241
Fiscal year ending June 30, 2023	4,949
Fiscal year ending June 30, 2024	4,135
Fiscal year ending June 30, 2025	17
Total undiscounted operating lease payments	<u>15,827</u>
Less: imputed interest	742
Total operating lease liabilities	<u>15,085</u>
Less: current portion of operating lease liabilities	5,125
Non-current operating lease liabilities	<u>\$ 9,960</u>

Supplemental cash flow information related to operating leases:

	Nine Months Ended March 31,	
	2021	2020
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 4,474	\$ 4,437
Cash paid for variable lease payments not included in measurement of operating lease liabilities	435	1,227
Total	<u>\$ 4,909</u>	<u>\$ 5,664</u>

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Note 9. Commitments and Contingencies**Commitments**

As more fully described in Note 9 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2020, the Company's contractual obligations not reflected on the consolidated balance sheets consist primarily of its obligations under media rights agreements.

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

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 10. 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 are developed using market data, such as publicly available information about actual events or transactions, and reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data is not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

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
March 31, 2021				
Assets:				
Money market accounts	\$ 143,985	\$ —	\$ —	\$ 143,985
Time deposits	160,885	—	—	160,885
Total assets measured at fair value	<u>\$ 304,870</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 304,870</u>
June 30, 2020				
Assets:				
Money market accounts	\$ 129,609	\$ —	\$ —	\$ 129,609
Time deposits	65,713	—	—	65,713
Total assets measured at fair value	<u>\$ 195,322</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 195,322</u>

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 \$1,054,800 as of March 31, 2021. 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, including activity in and the state of the capital markets.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Investment in Nonconsolidated Entity

The Company's investment in a nonconsolidated entity, which is included in other assets in the accompanying consolidated balance sheets, does not have a readily determinable fair value. As such, the Company has elected to account for it at cost, which would be adjusted for impairment and changes resulting from observable price fluctuations in orderly transactions for an identical or a similar investment of the same issuer (referred to as the measurement alternative method). Investments accounted for under the measurement alternative method are classified within Level III of the fair value hierarchy. The carrying amount of the Company's equity investment in the nonconsolidated entity was \$3,252 and \$2,000 as of March 31, 2021 and June 30, 2020, respectively. In the third quarter of fiscal year 2021, the Company recorded an unrealized gain of \$1,252 as a result of an observable change in the price of this investment, which is included in miscellaneous income in the accompanying consolidated statement of operations and represents the cumulative adjustment to the cost of the investment through March 31, 2021.

Note 11. Pension Plans and Other Postretirement Benefit Plan

As more fully described in Note 12 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2020, the Company sponsors (i) a non-contributory, qualified defined benefit pension plan covering certain of its union employees, (ii) an unfunded non-contributory, non-qualified frozen excess cash balance plan covering certain employees who participated in an underlying qualified plan, and (iii) an unfunded non-contributory, non-qualified frozen defined benefit pension plan for the benefit of certain employees who participated in an underlying qualified plan (collectively the "Pension Plans"). The Company also sponsors a contributory welfare plan which provides certain postretirement healthcare benefits to certain employees hired prior to January 1, 2001 (the "Postretirement Plan").

Components of net periodic benefit cost for the three and nine months ended March 31, 2021 and 2020 are as follows:

	Pension Plans		Postretirement Plan	
	Three Months Ended		Three Months Ended	
	March 31,		March 31,	
	2021	2020	2021	2020
Service cost	\$ 101	\$ 121	\$ 9	\$ 13
Other components of net periodic benefit cost:				
Interest cost	257	354	9	15
Expected return on plan assets	(185)	(244)	—	—
Recognized actuarial loss ^(a)	126	134	—	—
Amortization of unrecognized prior service credit ^(a)	—	—	—	(1)
Net periodic benefit cost	<u>\$ 299</u>	<u>\$ 365</u>	<u>\$ 18</u>	<u>\$ 27</u>

	Pension Plans		Postretirement Plan	
	Nine Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2021	2020	2021	2020
Service cost	\$ 303	\$ 363	\$ 27	\$ 39
Other components of net periodic benefit cost:				
Interest cost	770	1,062	27	45
Expected return on plan assets	(555)	(732)	—	—
Recognized actuarial loss ^(a)	378	402	—	—
Amortization of unrecognized prior service credit ^(a)	—	—	—	(3)
Net periodic benefit cost	<u>\$ 896</u>	<u>\$ 1,095</u>	<u>\$ 54</u>	<u>\$ 81</u>

(a) Reflects amounts reclassified from accumulated other comprehensive loss to other components of net periodic benefit cost in the accompanying consolidated statements of operations.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

In addition, as more fully described in Note 12 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2020, the Company sponsors the MSGN Holdings, L.P. Excess Savings Plan and participates in The Madison Square Garden 401(k) Savings Plan, a multiple employer plan (together, the "Savings Plans"). The Madison Square Garden 401(k) Savings Plan was sponsored by Madison Square Garden Sports Corp. (formerly, The Madison Square Garden Company) (together with its subsidiaries, "MSGs") until the Entertainment Distribution (as defined in Note 14), and thereafter by MSGE. Expenses related to the Savings Plans included in the accompanying consolidated statements of operations were \$455 and \$246 for the three months ended March 31, 2021 and 2020, respectively, and \$885 and \$775 for the nine months ended March 31, 2021 and 2020, respectively.

Note 12. Share-based Compensation

See Note 13 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2020 for more information regarding (i) the MSG Networks Inc. 2010 Employee Stock Plan, as amended (the "Employee Stock Plan"), and (ii) the MSG Networks Inc. 2010 Stock Plan for Non-Employee Directors (the "Non-Employee Director Plan"), as amended.

Share-based compensation expense, presented within selling, general and administrative expenses and direct operating expenses, was \$3,324 and \$3,753 for the three months ended March 31, 2021 and 2020, respectively, and \$14,217 and \$13,852 for the nine months ended March 31, 2021 and 2020, respectively.

Non-Qualified Stock Options ("NQSOs") Award Activity

The following table summarizes activity relating to holders of the Company's NQSOs for the nine months ended March 31, 2021:

	Number of		Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
	Nonperformance Based Vesting NQSOs	Performance Based Vesting NQSOs			
Balance as of June 30, 2020	1,833	1,834	\$ 18.88	5.17	\$ —
Adjustment upon final determination of level of performance objective ^(a)	—	(2)	21.60		
Balance as of March 31, 2021	1,833	1,832	\$ 18.88	4.42	\$ 800
Exercisable as of March 31, 2021	1,357	961	\$ 19.58	3.73	\$ 133

(a) Includes an adjustment of awards issued with respect to performance based NQSOs granted in fiscal year 2018 upon certification of the level of achievement of the performance targets for such awards.

The aggregate intrinsic value is calculated for in-the-money NQSOs as the difference between (i) the exercise price of the underlying award and (ii) the quoted price of the Company's Class A Common Stock at March 31, 2021 and June 30, 2020, as applicable.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Restricted Share Units Award Activity

The following table summarizes activity relating to holders of the Company's RSUs for the nine months ended March 31, 2021:

	Number of		
	Nonperformance Based Vesting RSUs	Performance Based Vesting RSUs	Weighted-Average Fair Value Per Share At Date of Grant
Unvested award balance as of June 30, 2020	595	870	\$ 20.01
Granted	851	720	10.44
Vested	(364)	(293)	19.54
Adjustment upon final determination of level of performance objective ^(a)	—	(1)	21.60
Unvested award balance as of March 31, 2021	1,082	1,296	\$ 13.81

(a) Includes an adjustment of awards issued with respect to performance based RSUs granted in fiscal year 2018 upon certification of the level of achievement of the performance targets for such awards.

Nonperformance based vesting RSUs granted under the Employee Stock Plan during the nine months ended March 31, 2021 are subject to three-year ratable vesting and RSUs granted under the Non-Employee Director Plan vest on the date of grant. Performance based vesting RSUs granted under the Employee Stock Plan during the nine months ended March 31, 2021 are subject to three-year cliff vesting. 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 of the Board, in cash. RSUs granted under the Non-Employee Director Plan will settle on the first business day following the ninetieth day after the date that the director's service on the Board ceases or, if earlier, upon the director's death.

The fair value of RSUs that vested during the nine months ended March 31, 2021 was \$6,826. 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 tax withholding obligations for the applicable income and other employment taxes, 220 of these RSUs, with an aggregate value of \$2,148 were retained by the Company and the taxes paid during the nine months ended March 31, 2021 are reflected as a financing activity in the accompanying consolidated statement of cash flows.

Note 13. Stock Repurchase Program

On December 7, 2017, the Board authorized the repurchase of up to \$150,000 of the Company's Class A Common Stock. On August 29, 2019, the Board authorized a \$300,000 increase to the stock repurchase authorization, which had \$136,165 of availability remaining, bringing the total available repurchase authorization for Class A Common Stock to \$436,165 as of that date. Under the authorization, shares of Class A Common Stock may be purchased from time to time in open market or private transactions, block trades or such other manner as the Company may determine, in accordance with applicable insider trading and other securities laws and regulations. The timing and amount of purchases will depend on market conditions and other factors. The Merger Agreement provides that, during the periods from the date of the Merger Agreement until the closing of the Merger or termination of the Merger Agreement, the Company is subject to restrictions that, among others, restrict its ability to repurchase, redeem or otherwise acquire shares of Class A Common Stock without the prior consent of MSGE.

During the nine months ended March 31, 2020, the Company repurchased, including shares repurchased under a modified Dutch auction tender offer, 18,050 shares of its Class A Common Stock, and committed to purchase an additional 277 shares of its Class A Common Stock that were not settled until April 2020. The purchase price of these share repurchases, and the related fees, have been classified as Treasury stock in the accompanying consolidated balance sheets. There were no shares repurchased by the Company during the nine months ended March 31, 2021.

As of March 31, 2021, the Company had \$145,864 of availability remaining under its stock repurchase authorization.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Note 14. Related Party Transactions

As of March 31, 2021, 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, the “Dolan Family Group”), collectively beneficially own all of the Company’s outstanding Class B Common Stock and own approximately 8.3% of the Company’s outstanding Class A Common Stock (inclusive of options exercisable within 60 days of the date hereof). Such shares of the Company’s Class A Common Stock and Class B Common Stock, collectively, represent approximately 76.9% of the aggregate voting power of the Company’s outstanding common stock. The Dolan Family Group also controls AMC Networks Inc. (“AMC Networks”), MSGS and MSGE (the outstanding common stock of which was distributed by MSGS to its stockholders on April 17, 2020 (the “Entertainment Distribution”).

The Company shares certain executive support costs, including office space, executive assistants, security and transportation costs for (i) the Company’s Executive Chairman with MSGS and (ii) the Company’s Vice Chairman with MSGS and AMC Networks. Following the Entertainment Distribution, the Company now also shares such costs with MSGE.

The Company and MSGE are also party to aircraft time sharing agreements, pursuant to which MSGE has agreed from time to time to make certain aircraft available to the Company for use on a “time sharing” basis. Prior to the Entertainment Distribution, the Company was party to such time sharing agreements with MSGS. Additionally, the Company, MSGS, AMC Networks, and following the Entertainment Distribution, MSGE, have agreed on an allocation of the costs of certain other aircraft, including helicopter, use by shared executives.

The Company has various agreements with MSGS that were entered into at the time that the Company distributed to its stockholders all of the outstanding common stock of MSGS, including media rights agreements covering the Knicks and the Rangers games, and a tax disaffiliation agreement. As a result of the Entertainment Distribution, certain agreements which were previously between the Company and MSGS are, as of April 17, 2020, between the Company and MSGE, including an advertising sales representation agreement, a trademark license agreement, and certain other arrangements, including a services agreement (the “Services Agreement”) pursuant to which the Company outsources certain business functions. The services currently outsourced include information technology, accounts payable, payroll, tax, certain legal functions, human resources, insurance and risk management, investor relations, corporate communications, benefit plan administration and reporting and internal audit, as well as certain executive support services described above. The Company provides certain services to MSGE pursuant to the Services Agreement. In connection with the Entertainment Distribution, the Company entered into a services agreement with MSGS, pursuant to which MSGS provides the Company certain legal services previously provided under the Services Agreement.

The Company has also entered into various agreements with AMC Networks with respect to a number of ongoing commercial relationships.

In addition, see Note 1 for discussion of Merger Agreement.

Related Party Transactions***Rights Fees***

The Company’s media rights agreements with MSGS, effective as of July 1, 2015, provide the Company with the exclusive media rights to Knicks and Rangers games in their local markets. Rights fees included in the accompanying consolidated statements of operations for the three months ended March 31, 2021 and 2020 were \$35,007 and \$38,611, respectively, \$108,970 and \$115,242 for the nine months ended March 31, 2021 and 2020, respectively.

Origination, Master Control and Technical Services

AMC Networks provides certain origination, master control, and technical services to the Company. Amounts incurred by the Company for the three months ended March 31, 2021 and 2020 were \$1,208 and \$1,184, respectively, and \$3,576 and \$3,506 for the nine months ended March 31, 2021 and 2020, respectively.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

Commission

The Company's advertising sales representation agreement, which has a term through June 30, 2022, provides for MSGE (MSGs prior to the Entertainment Distribution) to act as the Company's advertising sales representative and includes the exclusive right and obligation to sell certain advertising availabilities on the Company's behalf for a commission. The amounts incurred by the Company for the three months ended March 31, 2021 and 2020 were \$6,637 and \$5,865, respectively, and \$8,456 and \$12,289 for the nine months ended March 31, 2021 and 2020, respectively.

General and Administrative Expenses

Amounts incurred by the Company for expenses associated with the Services Agreement and the services agreement with MSGS, net, amounted to \$2,571 and \$2,499 for the three months ended March 31, 2021 and 2020, respectively, and \$7,713 and \$7,813 for the nine months ended March 31, 2021 and 2020, respectively.

Other Operating Expenses

The Company and its related parties enter into other transactions with each other in the ordinary course of business. Net amounts incurred by the Company for other related party transactions amounted to \$737 and \$98 for the three months ended March 31, 2021 and 2020, respectively, and \$853 and \$311 for the nine months ended March 31, 2021 and 2020, respectively.

Note 15. Income Taxes

Income tax expense for the three months ended March 31, 2021 of \$20,870 differs from the income tax expense derived by applying the statutory federal rate of 21% to pre-tax income principally due to the impact of state and local income taxes (net of federal benefit) of \$6,327.

Income tax expense for the three months ended March 31, 2020 of \$18,616 differs from the income tax expense derived by applying the statutory federal rate of 21% to pre-tax income principally due to the impact of state and local income taxes (net of federal benefit) of \$5,405, partially offset by a tax benefit of \$643 relating to a tax return to book provision adjustment in connection with the filing of the Company's prior year income tax return.

Income tax expense for the nine months ended March 31, 2021 of \$68,174 differs from the income tax expense derived from applying the statutory federal rate of 21% to pre-tax income principally due to the impact of state and local income taxes (net of federal benefit) of \$18,178, the impact from a change in the estimated applicable tax rate used to determine deferred taxes of \$6,850, tax expense related to nondeductible officers' compensation of \$2,199, and tax expense resulting from the vesting of certain share-based compensation awards of \$944. The change in the estimated applicable tax rate used to determine deferred taxes was due to a change in state apportionment methodology in accordance with an amendment to a state regulation.

Income tax expense for the nine months ended March 31, 2020 of \$52,627 differs from the income tax expense derived from applying the statutory federal rate of 21% to pre-tax income principally due to the impact of state and local income taxes (net of federal benefit) of \$15,233, partially offset by excess tax benefit of \$1,583 related to share-based payment awards.

The Company made cash income tax payments (net) of \$61,867 and \$48,128 for the nine months ended March 31, 2021 and 2020, respectively.

The Company was notified during the first quarter of fiscal year 2019 that the City of New York was commencing an examination of the Company's New York City general corporate income tax returns for the tax years ended December 31, 2015 and 2016. The examination was settled in April 2021 with favorable terms.

The Company was notified during the fourth quarter of fiscal year 2019 that the State of New Jersey initiated an examination of the Company's income tax returns for the tax years ended December 31, 2015 through December 31, 2017. The Company does not expect the examination, when finalized, to result in material changes to the tax returns.

The Company was notified during the second quarter of fiscal year 2021 that the State of New York initiated an audit of the Company's income tax return for the tax year ended June 30, 2019. The Company does not expect the examination, when finalized, to result in material changes to the tax returns.

The federal and state statute of limitations are currently open on the Company's tax returns for 2017 and 2015, respectively, and forward.

MSG NETWORKS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)

On April 19, 2021, the State of New York enacted a corporate tax rate increase that will become effective starting with the fiscal year ended June 30, 2022. The impact of enacted tax changes is recognized in the interim period of enactment. Accordingly, the Company will remeasure deferred tax assets and liabilities at the higher applicable tax rate in the fourth quarter of the fiscal year ended June 30, 2021.

Note 16. Concentrations of Risk

Accounts receivable, net on the accompanying consolidated balance sheets as of March 31, 2021 and June 30, 2020 include amounts due from the following individual customers, which accounted for the noted percentages of the gross balance:

	March 31, 2021	June 30, 2020
Customer A	33 %	26 %
Customer B	27 %	25 %
Customer C	25 %	22 %
Customer D	12 %	10 %

Revenues in the accompanying consolidated statements of operations for the three and nine months ended March 31, 2021 and 2020 include amounts from the following individual customers, which accounted for the noted percentages of the total:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2020	2021	2020
Customer 1	25 %	24 %	27 %	25 %
Customer 2	23 %	23 %	26 %	23 %
Customer 3	18 %	19 %	20 %	20 %
Customer 4	8 %	9 %	10 %	9 %

The accompanying consolidated balance sheets as of March 31, 2021 and June 30, 2020 include the following approximate amounts that are recorded in connection with the Company's license agreement with the Devils:

Reported in	March 31, 2021	June 30, 2020
Prepaid expenses	\$ 2,200	\$ 3,000
Other current assets	3,700	4,000
Other assets	31,800	34,000
	<u>\$ 37,700</u>	<u>\$ 41,000</u>

As of March 31, 2021, approximately 280 full-time and part-time employees, who represent approximately 59% of the Company's workforce, are subject to collective bargaining agreements ("CBAs"). As of March 31, 2021, approximately 61% of the Company's workforce that is subject to a CBA is covered by a CBA that has expired. In addition, as of March 31, 2021, approximately 33% of the Company's workforce that is subject to a CBA is covered by a CBA that will expire during the next year.

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, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including those regarding affiliate fee rebates and rights fee expense, the timing and number of games played as a result of the novel coronavirus ("COVID-19") pandemic and the government, league, and other actions relating thereto, and the Merger (as defined below) and costs related thereto, and the impact of recent tax legislation. Words such as "expects," "anticipates," "believes," "estimates," "may," "will," "should," "could," "potential," "continue," "intends," "plans," and similar words and terms used in the discussion of future operating and 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 enter into and renew affiliation agreements with Distributors, or to do so on favorable terms, 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, or minimize declines in, subscriber levels;
- the impact of subscribers selecting Distributors' packages that do not include our networks or Distributors that do not carry our networks at all;
- the impact of the COVID-19 pandemic on our business, operations, and the markets and communities in which we and our Distributors, advertisers, viewers and teams operate, including actions of the National Basketball Association ("NBA"), National Hockey League ("NHL"), NBA and NHL players and any governmental authority or legislation relating to COVID-19, including with respect to the number and timing of games played;
- risks related to the pending Merger (as defined below) with Madison Square Garden Entertainment Corp. (together with its subsidiaries, "MSG"), including, but not limited to: disruption of management time from ongoing business operations due to the Merger, the risk of any litigation relating to the Merger and the risk that the parties may not be able to satisfy the conditions to the completion of the Merger in a timely manner or at all;
- 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 on-ice and on-court performance of the professional sports teams whose games we carry;
- 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;
- 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, including with respect to the legalization of sports gaming;
- the impact of sports league rules, regulations and/or agreements and changes thereto;
- any NBA, NHL or other work stoppage due to COVID-19 or otherwise;

[Table of Contents](#)

- our dependence on Madison Square Garden Sports Corp. (formerly, The Madison Square Garden Company) (together with its subsidiaries, “MSGs”), MSGE and other third-party providers for the provision of certain services;
- cybersecurity and similar risks which could result in the disclosure of confidential information, disruption of our business or damage to our brands and reputation;
- our substantial debt and high leverage;
- any reduction in our access to capital and credit 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 (as defined below); and
- the factors described under “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended June 30, 2020 and the factors described under “Item 1A. Risk Factors” in Part II hereof.

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

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

Introduction

MD&A is provided as a supplement to, and should be read in conjunction with, the unaudited consolidated financial statements and 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, 2020 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 our operations are conducted.

The Company owns and operates two regional sports and entertainment networks, MSG Network and MSG+ (collectively, “MSG Networks”) that feature a wide range of compelling sports content, including exclusive live local games and other programming of the New York Knicks (the “Knicks”) of the NBA; the New York Rangers (the “Rangers”), New York Islanders (the “Islanders”), New Jersey Devils and Buffalo Sabres of the NHL; as well as significant coverage of the New York Giants and Buffalo Bills of the National Football League. The Company operates and reports financial information in one segment.

On September 30, 2015, the Company distributed to its stockholders all of the outstanding common stock of MSGS (the “Distribution”). On April 17, 2020, MSGS distributed to its stockholders all of the outstanding common stock of MSGE (the “Entertainment Distribution”).

On March 25, 2021, the Company, MSGE, and Broadway Sub Inc., a direct wholly-owned subsidiary of MSGE (“Merger Sub”), entered into an Agreement and Plan of Merger (the “Merger Agreement”). Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company with the Company surviving and continuing as the surviving corporation (the “Merger”). If the Merger is completed, (i) each share of the Company’s Class A common stock, par value \$0.01 per share (“Class A Common Stock”), issued and outstanding immediately prior to the effective time of the Merger will be automatically converted into the right to receive, in the aggregate, a number of shares of Class A common stock, par value \$0.01 per share, of MSGE (“MSGE Class A Common Stock”) such that each holder of record of shares of the Company’s Class A Common Stock will have the right to receive, in the aggregate, such number of shares of MSGE Class A Common Stock equal to the total number of shares of the Company’s Class A Common Stock held of record immediately prior to the effective time *multiplied by* 0.172, with such product rounded up to the next whole share, (ii) each share of the Company’s Class B common stock, par value \$0.01 per share (“Class B Common Stock”), issued and outstanding immediately prior to the effective time of the Merger will be automatically converted into the right to receive, in the aggregate, a number of shares of Class B common stock, par value \$0.01 per share, of MSGE (“MSGE Class B Common Stock”) such that each holder of record of shares of the Company’s Class B Common Stock will have the right to receive, in the aggregate, a number of shares of MSGE Class B Common Stock equal to the total number of shares of the Company’s Class B Common Stock held of record immediately prior to the effective time *multiplied by* 0.172, with such product rounded up to the next whole share, in each case except for shares held by MSGE, Merger Sub or any of the MSGE subsidiaries or the Company or any of the Company’s subsidiaries as treasury stock (in each case not held on behalf of third parties) and (iii) the shares of the Company’s Class A Common Stock will be delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934, as amended.

The Merger was recommended to the Company's Board of Directors (the "Board") for approval by a special committee composed solely of independent, disinterested directors and advised by independent financial and legal advisors. The closing of the Merger is expected to occur in the third calendar quarter of 2021, subject to the satisfaction of certain regulatory approvals and other customary closing conditions. The Merger Agreement provides certain termination rights for each of MSGE and the Company, including, among others, if the consummation of the Merger does not occur on or before December 20, 2021. Should certain events occur under the specified circumstances outlined in the Merger Agreement, the Company will be required to pay MSGE a termination fee of \$18,900. Additional information on the Merger is included in the Form 8-K filed with the United States Securities and Exchange Commission on March 26, 2021.

This MD&A is organized as follows:

Results of Operations. This section provides an analysis of our unaudited consolidated results of operations for the three and nine months ended March 31, 2021 as compared with the three and nine months ended March 31, 2020.

Liquidity and Capital Resources. This section provides a discussion of our financial condition and liquidity, as well as an analysis of our cash flows for the nine months ended March 31, 2021 as compared with the nine months ended March 31, 2020.

Recently Issued Accounting Pronouncements Not Yet Adopted and Critical Accounting Policies. This section discusses recently issued accounting pronouncements not yet adopted, as well as the results of the Company's annual impairment testing of goodwill performed during the first quarter of fiscal year 2021. This section should be read together with our significant accounting policies, including our critical accounting policies, which are discussed in our Annual Report on Form 10-K for the year ended June 30, 2020 under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Recently Issued Accounting Pronouncements Not Yet Adopted and Critical Accounting Policies — Critical Accounting Policies" and in the notes to the consolidated financial statements included therein.

Results of Operations

Due to the COVID-19 pandemic, in March 2020, the 2019-20 NHL and NBA seasons were suspended. The leagues resumed play several months later, with the Rangers and Islanders participating in the NHL's return to play. The NHL and NBA subsequently completed their seasons in September and October 2020, respectively, which impacted the start and length of each league's 2020-21 regular season. The NBA started its regular season on December 22, 2020 with a reduced schedule of 72 games, while the NHL regular season began on January 13, 2021 and has been reduced to a 56-game schedule. There can be no assurance that the NBA or NHL will be able to complete such regular season schedules. The Company aired 164 NBA and NHL telecasts in the fiscal 2021 third quarter, as compared with 141 NBA and NHL telecasts in the comparable prior year period. The Company aired 187 NBA and NHL telecasts during the nine months ended March 31, 2021, as compared with 338 NBA and NHL telecasts in the comparable prior year period. The Company expects to air more NBA and NHL telecasts in the fiscal 2021 fourth quarter as compared with the comparable prior year period.

The full extent of the impact of the COVID-19 pandemic on our business, operations and financial results will depend on numerous evolving factors that we cannot predict. See "Item 1A. Risk Factors— Our Operations and Operating Results Have Been, and Continue to be, Impacted by the COVID-19 Pandemic and Actions Taken in Response" in the Company's Annual Report on Form 10-K for the year ended June 30, 2020 for additional details.

Comparison of the Three Months Ended March 31, 2021 versus the Three Months Ended March 31, 2020

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 March 31,				Increase (Decrease) in Net Income
	2021		2020		
	Amount	% of Revenues	Amount	% of Revenues	
Revenues	\$ 177,853	100 %	\$ 184,972	100 %	\$ (7,119)
Direct operating expenses	74,392	42 %	83,762	45 %	9,370
Selling, general and administrative expenses	31,743	18 %	25,831	14 %	(5,912)
Depreciation and amortization	1,833	1 %	1,716	1 %	(117)
Operating income	69,885	39 %	73,663	40 %	(3,778)
Other income (expense):					
Interest income	481	NM	900	NM	(419)
Interest expense	(4,958)	(3) %	(9,419)	(5) %	4,461
Other components of net periodic benefit cost	(207)	NM	(258)	NM	51
Miscellaneous income	1,252	1 %	—	NM	1,252
	(3,432)	(2) %	(8,777)	(5) %	5,345
Income from operations before income taxes	66,453	37 %	64,886	35 %	1,567
Income tax expense	(20,870)	(12) %	(18,616)	(10) %	(2,254)
Net income	\$ 45,583	26 %	\$ 46,270	25 %	\$ (687)

NM – Percentage is not meaningful

Revenues

Revenues for the three months ended March 31, 2021 decreased \$7,119, or 4%, to \$177,853 as compared with the prior year period. The net decrease was attributable to the following:

Decrease in affiliation fee revenue	\$ (11,010)
Increase in advertising revenue	3,678
Other net increases	213
	<u>\$ (7,119)</u>

[Table of Contents](#)

The decrease in affiliation fee revenue was primarily due to the impact of a decrease in subscribers of approximately 7% (excluding the impact of the previously disclosed non-renewal with a small Connecticut-based distributor as of October 1, 2020), a net unfavorable affiliate adjustment of \$5,800 recorded in the current year quarter (primarily reflecting accruals for affiliate fee rebates) and, to a lesser extent, the impact of the aforementioned non-renewal. This was partially offset by the impact of higher affiliation rates. As a result of the shortened 2020-21 NBA and NHL regular seasons, we currently expect to record accruals for potential affiliate fee rebates in each of the next three quarters at a similar level to the amount we recorded this quarter.

The increase in advertising revenue was primarily due to higher sales related to live professional sports telecasts, partially offset by other net decreases. The increase in sales from live professional sports telecasts was primarily due to a greater number of NBA and NHL telecasts in the current year quarter as compared with the prior year period as a result of the timing of the 2020-21 NBA and NHL regular seasons and the suspension of the 2019-20 NBA and NHL regular seasons in mid-March 2020.

Direct operating expenses

Direct operating expenses for the three months ended March 31, 2021 decreased \$9,370, or 11%, to \$74,392 as compared with the prior year period due to lower rights fees expense of \$7,598 and, to a lesser extent, a decrease in other programming and production-related costs of \$1,772. The decline in rights fees expense was primarily due to the impact of fewer NHL and NBA games made available for exclusive broadcast by the Company during the NHL and NBA's shortened 2020-21 regular seasons. These decreases were partially offset by the timing of the 2020-21 NBA and NHL regular seasons and the impact of annual contractual rate increases under the Company's media rights agreements. The decrease in other programming and production-related costs primarily reflects the absence of certain expenses related to the production of away games due to the COVID-19 pandemic. We expect to have lower rights fees expense for fiscal year 2021, primarily as a result of the shortened 2020-21 NBA and NHL regular seasons, as compared with the level of fees that would be expected if our teams were playing full seasons.

Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended March 31, 2021 increased \$5,912, or 23%, to \$31,743 as compared with the prior year period primarily due to higher advertising and marketing expenses, employee compensation and related benefits and professional fees. The fiscal 2021 third quarter includes \$1,200 of professional fees related to the Merger. We expect to incur additional Merger related expenses through the first quarter of fiscal year 2022.

Operating income

Operating income for the three months ended March 31, 2021 decreased \$3,778, or 5%, to \$69,885 as compared with the prior year period primarily due to (as discussed above) the decrease in revenues and increase in selling, general and administrative expenses (including share-based compensation expense), partially offset by the decrease in direct operating expenses.

Interest expense

Interest expense for the three months ended March 31, 2021 decreased \$4,461, or 47%, to \$4,958 as compared with the prior year period primarily due to lower average interest rates for the three months ended March 31, 2021 (1.6% as compared with 3.2% in the prior year period) (see "Liquidity and Capital Resources — Financing Agreements").

Income taxes

See Note 15 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 income taxes.

Adjusted operating income

The Company evaluates performance based on several factors, of which the key financial measure is adjusted operating income. Adjusted operating income is defined as operating income 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. Because it is based upon operating income, adjusted operating income also excludes interest expense (including cash interest expense) and other non-operating income and expense items. We believe that the exclusion of share-based compensation expense or benefit allows investors to better track the performance of the Company without regard to the settlement of an obligation that is not expected to be made in cash. We believe adjusted operating income is an appropriate measure for evaluating the operating performance of our Company. Adjusted operating income and similar measures with similar titles are common performance measures used by investors and analysts to analyze our performance. Internally, we use revenues and adjusted operating income measures as the most important indicators of our business performance, and evaluate management's effectiveness with specific reference to these indicators. Adjusted operating income should be viewed as a supplement to and not a substitute for operating income, net income, cash flows from operating activities, and other measures of performance and/or liquidity presented in accordance with U.S. generally accepted accounting principles ("GAAP"). Since adjusted operating income is not a measure of performance calculated in accordance with GAAP, this measure may not be comparable to similar measures with similar titles used by other companies.

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

	Three Months Ended March 31,		Increase (Decrease) in Adjusted Operating Income
	2021	2020	
Operating income	\$ 69,885	\$ 73,663	\$ (3,778)
Share-based compensation	3,324	3,753	(429)
Depreciation and amortization	1,833	1,716	117
Adjusted operating income	<u>\$ 75,042</u>	<u>\$ 79,132</u>	<u>\$ (4,090)</u>

Adjusted operating income for the three months ended March 31, 2021 decreased \$4,090, or 5%, to \$75,042 as compared with the prior year period primarily due to (as discussed above) the decrease in revenues and increase in selling, general and administrative expenses (excluding share-based compensation expense), partially offset by the decrease in direct operating expenses.

Comparison of the Nine Months Ended March 31, 2021 versus the Nine Months Ended March 31, 2020

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

	Nine Months Ended March 31,						Increase (Decrease) in Net Income
	2021			2020			
	Amount	% of Revenues		Amount	% of Revenues		
Revenues	\$ 481,455	100 %		\$ 533,683	100 %		\$ (52,228)
Direct operating expenses	196,497	41 %		236,487	44 %		39,990
Selling, general and administrative expenses	75,962	16 %		80,173	15 %		4,211
Depreciation and amortization	5,463	1 %		5,123	1 %		(340)
Operating income	203,533	42 %		211,900	40 %		(8,367)
Other income (expense):							
Interest income	1,446	NM		3,734	1 %		(2,288)
Interest expense	(15,320)	(3) %		(30,168)	(6) %		14,848
Debt refinancing expense	—	NM		(2,764)	(1) %		2,764
Other components of net periodic benefit cost	(620)	NM		(774)	NM		154
Miscellaneous income	1,252	NM		—	NM		1,252
	(13,242)	(3) %		(29,972)	(6) %		16,730
Income from operations before income taxes	190,291	40 %		181,928	34 %		8,363
Income tax expense	(68,174)	(14) %		(52,627)	(10) %		(15,547)
Net income	\$ 122,117	25 %		\$ 129,301	24 %		\$ (7,184)

NM – Percentage is not meaningful

Revenues

Revenues for the nine months ended March 31, 2021 decreased \$52,228, or 10%, to \$481,455 as compared with the prior year period. The net decrease was attributable to the following:

Decrease in affiliation fee revenue	\$ (34,326)
Decrease in advertising revenue	(17,138)
Other net decreases	(764)
	<u>\$ (52,228)</u>

The decrease in affiliation fee revenue was primarily due to the impact of a decrease in subscribers of approximately 7.5% (excluding the impact of the previously disclosed non-renewal with a small Connecticut-based distributor as of October 1, 2020), a net unfavorable affiliate adjustment of \$11,700 recorded in the current year period (primarily reflecting accruals for affiliate fee rebates) and, to a lesser extent, the impact of the aforementioned non-renewal and the absence of a net favorable affiliate adjustment of \$1,700 recorded in the prior year period. This was partially offset by the impact of higher affiliation rates.

The decrease in advertising revenue was primarily due to lower sales related to fewer live professional sports telecasts in the current year period, slightly offset by other net increases.

Direct operating expenses

Direct operating expenses for the nine months ended March 31, 2021 decreased \$39,990, or 17%, to \$196,497 as compared with the prior year period due to lower rights fees expense of \$29,098 and, to a lesser extent, a decrease in other programming and production-related costs of \$10,892. The decline in rights fees expense was primarily due to the impact of fewer NHL and NBA games made available for exclusive broadcast by the Company during the NHL and NBA's shortened 2020-21 regular seasons. The decrease in other programming and production-related costs was primarily related to fewer NBA and NHL telecasts in the current year period, which reflects the impact of the timing of the 2020-21 NBA and NHL regular seasons.

Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended March 31, 2021 decreased \$4,211, or 5%, to \$75,962 as compared with the prior year period primarily due to lower advertising sales commissions and advertising and marketing expenses and the absence of \$1,600 in expenses recorded in the prior year period that were not indicative of the Company's core expense base. This was partially offset by higher employee compensation and related benefits and professional fees. The current year period includes \$1,200 of professional fees related to the Merger.

Operating income

Operating income for the nine months ended March 31, 2021 decreased \$8,367, or 4%, to \$203,533 as compared with the prior year period primarily due to (as discussed above) the decrease in revenues, partially offset by the decrease in direct operating expenses and, to a lesser extent, the decrease in selling, general and administrative expenses (including share-based compensation expense).

Interest expense

Interest expense for the nine months ended March 31, 2021 decreased \$14,848, or 49%, to \$15,320 as compared with the prior year period primarily due to lower average interest rates for the nine months ended March 31, 2021 (1.7% as compared with 3.4% in the prior year period) (see "Liquidity and Capital Resources — Financing Agreements").

Income taxes

See Note 15 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 income taxes.

Adjusted operating income

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

	Nine Months Ended		Increase (Decrease) in Adjusted Operating Income
	2021	2020	
Operating income	\$ 203,533	\$ 211,900	\$ (8,367)
Share-based compensation	14,217	13,852	365
Depreciation and amortization	5,463	5,123	340
Adjusted operating income	<u>\$ 223,213</u>	<u>\$ 230,875</u>	<u>\$ (7,662)</u>

Adjusted operating income for the nine months ended March 31, 2021 decreased \$7,662, or 3%, to \$223,213 as compared with the prior year period primarily due to (as discussed above) the decrease in revenues partially offset by the decrease in direct operating expenses and, to a lesser extent, the decrease in selling, general and administrative expenses (excluding share-based compensation expense).

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 revolving credit facility. The Company amended and restated its prior credit agreement, dated September 28, 2015 (the “Former Credit Agreement”), on October 11, 2019 in its entirety. See “Financing Agreements” below. Our principal uses of cash are expected to include working capital-related items, capital spending, taxes, debt service, and the repurchase of shares of the Company’s Class A Common Stock. The Company’s use of its available liquidity will be based upon the ongoing review of the funding needs of the business, its view of a favorable allocation of cash resources, and the timing of cash flow generation.

We believe we have sufficient liquidity, including \$324,067 in cash and cash equivalents, as of March 31, 2021, as well as the available borrowing capacity under our revolving credit facility and our anticipated operating cash flows, to fund our business operations, repurchase shares of the Company’s Class A Common Stock and service our outstanding term loan facility (see “Financing Agreements” below) during 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, costs related to the Merger 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. In addition, the COVID-19 pandemic has caused disruption in the capital markets, which could make financing more difficult and/or expensive and we may not be able to obtain such financing on terms acceptable to us or at all.

On December 7, 2017, the Board authorized the repurchase of up to \$150,000 of the Company’s Class A Common Stock. On August 29, 2019, the Board authorized a \$300,000 increase to the stock repurchase authorization, which had \$136,165 of availability remaining, bringing the total available repurchase authorization for Class A Common Stock to \$436,165 as of that date. Under the authorization, shares of Class A Common Stock may be purchased from time to time in open market or private transactions, block trades or such other manner as the Company may determine, in accordance with applicable insider trading and other securities laws and regulations. The timing and amount of purchases will depend on market conditions and other factors. The Merger Agreement provides that, during the periods from the date of the Merger Agreement until the closing of the Merger or termination of the Merger Agreement, the Company is subject to restrictions that, among others, restrict its ability to repurchase, redeem or otherwise acquire shares of Class A Common Stock without the prior consent of MSGE. As of March 31, 2021, the Company had \$145,864 of availability remaining under its stock repurchase authorization.

Financing Agreements

On September 28, 2015, MSGN Holdings, L.P. (“MSGN L.P.”), an indirect wholly-owned subsidiary of the Company through which the Company conducts substantially all of its operations, 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 the Former Credit Agreement with a syndicate of lenders.

MSGN L.P., the Holdings Entities and certain subsidiaries of MSGN L.P. amended and restated the Former Credit Agreement effective October 11, 2019 (the “Credit Agreement”). The Credit Agreement provides MSGN L.P. with senior secured credit facilities consisting of: (i) an initial \$1,100,000 term loan facility (the “Term Loan Facility”) and (ii) a \$250,000 revolving credit facility (the “Revolving Credit Facility”), each with a term of five years. The Merger will not result in a change of control or acceleration of debt payments under the Credit Agreement. The Merger Agreement restricts the Company’s ability to redeem, repurchase, prepay, guarantee or otherwise become liable for any material indebtedness without the prior consent of MSGE.

The Company has made principal repayments aggregating to \$39,875 through March 31, 2021 under the Credit Agreement. The Term Loan Facility amortized quarterly in accordance with its terms. As of March 31, 2021, there was \$1,060,125 outstanding under the Term Loan Facility, and no borrowings under the Revolving Credit Facility. As of March 31, 2021, the Holdings Entities and MSGN L.P. and its restricted subsidiaries on a consolidated basis were in compliance with the financial covenants of the Credit Agreement.

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 Note 9 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2020, the Company's contractual obligations not reflected on the consolidated balance sheets consist primarily of its obligations under media rights agreements.

In addition, see Notes 7 and 8 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 and maturities of the Company's operating lease liabilities, respectively.

Cash Flow Discussion

Operating Activities

Net cash provided by operating activities for the nine months ended March 31, 2021 increased by \$18,512 to \$158,483 as compared with the prior year period. This increase was primarily due to the impact of certain working capital items and lower interest payments as compared with the prior year period. This increase was partially offset by higher income tax payments and lower operating income as compared with the prior year period.

Investing Activities

Net cash used in investing activities for the nine months ended March 31, 2021 increased by \$769 to \$2,980 as compared with the prior year period due to higher capital expenditures in the current year period.

Financing Activities

Net cash used in financing activities for the nine months ended March 31, 2021 decreased by \$197,613 to \$28,273 as compared with the prior year period. This decrease is primarily due to absence of repurchases of the Company's Class A Common Stock, partially offset by the absence of proceeds received in the prior year period from borrowings under the Company's senior secured credit facilities.

Recently Issued Accounting Pronouncements Not Yet Adopted and Critical Accounting Policies

Recently Issued Accounting Pronouncements Not Yet Adopted

See Note 2 to the consolidated financial statements included in “Part I — Item 1. Financial Statements” of this Quarterly Report on Form 10-Q for information regarding recently issued accounting pronouncements not yet adopted.

Critical Accounting Policies

The following discussion has been included to provide the results of the Company’s annual impairment testing of goodwill performed during the first quarter of fiscal year 2021. There have been no other 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, 2020.

Goodwill

The goodwill balance reported on the Company’s consolidated balance sheet as of March 31, 2021 is \$424,508. Goodwill is tested annually for impairment as of August 31st and at any time upon the occurrence of certain events or substantive changes in circumstances. 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 does not need to perform the quantitative goodwill impairment test for that reporting unit. If the Company cannot support such a conclusion or the Company does not elect to perform the qualitative assessment then the Company would perform the quantitative goodwill impairment test. The quantitative goodwill impairment test, used to identify both the existence of impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

The Company has one reporting unit for evaluating goodwill impairment. During the first quarter of fiscal year 2021, the Company performed its annual impairment test of goodwill by comparing the fair value of its reporting unit with its carrying value. As the Company’s reporting unit had a negative carrying value of net assets, there was no impairment of goodwill identified.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the quantitative and qualitative disclosures about market risk made in the Company's Annual Report on Form 10-K for the year ended June 30, 2020.

Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2021 the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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 1A. **Risk Factors**

In addition to the risk factors set forth below and the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended June 30, 2020, which could materially affect our business, financial condition or future operating results.

The Company and MSGE May Fail to Consummate the Merger, and Uncertainties Related to the Consummation of the Merger May Have A Material Adverse Effect on the Company’s Business, Results of Operations and Financial Condition and Negatively Impact the Price of Our Common Stock.

The consummation of the Merger is subject to certain conditions and the Merger Agreement also contains certain customary termination rights for the Company and MSGE, including, without limitation, if the Merger is not consummated on or before December 20, 2021.

The Merger is expected to be completed during the third quarter of calendar year 2021, however, there is no assurance that the Merger and the other transactions contemplated by the Merger Agreement will occur on the terms and timeline currently contemplated, or at all. If the Merger is not completed or the Merger Agreement is terminated, our business may be adversely affected and, without realizing any of the benefits of having completed the transaction, we would be subject to a number of risks, including the impact of: (i) adverse reactions from the financial markets, including negative impacts on the price of our Class A Common Stock; (ii) negative reactions from our customers or other stakeholders; (iii) the payment of certain costs relating to the Merger, whether or not the Merger is completed; (iv) matters relating to completion of the Merger, which will require substantial commitments of time and resources by our management that would otherwise have been devoted to day-to-day operations; and (v) litigation related to any failure to complete the Merger or related to any enforcement proceeding commenced against us to perform our obligations under the Merger Agreement. If the Merger is not completed or is delayed, the risks described above may materialize and may adversely affect our business, results of operations and financial condition, financial results and stock price.

While the Merger is Pending, the Company Will Be Subject to Business Uncertainties as Well as Contractual Restrictions Under the Merger Agreement That May Have an Adverse Effect on Our Business.

The Merger will occur only if stated conditions are met, many of which are outside of our control. In addition, each of the Company and MSGE have rights to terminate the Merger Agreement under specified circumstances. Accordingly, there may be uncertainty regarding the completion of the Merger. Uncertainty about the effect of the transaction on our employees and business relationships may have an adverse effect on our business. These uncertainties may impair our ability to retain and motivate key personnel until the completion of the Merger.

In addition, the Merger Agreement contains customary covenants which restrict each of the Company and MSGE, without the consent of the other party, from taking certain specified actions until the transaction closes or the Merger Agreement terminates. These restrictions may prevent us from pursuing otherwise attractive business opportunities that may arise prior to the completion of the Merger or termination of the Merger Agreement.

We Will Incur Significant Transaction Costs in Connection With the Merger, Even if the Merger is Not Consummated.

We expect to pay significant transaction costs in connection with the Merger. These transaction costs include legal, accounting, tax and financial advisory expenses, SEC filing fees, printing expenses, mailing costs and other related charges. A portion of the transaction costs will be incurred regardless of whether the transaction is completed. In accordance with the Merger Agreement, each of the Company and MSGE will generally pay its own costs and expenses in connection with the transaction, whether or not the transaction is completed. If the Merger is not completed, we will have incurred substantial expenses for which no ultimate benefit will have been received by the Company. In addition, the Merger Agreement contains certain termination rights for the Company and MSGE, and under certain circumstances, we may be required to pay a termination fee to MSGE of \$18.9 million.

We May Be Subject to Lawsuits Relating to the Merger, Which May Impact the Timing of the Closing and Our Ability to Close the Merger and May Adversely Impact Our Business.

The Company and our directors, officers and controlling stockholders may be subject to lawsuits relating to the Merger. Litigation is very common in connection with the sale of public companies, regardless of whether the claims have any merit. One of the conditions to consummating the Merger is that no order preventing or otherwise prohibiting the consummation of the Merger shall have been issued by any court. Consequently, if any lawsuit challenging the Merger is successful in obtaining an order preventing the consummation of the Merger, that order may delay or prevent the Merger from being completed. While we will evaluate and defend against any lawsuits, the time and costs of defending against litigation relating to the Merger may adversely affect our business.

Holders of Our Class A Common Stock Cannot Be Sure of the Value of the Merger Consideration They Will Receive in the Merger; the Market Value of Our Class A Common Stock May Vary Significantly Prior to the Merger due to a Variety of Factors.

The Merger Agreement includes a fixed exchange ratio that will determine the number of shares of MSGE Class A Common Stock that holders of the Company's Class A Common Stock will receive at the effective time of the Merger, with such product rounded up to the next whole share. The market value of our Class A Common Stock and MSGE Class A Common Stock at the time of the closing of the Merger may vary significantly from the market value of such stock on March 10, 2021 (the last full trading day before a press report speculated on a potential transaction between MSGE and the Company), the date the Merger Agreement was executed or the date of this Quarterly Report on Form 10-Q. Because the exchange ratio will not be adjusted to reflect any changes in the market price of our Class A Common Stock or MSGE Class A Common Stock, the market value of MSGE Class A Common Stock issued to the Company's stockholders in the Merger and the market value of the Company's Class A Common Stock surrendered in the Merger may each be higher or lower than the values of those shares on earlier dates. Accordingly, at any time prior to the completion of the Merger, the Company's stockholders will not know or be able to determine the value of MSGE Class A Common Stock they will receive as consideration upon completion of the Merger.

Changes in the market price of our Class A Common Stock and MSGE Class A Common Stock may result from a variety of factors that are beyond our control, including changes in our and/or MSGE's business, operations and prospects, governmental actions, legal proceedings and developments and other matters generally affecting the securities market. Market assessments of the benefits of the Merger, the likelihood that the Merger will be completed and general and industry-specific market and economic conditions may also have an effect on the market price of our Class A Common Stock and MSGE Class A Common Stock. Neither the Company nor MSGE is permitted to terminate the Merger Agreement solely because of changes in the market prices our Class A Common Stock or MSGE Class A Common Stock. You are urged to obtain up-to-date prices our Class A Common Stock and MSGE Class A Common Stock.

[Table of Contents](#)

Item 6. Exhibits

(a) Index to Exhibits

EXHIBIT NO.	DESCRIPTION
2.1	Agreement and Plan of Merger, dated as of March 25, 2021, by and among MSG Networks, MSG Entertainment and Merger Sub (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on March 26, 2021).
10.1	MSG Entertainment Voting and Support Agreement, dated as of March 25, 2021, by and among MSG Networks and certain stockholders of MSG Entertainment that are signatories thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 26, 2021).
10.2	MSG Networks Voting and Support Agreement, dated as of March 25, 2021, by and among MSG Entertainment and certain stockholders of MSG Networks that are signatories thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 26, 2021).
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 — the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, formatted in Inline XBRL and contained in Exhibit 101.

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 6th day of May, 2021.

MSG Networks Inc.

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

Certification

I, Andrea Greenberg, certify that:

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

Date: May 6, 2021

/s/ Andrea Greenberg

Andrea Greenberg

President and Chief Executive Officer

Certification

I, Bret Richter, certify that:

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

Date: May 6, 2021

/s/ Bret Richter

Bret Richter

Executive Vice President, Chief Financial Officer and Treasurer

Certification

Pursuant to 18 U.S.C. §1350, the undersigned officer of MSG Networks Inc. (the “Company”), hereby certifies, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2021 (the “Report”) fully complies with the requirements of §13(a) or §15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2021

/s/ Andrea Greenberg

Andrea Greenberg

President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Report or as a separate disclosure document.

Certification

Pursuant to 18 U.S.C. §1350, the undersigned officer of MSG Networks Inc. (the “Company”), hereby certifies, to such officer's knowledge, that the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2021 (the “Report”) fully complies with the requirements of §13(a) or §15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2021

/s/ Bret Richter

Bret Richter

Executive Vice President, Chief Financial Officer and Treasurer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Report or as a separate disclosure document.