Consolidated Financial Statements and
Report of Independent Certified Public Accountants

# BROOKLYN ARENA, LLC AND SUBSIDIARY

June 30, 2018

# BROOKLYN ARENA, LLC AND SUBSIDIARY

## TABLE OF CONTENTS

Grant Thornton LLP
757 Third Avenue, 9th Floor
New York, NY 10017

T 212.599.0100
F 212.370.4520
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Member of
**Brooklyn Arena, LLC and Subsidiary**

We have audited the accompanying consolidated financial statements of Brooklyn Arena, LLC and Subsidiary, a Delaware limited liability company, which comprise the consolidated balance sheet as of June 30, 2018, and the related consolidated statement of operations and comprehensive loss, member's equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Arena, LLC and its subsidiary as of June 30, 2018 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
October 26, 2018

## BROOKLYN ARENA, LLC AND SUBSIDIARY
### Consolidated Balance Sheet
**As of June 30, 2018**

| | |
|---|---|
| **ASSETS** | |
| CURRENT ASSETS | |
| Cash and cash equivalents | $ 9,514,641 |
| Restricted cash and escrowed funds | 346,879,950 |
| Accrued interest receivable | 4,155,281 |
| Accounts receivable, less allowance of $727,216 | 8,107,989 |
| Accounts receivable - Affiliates | 2,418,181 |
| Prepaid expenses and other assets | 3,181,280 |
| Total current assets | 374,257,322 |
| Arena, net | 604,969,865 |
| Intangibles, net | 161,187,833 |
| Loan to affiliate | 12,000,000 |
| Total assets | $ 1,152,415,020 |
| **LIABILITIES AND MEMBER'S EQUITY** | |
| CURRENT LIABILITIES | |
| Accounts payable and accrued expenses | $ 18,507,495 |
| Deferred revenue | 48,990,909 |
| Accounts payable - affiliates | 2,864,303 |
| Total current liabilities | 70,362,707 |
| Financing lease obligation | 706,759,188 |
| Other | 255,858 |
| Total liabilities | 777,377,753 |
| Member's equity | 375,037,267 |
| Total liabilities and member's equity | $ 1,152,415,020 |

*The accompanying notes are an integral part of this consolidated financial statement.*

# BROOKLYN ARENA, LLC AND SUBSIDIARY
## Consolidated Statement of Operations and Comprehensive Loss
### For the year ended June 30, 2018

| | | |
|---|---|---|
| **REVENUES** | | |
| Sponsorship and suites | $ | 58,117,467 |
| Events and other income | | 64,464,102 |
| Ticketing, facility and related fees | | 15,229,273 |
| Concession revenue | | 11,342,893 |
| Total revenues | | 149,153,735 |
| **OPERATING EXPENSES** | | |
| Events | | 94,369,273 |
| Operating and maintenance | | 38,164,301 |
| Selling, general and administrative | | 9,669,806 |
| Total operating expenses excluding depreciation and amortization | | 142,203,380 |
| Realized loss on investments | | 3,647,444 |
| Interest expense - financing lease obligation, net of interest income | | 21,029,022 |
| Depreciation expense | | 24,455,367 |
| Amortization expense | | 11,601,352 |
| Net loss | | (53,782,830) |
| **OTHER COMPREHENSIVE LOSS** | | |
| Change in unrealized loss on securities: | | |
| Unrealized loss arising in period | | 17,174,897 |
| Reclassification adjustment: loss included in net income | | (3,647,444) |
| Comprehensive loss | $ | (67,310,283) |

*The accompanying notes are an integral part of this consolidated financial statement.*

# BROOKLYN ARENA, LLC AND SUBSIDIARY
## Consolidated Statement of Member's Equity
### For the year ended June 30, 2018

| | Onexim Sports and Entertainment, LLC 100% | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|---|---|---|---|
| **Balance at June 30, 2017** | $ 93,784,433 | $ - | $ 93,784,433 |
| Net loss | (53,782,830) | - | (53,782,830) |
| Capital contributions | 348,563,117 | - | 348,563,117 |
| Change in unrealized gain on securities | | | |
| Reclassification adjustment realized loss | - | 3,647,444 | 3,647,444 |
| Change in unrealized loss on investment | - | (17,174,897) | (17,174,897) |
| **Balance at June 30, 2018** | $ 388,564,720 | $ (13,527,453) | $ 375,037,267 |

*The accompanying notes are an integral part of this consolidated financial statement.*

# BROOKLYN ARENA, LLC AND SUBSIDIARY
## Consolidated Statement of Cash Flows
### For the year ended June 30, 2018

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net loss | $ (53,782,830) |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation | 24,455,367 |
| Amortization | 11,601,352 |
| Loss on Sale of Marketable Securities | 3,647,444 |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 1,450,909 |
| Accounts receivable - Affiliates | 3,902,528 |
| Accrued Interest on marketable securities | (4,155,281) |
| Prepaid expenses and other assets | (1,387,634) |
| Accounts payable and accrued expenses | 3,185,268 |
| Deferred revenue | (11,668,608) |
| Financing lease obligation - accrued interest expense | 1,800,183 |
| Net cash flows used in operating activities | (20,951,302) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment in the Arena | (2,178,922) |
| Deposits into restricted cash and escrowed funds | (28,567,245) |
| Payments from restricted cash and escrowed funds | 11,698,491 |
| Purchase of securities | (328,214,795) |
| Net cash flows used in investing activities | (347,262,471) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Capital contributions from members | 345,388,305 |
| Net cash flows provided by financing activities | 345,388,305 |
| Net decrease in cash and cash equivalents | (22,825,468) |
| Cash and cash equivalents, beginning of the period | 32,340,109 |
| Cash and cash equivalents, end of the period | $ 9,514,641 |
| Supplemental cash transactions: | |
| Interest paid | $ (25,244,303) |

*The accompanying notes are an integral part of this consolidated financial statement.*

## 1. ORGANIZATION

Brooklyn Arena, LLC ("Brooklyn Arena"), a Delaware limited liability company, owns 100% membership interests in Brooklyn Events Center, LLC ("Brooklyn Events"), a Delaware limited liability company, (collectively, the "Company"). Brooklyn Arena's membership interests are wholly owned by Onexim Sports and Entertainment, LLC ("OS&E"). Through its subsidiary, Brooklyn Arena operates the Barclays Center (the "Arena"), a state-of-the-art sports and entertainment arena located in Brooklyn, New York.

### Nature of Business

The Arena is the home of a professional basketball team, the Brooklyn Nets ("Nets"), and a professional hockey team, the New York Islanders ("Islanders"). The Arena also hosts live entertainment events, such as concerts, family shows, and other entertainment events.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying consolidated financial statements include Brooklyn Arena and its wholly owned subsidiary, Brooklyn Events, and are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). All significant intercompany transactions and balances have been eliminated in consolidation.

### Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions about future events. These estimates and underlying assumptions affect reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates included valuation of accounts receivable, long-lived assets and other liabilities. In addition, estimates are used in revenue recognition, expense recognition, prepaid expenses, accrued expenses, and depreciation and amortization of assets. These estimates are based on management's best judgment at a point in time and actual results could differ from those estimates.

### Cash and Cash Equivalents

The Company considers all cash balances on deposit with financial institutions and highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

### Restricted Cash and Escrowed Funds

Restricted cash primarily consists of PILOT Payments in excess of the net debt service requirements. In addition, Arena Co received $345,388,305 due to the minority sale transaction (see Note 4) in the form of cash and then subsequently invested the majority of that into marketable securities. The marketable securities are included in this balance at fair market value at June 30, 2018. Escrowed funds represent the balance of amounts funded in accordance with the Arena Lease. As of June 30, 2018, restricted cash and escrowed funds consist of the following:

| | |
|---|---|
| Restricted investment account | $ 331,388,219 |
| Restricted cash | 6,419,673 |
| Escrowed funds | 9,072,058 |
| Total | $ 346,879,950 |

**Marketable Securities**

The Company’s marketable securities are accounted for as available-for-sale securities. Available-for-sale securities represent those securities that are actively traded and are carried at fair value, as determined by quoted market prices as of the end of the last trading date of the period. The cost bases used in determining the net gain or loss on the sale of marketable securities is the specific identification method. Unrealized gains and losses on these securities are excluded from earnings and are reported as a separate component of the stockholders’ equity, net of applicable taxes, until realized. The Company recorded a net unrealized loss on available-for-sale securities of $17,174,897 in the stockholders’ equity for the year ended June 30, 2018.

**Accounts Receivable**

Accounts receivable are recorded at net realizable value. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. The allowance for doubtful accounts is estimated based on the Company’s analysis of receivables aging, specific identification of receivables that are at risk of not being paid and other factors.

**Concentration of Credit Risk**

Financial instruments that may potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains cash deposits with major financial institutions which from time to time may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

There are no customers, other than our contractual agreements with the Nets and Islanders, that represented 10% or more of accounts receivable as of June 30, 2018 or revenues for year ended June 30, 2018.

**Prepaid Expenses and Other Assets**

Prepaid expenses represent costs incurred for insurance which are amortized on a straight-line basis over the related period of insurance coverage, and costs incurred for various future events which are paid in advance and expensed when the events occur.

**Arena**

The arena is reported at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of its long-lived assets as follows:

| | |
|---|---|
| Arena | 31.5 years |
| Building improvements | 15 to 20 years |
| Furniture and equipment | 3 to 31.5 years |

As of June 30, 2018, Arena consists of the following:

| | |
|---|---|
| Building and land | $ 604,553,860 |
| Furniture and equipment | 61,886,315 |
| Less: Accumulated depreciation | (61,470,310) |
| Arena, net | $ 604,969,865 |

**Intangibles**

The Company's intangible assets are reported at cost. Amortization is computed on a straight-line basis over the estimated useful lives of its long-lived assets as follows:

| | |
|---|---|
| Agreement related intangibles | 14 to 23 years |

As of June 30, 2018, intangibles consist of the following:

| | |
|---|---|
| Agreement related intangibles | $ 189,190,000 |
| Less: Accumulated amortization | (28,002,167) |
| Intangibles, net | $ 161,187,833 |

The Company expects to recognize amortization expense related to its intangible assets of approximately $11,600,000 in each of the fiscal years 2019, 2020, 2021, 2022 and 2023.

The Company reviews its long-lived assets to determine if its carrying costs will be recovered from future undiscounted cash flows whenever events or changes in circumstances indicate that recoverability of long-lived assets may not be supported. Significant estimates are made in the determination of future undiscounted cash flows. When the Company does not expect to recover its carrying costs, an impairment loss is recorded to the extent the carrying value exceeds fair value. No triggering event for impairment testing occurred during the year ended June 30, 2018.

**Deferred Revenue**

Deferred revenue represents future revenue derived from sponsorship, suite license and future events which will be recognized as revenue when earned. Deferred revenue is presented net of approximately $3,502,000 of advance sponsorship and suite license billings that are outstanding at June 30, 2018, but pertain to the next fiscal year.

### Debt Acquisition Costs

In accordance with Accounting Standards Update 2015-03, debt acquisition costs are classified as a contra-liability against the financing lease obligation at the date of issuance and are amortized over the term of the associated debt as interest expense. These costs are amortized using the effective interest method.

### Fair Value of Financial Instruments

The Company estimates the fair value of its debt instruments by discounting future cash payments at interest rates that the Company believes approximate current market rates. The estimated fair value is based upon market prices of public debt, available industry financing data, current treasury rates, recent financing transactions and other factors. The carrying amount of the Company's accounts payable and accrued expenses, other payables, and net financing lease obligation approximate fair value.

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, notes payable and marketable securities. With the exception of marketable securities and notes payable, the carrying amount of these instruments approximates fair value due to the relatively short period of time to maturity for these instruments.

The company measures the fair value of its financial instruments following a framework that requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs consist of market data obtained from independent sources while unobservable inputs reflect the Company's own market assumptions. These inputs create the following fair value hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Valuations based on quoted prices in markets that are not active, quoted prices for similar assets and liabilities or all other inputs that are observable; and

Level 3 - Unobservable inputs for which there is little or no market data which require the Company to develop its own assumptions.

If the inputs used to measure the fair value of a financial instrument fall within different levels of the hierarchy, the financial instrument is categorized based upon the lowest level input that is significant to the fair value of the investment.

The following table presents the financial assets the company measures at fair value on a recurring bases, based on the fair value hierarchy for June 30, 2018.

| | **Fair Value Measured and Recorded at June 30, 2018** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Marketable securities | | | | |
| Bonds | $ - | $ 314,214,710 | $ - | $ 314,214,710 |
| | $ - | $ 314,214,710 | $ - | $ 314,214,710 |

**Commitment and Contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. As of June 30, 2018, there was no loss contingencies accrued.

**Revenue Recognition**

*Sponsorships and Suites*
Sponsorships and suites revenue are recognized, net of fulfillment costs, on a straight-line basis over the term of the respective contracts. For the year ended June 30, 2018, total fulfillment costs were approximately $2.6 million.

**Events and Other Income**

Event and other income results from the sale of tickets earned in connection with the Islanders and other events that the Company produces or promotes, as well as venue license fees earned in connection with events that the Company does not produce or promote. Event and other income are recognized when the events occur.

**Ticketing, Facility, and Related Fees**

Ticketing fee revenue is based on the Arena's share of ticket sale fees in accordance with the agreement with Ticketmaster. In addition, the Company also earns a facility fee for events. Fees are recognized when the event occurs.

**Concession**

Concessions revenue is based on the Arena's share of gross receipts in accordance with the agreement with the Arena concession operator. Concession revenue is recorded at the time the concession is provided. In addition, to the extent the concession operator generates a profit at the end of the fiscal year; the Company records its share as provided for in the agreement.

**Gross versus Net Event Revenue Recognition**

The Company reports revenue on a gross or net basis based on management's assessment of whether the Company acts as a principal or agent in the transaction. To the extent the Company acts as the principal, revenue is reported on a gross basis. The determination of whether the Company acts as a principal or an agent in a transaction is based on an evaluation of whether the Company has the substantial risks and rewards of ownership under the terms of an arrangement. Generally, when the Company is the promoter or co-promoter of an event, the Company reports revenue on a gross basis. When the Company acts as an agent, revenue is reported on a net basis.

**Operating and Maintenance**

Operating and maintenance expense primarily consists of salaries and benefits, property and general insurance, utilities and maintenance costs. These costs are expensed as incurred.

**Selling, General and Administrative**

Selling, general and administrative expense primarily consists of non-event related marketing, and office overhead expense such as printing, supplies, phone service, etc.

**Taxes**

The Company is a single-member limited liability company. From a federal income tax perspective, there is no substantive difference between a single-member limited liability company that is treated as a disregarded entity and a division that is included in the member's consolidated tax return. Therefore, no provision or benefit for federal, state and local income taxes has been reflected in the financial statements since such income taxes, if any, are the responsibility of the member.

Where applicable, sales tax is collected from customers and remitted to governmental authorities and are excluded from revenue.

**Subsequent Events Review**

The Company has evaluated and disclosed events and transactions that occurred between June 30, 2018 and October 26, 2018, which is the date the financial statements were available to be issued.

## 3. MARKETABLE SECURITIES

A summary of the cash and cash equivalents and marketable securities held by the Company as follows:

| | June 30, 2018 Aggregate | |
|---|---|---|
| | **Cost Basis** | **Fair Value** |
| Cash and cash equivalents | | |
| Cash | $ 9,514,641 | $ 9,514,641 |
| Restricted cash and escrow funds | 32,665,240 | 32,665,240 |
| Total cash and cash equivalents | $ 42,179,881 | $ 42,179,881 |
| Marketable securities | | |
| Bonds | $ 331,389,607 | $ 314,214,710 |
| Total marketable securities | $ 331,389,607 | $ 314,214,710 |

At June 30, 2018, the cost of the marketable securities exceeded the fair value of these securities by $17,174,897.

At June 30, 2018 interest income on the bonds of $4,155,281 has been accrued net of interest expense, in the consolidated statement of operations.

## 4. ARENA RESERVE ACCOUNT CONTROL AND SECURITY AGREEMENT

Onexim Sports and Entertainment Holding USA, Inc., which wholly owns Brooklyn Arena's membership interests, entered in to a Membership Interest Purchase Agreement dated March 28, 2018 to sell a minority share (49.9%) of the outstanding limited liability company interests of Brooklyn Basketball Holdings, LLC, which indirectly owns all of the outstanding equity interests of the Brooklyn Nets, LLC to an independent third party. The deal closed on April 11, 2018.

In connection with the sale, the lease agreement between Brooklyn Events Center, LLC (“Arena Co”) and the Brooklyn Nets was amended resulting in a reduction of revenues and related cash flow at Arena Co.

As a result of the sale and impact on the Arena as noted above, Brooklyn Events Center, LLC entered in to a reserve account control and security agreement with the National Basketball Association, on April 11, 2018, for the purposes of establishing, funding and maintaining a reserve account and providing supplemental revenues and cash flows to the Arena.

Funds of $345 million were placed into Escrow to cover the payments of the Pilot Bonds and other operating expenses. $328 million of this was then taken from the escrow fund and invested in marketable securities. This contribution is being treated as an equity contribution on the Arena Co financials since this is from a related party.

## 5. FINANCE LEASE OBLIGATION

Due to the Company’s option to purchase the Arena at the end of the lease term, the Company’s obligation under the Arena Lease is recorded as a financing lease obligation.

On September 12, 2007, and as subsequently amended, Brooklyn Arena entered into a Funding Agreement with Empire State Development Corp (“ESDC”), an agency of New York State, pursuant to which the New York City Economic Development Corporation contributed, through ESDC, $131,000,000 (“Acquisition Price”), which approximated the value of the land, to acquire the land from the Company. In March 2010, the title to the Arena land vested with ESDC. In January 2016, as a result of the arena sale, the fair market value of the land was assessed at $144,050,000.

A ground lease agreement was entered into between ESDC and Brooklyn Arena Local Development Corp (“LDC”). Effective on March 12, 2010, LDC sublet the land (“Arena Lease”) to Brooklyn Events. Since Brooklyn Events has continuing involvement in the form of an option to purchase the Arena at the end of the initial lease term for fair market value, the reassessed value of $144,050,000 is recorded as a financing lease obligation.

In December 2009, LDC issued $511,000,000 in PILOT Revenue Bonds, Series 2009 (“PILOT Bonds”) for the purpose of paying the costs of construction of the Arena, servicing interest during the construction period and establishing the required collateral reserves.

In accordance with the Arena Lease, on May 12, 2010 and various dates thereafter, Brooklyn Events deposited cash into escrow accounts (“Escrowed Funds”) held by the PILOT Trustee. Escrowed Funds were used to fund construction costs, interest payments during the construction period and certain collateral reserve accounts. If the Escrowed Funds were insufficient, Brooklyn Events was required to fund the amounts required to complete the Arena. No additional funding was required in the current year.

The Arena Lease has an initial term of thirty-seven years with seven consecutive renewal options: extensions one through six are ten years each and the seventh extension is for a two-year period, for a total number of years available under the Arena Lease not to exceed ninety-nine years. The following are the components of rental payments:

- *Base Rent* **-** Initial term at an annual amount of $10.00; renewal terms at fair market rental value.

- *Additional Rent* **-** Equivalent to the members' funding in the Company that is ultimately used to pay for the construction of the Arena and fund the Escrowed Funds, plus any additional contributions required due to cost over-runs.

- *Pilot Payments* **-** The estimated PILOT Payments provide 110% coverage over the estimated net debt service requirements of the PILOT Bonds. The PILOT Payments in excess of the net debt service requirements are deposited into the Restricted cash and escrowed funds and will be made available to Brooklyn Events for certain operating and maintenance expenses ("O&M Funds") of the Arena provided that the amount on-hand with the PILOT Trustee is not less than 10% of the remaining current year's PILOT payment.

On September 15, 2016, LDC issued approximately $493.7 million of PILOT Revenue Refunding Bonds, Series 2016, the proceeds of which will be applied for the purpose of refunding a portion of LDC's outstanding PILOT Revenue Bonds, Series 2009. In accordance with Accounting Standards Codification 470, the Company concluded that the transaction was deemed to be a debt extinguishment. As a result, the Company recognized a loss on extinguishment on the difference between the carrying value of the 2009 PILOT Bonds and the reacquisition price of the 2016 PILOT Bonds, at the time of the refunding.

The PILOT Payments may not exceed actual taxes, as defined in the Arena Lease, and each PILOT Payment is secured by a mortgage agreement which encumbers the Arena. For the year ended June 30, 2018, the total PILOT Payments made by Brooklyn Events were $34,777,856 of which $23,444,120 was used to service the PILOT Revenue Bonds and the difference is deposited to the Escrowed Funds. The following table presents scheduled PILOT payments due under the Arena Lease:

| **Years Ending June 30,** | |
|---|---|
| 2019 | $ 35,469,206 |
| 2020 | 36,232,028 |
| 2021 | 37,015,049 |
| 2022 | 37,819,672 |
| 2023 | 38,650,694 |
| Thereafter | 1,099,964,588 |
| Total | 1,285,151,237 |
| Less: imputed interest cost | (508,789,700) |
| Less: O&M funds | (213,652,349) |
| Total present value | 562,709,188 |
| Acquisition price | 144,050,000 |
| Financing lease obligation | $ 706,759,188 |

The PILOT Payments are allocated between principal and interest to amortize construction funds and accrued interest in a manner which produced a constant interest rate of 4.5% over the term of the Arena Lease. The PILOT Payments, presented above, will be applied between principal, interest expense and O&M Fund. Principal payments toward the financing lease obligation will be fully paid off by the end of the lease term. Total interest for the year included in interest expense is $25,244,303.

## 6. RELATED PARTY TRANSACTIONS

### Agreement with the Nets and OS&E

On May 12, 2012, the Company entered into a 37-year licensing agreement with the Nets whereby the Nets have certain and exclusive rights regarding the use of the Arena. The licensing agreement requires the Nets to pay the greater of an annual base licensing fee of $6,500,000 or 10% of Net Ticket Revenue, as defined, and an ancillary licensing fee of $494,000, and other reimbursable expenses to Brooklyn Events beginning November 1, 2012 which are subject to annual increases equal to the lesser of 3% or the Consumer Price Index. The licensing agreement also requires the Nets to pay a Merchandising Fee an annual sum of $420,000, increased by 3% each NBA season. The Company also has an agreement with the Nets to share in the costs of various employees and other Arena related expenses. In connection with the sale, mentioned above in Note 3, on April 11, 2018, the Arena entered in to an Amended and Restated License Agreement with the Nets. The amendment removes the license fee that was payable to the Arena from the Nets and instead includes provisions for reimbursement of expenses incurred by the Arena for game day services. The amendment also removes the merchandising fee that was payable to the Arena from the Nets.

Also, the Company has suite license agreements with OS&E and the Nets. OS&E purchased two suite licenses with a combined annual fee of approximately $976,000. The annual fee for the Nets Suite is $427,000.

### Loan with OS&E

On June 29, 2016, the Company entered into a loan agreement with OS&E, whereby it agreed to loan up to $50,000,000 million. As of June 30, 2018, total loan to affiliate is $12,000,000.

### Accounts Receivable-Accounts Payable (to)/from Affiliates

As of June 30, 2018, accounts receivable-payable (to)/from affiliates consists of the following which primarily represents shared Nets employee costs, suite license agreement due from OSEH and overhead costs due from Nassau.

| | |
|---|---|
| Due (to) from affiliate | |
| Nets | $ (2,864,303) |
| Nassau Events Center | 1,431,727 |
| Onexim Sports and Entertainment | 986,454 |
| Total | $ (446,122) |

## 7. ARENA REVENUE AGREEMENTS

### Naming Rights Agreement

Brooklyn Events and an affiliated entity related through common ownership entered into a Naming Rights Agreement with Barclays Services Corporation ("Barclays"), where, in exchange for certain fees and other considerations, the Arena is named Barclays Center and Barclays is entitled to certain additional sponsorship, branding, promotional, media, hospitality, and other rights and entitlements. This Agreement expires on June 30 following the twentieth anniversary of the opening date of the Arena, subject to certain extension rights. In connection with the sale mentioned in Note 3, the Nets are now entitled to an additional 25% of the revenue for the naming rights.

### Agreement with the Islanders

On October 24, 2012, the Company entered into a licensing agreement with the Islanders whereby the Islanders have certain and exclusive rights regarding the use of the Arena and the Arena is entitled to certain revenues. The term of the agreement is for 25 NHL seasons commencing on the first home date during the initial season, which was in September 2015. However, both the Company and the Islanders have the right, following the conclusion of the 2016-2017 NHL season, to initiate good faith discussions regarding modification of the financial arrangements within the NYI License Agreement, with such discussion period expiring as of January 1, 2018. If the parties are unable to reach an agreement, resulting in an Opt-Out Notice, either party may elect to terminate the license agreement effective as of the conclusion of the 2018-2019 NHL season; provided, however, that, in the event that an Opt-Out Notice is delivered, the Islanders shall also have the right to terminate the NYI License Agreement effective as of the conclusion of the 2017-2018 NHL season. The licensing agreement requires the Islanders to pay an annual license fee and provide for an operating expense reimbursement to the Arena subject to a per game cap. The Arena is required to pay the Islanders an annual guaranteed season payment net of direct sales and management costs, which is subject to certain adjustments as defined in the agreement. The annual season payment is subject to annual increase of 1.5% each season over the term. For the year ended June 30, 2018, total payments to the Islanders were approximately $42,123,000.

The Opt-Out was exercised and therefore 18-19 will be the last season under the current agreement. The future deal will no longer include a guarantee but will be a rental deal and commence with season 19-20.

### Sponsorship and Product Availability Agreements

Sponsorship agreements have been entered into with various entities, which entitle the sponsor to certain marketing, advertising, promotional, media, hospitality and/or other rights and entitlements in association with the Arena, the Nets, and the Islanders. In addition, certain agreements require Brooklyn Events to purchase designated goods and services from the sponsor at rates that are no less competitive than the prevailing market rates. Terms of the agreements range from one to seven years from the opening date of the Arena, as defined in each underlying agreement. As part of the sale, mentioned in Note 3 above, the Nets now are entitled to a portion of sponsor revenue. In year 1, the Nets are entitled to 10% of sponsor revenue which increases 5% per year until year 4 where it reached 25% and remains at that level for any subsequent years.

### Suite License Agreements

Brooklyn Events has entered into suite license agreements with various entities and, in addition, granted suite licenses as an entitlement to certain Arena sponsors. Each suite license entitles the licensee the use of a luxury suite in the Arena, with most luxury suites containing seats for viewing most events at the Arena. The suite license agreements are for various terms ranging from one to seven years. As part of the sale, mentioned in Note 3 above, the portion of the suite revenue that was allocated to the Nets has increased. The Nets are now entitled to an additional 20% of suite revenue (previously at 20%).

### Concessions Agreement

Brooklyn Events entered into a three-year agreement, which commenced at the opening of the Arena, with a food service company. Under this agreement, Brooklyn Events receives revenues based on a specified percentage of all concession revenue or a guaranteed minimum based on attendance. In addition, to the extent the concession operator generates a profit at the end of the fiscal year; the Company receives its share as provided for in the agreement. On August 12, 2015, the term of the agreement was extended through June 30, 2024. As part of the sale, mentioned in Note 3 above, the Nets are now entitled to 70% of the arena’s share of concessions for Nets games.

### Aggregate Contractual Revenues

The aggregate contractually obligated annual fees, gross of activation costs, from the naming rights, licensing agreements; sponsorships, suite licenses, and concessions agreements for the next five years are approximately as follows:

| | |
|---|---|
| 2019 | $ 39,896,000 |
| 2020 | 25,566,000 |
| 2021 | 20,466,000 |
| 2022 | 16,533,000 |
| 2023 | 13,288,000 |
| Total | $ 115,749,000 |