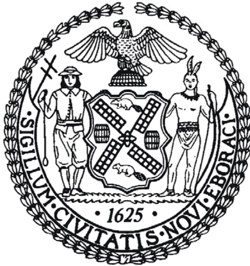
AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Compliance of Sterling Doubleday Enterprises, L.P., (New York Mets) With Their Lease Agreement And Fees They Owe the City April 1, 1996, through December 31, 2000

FN02-125A

January 16, 2003

The City of New York
Office of the Comptroller
Bureau of Financial Audit

Audit Report on the Compliance of Sterling Doubleday Enterprises, L.P., (New York Mets) With Their Lease Agreement And Fees They Owe the City April 1, 1996, through December 31, 2000

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EXECUTIVE SUMMARY

In 1985, Doubleday Sports, Inc., and the New York City Department of Parks and Recreation (Parks) entered into a 20-year lease agreement for the rental and use of Shea Stadium. In 1986, Doubleday Sports, Inc., assigned the lease agreement to Sterling Doubleday Enterprises, L.P. (doing business as the New York Mets). The lease, which is monitored by Parks, expires on December 31, 2004. The first amendment, dated December 28, 2001, extends the lease to December 31, 2005, and includes five annual renewal options to be exercised at the Mets' discretion.

According to the agreement, the Mets are required to pay the City the greater of either an annual minimum rent of $300,000 or a percentage of revenues from gross admissions, concessions, wait service, parking, stadium advertising, and a portion of cable television receipts. The agreement allows the Mets to deduct portions of the payments they make to Major League Baseball and all sales taxes before calculating rent payments to the City.

The audit objectives were to determine whether the Mets: accurately reported all gross receipts in accordance with the agreement; paid the appropriate fees due the City and paid these fees on time; maintained adequate internal controls over the recording and reporting of their gross receipts; complied with certain other requirements of their agreement (i.e., maintained required insurance and reimbursed the City for utility use); and paid a prior audit assessment to Parks. For the audit period, April 1, 1996, to December 31, 2000, the Mets reported gross revenues totaling $499.4 million and paid the City $36.6 million (7.3 percent).

The New York Mets had an adequate system of internal controls over their revenue collection and reporting functions. In addition, the Mets adhered to certain non-revenue-related requirements of the agreement. The Mets had the

required liability insurance that named the City as an additional insured party in accordance with Article XXVI, § 26.3 and § 26.7, of the agreement; and the Mets reimbursed Parks for electricity and for water and sewer use during the baseball season, in accordance with Article XXII, § 22.1, of the agreement.

However, from April 1, 1996, through December 31, 2000, the Mets underreported their revenue by $18,363,226 and overstated the deductions against revenue that they were entitled to take by $27,766,408. Moreover, the Mets have yet to satisfy a portion of the prior audit assessment pertaining to homeplate advertising totaling $83,186. Consequently, the Mets owe the City $3,381,816. (The amount owed is net and does not include any late payment penalties or interest, since there is no clause in the agreement requiring that such penalties or interest be added to the assessed amount.) Specifically, the Mets:

Did Not Report $13,475,218 in Advertising Revenue. The Mets did not report $12,915,547 attributable to homeplate advertising, underreported scoreboard advertising for 1998, 1999, and 2000 by a total of $149,831, and did not report $409,840 generated from advertisements displayed behind first base and third base during the 1998 baseball season. Article XVI, § 16.2 (ii), requires that the Mets pay the City fees on certain advertising revenues amounting to 10 percent less $8,000, excluding Diamond Vision advertising revenue. The issue of homeplate advertising was raised in a prior audit report issued June 16, 1997. (First base and third base advertising was installed during the 1998 baseball season.) That report noted that the Mets installed revolving advertising signs behind homeplate, received $831,857 in homeplate advertising revenue for the 1995 season and accordingly owed the City $83,186. The report's assessment was supported by a May 5, 1997, opinion from the New York City Law Department. (See letter from the Law Department in Appendix I.)

Did Not Report $4,870,964 in Concession and Wait Service Revenue. The Mets agreement requires them to pay the City a percentage of concession and wait service revenue when their seasonal paid attendance exceeds two million patrons. For the years 1996, 1997, and 1998, the Mets reported that attendance was less than two million and did not pay any percentage fees for their concession and wait service revenues. However, for the 1998 season, the Mets Sales Summary report and Daily Turnstile reports indicated that attendance exceeded the two million paid ticket threshold. In addition, our review of the Mets concessionaire's (Aramark) 1998 audited financial statements disclosed that the Mets underreported their concession and wait service revenues by $568,324. This resulted in the Mets' owing the City $38,999 in fees for 1998. Moreover, concession revenue amounts from Aramark's audited financial statements for the 1999 and 2000 seasons indicated that the Mets underreported concession and wait service revenue by $4,302,640 in their calculations of fees due the City and owe the City additional fees of $69,249. In total, the Mets owe the City $108,248 for underreporting concession and wait service revenue for the 1998, 1999, and 2000 seasons.

Underreported Skybox Revenue by $17,044. In 2000, the Mets omitted $8,880 in revenue from one daily luxury suite rental on the revenue reported to the City and Skybox concession receipts totaling $8,164 from 1996 to 1998. Consequently, the Mets owe the City $8,522 in additional fees.

Overstated Major League Baseball Deductions by $27,766,408. On their 1996 through 2000 rent statements, the Mets reduced reported revenues by $47,411,806. However, according to Major League Baseball's Revenue-Sharing reports and the Mets own books and records, the Mets should have deducted $19,645,398. Thus, the Mets overstated the deductions claimed on their rent statements by $27,766,408, and consequently owe the City additional fees totaling $1,834,338.

The amount claimed by the Mets as a reduction of revenues on which fees to the City are based, bears no relationship to the amount that they actually paid to Major League Baseball. Instead of deducting the allowable portion of the actual payments made, the Mets deducted the reported amounts of net operating revenues that Major League Baseball used for its revenue sharing calculations. For example, for 1999, the Mets reduced reported revenues on their rent statement to the City by $11,151,430. According to the Major League Baseball's Revenue-Sharing reports for 1999, the Mets paid $10,803,174 to Major League Baseball and received $709,531 as a final audited adjustment for the 1999 season. Based on the net amount paid, the Mets should have taken $6,205,343 (57.44 percent[1] of the $10,803,174 actually paid), as a deduction from their revenue reported to the City. Therefore, the Mets owe the City $334,511 for the 1999 season.

A particularly egregious example of these excess deductions was the Mets' deduction of $5,761,785 from their reported revenues on their rent statements to the City for the 1996 baseball season, when in fact, they should have taken no deduction. According to Major League Baseball's Revenue-Sharing reports, in that year, the Mets received $1,012,943 from the Revenue-Sharing pool and paid $731,385 into the pool, a net receipt of $281,558. Consequently, the Mets owe the City $367,176 for the 1996 season.

Continue to Owe the City $83,186 of an Unpaid Prior Audit Assessment. The Mets agreed with and paid the City $104,544 in additional fees due the City from a previous audit (Audit #FN97-098A). However, the portion of the audit assessment that pertained to the previously discussed homeplate advertising remains unpaid.

This audit recommends that the Mets: pay the City $3,381,816 for outstanding fees due; ensure that all advertising, concession, and Skybox receipts are reported on the their rent statements to the City; and ensure that only final audited year-end Revenue-Sharing payments pertaining to admissions and cable television receipts are subtracted from their rent statement and fee calculations.

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[1] The allowed portion of Mets net operating revenue attributable to gross admission and cable television receipts.

The audit also recommends that Parks: ensure that the Mets pay the City $3,381,816 for outstanding fees due; comply with the audit's other two recommendations; and incorporate a late payment penalty clause in future contracts with the Mets that at a minimum assesses penalties/interest on any late payments at the prime commercial lending rate. In the event the Mets and Parks continue to disagree on the fees due, Parks should take immediate action to resolve the dispute through either the lease's panel arbitration process or appropriate judicial proceedings.

Discussion of Audit Results

The matters covered in this report were discussed with Mets and Parks officials during and at the conclusion of this audit. A preliminary draft report was sent to Mets and Parks officials and was discussed at an exit conference on September 12, 2002. On September 27, 2002, we submitted a draft report to Mets and Parks officials with a request for comments. On October 10, 2002, we received written responses from Mets and Parks officials.

In their response, Mets officials stated: "Of the several issues raised in the audit report, only two remain in dispute: the calculation of advertising revenues (which pertains to the 1995 audit as well), and the application of deductions related to sharing of revenues with other Major League Baseball entities. We do not take issue with any of the other issues raised in the report, and will remit a check to the Parks Department to resolve those undisputed issues."

With respect to advertising revenue, the Mets stated that they "previously addressed this issue in response to the 1995 audit." In addition, the Mets stated that "neither the letter nor the spirit of the lease agreement entitles the City to share in the revenues from the signage in question, due to the fact that both signs are predominantly television advertising signs, not stadium advertising signs."

With respect to Revenue-Sharing, Mets officials contend that their claimed deductions are correct, that the audit's methodology would result in the City receiving a share of revenues to which it is not entitled, that the Revenue-Sharing procedures are misunderstood by the auditors, and that the revenue deductions allowed by the lease are unfairly limited.

In their response, Parks' officials stated that: "DPR has issued the attached letter to the Mets requesting payment under Recommendation 1 for the full amount of $3,381,816."

The specific issues raised by the Mets and our rebuttal are included in the body of this report. In addition, the full texts of the Mets and Parks officials comments are included as addenda to this final report.

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The City of New York
Office of the Comptroller
Bureau of Financial Audit

Audit Report on the Compliance of Sterling Doubleday Enterprises, L.P., (New York Mets) With Their Lease Agreement And Fees They Owe the City April 1, 1996, through December 31, 2000

INTRODUCTION

Background

On January 1, 1985, Doubleday Sports, Inc., and the New York City Department of Parks and Recreation (Parks) entered into a 20-year lease agreement for the use of Shea Stadium. In 1986, Doubleday Sports, Inc., assigned the lease agreement to Sterling Doubleday Enterprises, L.P. (doing business as the New York Mets). The lease, which is monitored by Parks, expires on December 31, 2004. The first amendment, dated December 28, 2001, extends the lease to December 31, 2005, and includes five yearly renewal options to be exercised at the Mets' discretion annually. The lease allows the Mets exclusive use of Shea Stadium during the baseball season. In that regard, the lease permits the Mets to sell tickets; provide food and souvenir concessions; operate restaurant and catering services for the Diamond Club restaurant, the Grill Room Bar, and luxury suites; provide parking; provide cable television broadcasts; sell stadium advertising; and conduct post season baseball games, if applicable. The agreement also allows the Mets to either operate or subcontract their concessions. The Mets have chosen to subcontract their concessions to Aramark Sports Entertainment Services, Inc. (Aramark), which include the stadium's restaurant, bar, catering, and souvenir operations.

According to their agreement with the City, the Mets are required to pay the City the greater of either an annual minimum rent of $300,000 or a percentage of revenues from gross admissions, concessions, wait service, parking, stadium advertising, and a portion of cable television receipts. The agreement allows the Mets to deduct portions of the payments they make to Major League Baseball and all sales taxes before calculating rent payments to the City. The rent payments and the credits against rent payments under the lease agreement are shown in Table I, which follows:

TABLE I

Mets Rent Payments and Credits Under Lease Agreement

Rent Payments:	
Gross Admission Receipts (Ticket Sales)	7.5% of ticket sales.
Gross Concession Receipts	7.5% of Gross Concession Receipts, when paid attendance exceeds two million patrons.
Gross Wait Service Receipts	5% of Gross Wait Service Receipts, when paid attendance exceeds two million patrons.
Sales of Parking Privileges	$1.00 per car plus 50% of the charged amount over $2.50.
Scoreboard Maintenance	$8,000 per year. The City receives this compensation to provide general repairs to the scoreboard.
Advertising	$40,000 advertising commission plus 10% of receipts over $1 million less $8,000. As of January 1, 2000: 10% of advertising receipts, less $8,000.
Cable Television	10% of home game receipts after allowable adjustments.
Skybox Revenue	50% of net income from Skybox suites. 100% of maintenance, electrical, and plumbing costs.
Diamond Vision Board	100% of maintenance costs during the baseball season.
Utilities - (Electricity and Water and Sewer)	100% of consumption costs during the baseball season.
Credits/Deductions against Rent Payments:	
Sales Taxes	100% of sales taxes from ticket sales, concessions, and parking privileges.
Property Insurance	25% of premium payment.
Watchmen Charges	50% of Watchmen charges.

The Mets are also allowed to deduct, from their rent statements, the actual payments to Major League Baseball that are related to a percentage of their ticket sales and local cable revenues. (Prior to the 1996 baseball season, the Mets were allowed to deduct the payments that were made to the visiting teams.)

The Mets are also required to carry comprehensive property and liability insurance that names the City as an additional insured party. The Mets are required to submit to Parks an annual Statement of Rent, Reserved Parking Fees, and Scoreboard Maintenance, and a Skybox Net Income statement of the preceding year every March. For the audit period, April 1, 1996, to December 31, 2000, the Mets reported gross revenues totaling $499.4 million and paid the City $36.6 million (7.3 percent).

Objectives

Our audit objectives were to determine whether the Mets:

- accurately reported all gross receipts in accordance with the agreement;
- paid the appropriate fees due to the City and paid these fees on time;
- maintained adequate internal controls over the recording and reporting of their gross receipts;
- complied with certain other requirements of their agreement (i.e., maintained required insurance and reimbursed the City for utility use); and
- paid the prior audit assessment to Parks.

Scope and Methodology

This audit covered the period April 1, 1996, through December 31, 2000. To achieve our audit objectives, we reviewed and abstracted the relevant terms and conditions of the lease agreement. To ascertain whether the Mets submitted the required statements and paid all fees on time, we reviewed records on file at Parks, including Parks's Accounts Receivables Ledger and rent statements, Mets insurance certificates, and correspondence between the Mets and Parks.

We evaluated the internal controls over the Mets revenue collection and reporting functions. On April 10, 2002, we conducted a walkthrough of the Mets operations pertaining to ticket and concession sales, and game-day catering operations in the stadium's restaurant, bar, and luxury suites. We documented our understanding of the Mets procedures and controls through memoranda and analyzed the Mets reported revenue amounts to identify large fluctuations or inconsistencies.

To determine whether the Mets reported ticket sales and attendance accurately, we traced the reported ticket sales to the general ledger detail and the daily Ticketing System—Game Sales reports for the audit period. For the three years 1998, 1999, and 2000, we traced the attendance from the Ticketing System—Game Sales reports to the Sales Summary reports and the daily Turnstile reports. We reviewed whether the amounts for rain-check revenue were accurately calculated and properly deducted from gross ticket sales. We verified whether the required flat rental fees for post-season games played at Shea Stadium were accurately reported and paid.

We confirmed whether revenue generated from concession sales and catering services was reported accurately by reviewing Aramark's annual sales records and its independent auditors' statements and by comparing those amounts to the amounts the Mets reported to the City. In addition, we verified whether the Mets accurately reported to Parks the amounts and numbers of parking privileges sold—prepaid parking spaces—by reviewing the Mets books and records, which included their trial balances, supporting schedules, and the daily game-by-game Parking Summary reports.

We determined whether the Mets reported all cash receipts generated from stadium advertising—scoreboard, diorama, first and third Base, and homeplate advertising—for the audit period by matching the amounts reported to Parks to the amounts in the Mets accounts receivable billing history and general ledger entries. We sampled advertising contracts for calendar year 2000 and traced the amounts due to the Mets, according to the advertising contracts, to the Mets supporting advertising schedules, the invoices, and copies of the check payments.

To determine whether the Mets reported the net income for the Skybox suites accurately, we compared the revenue and expenses reported for the Skybox rentals to the Mets supporting schedules and general ledger entries. To determine whether Skybox concession revenue was accurate and was reported correctly, we traced the reported revenue amounts to the revenue on Aramark's operating statements for Skybox concessions.

We also reviewed the mathematical accuracy of the overhead costs calculations and verified whether the deducted amounts were correct by tracing those amounts to the general ledger and to corresponding invoices for year 2000. We then verified whether those deducted expenses were correct and allowable under the agreement.

We reviewed the contract between Fox Sports Network and the Mets as it related to cable television receipts. We traced reported cable television receipts to the amounts posted in the Mets general ledger and on their bank statements.

We verified whether the deductions for payments made to Major League Baseball were correct and reported accurately, and that the Mets accurately calculated sales taxes deducted from reported revenue. We also verified whether the Mets satisfied the assessment owed according to the prior audit conducted by the Comptroller's Office (Report FN97-098A, issued June 16, 1997).

To determine whether the Mets maintained the proper insurance coverage that named the City as an additional insured party, we examined the Mets certificates of insurance. To verify whether the Mets received the appropriate insurance credit deduction, we reviewed their insurance policies and payments they made to their insurance carriers.

Furthermore, we verified whether the Mets made their monthly payments for scoreboard maintenance and made their minimum rental payments to Parks by tracing those payments to the amounts listed in Parks Accounts Receivable Ledger. We determined whether the Mets accurately calculated Watchmen credits—the cost of security personnel at Shea Stadium when no baseball games are scheduled—by tracing the amounts reported to Parks to the respective supporting schedules and payroll reports.

Finally, to verify whether Parks was reimbursed for utility charges incurred by the Mets during the baseball season, we reviewed invoices and copies of canceled checks for electricity and for water and sewer use, and traced the amounts to the amounts listed in the Parks Accounts Receivable Ledger.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities, as set forth in Chapter 5, § 93, of the New York City Charter, and § 11.2 of the Mets lease agreement with Parks, which gives the Comptroller the right to audit.

Discussion of Audit Results

The matters covered in this report were discussed with Mets and Parks officials during and at the conclusion of this audit. A preliminary draft report was sent to Mets and Parks officials and was discussed at an exit conference on September 12, 2002. On September 27, 2002, we submitted a draft report to Mets and Parks officials with a request for comments. On October 10, 2002, we received written responses from Mets and Parks officials.

In their response, Mets officials stated: "Of the several issues raised in the audit report, only two remain in dispute: the calculation of advertising revenues (which pertains to the 1995 audit as well), and the application of deductions related to sharing of revenues with other Major League Baseball entities. We do not take issue with any of the other issues raised in the report, and will remit a check to the Parks Department to resolve those undisputed issues."

With respect to advertising revenue, Mets officials stated that they "previously addressed this issue in response to the 1995 audit. As set forth in our letter to Roger D. Liwer of April 24, 1997, neither the letter nor the spirit of the lease agreement entitles the City to share in the revenues from the signage in question, due to the fact that both signs are predominantly television advertising signs, not stadium advertising signs."

With respect to Revenue-Sharing, Mets officials contend that their claimed deductions are correct, that the audit's methodology would result in the City receiving a share of revenues to which it is not entitled, that the Revenue-Sharing procedures are misunderstood by the auditors, and that the revenue deductions allowed by the lease are unfairly limited.

In their response, Parks officials stated: "DPR [Parks] has issued the attached letter to the Mets requesting payment under Recommendation 1 for the full amount of $3,381,816."

The specific issues raised by the Mets and our rebuttals are included in the body of this report. The full texts of the Mets and Parks comments are included as addenda to this final report.

OFFICE OF THE COMPTROLLER
NEW YORK CITY

DATE FILED: January 16, 2003

FINDINGS AND RECOMMENDATIONS

The New York Mets had an adequate system of internal controls over their revenue collection and reporting functions. However, from April 1, 1996, through December 31, 2000, the Mets underreported their revenue by $18,363,226 and overstated the deductions against revenue that they were entitled to take by $27,766,408. Moreover, the Mets have yet to satisfy the previous unpaid portion of the prior audit assessment totaling $83,186. Consequently, the Mets owe the City $3,381,816, as shown in Table II. below. (The amount owed is net and does not include any late payment penalties or interest, since there is no clause in the agreement requiring that such penalties or interest be added to the assessed amount.)

Table II

Schedule of Additional Rental Fees
April 1, 1996, through December 31, 2000

	Underreported Revenue and Overstated Deductions	Additional Fees Due the City
Underreported Revenue		
Stadium Advertising	$13,475,218	$1,347,522
Concession Receipts	4,870,964	108,248
Skybox	17,044	8,522
Total Underreported Revenue	$18,363,226	$1,464,292
Overstated Deductions		
Revenue-Sharing Payments	$27,766,408	$1,834,338
Total	$46,129,634	$3,298,630
Unpaid Prior Audit Assessment		83,186
Additional Fees Due the City		**$3,381,816**

These matters are discussed in greater detail in the following sections of this report.

The New York Mets Did Not Report $13,475,218 in Advertising Revenue

For the audit period, the Mets underreported their advertising revenue by $13,475,218 and therefore owe the City $1,347,522. Specifically, the Mets did not report $12,915,547 attributable to homeplate advertising, underreported scoreboard advertising for 1998, 1999, and 2000, by a total of $149,831, and did not report $409,840 in first base and third base advertising for 1998. Article XVI, § 16.2 (ii), requires that the Mets pay the City fees on certain advertising revenues amounting to 10 percent less $8,000, excluding Diamond Vision advertising revenue. Applying the 10 percent standard, which has been the practice for other negotiated advertising fees when the Mets requested that additional stadium signage be constructed, to the $13,475,218, results in $1,347,522 in additional fees owed to the City.

The issue of homeplate advertising was also raised in a prior audit report issued June 16, 1997. That report noted that the Mets installed revolving advertising signs behind homeplate and received $831,857 in homeplate advertising revenue for the 1995 season and accordingly owed the City $83,186. The report's assessment was supported by a May 5, 1997, opinion from the New York City Law Department. (See Appendix I.) As a result, Parks issued a Notice To Cure requiring that the Mets pay the City this amount. The Mets, however, did not comply with the Notice To Cure. (See Prior Audit Assessment section on page 9.)

At that time, the Mets contended that homeplate advertising was not directly addressed in the 1985 agreement and that this revenue therefore should not be subject to the advertising provisions of the agreement. However, during the 1998 season, the Mets installed the same type of revolving-sign advertising along the first base and third base railings. Contrary to their position on homeplate advertising and with the exception of the 1998 season, the Mets paid the City its share of advertising revenue from these signs. We question how the Mets can justify treating these signs differently from those that are behind homeplate. The Mets should not be able to unilaterally decide which advertising revenue they report to the City on their revenue statements for which they pay fees to the City, and which advertising revenue they determine does not pertain to the agreement and for which they do not pay fees to the City.

Mets Response: In their response, Mets officials stated that

"The Comptroller contends that Sterling failed to report $12,915,547 attributable to home plate advertising during 1996-2000 and $409,840 from advertising located behind first and third base during 1998. If Sterling were to remit to the City 10% of the advertising revenues in question, the resulting additional rent would total $1,332,539. (The difference of $14,983, between the audit's assessment of $1,347,522 and the $1,332,539 that the Mets refer to, relates to a portion of assessed advertising revenue that the Mets are not disputing.) Additionally, the Comptroller contends that Sterling should remit a payment of $83,136, representing 10% of the home plate advertising revenue generated by Sterling in 1995.

"Sterling has previously addressed this issue in response to the 1995 audit. As set forth in our letter to Roger D. Liwer of April 24, 1997, neither the letter nor the spirit of the lease agreement entitles the City to share in the revenues from the signage in question, due to the fact that both signs are predominantly television advertising signs, not stadium advertising signs.

"Contrary to the Comptroller's assertion at page 6 of the report, the agreement does not require Sterling to share 10% of all advertising revenues with the City. Instead, Section 16.2 of the agreement provides that Sterling shall share 'scoreboard advertising revenue,' which is defined to include only the advertising signs placed on the scoreboards and Diamond Vision Board at the Stadium. Moreover, Section 24.4 of the agreement provides that other than scoreboard advertising revenue and home cable rights fee revenue, 'the City shall not be entitled to any part of any advertising revenues received by [Sterling] or any of its Concessionaires.' As such, the express terms of the agreement do not require Sterling to share revenues from the home plate, first base or third base signage."

In a footnote, Mets officials stated:

"Section 24.3 does require Sterling to obtain the City's consent before adding any

additional signage, but the City does not contend that it withheld consent with respect to any of the signs at issue."

"Despite the agreement's narrow reference to scoreboard advertising, Sterling has shared with the City substantial revenues from other advertising signs at the Stadium. Since 1985, Sterling has added a number of signs, including advertising on the outfield fence, that are indistinguishable in character and purpose from the scoreboard signs. In such cases, Sterling has applied the 10% sharing arrangement, in recognition of the functional equivalency of those signs and the scoreboard signs. The rotating home plate, first base and third base signs, however, are of an entirely different character. All of them are positioned for optimal viewing by television viewers, not fans seated in the stadium. The signs are substantially smaller than typical stadium advertising, and (particularly with respect to the home plate signage) are visible to only a fraction of the people in the stands. The signs are sold based not on stadium attendance but on television ratings. In short, the revenue generated from these signs constitutes television advertising revenue, not scoreboard or even stadium advertising revenue."

In a second footnote, Mets officials stated:

"In fact, the revenue from these signs is classified as broadcasting revenue in Sterling's internal books and records."

"As such, they fall within the category of 'other advertising revenues' received by Sterling, which are expressly exempt from sharing under Section 24.4 of the agreement."

In a third footnote, Mets officials stated:

"Sterling did not remit 10% of its revenues from first and third base signage for the 1998 season (the year such signs were introduced), but did remit that amount for 1999 and 2000. Therefore, although the audit report only references the amount claimed to be due for 1998, the entire amount for the three-year period is in dispute."

"Significantly, the home plate, first base and third base signs could all easily be replaced with advertisements electronically inserted in Sterling's game telecasts. Such advertising would be substantially equivalent to the current rotating signage—clearly visible to television viewers, but invisible to stadium patrons—but would undoubtedly be beyond the City's reach, as they would have no physical nexus to the Stadium whatsoever. To suggest that television advertising revenues must be shared with the City if they derive from signs affixed to the stadium structure, but are exempt if they are superimposed by electronic means in precisely the same locations would be to place form over substance."

Auditor Comment: As in their response to our previous audit, the Mets argue that homeplate advertising is not subject to the lease's 10 percent advertising payment provision because this advertising is not specifically mentioned in §16.2 of the lease. The argument fails because the provisions of § 24.3 of the lease clearly and unambiguously states that "neither the City nor Doubleday . . . shall erect or display or permit or cause to be erected or displayed, on or in the Stadium Facility, any sign or other advertising matter." Under this provision, the only way for the Mets to obtain the right to place additional advertising on or in the Stadium is to obtain the City's consent. It is through this process that the City and the Mets agree on the City's share of revenue generated by

advertising. To suggest otherwise is quite disingenuous based on the language in the agreement and the Mets' prior practice to seek such consent and routinely apply §16.2's 10 percent advertising standard, as evident by the 1988 correspondence between the Mets and Parks that gave the Mets permission to construct numerous diorama panels at the Stadium. In accordance with the lease, the Mets specifically sought Parks' approval. In a letter describing the proposal, Harold O'Shaughnessy, former Vice President and Treasurer of the Mets, stated: "Please review this program . . . and let me know if we can proceed with the installation . . ." (July 1, 1998, letter from Harold O'Shaughnessy to Robert Trombino, director of City Stadia.) With respect to the same installation, Mr. O'Shaughnessy wrote on August 10, 1988: "I am writing to confirm the approval of the Department of Parks and recreation to the Mets proposal to erect . . . advertising panels in the concourse areas at Shea Stadium . . . These dioramas will produce additional advertising revenue for both the Mets and the City, with the City receiving a 10% share of these additional revenues beginning with the 1989 season. For reporting purposes we plan to add this revenue as a separate line item on the scoreboard advertising page of the annual rent report . . . I believe that the existing lease agreement between the Mets and City of New York adequately provides for shared revenues for ball park signage, and that it should not be necessary to make any formal modifications or addendum to that agreement to accommodate these new panels." (August 10, 1988, letter from Mr. O'Shaughnessy to Henry J. Stern.) Copies of both letters are attached as Appendices II and III.

As stated in the May 5, 1997, letter from the City's Law Department:

> "The City did not give consent to the erection of the two new Homeplate advertising signs by Doubleday, and would not have given such consent without an agreement by Doubleday that the signs would be treated in the same way that advertising signs on the front or back of the scoreboards and of the Diamond Vision Board under Section 16.2 of the Lease are treated. Under the Lease, the Mets must pay the City 10% of the revenues from such advertising signs."

The Mets also attempt to nullify their obligation to pay the City its fair share of revenue from homeplate advertising based on the intended audience for the advertising. According to the Mets, homeplate advertising is directed at the television audience, while "traditional" stadium advertising is directed at the patrons in the stadium. However, there is no basis whatsoever in the lease for making this distinction. Also irrelevant, is the Mets statement that homeplate advertising could be replaced with telecasts electronically superimposed into game telecasts. The fact is that the Mets unilaterally made the business decision to erect the signage on the City's facility. We find it unfair, and in clear violation of the lease, for the Mets to take the position that they can do so, without the city's consent or in any way without compensating the City, because the advertising may be directed in part at television viewers or because the advertising could be conveyed to viewers by other means.

Mets officials have themselves acknowledged through their actions that the target-audience argument is extraneous to this dispute, because they have largely paid the City its 10 percent share for first and third base advertising. First and third base advertising, by the Mets own admission, is identical in form and function to homeplate advertising.

That they now dispute these payments—only after we pointed out the inconsistency in our audit—is nothing more than an after-the-fact attempt to reconcile an untenable position.

Moreover, the Mets have been aware of the City's position on homeplate advertising since at least June 16, 1997, the date when our previous report was issued. In response to that audit, the Mets stated:

> "Unlike Stadium billboards and concessions, television advertising revenues are generated solely by rights owned by SDE [the Mets]. In fact, SDE can generate the same revenues without affixing anything to the facility; the home plate advertisements can be superimposed through computer technology in a way that would be visible to fans in attendance at the Stadium. Had SDE been on notice that the City would claim a share of the revenues from the home plate signs, it could have invested in such technology, rather than installing the signs behind home plate. SDE's election to install the signs, absent any sharing provision in the Lease, cannot create an unbargained benefit to the City."

Despite being "on notice" of the City's position on homeplate advertising for more than five years, the Mets continued to display the signs they affixed to the stadium and not pay the City its fair share, in violation of the lease. We maintain that it is reasonable, fair, and in accordance with the lease that the Mets act in good faith and compensate the City for the revenues derived from the signs.

The New York Mets Did Not Report $4,870,964 In Concession and Wait Service Revenue

The Mets underreported concession and wait service revenues by $4,870,964. According to their agreement with the City, the Mets are required to pay a percentage of concession and wait service revenue when their seasonal paid attendance exceeds two million patrons. For the years 1996, 1997, and 1998, the Mets reported that attendance was less than two million and did not pay any percentage fees for their concession and wait service revenues. However, the Mets Sales Summary report and Daily Turnstile reports for the 1998 season indicated that attendance exceeded the two million paid ticket threshold. In addition, our review of Aramark's 1998 audited financial statements disclosed that the Mets underreported their concession and wait service revenues by $568,324. This resulted in the Mets' owing the City $38,999 in concession fees for 1998. Moreover, according to Aramark's audited financial statements for the 1999 and 2000 seasons, the Mets underreported by $4,302,640 concession and wait service revenue in their calculations of fees due the City and therefore owe the City additional fees of $69,249. Consequently, for underreporting concession and wait service revenue for the 1998, 1999, and 2000 seasons, the Mets owe the City $108,248.

The New York Mets Underreported Skybox Revenue by $17,044

The Mets underreported Skybox luxury suite revenues by $17,044. Skybox revenues include the luxury-suite rentals and the concession sales by Aramark. Specifically, the Mets omitted from the rental revenue reported to the City the revenue from one daily luxury suite

rental in 2000 of $8,880 and concession receipts from 1996 to 1998 totaling $8,164. As a result, the Mets owe the City $8,522 in additional fees.

The New York Mets Overstated Major League Baseball Deductions by $27,766,408

In accordance with a 1997 agreement [effective retroactively to the 1996 baseball season] between Major League Baseball and the baseball teams, the Mets participate in a Revenue-Sharing program. Article VIII, § 8.1, and Article IX, § 9.4 (a) (ii), allow the Mets to deduct payments to Major League Baseball that relate to gross admission receipts and local cable television receipts, from their calculation of rent due the City. On the 1996 through 2000 rent statements, the Mets reduced reported revenues by $47,411,806. However, according to Major League Baseball's Revenue-Sharing reports and the Mets own books and records, the Mets should have deducted $19,645,398. Thus, the Mets overstated the deductions claimed on their rent statements by $27,766,408 and consequently owe the City additional fees totaling $1,834,338, as shown in Table III, following.[2]

Table III

Overstated Reported Deductions and Additional Fees Owed

Year	Reported Deductions for Revenue-Sharing	Audited Deductions for Revenue-Sharing	Overstated Differences on Rent Statements	Total Additional Fees Due the City
1996	$ 5,761,785	$0	$ 5,761,785	$ 367,176
1997	6,940,382	533,273	6,407,109	409,683
1998	7,402,878	3,105,798	4,297,080	285,303
1999	11,151,430	6,205,343	4,946,087	334,511
2000	16,155,331	9,800,984[3]	6,354,347	437,665
Totals	**$47,411,806**	**$19,645,398**	**$27,766,408**	**$1,834,338**

The amount claimed by the Mets as a reduction of revenues on which fees to the City are based bears no relationship to the amount that they actually paid to Major League Baseball. Instead of deducting a portion of the actual payments made, the Mets deducted a portion of their net operating revenue from ticket sales and cable television receipts. The Mets report these net operating revenues to Major League Baseball, and Major League Baseball uses these amounts in its revenue sharing calculations.

Clearly, the amounts deducted by the Mets were not the actual payments as defined in the lease and therefore should not have been deducted. For example, for the 1999 season, the Mets reduced revenues they reported on their rent statement to the City by $11,151,430. According to the Major League Baseball's Revenue-Sharing reports for 1999, the Mets paid a net of

[2] During our prior audit, Revenue-Sharing did not exist. Rather, the Mets were entitled to deduct the payments made to the visiting teams.

[3] The audited deduction, and therefore the amount due the City for 2000, is subject to change since Major League Baseball has not completed its final adjustment for the year.

$10,803,174—the Mets paid $3,243,474 on May 25, 1999; $3,524,468 on July 26, 1999; $3,468,180 on September 24, 1999; $1,042,039 on November 24, 1999; and $234,544 on June 7, 2000. According to the results of a Major League Baseball audit, the Mets received $709,531 from Major League Baseball on March 5, 2002, as a final adjustment for the 1999 season. Based on the net amount paid, the Mets should have taken $6,205,343 (57.44 percent[4] of the $10,803,174 actually paid), as a deduction from revenue they reported to the City. Therefore, the Mets owe the City $334,511 for the 1999 season.

A particularly egregious example of these excess deductions was the Mets' deduction of $5,761,785 from the revenues they reported on their rent statements to the City for the 1996 baseball season, when in fact, they should have taken no deduction. According to Major League Baseball's Revenue-Sharing reports, in 1996, the Mets received $1,012,943 from the Revenue-Sharing pool and paid $731,385 into the pool, a net receipt of $281,558. Therefore, the Mets owe the City $367,176 for the 1996 season.

As a final example, in 1997, the Mets reduced reported revenues on their rent statement to the City by $6,940,382. According to the Major League Baseball's Revenue-Sharing reports for 1997, the Mets paid a net of $780,780—the Mets paid $256,933 on May 27, 1997; $481,428 on July 25, 1997; $356,663 on September 25, 1997; received a $554,330 payment from Major League Baseball on December 1, 1997; and paid $178,814 on June 8, 1998, and $61,272 on January 10, 2000, as a result of a Major League Baseball audits. Based on the net amount paid, the Mets should have taken $533,273 (68.3 percent[5]) of the $780,780 actually paid) as a deduction from the revenue they reported to the City. Therefore, the Mets owe the City $409,683 for the 1997 season.

Mets Response: In their response, Mets officials stated that

"the Comptroller's focus on form over substance is equally apparent in the contention that Sterling overstated its deductions for the portions of gate and cable receipts shared with other Major League teams. The Comptroller contends that Sterling should have deducted $19,645,398 for revenue sharing over the course of the audit period, rather than the $47,411,806 that Sterling deducted, which would inflate the rent due by an additional $1,834,338. However, the City's approach to this issue flies in the face of logic, and ignores the clear, long-standing and unchallenged past practice of the parties.

"As in most sport leagues, individual baseball clubs are entitled to exploit certain revenue streams within their defined local territories, but are required to share some portion of those local revenues with the other teams in the league. Until 1996, this was accomplished in baseball through a series of individual payments from home clubs to visiting clubs. For example, for each of its home games in 1995, Sterling was obligated to pay 40 cents per paid admission to the visiting teams, and, if the game was televised on cable, to remit to the visitor 25% of the resulting cable receipts. In recognition of this obligation, the agreement permits Sterling to deduct the portion of its ticket and cable revenues that it is required to remit to other clubs before it calculates the percentage rent to be paid to the City.

[4] The portion of Mets net operating revenue attributable to gross admission and cable television receipts.

[5] The portion of Mets net operating revenue attributable to gross admission and cable television receipts.

"For each of its road games, Sterling received the same percentages of the home team's ticket and cable revenues. Because these revenues from road games obviously did not derive from Sterling's use of Shea Stadium, the City never contended that it should share in them.

"In 1996, the Mayor League Clubs modified their revenue sharing system. The new system incorporated several substantive modifications, including the expansion of the types of revenues to be shared, and a shift away from sharing with particular visiting clubs and towards sharing with all clubs on an equal basis. The new system also included one wholly procedural change relating to the method of payment. Rather than sharing revenues through a series of club to club transactions, the new system called for all payments between clubs to be combined into a single net payment to or from each club. In essence, Major League Baseball's central office became a clearinghouse for the payments that had been made directly between individual clubs. As a result of that procedural change, the Comptroller now asserts, for the first time, that Sterling must share with the City the road revenues that it receives from other clubs through MLB.

"The Comptroller contends that Sterling should be entitled to a deduction based only on its net revenue sharing payments. For example, although in 1999 Sterling shared more than $19 million of its locally generated revenues, the Comptroller contends that Sterling's deduction should be based on its 'net' revenue sharing payment of $10.8 million. The Comptroller's contention ignores the fact that the $8 million paid to Sterling represents Sterling's share of revenues generated at other clubs' facilities. In other words, the Comptroller seeks to treat the $8 million received by Sterling as a return of Sterling's own local revenues, when it was in fact a payment to Sterling of its share of other clubs' local revenues. The result of this mischaracterization would be for the City, in effect, to receive a share of Sterling's extraterritorial revenues."

In a fourth footnote, Mets officials stated that

"It should be noted that a very small portion of the amount received by Sterling does represent a partial return of Sterling's contribution. The percentage returned varied from year-to-year based on the phase-in of the revenue sharing plan, but at full implementation, sterling would have received back roughly 2.5 % of the amount it contributed (or $200,000 of the $8 million of disputed deductions in 1999)."

"Nothing in the lease permits the City to share in any such revenue streams."

"The Comptroller's misunderstanding of the revenue sharing procedure is evident from Footnote 2 on page 8 of the audit report. There, the Comptroller states that Revenue Sharing "did not exist" prior to 1996. In fact, not only has revenue sharing existed throughout the term of the agreement, the fundamental elements of the revenue system remain unchanged. Sterling has always been required to pay to other clubs a portion of its home gate and cable receipts. Sterling has always received from other clubs a portion of their home gate and cable receipts. When the payment (of home receipts) and receipts (of road receipts) were consummated separately, the City permitted Sterling to deduct the full amount of its home revenue payments, and made not attempt to cause Sterling to share (or offset against its deduction) any portion of its road revenue receipts. Now that the payment and receipt are combined into a single transaction, and only one check is

required rather than two, the City claims that Sterling's road receipts must be offset against the allowable deduction related to Sterling's home receipts. Again, such an argument would elevate form over function, and would be patently unfair to Sterling.

"Even without the Comptroller's aggressive interpretation, the deduction for revenue sharing set forth in the agreement is far narrower than the current Major League Baseball revenue sharing framework. The agreement permits Sterling to deduct only the portion of its cable and gate receipts that it shares, and does not provide for any deduction with respect to sharing of revenues from advertising signage, restaurant and concession sales, parking, or suite revenues. This discrepancy was not intended, but results from the outdated nature of the agreement, which was entered into at a time when Sterling's revenue sharing obligations were limited to cable and gate. Despite the obvious unfairness of this provision, Sterling has never claimed any revenue sharing deduction for these other revenue sources. Since 1995, due to the extraordinary growth of the revenues generated by Sterling at the facility, combined with the unfair limitation of the allowable deduction, Sterling's total rent has grown from under $2 million to nearly $8 million despite substantial increases in Sterling's revenue sharing obligations. Against that backdrop, the City's effort to further reduce the deductibility of revenue sharing payments through an unprecedented interpretation of the agreement is particularly egregious."

Auditor Comment: The Mets response attempts to obfuscate the issues by bringing up details that have no relationship to the matter at hand. The Mets would have us believe that the revenue sharing process is business as usual, and that they actually paid Major League Baseball the $47,411,806 claimed. However, nothing could be further from the truth. The Mets clearly are not entitled to the $47,411,806 deduction because this amount was simply not paid to Major League Baseball. For example, the Mets response indicated that in 1999, they "shared" $19 million of their locally generated revenues with other clubs and that they were paid $8 million from other clubs. We challenge the Mets to produce the canceled checks that support the $19 million in purported payments and their books and records that show the receipt of the $8 million. In reality, based on the Mets' own books and records for 1999, the Mets made revenue sharing payments totaling $10,803,174, of which we allowed the Mets a deduction of $6,205,343. The difference of $4,597,831 is attributable to revenues for which the Mets are not entitled to a deduction under the lease.

As the Mets are aware, the implementation of the "Revenue-Sharing Plan" subsequent to 1996 bears no relationship to the prior process, and is distinct and separate from the so-called "Revenue-Sharing" payments made to the visiting teams that the Mets referred to in their response. The two systems have different purposes, calculations, and methodologies, and cannot be compared. Major League Baseball devised and implemented the current revenue sharing system as a means of providing funds to those ball clubs with lower revenue bases to allow them to be competitive with the teams that have higher revenue bases. Simply stated, teams that earn higher revenues pay into the pool while teams that earn less revenue receive revenue from the pool. The purpose of the prior system was to pay a visiting team a share of the ticket sales, and if televised, a share of the cable receipts.

Finally, we are perplexed about what motivates the Mets to violate their lease and to shortchange the City by $1.8 million—approximately one-third of one percent of their total revenue for the five-year period. From 1996 to 2000, Mets revenue increased from approximately $57.7 million to more than $153.9 million. Although the amount due the

City increased, the percentage of revenue due the City decreased from 9.16 percent in 1996 to 7.04 percent in 2000. Obviously, the "unfair limitation of the allowable deduction" claimed by the Mets did not adversely affect the Mets financial condition.

Outstanding Prior Audit Assessment

The Mets agreed with and paid the City $104,544 in additional fees due the City from the previous audit (FN97-098A). However, the Mets continue to owe the City $83,186 of an unpaid portion of the previous audit's assessment that pertained to homeplate advertising.

Compliance Issues

The Mets adhered to certain non-revenue-related requirements of the agreement, as follows: the Mets had the required liability insurance that named the City as an additional insured party in accordance with Article XXVI, § 26.3 and § 26.7, of the agreement; and the Mets reimbursed Parks for electricity and for water and sewer use during the baseball season, in accordance with Article XXII, § 22.1, of the agreement.

Recommendations

We recommend that the Mets:

1. Pay the City $3,381,816 for outstanding fees due.
2. Ensure that all advertising, concession, and Skybox receipts are reported on the their rent statements to the City.
3. Ensure that only final audited year-end deductions for Revenue-Sharing are subtracted from their rent statement and calculations.

   Mets Response: As discussed earlier, Mets officials took exception with the advertising and revenue sharing issues, but did not specifically address the audit's recommendations.

We recommend that Parks:

4. Ensure that the Mets pay the City $3,381,816 for outstanding fees due and comply with the audit's other two recommendations. In the event the Mets and Parks continue to disagree on the fees due, Parks should take immediate action to resolve the dispute through either the lease's panel arbitration process or appropriate judicial proceedings.
5. Incorporate a late payment penalty clause in future contracts with the Mets that at a minimum assesses penalties/interest on any late payments at the prime commercial lending rate.

   Parks Response: In their response, Parks officials stated that: "DPR has issued the attached letter to the Mets requesting payment under Recommendation 1 for the full amount of $3,381,816. Also, the Mets are required to implement Recommendations 2 and 3 concerning the proper reporting of revenue from

Advertising, Concessions, and Skybox receipts and deductions for Revenue-Sharing payments to Major League Baseball."

Parks officials responded that Recommendation 4 is covered in the attached billing notice (Addendum II, pages 3 to 6) to the Mets. Parks officials stated that "DPR plans to consider all remedies available to recover from the Mets the cited moneys due the city including those suggested by the Comptroller's Office."

Lastly, while Parks considers Recommendation 5 "a very plausible and fiscally prudent suggestion, it is not one which DPR will be in a position to implement for a number of years, if at all. The First Amendment to the Mets' current lease agreement dated December 28, 2001, extends its term to December 31, 2005, and allows for up to five, one-year renewal options."

LAW DEPARTMENT
100 CHURCH STREET
NEW YORK, N.Y. 10007

PAUL A. CROTTY
Corporation Counsel

212-788-1336

May 5, 1997

Joanne Imohiosen
Assistant Commissioner, Revenue
City of New York Parks & Recreation Department
The Arsenal
Central Park
New York, New York 10021

Re: Draft Audit Report on Lease Fees Due from Doubleday, Inc. and Compliance with its Lease Agreement - March 1, 1990 to March 31, 1996 FN 97-098A

Dear Ms. Imohiosen:

You asked for our advice as to two legal issues relating to the above audit report - the ESPN issue and the Homeplate advertising issue. And you sent us a copy of the letter dated April 24,1997 from Harold W. O'Shaughnessy, Senior Vice President & Treasurer of the New York Mets to Robert D. Liwer, Deputy Comptroller for Audits & Engineering of the City of New York. In his letter, Mr. O'Shaughnessy sets forth his view of these two issues.

First, with respect to the ESPN issue, we believe that it is a reasonable interpretation of the Lease with Doubleday, Inc. that revenues received from Major League Baseball's Central Fund for ESPN's cable television broadcasts should be included in "Pay Television Receipts" under Section 8.1 of the Lease.

Pay Television Receipts are defined as "gross amount received by a Major League baseball club from or arising out of Pay Television of all Major League games or related activities played in its home stadium".

Pay Television is defined as "any method of transmitting television signals in connection with which a charge is made to the receiver or viewer for the reception of the signals in final, usable form." The Lease further provides: "Without limiting the generality of the foregoing, Pay Television Receipts shall include telecasts in theaters to which the viewers pay an admission charge, and metered, subscriber or so-called "pay as you see" home television."

The argument of Doubleday that the ESPN receipts are "not revenues earned by SDE [Sterling Doubleday Enterprises, L.P] through the licensing of rights to televise its home games" seems not accurate. The receipts are paid by Major League Baseball in consideration of the grant, whether or not exercised, of the rights to televise the home games and accordingly are receipts "arising out of Pay Television" of home games.

Mr. O'Shaughnessy states in his letter that "ESPN pays a lump sum to Major League Baseball for a bundle of rights that includes, among many other things, the right to televise a number of games during the season."

The argument of Doubleday that the ESPN receipts are not Pay Television Receipts because they were not received directly by the Doubleday is not persuasive, particularly because of the words "arising out of" in the definition of receipts.

The argument of Doubleday that ESPN receipts were not intended to be included because only local cable tv receipts were intended to be included is not reflected in the provisions of the Lease. If Pay TV receipts were intended to be so limited, the Lease would have explicitly and extensively so provided as the City and the Yankees did in the Yankee Lease. The Yankee Lease defines the "Cable TV Area" as "within a radius of fifty (50) miles from home plate of the stadium".

Finally, the basic argument of Doubleday is that the Lease does not cover the receipts attributable to the ESPN contract and such receipts were not intended to be covered, because at the time the Lease was entered into Major League Baseball had no national cable television rights agreement. This is contrary to the express provisions of Section 8.1 of the Lease. Also, it makes no sense to limit the applicability of these provisions of a long term lease to business practices that existed at the time of the entering into of the lease. The receipts arise out of the right to televise home games and are covered by the Lease whether or not the business practice existed at the beginning of the Lease.

Second, with respect to the "Homeplate advertising" , Section 24.3 of the Lease provides: Except as provided in Section 24.1 and 24.2 and Article XVI, neither the City nor Doubleday *** shall erect or display or permit or cause to be erected or displayed, on or in the Stadium Facility, any sign or other advertising matter." Sections 24.1 and 24.2 are not relevant to this analysis. Article XVI deals with Scoreboards and Diamond Vision Boards.

Again, the basic argument of Doubleday is that homeplate advertising is not covered by the Lease, because such advertising did not exist when the Lease was entered into. Again, the argument fails because of the express provisions of the Lease - Section 24.3.

The City did not give consent to the erection of the two new Homeplate advertising signs by Doubleday, and would not have given such consent without an agreement by Doubleday that the signs would be treated in the same way that advertising signs on the front or back of the scoreboards and of the Diamond Vision Board under Section 16.2 of the Lease are treated. Under the Lease, Doubleday must pay the City 10% of the revenues from such advertising signs.

The Comptroller argues that the Lease does not deal with Homeplate advertising since such type of advertising came into existence after the Lease was entered into. Accordingly, since the Lease provides that Doubleday must pay the City 10% of revenue from the only advertising signs in the Stadium permitted at the time of entering into the Lease, revenue from the Homeplate advertising signs should be included if such signs are later permitted under the Lease. We believe that the Comptroller's argument is strengthened by Lease provision prohibiting Doubleday from erecting or displaying new advertising signs.

Doubleday argues that the Lease does not cover Homeplate advertising and therefore Doubleday does not owe the City any money on account of receipts from such advertising. Section 24.4 provides: "Except as provided in Section 16.2 (scoreboards and Diamond Vision Boards) and Article VIII (Pay Television), the City shall not be entitled to any part of any advertising revenues received by Doubleday or any of its Concessionaires." Again, Section 24.3 prohibits Doubleday from erecting or displaying any sign or advertising matter in the Stadium.

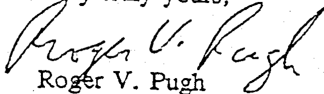
Doubleday also argues that homeplate advertising is new and not the same as traditional stadium advertising. Homeplate advertising is directed at the TV audience and traditional stadium advertising is directed at the persons in the stadium. The response is that traditional stadium advertising includes both audiences and the express provisions of a long term lease- Section 24.3 - cover changes in business practices including those attributable to changes in technology.

It seems unfair for Doubleday to take the position that if a way to obtain revenue is new, Doubleday should have it all and the City should not share in it, particularly since the provisions of the Lease provide otherwise.

In summary, Doubleday owes the City 10% of the ESPN receipts under the express provisions of the Lease. And (1) since Doubleday built the Homeplate advertising without the consent of the City as required by the Lease and (2) under the Lease Doubleday pays the City 10% of revenues from permitted advertising signs in the Stadium, it is reasonable and fair for Parks to take the position that Doubleday pay to the City 10% of the Homeplate advertising receipts.

You may furnish a copy of this letter to Doubleday and we would be pleased to meet with representatives of Doubleday should Doubleday wish to discuss this with us.

Very truly yours,



Roger V. Pugh

New York Mets

July 1, 1988

Mr. Robert Trombino
Director of City Stadia
City of New York
Dept. of Parks/Recreation
Shea Stadium
Flushing, NY 11368

Dear Bob:

The Mets are proposing to install a total of 150 Diorama type back lit panels in the concourse and lobby areas of Shea Stadium. The proposed selling price for each package of 15 panels is $100,000, and the sale of all 10 packages would generate additional advertising revenue to the City of $100,000 or more per year once all panels are sold.

The "package" concept allows us to distribute the dioramas evenly throughout the stadium, which will minimize commercialization, and 3/5 of the panels in each package of 15 (9 total) will be Mets Magic Moments type displays with an attractive and exciting baseball theme. Three of the remaining six panels in each package will be commercial panels located immediately adjacent to a Magic Moments panel to give the presentation of a matched set - tying the Mets action photo and advertiser's copy together. The last three panels in each package will be stand alone commercial ad panels.

The overall effect will be tasteful, baseball oriented, and will help brighten and decorate otherwise drab concourses. We are confident that we can sell this program to advertisers even though they would obviously prefer a greater proportion of sure advertising panels.

We should be able to generate additional advertising revenues beginning this year, since we hope to have three (3) diorama packages sold and installed for the second half of the 1988 season (1st home game 7/21/88). The remaining 7 packages should be sold and installed by the start of the 1989 season.

July 1, 1988

Mr. Robert Trombino

Our financial projection based on current costs and sales estimates is as follows:

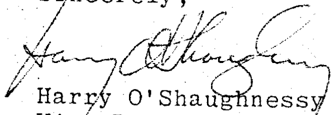
Year	Packages Sold	Gross Revenue	Amort.(1) of Cost	Net Revenue	City's Share
7/21/88	3	$ 150,000	$ 11,250	$ 138,750	$ 13,875
1989	10	1,000,000	75,000	925,000	92,500
1990	10	1,100,000	75,000	1,025,000	102,500
1991	10	1,200,000	75,000	1,125,000	112,500
1992	10	1,300,000	75,000	1,225,000	122,500
1993	10	1,400,000	63,750	1,336,250	133,625
1994	10	1,500,000	-0-	1,500,000	150,000

As you can see, the Diorama project will produce sizeable additional revenues for both the City and the Mets in a relatively short period of time, and will also add an interesting and attractive new feature to the ballpark. All ad copy used will be reviewed and approved by the Mets to be sure all panels tastefully comply with a family oriented facility.

(1) $37,500 per "package" of 15 panels amortized over 60 month period.

Please review this program with the Commissioners Office, and let me know if we can proceed with installation of the initial 45 panels for the second half of the 1988 baseball season.

Sincerely,



Harry O'Shaughnessy
Vice President & Treasurer

HO'S/jc

cc: J. Imohiosen - City of N.Y.
D. Chapin - City of N.Y.
J. Ross - N.Y. Mets
A. Harazin - N.Y. Mets

1986 World Champs

August 10, 1983

Henry J. Stern
Commissioner
City of New York
Parks & Recreation
The Arsenal
830 Fifth Avenue
New York, NY 10021

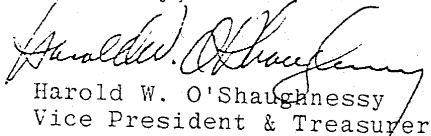
Dear Commissioner:

I am writing to confirm the approval by the Department of Parks and Recreation of the Mets proposal to erect a total of 150 back-lit advertising panels (dioramas) in the concourse areas at Shea Stadium. The Mets will be responsible for the construction of these panels, and plan to complete erection of all panels prior to Opening Day 1989. These dioramas will produce additional advertising revenue for both the Mets and the City, with the City receiving a 10% share of these additional revenues beginning with the 1989 season.

For reporting purposes, we plan to add this revenue as a separate line item on the scoreboard advertising page of the annual rent report. I have enclosed a marked up copy of that page and the summary page of the report to illustrate. I believe that the existing lease agreement between the Mets and the City of New York adequately provides for shared revenues for ballpark signage, and that it should not be necessary to make any formal modification or addendum to that agreement to accommodate these new panels.

Thank you for expediting approval of this project. I think our "Mets Magic Moments" theme will greatly enhance the aesthetic appeal of these panels, and will add color, light and an interesting new feature to the ballpark. Your staff has been most helpful in coordinating this new venture, and their assistance is much appreciated.

Sincerely,



Harold W. O'Shaughnessy
Vice President & Treasurer

HWO'S/jc
Enc.

cc: J. Imohiosen, DPR
D. Chapin, DPR
J. Monaco, DPR
R. Trombino, DPR
A. E. Harazin, Mets

STERLING DOUBLEDAY ENTERPRISES, L.P.

STATEMENT OF RENT, RESERVED PARKING FEES AND SCOREBOARD MAINTENANCE
DUE THE CITY OF NEW YORK FOR THE YEAR ENDING DECEMBER 31, 1986

icle er L se		Sheet No.		Total Due NYC	Payments On Account	Balance Due
5	Parking Privilege Sales	2		$ 314,686.50	-0-	$314,686.50
4	First Admission Component	3	$1,611,240.19			
4	Second Admission Component	3	133,887.40			
4	Concession Admission Component	5	1,789,971.00			
4	Waiter Service Component	5	49,306.15			
	Total Rent Components		$3,584,404.74			
3	Maximum Percentage Rent		550,000.00			
5	Deduct Insurance Credit	6	9,375.00			
	Rent Due Less Insurance Credit			540,625.00		
2	Minimum Paid	7			$300,000.00	
3	Watchmen Charges - 1986				99,218.72	
	Balance of 1986 Rent Due to Percentage Factors					141,406.28
1	Scoreboard Maintenance	8		8,000.00	8,000.00	
2	Scoreboard Advertising (WILL INCLUDE "DIORAMA" REVENUE IN 1989)			72,831.25	-0-	72,831.25
2	Cable TV Revenues	10		108,433.00	-0-	108,433.00
				$1,044,575.75	$407,218.72	$637,357.03

STERLING DOUBLEDAY ENTERPRISES, L.P.

SCHEDULE OF PERCENTAGE OF SCOREBOARD ADVERTISING REVENUE DUE THE CITY OF NEW YORK FOR CALENDAR YEAR 1986

Scoreboard Advertising Revenue received during calendar year 1986		$1,408,312.50
Amount due N.Y.C. as per new revenue agreement of 2/21/82		40,000.00
Plus 10% of Revenue in excess of 1,000,000.00 ($408,312.50)		40,831.25
	$	80,831.25
Amount paid N.Y.C. under Sec. 16.1 for calendar year 1986		8,000.00
Balance due N.Y.C.	$	72,831.25

ADD LINE FOR "DIORAMA" ADV. REVENUE IN 1989

NEW YORK NATIONAL LEAGUE BASEBALL CLUB

October 10, 2002

David P. Cohen
Vice President and
General Counsel

VIA FEDERAL EXPRESS

Greg Brooks
Deputy Comptroller
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

Re: Audit Report for Sterling Doubleday Enterprises, L.P. ("Sterling")

Dear Mr. Brooks:

I am writing in response to your letter of September 27, 2002, soliciting our comments to the final draft report of the Comptroller's Office in connection with the above-referenced rent audit for 1996-2000.

Of the several issues raised in the audit report, only two remain in dispute: the calculation of advertising revenues (which pertains to the 1995 audit as well), and the application of deductions related to sharing of revenues with other Major League Baseball entities. We do not take issue with any of the other issues raised in the report, and will remit a check to the Parks Department to resolve those undisputed issues.

The following summarizes our position with respect to the two outstanding issues.

Advertising Revenue

The Comptroller contends that Sterling failed to report $12,915,547 attributable to home plate advertising during 1996-2000 and $409,840 from advertising located behind first and third base during 1998. If Sterling were to remit to the City 10% of the advertising revenues in question, the resulting additional rent payment would total $1,332,539. Additionally, the Comptroller contends that Sterling should remit a payment of $83,136, representing 10% of the home plate advertising revenue generated by Sterling in 1995.

Sterling has previously addressed this issue in response to the 1995 audit. As set forth in our letter to Robert D. Liwer of April 24, 1997, neither the letter nor the spirit of

NEW YORK METS • SHEA STADIUM • FLUSHING, NEW YORK 11368 • 718-565-4397 • FAX 718-335-8066 • dcohe@nymets.com

the lease agreement entitles the City to share in the revenues from the signage in question, due to the fact that both signs are predominantly television advertising signs, not stadium advertising signs.

Contrary to the Comptroller's assertion at page 6 of the report, the agreement does not require Sterling to share 10% of all advertising revenues with the City. Instead, Section 16.2 of the agreement provides that Sterling shall share "scoreboard advertising revenue," which is defined to include only the advertising signs placed on the scoreboards and Diamond Vision Board at the Stadium. Moreover, Section 24.4 of the agreement provides that other than scoreboard advertising revenue and home cable rights fee revenue, "the City shall not be entitled to any part of any advertising revenues received by [Sterling] or any of its Concessionaires." As such, the express terms of the agreement do not require Sterling to share revenues from the home plate, first base or third base signage.[1]

Despite the agreement's narrow reference to scoreboard advertising, Sterling has shared with the City substantial revenues from other advertising signs at the Stadium. Since 1985, Sterling has added a number of signs, including advertising on the outfield fence, that are indistinguishable in character and purpose from the scoreboard signs. In such cases, Sterling has applied the 10% sharing arrangement, in recognition of the functional equivalency of those signs and the scoreboard signs. The rotating home plate, first base and third base signs, however, are of an entirely different character. All of them are positioned for optimal viewing by television viewers, not fans seated in the stadium. The signs are substantially smaller than typical stadium advertising, and (particularly with respect to the home plate signage) are visible to only a fraction of the people in the stands. The signs are sold based not on stadium attendance but on television ratings. In short, the revenue generated from these signs constitutes television advertising revenue, not scoreboard or even stadium advertising revenue[2]. As such, they fall within the category of "other advertising revenues" received by Sterling, which are expressly exempt from sharing under Section 24.4 of the agreement[3].

Significantly, the home plate, first base and third base signs could all easily be replaced with advertisements electronically inserted in Sterling's game telecasts. Such advertising would be substantially equivalent to the current rotating signage – clearly visible to television viewers, but invisible to stadium patrons – but would undoubtedly be beyond the City's reach, as they would have no physical nexus to the Stadium whatsoever. To suggest that television advertising revenues must be shared with the City if they derive from signs affixed to the stadium structure, but are exempt if they are

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[1] Section 24.3 does require Sterling to obtain the City's consent before adding any additional signage, but the City does not contend that it withheld consent with respect to any of the signs at issue.

[2] In fact, the revenue from these signs is classified as broadcasting revenue in Sterling's internal books and records.

[3] Sterling did not remit 10% of its revenues from first and third base signage for the 1998 season (the year such signs were introduced), but did remit that amount for 1999 and 2000. Therefore, although the audit report only references the amount claimed to be due for 1998, the entire amount for the three-year period is in dispute.

superimposed by electronic means in precisely the same locations would be to place form over substance.

Revenue Sharing Deductions

The Comptroller's focus on form over substance is equally apparent in the contention that Sterling overstated its deductions for the portions of gate and cable receipts shared with other Major League teams. The Comptroller contends that Sterling should have deducted $19,645,398 for revenue sharing over the course of the audit period, rather than the $47,411,806 that Sterling deducted, which would inflate the rent due by an additional $1,834,338. However, the City's approach to this issue flies in the face of logic, and ignores the clear, long-standing and unchallenged past practice of the parties.

As in most sports leagues, individual baseball clubs are entitled to exploit certain revenue streams within their defined local territories, but are required to share some portion of those local revenues with the other teams in the league. Until 1996, this was accomplished in baseball through a series of individual payments from home clubs to visiting clubs. For example, for each of its home games in 1995, Sterling was obligated to pay 40 cents per paid admission to the visiting team, and, if the game was televised on cable, to remit to the visitor 25% of the resulting cable receipts. In recognition of this obligation, the agreement permits Sterling to deduct the portions of its ticket and cable revenues that it is required to remit to other clubs before it calculates the percentage rent to be paid to the City.

For each of its road games, Sterling received the same percentages of the home team's ticket and cable revenues. Because these revenues from road games obviously did not derive from Sterling's use of Shea Stadium, the City never contended that it should share in them.

In 1996, the Major League Clubs modified their revenue sharing system. The new system incorporated several substantive modifications, including the expansion of the types of revenues to be shared, and a shift away from sharing with particular visiting clubs and towards sharing with all clubs on an equal basis. The new system also included one wholly procedural change relating to the method of payment. Rather than sharing revenues through a series of club to club transactions, the new system called for all payments between clubs to be combined into a single net payment to or from each club. In essence, Major League Baseball's central office became a clearinghouse for the payments that had been made directly between individual clubs. As a result of that procedural change, the Comptroller now asserts, for the first time, that Sterling must share with the City the road revenues that it receives from other clubs through MLB.

The Comptroller contends that Sterling should be entitled to a deduction based only on its net revenue sharing payments. For example, although in 1999 Sterling shared more than $19 million of its locally generated revenues, the Comptroller contends that

Sterling's deduction should be based on its "net" revenue sharing payment of $10.8 million. The Comptroller's contention ignores the fact that the $8 million paid to Sterling represents Sterling's share of revenues generated at other clubs' facilities. In other words, the Comptroller seeks to treat the $8 million received by Sterling as a return of Sterling's own local revenues, when it was in fact a payment to Sterling of its share of other clubs' local revenues. The result of this mischaracterization would be for the City, in effect, to receive a share of Sterling's extraterritorial revenues[4]. Nothing in the lease permits the City to share in any such revenue streams.

The Comptroller's misunderstanding of the revenue sharing procedure is evident from Footnote 2 on page 8 of the audit report. There, the Comptroller states that Revenue Sharing "did not exist" prior to 1996. In fact, not only has revenue sharing existed throughout the term of the agreement, the fundamental elements of the revenue system remain unchanged. Sterling has always been required to pay to other clubs a portion of its home gate and cable receipts. Sterling has always received from other clubs a portion of their home gate and cable receipts. When the payment (of home receipts) and receipt (of road receipts) were consummated separately, the City permitted Sterling to deduct the full amount of its home revenue payments, and made no attempt to cause Sterling to share (or offset against its deduction) any portion of its road revenue receipts. Now that the payment and receipt are combined into a single transaction, and only one check is required rather than two, the City claims that Sterling's road receipts must be offset against the allowable deduction related to Sterling's home receipts. Again, such an argument would elevate form over function, and would be patently unfair to Sterling.

Even without the Comptroller's aggressive interpretation, the deduction for revenue sharing set forth in the agreement is far narrower than the current Major League Baseball revenue sharing framework. The agreement permits Sterling to deduct only the portion of its cable and gate receipts that it shares, and does not provide for any deduction with respect to sharing of revenues from advertising signage, restaurant and concession sales, parking, or suite revenues. This discrepancy was not intended, but results from the outdated nature of the agreement, which was entered into at a time when Sterling's revenue sharing obligations were limited to cable and gate. Despite the obvious unfairness of this provision, Sterling has never claimed any revenue sharing deduction for these other revenue sources. Since 1995, due to the extraordinary growth of the revenues generated by Sterling at the facility, combined with the unfair limitation of the allowable deduction, Sterling's total rent has grown from under $2 million to nearly $8 million despite substantial increases in Sterling's revenue sharing obligations. Against that backdrop, the City's effort to further reduce the deductibility of revenue sharing payments through an unprecedented interpretation of the agreement is particularly egregious.

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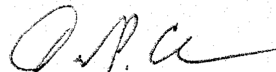
[4] It should be noted that a very small portion of the amount received by Sterling does represent a partial return of Sterling's contribution. The percentage returned varied from year to year based on the phase-in of the revenue sharing plan, but at full implementation, Sterling would have received back roughly 2.5% of the amount it contributed (or $200,000 of the $8 million of disputed deductions in 1999).

Conclusion

In light of the foregoing, Sterling recommends that the Comptroller revisit the conclusions embodied in the draft audit report with respect to the issues raised herein, and to make changes to such draft report to accommodate Sterling's objections as stated above.

Please feel free to contact me if you have any questions regarding the foregoing.

Sincerely,



pc: Jeffrey S. Wilpon
David C. Howard
Leonard S. Labita

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City of New York
Parks & Recreation

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

Joanne G. Imohiosen
Assistant Commissioner
Revenue

(212) 360-3404
joanne.imohiosen@parks.nyc.gov

October 10, 2002

BY FAX AND MAIL
Mr. Greg Brooks
Deputy Comptroller
The City of New York
Office of the Comptroller
Executive Offices
1 Centre Street
New York, NY 10007

Re: Draft Audit Report on Sterling Doubleday Enterprises, L.P. (New York Mets) April 1, 1996 through December 31, 2000 FN 02-125A

Dear Mr. Brooks:

This letter represents the Parks Department's (DPR), response to the recommendations contained in the subject audit of Sterling Doubleday Enterprises, L.P. (Mets).

DPR has issued the attached letter to the Mets requesting payment under **Recommendation 1** for the full amount of $3,381,816. Also, the Mets are required to implement **Recommendations 2 and 3** concerning the proper reporting of revenue from Advertising, Concessions and Skybox receipts, and deductions for Revenue-Sharing payments to Major League Baseball.

Recommendation 4 states that Parks should ensure that the Mets pay the City $3,381,816 for outstanding fees due and comply with the audit's other two recommendations.

This part of the recommendation has been addressed by DPR's issuance of the above referenced billing notice to the Mets.

Greg Brooks
October 10, 2002
Page 2

Recommendation 4 goes on to state that, "In the event the Mets and Parks continue to disagree on the fees due, Parks should take immediate action to resolve the dispute through either the lease's panel arbitration process or appropriate judicial proceedings."

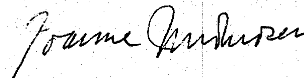
DPR plans to consider all remedies available to recover from the Mets the cited moneys due the City including those suggested by the Comptroller's Office under this recommendation.

Recommendation 5 suggest that Parks should incorporate a late payment penalty clause in future contracts with the Mets that at a minimum assesses penalties/interest on any late payments at the prime commercial lending rate.

Although this is a very plausible and fiscally prudent suggestion it is not one which DPR will be in a position to implement for a number of years, if at all. The First Amendment to the Mets current lease agreement dated December 28, 2001 extends its term to December 31, 2005, and allows for up to five (5), one-year renewal options. Also, in all likelihood, any new lease agreement would be negotiated and crafted by the Mayor's Office.

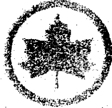
We wish to thank the Comptroller's audit staff for their work and efforts in performing this review.

Sincerely,



Joanne Imohiosen

cc: Comm. Adrian Benepe
David Stark
Francisco Carlos
Susan Kupferman, Mayor's Office of Operations



City of New York
Parks & Recreation

The Arsenal
Central Park
New York, New York 10021

Adrian Benepe
Commissioner

Joanne G. Imohiosen
Assistant Commissioner
Revenue

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joanne.imohiosen@parks.nyc.gov

October 10, 2002

BY FAX AND MAIL
Mr. Dave Howard
Sr. Vice President
Sterling Doubleday Enterprises, L.P.
Shea Stadium
Flushing, NY 11368

**Re: Draft Audit Report on Sterling Doubleday Enterprises, L.P. (New York Mets)
April 1, 1996 through December 31, 2000 FN 02-125A**

Dear Mr. Howard:

This letter addresses the findings and recommendations contained in the subject audit of Sterling Doubleday Enterprises, L.P. (Mets). In general, the report stated that the Mets had an adequate system of internal controls over their revenue collection and reporting functions and have adhered to certain other non-revenue-related requirements of its lease agreement. However, for the period examined the audit disclosed that the Mets underreported its revenue by $18,363,226 and overstated the amount of deductions against revenue that it was entitled to take by $27,766,408. Also, the Mets still have not satisfied a portion of its prior audit assessment pertaining to homeplate advertising totaling $83,186. Consequently, the Mets owe the City $3,381,816.

Specifically, the report recommends that the Mets:

Recommendation 1. Pay the City $3,381,816 for outstanding fees due.

The audit disclosed that additional fees are payable based on:

		Additional Fees
• Total Underreported Revenue	$18,363,226	$1,464,292
• Overstated Deductions	27,766,408	1,834,338
TOTAL	$46,129,634	$3,298,630
• Unpaid Prior Audit Assessment		83,186
ADDITIONAL FEES DUE THE CITY		**$3,381,816**

The underreported revenue items represent:

• Unreported homeplate advertising revenue	$12,915,547
• Underreported Scoreboard Advertising - 1998-2000	149,831
• Unreported 1st & 3rd Base Advertising–1998	409,840
Total Underreported Stadium Advertising	**$13,475,218**

The issue of homeplate advertising had been raised in a previous audit under which the Mets were assessed $83,186. The support for this assessment came from a legal opinion rendered by the New York City Law Department which is attached as part of the current audit report. Based on the NYC Law Department's determination that homeplate advertising revenue is definitely subject to the provisions of Article XVI of the lease, the Mets are required to pay 10 percent of all such revenue. Therefore, the amount owed by the Mets for the underreported stadium advertising identified above totals $1,347,522. Including the prior unpaid audit assessment the Mets owe $1,430,708 in additional Stadium Advertising fees.

- **Underreported Concession & Wait Service revenue** **$ 4,870,964**

For 1998 the Mets did not pay any percentage fees for their concession and wait service revenues based on reported attendance of less than two million. However, the auditor's review of the Mets' records disclosed that attendance did exceed the two million threshold in 1998 after which concession and wait service percentage fees are applicable.

Moreover, for the 1998, 1999 and 2000 seasons a review of Aramark's audited financial statements showed that the Mets underreported concession and wait service revenue by the above stated amount of $4,870,964 in their calculations of fees due the City and therefore owe the City the additional sum of $108,248.

- **Underreported Skybox revenue** **$ 17,044**

The Mets omitted from the rental revenue reported to the City the revenue from one daily luxury suite rental in 2000 of $8,880 and concession receipts from 1996 to 1998 totaling $8,164. As a result, the Mets owe the City $8,522 in additional fees.

The fees payable by the Mets for the underreported revenue identified above is summarized as follows:

• Stadium Advertising	$1,347,522	
• Unpaid Prior Audit Assessment	83,186	
Total Stadium Advertising		$1,430,708
• Concession Receipts		108,248
• Skybox		8,522
FEES ON UNDERREPORTED REVENUE		**$1,547,478**

The overstated deduction item cited in the report represents inflated amounts totaling **$27,766,408,** credited by the Mets against rent for its Revenue-Sharing payments to Major League Baseball. Based on the auditors' examination of Major League Baseball's Revenue-Sharing reports and the Mets' own books and records, the Mets should have deducted $19,645,398 from reported revenues instead of the $47,411,806 deduction actually taken. The audit report states that, "the amount claimed by the Mets as a reduction of revenues on which fees to the City are based bears no relationship to the amount that they actually paid to Major League Baseball . . . Clearly, the amounts deducted by the Mets were not the actual payments as defined in the lease and therefore should not have been deducted." The resulting additional fees owed the City from overstated Major League Baseball deductions claimed on the Mets' rent statements from 1996 through 2000 totals **$1,834,338**.

The total audit assessment for underreported revenue and overstated deductions as summarized above calculates to **$3,381,816**. To clear this audit recommendation Parks requests that the Mets remit to this office a check for $3,381,816, made payable to the CITY OF NEW YORK PARKS AND RECREATION.

Recommendation 2. Ensure that all advertising, concession, and Skybox receipts are reported on their rent statements to the City.

The Mets should implement this recommendation by taking appropriate action to ensure that advertising, concession, and Skybox receipts are properly reported in accordance with the Mets' lease and Skybox agreements. With regard to stadium advertising, the Mets should make certain to comply with Lease – Section 24.3 which, except as provided in Sections 24.1 and 24.2 and Article XVI, precludes the Mets from erecting or displaying any sign or other advertising matter in the Stadium Facility.

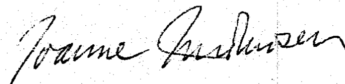
Note that any proposed new advertising concept, such as was the case with the "Diorama Panels", must be proposed and consented to by the City before the erection and display of any such signage is effected.

Recommendation 3. Ensure that only final audited year-end deductions for Revenue-Sharing are subtracted from their rent statement and calculations.

The Mets should comply with this recommendation by adhering to Article VIII, Section 8.1, and Article IX, Section 9.4 (a)(ii), as they pertain to deductions for Revenue-Sharing payments to Major League Baseball.

We understand that the Mets are contesting elements of the Comptroller's audit report. Should your response to the audit result in a change in the Comptroller's determination or in a change of the Corporation Counsel's interpretation of what is required under the lease, we will modify our request accordingly. Also, we want to take the opportunity to thank the Mets for their cooperation during the audit review and anticipate an expeditious resolution of the issues contained in the audit report.

Sincerely,



Joanne Imohiosen

cc: Comm. A. Benepe
D. Stark