

LMG2, LLC

April 28, 2016

VIA MESSENGER

Corporation Counsel
City of Chicago
City Hall, Room 600
121 North LaSalle Street
Chicago, IL 60602
Attn: Finance & Economic Development Div.

City of Chicago
Department of Finance
121 North LaSalle Street
Room 700
Chicago, IL 60602
Attn: Chief Financial Officer

Re: Chicago Downtown Public Parking System Concession and Lease Agreement dated as of November 3, 2006 (as amended, the "Concession Agreement") by and between the City of Chicago (the "City") and LMG2, LLC ("Concessionaire"), as assignee of Chicago Loop parking LLC ("Original Concessionaire")

Dear Sir or Madam:

Capitalized terms used herein have the meaning given them in the Concession Agreement unless otherwise defined. In accordance with section 8.1(c) of the Concession Agreement, enclosed are the audited financial statements for LMG2, LLC as of December 31, 2015 and December 31, 2014 and for the Year Ended December 31, 2015 and for the period from February 1, 2014 (Commencement of Operations) through December 31, 2014. Such financial statements fairly present the financial condition and the results of operations, changes in equity and cash flows of the Concessionaire as at the respective dates of and for the periods referred to in such financial statements, all in accordance with generally accepted accounting principles in the United States consistently applied.

Very truly yours,

LMG2, LLC

By: 

Name: Michael Nichols

Title: Chief Executive Officer

400 Skokie Blvd., Suite 800, Northbrook, IL 60062



LMG2, LLC

Financial Statements

As of December 31, 2015 and 2014 and for the Year
Ended December 31, 2015 and for the Period from
February 1, 2014 (Commencement of Operations)
through December 31, 2014

LMG2, LLC

Financial Statements

**As of December 31, 2015 and 2014 and for the Year Ended December 31, 2015 and for
the Period from February 1, 2014 (Commencement of Operations)
through December 31, 2014**

LMG2, LLC

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Independent Auditor's Report

Board of Directors
LMG2, LLC
Chicago, Illinois

We have audited the accompanying financial statements of LMG2, LLC (the "Company"), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, members' deficit, and cash flows for the year ended December 2015 and the period from February 1, 2014 (commencement of operations) through December 31, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LMG2, LLC as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the year ended December 31, 2015 and the period from February 1, 2014 (commencement of operations) through December 31, 2014, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 9, in January 2016 the Company entered an agreement to sell its interest in the Concession and Lease Agreement between the Company and the City of Chicago which represents the entirety of the Company's operations. Our opinion is not modified with respect to this matter.

BDO USA, LLP

Chicago, Illinois
March 17, 2016

Financial Statements

LMG2, LLC
Balance Sheets

<i>December 31,</i>	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 503,522	\$ 369,290
Restricted cash, current	2,642,620	3,424,340
Accounts receivable	60,237	97,425
Prepaid expenses	173,517	95,265
Litigation award receivable	-	61,779,297
Total Current Assets	3,379,896	65,765,617
Restricted Cash, non-current	8,000,000	8,000,000
Property and Equipment, net	223,847,919	227,070,565
Intangible Asset, net	92,954,530	93,988,573
Total Assets	\$ 328,182,345	\$ 394,824,755
Liabilities and Members' Deficit		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,900,112	\$ 1,337,601
Accrued construction costs	-	885,137
Deferred revenue	376,725	446,020
Current portion of long-term debt	6,876,437	-
Total Current Liabilities	9,153,274	2,668,758
Long-Term Debt, less current portion	367,465,030	398,500,000
Total Liabilities	376,618,304	401,168,758
Members' Deficit	(48,435,959)	(6,344,003)
Total Liabilities and Members' Deficit	\$ 328,182,345	\$ 394,824,755

See accompanying notes to financial statements.

LMG2, LLC
Statements of Operations

	Year ended December 31, 2015	Period from February 1, 2014 through December 31, 2014
Revenue		
Transient parking	\$ 24,334,606	\$ 20,976,867
Monthly parking	8,800,112	7,483,806
Other	1,531,060	1,216,726
Total revenue	34,665,778	29,677,399
Cost of Parking		
Parking taxes	7,216,603	5,920,591
Credit card fees	664,625	534,443
Total cost of parking	7,881,228	6,455,034
Gross profit	26,784,550	23,222,365
Operating Expenses		
Operations	4,135,559	3,945,680
Salaries and benefits	2,254,595	1,938,727
Management fees	1,270,564	945,982
General and administrative	3,374,095	3,680,952
Depreciation and amortization	7,411,750	6,493,994
Total operating expenses	18,446,563	17,005,335
Net operating income	8,337,987	6,217,030
Other Income (Expense)		
Interest income	624,443	1,852,622
Interest expense	(10,028,741)	(9,597,291)
Costs related to sale of C&L Agreement	(558,156)	-
Change in fair value of long-term debt	(40,467,489)	(4,817,364)
Total other expense	(50,429,943)	(12,562,033)
Net Loss	\$ (42,091,956)	\$ (6,345,003)

See accompanying notes to financial statements.

LMG2, LLC

Statements of Members' Deficit

Balance, February 1, 2014	\$	-
Contributions		1,000
Net loss		(6,345,003)
Balance, December 31, 2014		(6,344,003)
Net loss		(42,091,956)
Balance, December 31, 2015	\$	(48,435,959)

See accompanying notes to financial statements.

LMG2, LLC

Statements of Cash Flows

	Year ended December 31, 2015	Period from February 1, 2014 through December 31, 2014
Cash Flows From Operating Activities		
Net loss	\$ (42,091,956)	\$ (6,345,003)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,411,750	6,493,994
Change in fair value of long-term debt	40,467,489	4,817,364
Interest income added to litigation award receivable	-	(1,847,579)
Interest expense added to long-term debt	3,502,378	3,551,766
Changes in operating assets and liabilities:		
Accounts receivable	37,188	43,457
Litigation award receivable	61,779,297	-
Prepaid expenses	(78,252)	455,981
Accounts payable and accrued expenses	562,511	(1,259,840)
Deferred revenue	(69,295)	68,862
Net cash provided by operating activities	71,521,110	5,979,002
Cash Flows From Investing Activities		
Cash assumed upon Assignment in Lieu of Foreclosure	-	15,258,793
Change in restricted cash	781,720	(8,624,340)
Additions to property and equipment	(4,040,198)	(1,376,035)
Net cash (used in) provided by investing activities	(3,258,478)	5,258,418
Cash Flows From Financing Activities		
Principal payments of long-term debt	(68,128,400)	(10,869,130)
Members' contributions	-	1,000
Net cash used in financing activities	(68,128,400)	(10,868,130)
Net Increase in Cash and Cash Equivalents	134,232	369,290
Cash and Cash Equivalents, beginning of period	369,290	-
Cash and Cash Equivalents, end of period	\$ 503,522	\$ 369,290
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 6,526,356	\$ 6,045,525
Supplemental Disclosure of Non-Cash Investing Activities		
Additions to property and equipment recorded as liabilities	\$ -	\$ 885,137

See accompanying notes to financial statements.

LMG2, LLC

Notes to Financial Statements

1. Organization

LMG2, LLC (the “Company”) is a Delaware Limited Liability Company that was formed for the purpose of owning a concessionaire interest in, and operating, underground parking facilities which comprise the Chicago Downtown Parking System (the “System”) in Chicago, Illinois. Chicago Loop Parking, LLC (the “Predecessor”) entered into a concession and lease agreement (the “C&L Agreement”) on November 3, 2006 pursuant to which it leased the System for a 99-year term from the City of Chicago for \$563 million. On January 31, 2014, the Company was assigned the assets of the Predecessor, including the concessionaire interest in the System, and assumed the existing loan and other obligations of the Predecessor through an Assignment in Lieu of Foreclosure Agreement (the “Assignment”). As a result of the Assignment, the Company has an exclusive right during the remainder of the 99-year lease term to use, possess, operate, manage, maintain, rehabilitate, and charge and collect parking fee revenues and other revenues in connection with using the assets of the System for parking garage purposes.

The Company will continue in effect in perpetuity unless terminated earlier by the members in accordance with the Company’s Limited Liability Agreement (refer to Note 9).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America. These financial statements present the activities and balances of the Company for the year ended December 31, 2015 and from February 1, 2014, the date of the commencement of operations following the Assignment, through December 31, 2014.

The Company has evaluated subsequent events through March 17, 2016, the date the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and liquid investments with an initial maturity of three months or less when purchased. Throughout the year, the Company may have cash balances in excess of federally insured amounts on deposit with various financial institutions. The Company has never experienced any losses related to these balances.

LMG2, LLC

Notes to Financial Statements

Restricted Cash

Restricted cash, non-current represents amounts on deposit with a collateral agent for the lenders as required by the loan agreement described in Note 4. As of December 31, 2015 and 2014, the Company maintained a reserve balance of \$8,000,000 for the payment of debt service and operating costs in accordance with the loan agreement.

Additionally, cash flows from operations are deposited with the collateral agent. These funds are held in a reserve account until the collateral agent approves the release of funds for the payment of current operating expenses, interest due under the loan agreement, or mandatory principal pre-payments from excess cash flows, as defined in the loan agreement. This restricted cash account approximated \$2,638,000 and \$2,423,000 at December 31, 2015 and 2014, respectively, and is included in current assets on the balance sheets. In January 2016, approximately \$1,830,000 was transferred to the operating cash accounts.

Restricted cash, current also includes amounts on deposit for the payment of accrued construction costs of \$5,000 and \$1,001,000 at December 31, 2015 and 2014, respectively.

Accounts Receivable

Accounts receivable, consisting of amounts due from parking customers, are reflected at their estimated collectible amounts. An allowance for doubtful accounts is maintained at a level management believes is sufficient to cover potential losses based on historical trends and known current factors impacting the Company's customers. At December 31, 2015 and 2014, management concluded that no allowance for doubtful accounts was required.

Litigation Award Receivable

The litigation award receivable represented the amount due to the Company from the City of Chicago (the "City") pursuant to the lawsuit described in Note 8. Based upon the facts and circumstances known at the time of the Assignment, the Company recorded a receivable of approximately \$59,932,000 for the estimated amounts due with respect to this litigation in accordance with Accounting Standards Codification ("ASC") 805, "*Business Combinations*." Interest income on the unpaid award of approximately \$1,848,000 was added to the litigation award receivable in 2014. An additional \$624,000 of interest income was earned in early 2015. In April 2015, the Company received approximately \$62,404,000 from the City in full payment of the award.

Property and Equipment, net

Property and equipment were recorded at fair value at the date of the Assignment. Expenditures for significant betterments and improvements that extend the economic lives of the assets are capitalized at cost. Maintenance and repairs are charged to expense when incurred.

Depreciation and amortization is provided on a straight-line basis over the remaining term of the concession agreement for the ground lease, 6 to 40 years for buildings and improvements, and 5 years for furniture, fixtures and equipment. Depreciation and amortization expense approximated \$6,378,000 and \$5,546,000 in 2015 and 2014, respectively.

LMG2, LLC

Notes to Financial Statements

As of December 31, 2015 and 2014, property and equipment consisted of the following:

<i>December 31,</i>	2015	2014
Ground lease	\$ 48,000,000	\$ 48,000,000
Building and improvements	186,826,165	183,671,105
Furniture, fixtures and equipment	945,583	945,582
	235,771,748	232,616,687
Accumulated depreciation	(11,923,829)	(5,546,122)
Property and equipment, net	\$ 223,847,919	\$ 227,070,565

Intangible Asset

The interest in the C&L Agreement assigned on January 31, 2014 was recorded at a fair value of \$94,936,000 and is being amortized on a straight-line basis over the remaining term of the C&L Agreement. Amortization expense in 2015 and 2014 approximated \$1,034,000 and \$948,000, respectively. Annual amortization of this intangible asset will approximate \$1,034,000 over the remaining term of the C&L Agreement.

Long-lived Assets

The Company evaluates its property and equipment and intangible asset for impairment whenever events or changes in circumstances indicate that the carrying values of such assets may not be recoverable. As of December 31, 2015 and 2014, management of the Company does not believe that the carrying amounts of its long-lived assets have been impaired based upon the sales price described in Note 9.

Advertising Costs

Advertising costs are charged to operations when incurred and approximated \$114,000 and \$105,000 in 2015 and 2014, respectively.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 Inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly such as interest rates, foreign exchange rates, and yield curves, that are observable at commonly quoted intervals.
- Level 3 Inputs are unobservable inputs for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

LMG2, LLC

Notes to Financial Statements

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Company has elected the fair value option for its long-term debt obligations and has reflected the long-term debt at its estimated fair value on the balance sheet, using Level 3 inputs. As of December 31, 2014, the estimated fair value of the Company's long term debt was \$398,500,000. As described in Note 4, the Company made principal payments on the long-term debt in the amount of \$68,129,000 during 2015. The estimated fair value of the Company's long-term debt as of December 31, 2015 was \$374,341,000, which represents the expected net cash proceeds from the sale described in Note 9 plus expected cash balances on the sale date, all of which will be applied to the outstanding debt balance on that date. The increase in the fair value of the long-term debt, in the amount of \$40,467,000 and \$4,817,000, was reflected as an expense in the Company's statements of operations for 2015 and 2014, respectively.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair values due to the short-term nature of these financial instruments.

Revenue Recognition

Parking revenues from transient parking and monthly parking customers are recognized as the service is provided. To the extent that the Company has received cash from customers in advance of the applicable parking periods, the Company classifies such amounts as deferred revenue. Recoveries from customers for parking taxes are recognized as income in the same period as the related costs and approximated \$7,217,000 and \$5,921,000 in 2015 and 2014, respectively.

Other Revenue

Other revenue includes rent under the long-term sublease obligation described in Note 7, as well as rent from valet services and other space rentals.

Rent is recognized as revenue on a monthly basis based on the terms of the underlying contracts for those rentals that are not subject to a long-term sublease obligation to the Company. For rentals associated with the long-term sublease obligation, the Company recognizes monthly revenue, including minimum rent escalations, on a straight-line basis over the remaining term of the sublease agreement. Rent collected in excess of revenue recognized on a straight-line basis is recorded as deferred revenue.

Income Taxes

No liability or provision has been made for federal or state income taxes in the financial statements as the liability for such taxes, if any, is that of the members rather than the Company.

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Notes to Financial Statements

Limited Liability Agreement

Profits and losses from operations and distribution of net cash flows, as defined, are allocated to the members in accordance with the Limited Liability Agreement. The allocation provisions in the Limited Liability Agreement may differ from the ownership interest held by each member.

Except as provided in the Delaware Limited Liability Company Act and the Limited Liability Company Agreement, no member shall be personally liable for any debt, obligation or liability of the Company solely by reason of being a member of a limited liability company.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation. Such reclassifications had no effect on the reported loss.

3. Assignment in Lieu of Foreclosure

On January 31, 2014, the Company was assigned the assets and assumed certain of the liabilities of the Predecessor. The estimated fair value of the assets assigned and liabilities assumed on the date of the Assignment was as follows:

	Amount
Ground lease	\$ 48,000,000
Buildings and improvements	183,000,000
Furniture, fixtures, and equipment	884,000
Cash and cash equivalents	15,259,000
Restricted cash	2,800,000
C&L Agreement	94,936,000
Litigation award receivable	59,932,000
Other assets	692,000
Long-term debt	(401,000,000)
Other liabilities	(4,503,000)
Net equity	\$ -

4. Loan Agreement

On January 31, 2014, the Company assumed the outstanding loan agreement of the Predecessor, which was amended in conjunction with the Assignment (as amended, the "Loan Agreement"). Members of the Company, or their affiliates, are lenders under the Loan Agreement, which consists of three tranches. Total principal amounts outstanding under the Loan Agreement at the date of the Assignment were as follows: Tranche A1 - \$200,000,000, Tranche A2 - \$30,000,000, and Tranche B - \$381,481,000. The estimated fair value of the outstanding debt for all tranches was \$401,000,000 on the date of Assignment.

The Loan Agreement interest rates are based on the British Bankers Association London InterBank Offered Rate ("LIBOR"), plus an applicable margin of 2.50% and 4.00% for Tranche A1 and Tranche A2, respectively, through their maturity on January 31, 2020. Tranche B bears interest at 1.00% per annum through maturity on January 31, 2021. The Tranche A1, Tranche A2 and

LMG2, LLC

Notes to Financial Statements

Tranche B interest rates in effect at December 31, 2015 were approximately 3.11%, 4.61%, and 1.00%, respectively.

The Loan Agreement requires quarterly payments of interest only for Tranche A1 and Tranche A2. Tranche B interest of approximately \$3,502,000 and \$3,552,000 was added to the outstanding principal balance in 2015 and 2014, respectively. Additionally, the Loan Agreement requires mandatory principal pre-payments from excess cash flows, as defined. The Company made mandatory Tranche A1 principal payments of \$5,772,000 during the year ended December 31, 2015. The Company also made additional principal payments of \$8,000,000 on the Tranche A1 Debt and \$54,357,000 on the Tranche B debt in 2015, using the proceeds from the Arbitration Award described in Note 8. Between February 1, 2014 and December 31, 2014, the Company made mandatory Tranche A1 principal pre-payments totaling \$10,869,000. Excess cash flows for 2016 are projected to be \$6,876,000, and will be a mandatory pre-payment of Tranche A1 debt.

The remaining balance of unpaid Tranche A1 and Tranche A2 principal as of December 31, 2015 approximated \$175,359,000 and \$30,000,000, respectively. As of December 31, 2015, the outstanding Tranche B principal was approximately \$338,995,000. The Company elected the fair value option with respect to the Loan Agreement and recorded the long-term debt at its estimated fair value of \$374,341,000 at December 31, 2015.

The remaining balance of unpaid Tranche A1 and Tranche A2 principal as of December 31, 2014 approximated \$189,131,000 and \$30,000,000, respectively. As of December 31, 2014, the outstanding Tranche B principal balance approximated \$385,033,000. The Company elected the fair value option with respect to the Loan Agreement and recorded the long-term debt at its estimated fair value of \$398,500,000 at December 31, 2014.

There are restrictive covenants associated with the Loan Agreement that require an interest coverage ratio and other covenants be maintained by the Company. As of December 31, 2015 and 2014, the Company was in compliance with all loan covenants.

The Loan Agreement is secured by the Company's rights, title, and interests in, to, and under the C&L Agreement, the leasehold interests in the System and the improvements thereto.

5. Operations and Maintenance Agreement

The parking facilities are managed by LAZ Parking Chicago, LLC ("LAZ") pursuant to the terms of an operations and maintenance agreement (the "O&M Agreement") which was assigned to the Company on January 31, 2014. LAZ is paid a base fee equal to 2.5% of net operating income, as defined in the O&M Agreement. The base fee for 2015 and 2014 approximated \$481,000 and \$407,000, respectively.

6. Asset Management Agreement

On January 31, 2014, the Company entered into a services agreement with NEXT Parking, LLC ("NEXT") for the provision of executive and facilities management services through January 31, 2016. The asset management agreement shall be automatically extended for successive periods of one year and may be terminated earlier by either party. NEXT receives a base management fee equal to \$45,000 per month and an incentive management fee equal to 8% of the amount by which net operating income ("NOI"), as defined, exceeds the NOI provided in the annual operating budget, subject to reduction for certain defined qualitative measures. The incentive fee may not

LMG2, LLC

Notes to Financial Statements

exceed \$150,000 in a single operating year. Asset management fees, including the incentive fee of \$150,000 and \$50,000, approximated \$790,000 and \$539,000 in 2015 and 2014, respectively.

As described in Note 9, in the second quarter of 2015, the Company decided to pursue a possible sale of substantially all of its assets. In recognition of the increased work to be performed by NEXT in regards to the proposed transaction, the Company agreed to increase the monthly fee payable to NEXT from \$45,000 per month to \$55,000 per month effective as of March 1, 2015.

7. Sublease Agreement

The Predecessor entered into a sublease agreement (the "Sublease") with Chicago Parking Meters, LLC ("Meters"), under which Meters rents a warehouse and related office space on the System's property for a 10-year period ending on November 1, 2019. The Sublease provides for two extension options of five years each. As a result of assignment of interest in the C&L Agreement as described in Note 1, the Sublease was also assigned to the Company on January 31, 2014. Annual base rent payable under the Sublease is \$481,000 and is payable in monthly installments. The annual base rent (including base rent during the extension periods, if the options are exercised) increases in accordance with the United States Consumer Price Index, but in no event by less than 3%. Rental income from Meters included in other revenue on the statements of operations in 2015 and 2014 approximated \$563,000 and \$501,000, respectively.

8. Commitments and Contingencies

Litigation

The Company may be subject to litigation in the normal course of business. Management uses guidance from legal counsel relating to the potential outcome of any litigation when determining the need to record liabilities for potential losses and disclose pending legal claims. In management's opinion the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material effect on the Company's financial position, results of operations, or liquidity.

In May 2009, the City granted a public garage license to the garage in the Aqua building ("Aqua"), a commercial and residential building located within one-half mile of the System. On August 20, 2009, the Company provided a notice and claim to the City of a competing parking action pursuant to the C&L Agreement with respect to the City's grant of the public license to Aqua and the operation of Aqua. In February 2010, the City notified the Company that it had revoked Aqua's public garage license and replaced it with an accessory garage license. On March 15, 2010, the Company provided notice to the City formally declaring a dispute with respect to Aqua and commencing the dispute resolution procedures under the C&L Agreement. The dispute remained unresolved subsequent to the informal dispute resolution measures under the C&L Agreement. On April 28, 2010, the Company provided notice to the City that it would proceed with nonbinding mediation, as provided in the C&L Agreement. Following such nonbinding mediation on September 28, 2010, the dispute remained unresolved. On March 1, 2011, the Company submitted the Aqua dispute for binding arbitration and provided notice to the City. The arbitration hearing and closing arguments took place in October 2012 and November 2012, respectively. On January 14, 2013, the arbitrators issued their ruling and awarded the Company \$50,500,000 in damages and an additional \$7,300,000 in pre-judgment interest (collectively, the "Arbitration Award"). On February 25, 2013, the arbitrators issued a Clarification of Award, correcting certain clerical and computational errors. On May 23, 2013, the City filed in the Circuit Court of Cook

LMG2, LLC

Notes to Financial Statements

County, Illinois, a “Verified Petition to Enter Judgment on Arbitration Award, to Stay the Judgment, and to Modify the Judgment.” The City sought to have the Circuit Court vacate or modify the Arbitration Award to provide the Company with past damages only. On June 21, 2013, the Company filed a motion to dismiss the Petition and concurrently filed a motion to confirm the Arbitration Award. On August 27, 2013, the Circuit Court entered an order granting the Company’s motion to confirm the Arbitration Award and entered judgment on the confirmed Arbitration Award. On September 13, 2013, the Circuit Court entered an order granting the Company’s motion to dismiss the City’s Petition and denying the City’s request for post-judgment relief. The City appealed the orders of the Circuit Court to the Illinois First District Appellate Court.

As a result of the assignment of interests in the C&L Agreement, as previously described in Note 1, the Company was substituted for the Predecessor pursuant to a court order entered April 1, 2014. On November 26, 2014, the Illinois First District Appellate Court issued an opinion affirming the decision of the Circuit Court. In April 2015, the Company received approximately \$62,404,000 from the City for payment of the award.

In February 2013, a complaint was filed against the Predecessor and the City in the Circuit Court of Cook County, Illinois, by the Independent Voters of Illinois - Independent Precinct Organization and Aviva Patt (an individual) (“Plaintiffs”). The complaint alleges that the C&L Agreement unconstitutionally restricts the City’s legislative and police powers and requires the illegal expenditure of public funds. Plaintiffs also allege that the C&L Agreement is anti-competitive. The Predecessor filed a motion to dismiss the complaint. On February 11, 2014, the Circuit Court of Cook County granted the motion, dismissed the complaint with prejudice, and granted judgment in favor of the Predecessor and the City. Plaintiffs appealed that ruling. The appeal is pending.

As a result of the assignment of interests in the C&L Agreement, a motion was filed to substitute the Company for the Predecessor. The Plaintiffs objected to the motion and the Appellate Court denied the motion, and instead, added the Company to the case.

9. Pending Sale

In the second quarter of 2015, the Company decided to pursue a possible sale of substantially all of its assets, including its interest in the C&L Agreement, and also agreed to pay incentive compensation to its Directors and NEXT upon the closing of the sale of its assets.

The Company entered into an agreement to sell its interest in the C&L Agreement and most of its related assets on January 24, 2016 for \$370,000,000, subject to certain adjustments. The sale is conditioned upon receiving approval by the City and other typical closing conditions. The sale is expected to close during the second quarter of 2016. Net proceeds from the sale, plus any cash on hand (less a reserve for known expenses and expected wind down expenses), must be remitted to the lenders under the loan agreement. The Company expects to wind down shortly after the conclusion of active litigation as described in Note 8.