



MGM HOLDINGS INC.

For the year ended December 31, 2018

Delaware

(State or other jurisdiction of incorporation or organization)

**245 North Beverly Drive
Beverly Hills, California 90210
(Address of corporate headquarters)**

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Forward-Looking Statements

This report contains forward-looking statements. In some cases you can identify these statements by forward-looking words such as “anticipates,” “believes,” “continues,” “could,” “estimates,” “expects,” “future,” “goal,” “intends,” “may,” “objective,” “plans,” “predicts,” “projects,” “seeks,” “should,” “will,” “would” and variations of these words and similar expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to predict the popularity of our film and television content, or predict consumer tastes;
- our ability to maintain and renew affiliation agreements and content licensing agreements for EPIX and our other wholly-owned and joint venture channels;
- our ability to realize the anticipated benefit from acquisitions, business combinations, joint ventures and other similar transactions. No assurance can be given that such transactions will be successfully integrated by us to the extent required, or that we will realize potential revenue enhancements, cost savings, operational efficiencies or other benefits. Additionally, there can be no assurance that such transactions will not adversely affect our results of operations, cash flows or financial condition, and any such transaction could result in an impairment of goodwill and/or other intangible assets;
- our ability to exploit emerging and evolving technologies, including alternative forms of content and delivery, and the storage of content;
- our ability to finance and produce film and television content, and to do so in accordance with the anticipated schedule or budget, or with the creative talent anticipated to be included in the projects;
- increased costs for producing and marketing feature films and television content;
- our ability to acquire film and television content on favorable terms;
- our ability to exploit our library of film and television content;
- our ability to integrate acquired businesses and operate joint ventures;
- our financial position, sources of revenue and results of operations;
- our liquidity, access to capital and capital expenditures;
- our ability to attract, retain and successfully replace critical senior management personnel and other key employees;
- inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, or other rates or prices; and
- trends in the entertainment industry.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such forward-looking statements are subject to risks and uncertainties, and we cannot assure you that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur.

You should read this report with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect. We do not intend, and undertake no obligation, to update any forward-looking information to reflect actual results or future events or circumstances, except as required by law. Moreover, we operate in a very competitive and changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual future results, levels of activity, performance and events and circumstances to differ materially and adversely from those anticipated or implied in the forward-looking statements.

Company Background and Business Overview

Overview

MGM Holdings Inc. (“MGM Holdings,” “MGM,” the “Company,” “we,” “us,” or “our”) is a leading entertainment company focused on the production and global distribution of film and television content across all platforms. We have one of the most well-known brands in the industry with globally recognized film franchises and television content, a broad collection of valuable intellectual property and commercially successful and critically acclaimed content.

We have historically generated revenue from the exploitation of our content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets. We also generate revenue from the licensing of our content and intellectual property rights for use in consumer products and interactive games, as well as various other licensing activities. Our operations include the development, production and financing of feature films and television content and the worldwide distribution of entertainment content primarily through television and digital distribution.

In May 2017, we acquired EPIX Entertainment LLC which operates EPIX, a premium pay television network delivering a lineup of original programming and blockbuster movies. EPIX is available through cable, satellite, telecommunications and streaming TV providers as a linear television, video-on-demand, 'TV Everywhere' and over-the-top (OTT) service and is currently available in the United States ("U.S.") and Puerto Rico. EPIX also licenses content to subscription video-on-demand (“SVOD”) operators. In addition, we currently own or hold interests in MGM-branded channels in the U.S., as well as interests in pay television networks in the U.S. and Brazil.

We control one of the world’s deepest libraries of premium film and television content. Our film content library includes the *James Bond*, *The Hobbit*, *Rocky*, *RoboCop*, *Pink Panther* and *21 Jump Street* franchises, as well as *The Silence of the Lambs*, *The Magnificent Seven*, and *Four Weddings and a Funeral*. Our television content library includes *Stargate SG-1*, which was one of the longest running science fiction series in U.S. television history, *Stargate Atlantis*, *Stargate Universe*, *Vikings*, *Fargo*, *The Handmaid’s Tale*, *Get Shorty*, *Fame*, *American Gladiators*, *Teen Wolf* and *In the Heat of the Night*, as well as our rights to or income from prominent unscripted shows including *The Voice*, *Survivor*, *Shark Tank*, *Eco-Challenge*, *Beat Shazam*, *Lucha Underground*, *The Real Housewives of Orange County*, *The Real Housewives of Beverly Hills*, *Vanderpump Rules* and other titles.

Business

Production of film and television content

Film Content. We are involved in the development, production and acquisition of film content, and for certain films, we participate with third parties through co-production arrangements to produce, co-finance and distribute our content, as well as content developed by our partners. We have several feature films in various stages of development, production and post-production, including, but not limited to, the 25th installment of the *James Bond* franchise, *The Addams Family*, the *Aretha Franklin* biopic, *Bad Trip*, *Child’s Play*, *Creed III*, *Gretel and Hansel*, *The Hustle*, *I Am Pilgrim*, *Legally Blonde 3*, *Melt with You*, *RoboCop*, *Sesame Street*, *Taking Flight*, *Candyman* and *The Sun is Also a Star*.

Television Content. We have several successful scripted television series and unscripted television shows that we are producing and/or distributing, as well as a deep pipeline of new scripted and unscripted content.

Scripted series. We control distribution rights on a worldwide basis (excluding Canada) to the award-winning television series *Vikings*. The second half of the 20-episode fifth season of *Vikings* premiered on History in November 2018. History has already renewed the series for a 20-episode sixth season, which is currently in production. *Fargo* completed its third season on FX in June 2017 and received 16 Emmy nominations (winning one) and three Golden Globe nominations (winning one). FX renewed *Fargo* for a fourth season that is anticipated to begin production in 2019. *The Handmaid's Tale* completed its first season on Hulu in June 2017 and received an incredible eight Emmy awards, including Outstanding Drama Series, two Golden Globe awards, including Best Television Series Drama, as well as the Peabody Award, a BAFTA award and many other distinguished awards. Season 2 of *The Handmaid's Tale* premiered in April 2018 and received three Emmy Awards, bringing the series total to eleven Emmy Awards. Hulu renewed the series for a third season, which is anticipated to premiere in June 2019. *Get Shorty* premiered its second season on EPIX in August 2018, and production on season three is expected to start in 2019. *Condor* premiered in June 2018 on AT&T's Audience Network and has been picked up for a second season, and *Luis Miguel: La Serie*, an officially authorized series based on the life of internationally renowned music superstar Luis Miguel, premiered in April 2018 in the U.S. on Telemundo and on Netflix in Latin America and Spain and has been renewed for a second season. We are currently in production on *Perpetual Grace, Ltd* for EPIX and *Four Weddings and a Funeral* for Hulu. We have several other internally-developed scripted television series in advanced stages of development and production that we expect to deliver in future periods.

Unscripted shows. We have numerous successful and enduring unscripted television shows that we are currently producing. *The Voice* completed its 15th season on NBC in December 2018 and commenced its 16th in February 2019. *The Voice* won the Emmy Award for Outstanding Reality Competition Program for three consecutive years from 2015 through 2017, and last year the show was nominated for an impressive ten Emmy Awards. *Survivor* completed its 37th season on CBS in December 2018 and commenced its 38th season in February 2019. *Shark Tank* finished airing its 10th season in Q1 2019 and was renewed by ABC for an 11th season that is anticipated to premiere later in 2019. *Shark Tank* was nominated for two Emmy Awards last year including Outstanding Structured Reality Program. *Lucha Underground* commenced its fourth season in June 2018. *Beat Shazam*, our interactive music game show hosted by Jamie Foxx, commenced its second season in May 2018 and was picked up for a third season by FOX. In addition, we produced *TKO: Total Knock Out* hosted by actor and comedian Kevin Hart, which premiered on CBS in July 2018 and *The World's Best* hosted by James Corden, which premiered on CBS in February 2019. We recently announced the return of the endurance race *Eco-Challenge* with Bear Grylls for Amazon and the return of *Are You Smarter Than a 5th Grader* on Nickelodeon. Both season 2 of our Emmy-nominated nationally syndicated daytime courtroom show, *Couples Court with The Cutlers*, and season 6 of the Emmy-nominated *Lauren Lake's Paternity Court*, commenced in September 2018. We also have a robust slate of unscripted television content in various stages of development and production that we expect to deliver in future periods.

In July 2017, we acquired the assets of Evolution Film & Tape, Inc. ("Evolution"), which includes successful unscripted shows such as *The Real Housewives of Orange County*, which premiered its 13th season in July 2018, *The Real Housewives of Beverly Hills*, which premiered its 9th season in February 2019, and *Vanderpump Rules*, which premiered its 7th season in December 2018. In addition, we are currently in production on *The Hills: New Beginnings* for MTV, premiered season 5 of *Botched* for the E! network and season 2 of *Sweet Home* for Bravo in December and November 2018, respectively, and in July 2018 our new show, *Bug Juice: My Adventures at Camp*, premiered on the Disney Channel. Evolution has several additional projects in various stages of production and development that we expect to deliver in future periods.

In June 2018, we acquired Big Fish Entertainment LLC ("Big Fish") further augmenting our television content segment with a slate of successful unscripted shows: *Live PD*, currently airing its third season on A&E, *Black Ink Crew New York*, which recently completed its 7th season on VH1, *Black Ink Crew Chicago*, which recently completed its fourth season on VH1, and *Hustle & Soul*, which was renewed for a third season on WE tv in September 2018. Big Fish also has additional unscripted television content in various stages of development, production and post-production that we expect to deliver in future periods.

EPIX. We are developing, producing and acquiring original programming for EPIX, including targeted scripted series, unscripted shows and docuseries. We are focused on investing in compelling content to create a consistent presence of original programming for EPIX that augments the strong pipeline of theatrical releases and library content that currently exist on the platform. EPIX premiered its eight-episode espionage series, *Deep State*, in June 2018, season 2 of *Get Shorty* in August 2018, its seminal competition boxing show, *The Contender*, hosted by Andre Ward, in August 2018 and the unscripted comedy show *Unprotected Sets* in October 2018. EPIX's hit show *Berlin Station* returned for its third season in December 2018. In addition, we have a robust pipeline of original programming in various stages of production and development for 2019 and beyond, including *Pennyworth*, a dark telling of the superhero origins of Batman's legendary butler Alfred Pennyworth from Warner Bros. and DC Comics set to premiere on EPIX in July 2019; *Perpetual Grace, LTD* starring Sir Ben Kingsley set to premiere on EPIX in June 2019; *The Godfather of Harlem*, a 10-episode gangster crime drama starring Forest Whitaker set to premiere on EPIX in October 2019; and other compelling original content including *Belgravia*, *Slow Burn*, *Punk*, *Shook Up*, and several other scripted and unscripted shows.

Digital Content. We recently formed a new digital studio aimed at producing premium original content by sourcing MGM's significant library of IP and creating wholly-owned original IP for distribution across digital platforms. As young audiences migrate their viewing towards web, mobile first and OTT environments, our digital studio is focused on delivering content to these viewers through the production of short-form, mid-form and traditional length content. We are particularly focused on producing premium content for brands, cost-effective programming solutions for emerging platforms and leveraging a pool of diverse and exciting new talent to deliver next-generation IP for our partners. We have a significant development pipeline with several projects currently in production. The first release was *Stargate Origins*, originally created for the Stargate Command OTT service as 10 mid-form episodes. *Stargate Origins* has since been re-formatted into a feature length program available on all major EST and TVOD platforms. Our digital studio has also been commissioned to produce *The Baxters*, with an order for 24 half-hour episodes which will be the first scripted series for our LightWorkers Media faith and family content platform. In addition, we co-developed the interactive digital series entitled *#WarGames*, which was produced with Eko and released in March 2018. We recently announced a programming agreement with Vudu, Walmart's streaming video platform, in which MGM will create original series based on original ideas and franchises from our extensive library and television catalogue. The first project under the deal is a digital, short-format reimaging of *Mr. Mom* that is currently in production.

2019 Release Schedule

The following tables summarize the tentative 2019 release schedules for our film and television content by actual or estimated U.S. theatrical release date for film content and by actual or estimated U.S. initial broadcast date for television content. In addition, we have numerous film and television projects currently in various stages of development, pre-production and production that we expect to include in the release schedule for 2020 and beyond. Certain unscripted television projects currently in development may also be completed and released in 2019.

Film Content:

Title	U.S. Theatrical Releasing Company	Actual or Estimated U.S. Release Date
<i>The Prodigy</i>	Orion	February 8, 2019
<i>Fighting With My Family</i>	MGM	February 14, 2019
<i>The Hustle</i>	MGM	May 10, 2019
<i>The Sun is Also a Star</i>	Warner Bros.	May 17, 2019
<i>Child's Play</i>	Orion	June 21, 2019
<i>Addams Family</i>	MGM	October 18, 2019
<i>Bad Trip</i>	Orion	October 25, 2019
<i>Werewolf</i>	MGM	TBD 2019
<i>Gretel and Hansel</i>	Orion	TBD

Scripted Television Content:

Title	Network / Platform	Actual or Estimated Initial Broadcast Date
Scripted Series:		
<i>The Handmaid's Tale, Season 3</i>	Hulu	June 5, 2019
<i>Perpetual Grace, Ltd., Season 1</i>	EPIX	Q2 2019
<i>Mr. Mom</i>	Vudu	Q2 2019
<i>Four Weddings & a Funeral, Season 1</i>	Hulu	Q3 2019
<i>Get Shorty, Season 3</i>	EPIX	Q3 2019
<i>Condor, Season 2</i>	AT&T Audience	Q4 2019
<i>Vikings, Season 6a</i>	History	Q4 2019
<i>Messiah, Season 1</i>	Netflix	TBD 2019

Unscripted Television Content:

Title	Network / Platform	Actual or Estimated Initial Broadcast Date
Unscripted Shows:		
<i>Cartel Crew, Season 1</i>	VH1	January 7, 2019
<i>The World's Best, Season 1</i>	CBS	February 3, 2019
<i>Survivor, Season 38</i>	CBS	February 20, 2019
<i>The Voice, Season 16</i>	NBC	February 25, 2019
<i>The Hills, Season 1</i>	MTV	March 19, 2019
<i>Vet ER Live, Season 1</i>	Nat Geo Wild	March 30, 2019
<i>Wanderlove, Season 1</i>	EPIX	Q2 2019
<i>Beat Shazam, Season 3</i>	FOX	Q2 2019
<i>Police Patrol, Season 5</i>	A&E	Q2 2019
<i>Black Ink Behind the Ink, 2019 Cycle</i>	VH1	Q2 2019
<i>Black Ink Compton, Season 1</i>	VH1	Q2 2019
<i>Night Court, Season 1</i>	NBC	Q2 2019
<i>Women on Patrol, Season 2</i>	Lifetime	Q2 2019
<i>Meet the Frasers, Season 1</i>	E!	Q2 2019
<i>Personal Injury Court, Season 1</i>	Syndicated	Q3 2019
<i>Black Ink Crew, Season 8</i>	VH1	Q3 2019
<i>Hustle and Soul, Season 3</i>	WeTV	Q3 2019
<i>Real Housewives OC, Season 14</i>	Bravo	Q3 2019
<i>The Voice, Season 17</i>	NBC	Q3 2019
<i>Survivor, Season 39</i>	CBS	Q3 2019
<i>Couples Court, Season 3</i>	Syndicated	Q3 2019
<i>Paternity Court, Season 7</i>	Syndicated	Q3 2019
<i>Shark Tank, Season 11</i>	ABC	Q3 2019
<i>Love and Hip Hop Hollywood, Season 6</i>	VH1	Q3 2019
<i>Live PD: Body Cam, Season 3</i>	A&E	Q3 2019
<i>How Far is Tattoo Far, Season 2</i>	MTV	Q4 2019
<i>Black Ink Crew Chicago, Season 6</i>	VH1	Q4 2019
<i>Botched, Season 6</i>	E!	Q4 2019
<i>Sweet Home Oklahoma, Season 3</i>	Bravo	Q4 2019
<i>Vanderpump Rules, Season 8</i>	Bravo	Q4 2019
<i>Real Housewives BH, Season 10</i>	Bravo	Q4 2019
<i>Are You Smarter Than a 5th Grader</i>	Nickelodeon	TBD 2019
<i>Signed, Season 2</i>	VH1	TBD 2019

Estimated theatrical release and initial broadcast dates are tentative and subject to change. Additionally, there can be no assurance that any of the film and television content scheduled for release or broadcast will be completed, that completion will occur in accordance with the anticipated schedule or budget, or that the anticipated creative talent will be included in the projects.

Distribution of film and television content

Theatrical Distribution

In October 2017, together with Annapurna Releasing, LLC (“Annapurna”), we formed a joint venture that will control and finance the U.S. theatrical marketing and distribution of certain MGM and Annapurna films. In 2018, each partner’s qualifying films were distributed by the joint venture under their respective banner. Beginning in 2019, films will be distributed under each partner’s respective banner and the “United Artists Releasing” banner. Refer to *Joint Ventures* below for further discussion. During 2018, the joint venture released three MGM films, including *Death Wish* in March 2018, *Operation Finale* in August 2018, and our successful franchise film, *Creed II*, in November 2018, which achieved the highest ever opening U.S. box office for a live-action film released during Thanksgiving. To-date, the joint venture has released one MGM film in 2019, *Fighting with My Family*, which opened in U.S. theaters on February 14, 2019.

In addition, in September 2017, we announced the re-launch of Orion Pictures as our in-house theatrical marketing and distribution company that controlled and financed the U.S. theatrical marketing and distribution of a slate of modestly budgeted internally produced and acquired films. In 2018, Orion Pictures released the internally produced film, *Every Day*, in February, and the acquired film, *Anna and the Apocalypse*, in November. To-date, Orion Pictures has released one film in 2019, the supernatural horror thriller, *The Prodigy*, which opened in U.S. theaters on February 8, 2019. Beginning March 1, 2019, films produced under the Orion Pictures banner will be distributed by our U.S. theatrical distribution joint venture, discussed above.

In May 2018, we announced the re-launch of Orion Classics as our in-house distribution company that will focus on multiplatform and specialized releases, as well as acquisitions. *The Domestics* was the first film released by Orion Classics in June 2018. Orion Classics also acquired rights to Nijla Mu’min’s award winning drama *JINN*, and Suzi Yoonessi’s *Unlovable*, both released in November 2018; Bridey Elliott’s drama *Clara’s Ghost*, released in December 2018; *Maine*, a drama directed by Matthew Brown and released in December 2018; and Melissa Miller Costanzo’s drama, *All These Small Moments*, released in January 2019.

For films that are theatrically distributed in the U.S. under the MGM, United Artists Releasing, Orion Pictures or Orion Classics banners, we will utilize the services of other distributors to theatrically release our films outside of the U.S.

We also participate with third parties in various arrangements to distribute feature films theatrically. These arrangements allow us to distribute new releases by utilizing third parties to book theaters and execute marketing campaigns and promotions in return for distribution fees. While third parties provide theatrical distribution services on a film-by-film basis, we often have significant involvement in the decision process regarding key elements of distribution, such as the creation of marketing campaigns and the timing of the film release schedule, allowing our experienced management team to provide key input in the critical marketing and distribution strategies while avoiding the high fixed-cost infrastructure required for physical distribution. For our co-produced films, our co-production partner generally provides worldwide theatrical distribution services for the applicable film, though for certain films in certain territories (including the U.S.) we may distribute the film under the MGM banner and/or utilize the services of other distributors. We released five co-produced films theatrically during 2018. We released *Tomb Raider* in March 2018 with our co-production partner Warner Bros. Pictures, *Sherlock Gnomes* in March 2018 with our co-production partner Paramount, *Overboard* in May 2018 with our co-production partner Pantelion Films, *A Star is Born* in October 2018 with our co-production partner Warner Bros. Pictures, and *The Girl in the Spider’s Web* in November 2018 with our co-production partner Sony Pictures. In 2019, we will release *The Sun is Also a Star* with our co-production partner Warner Bros. Pictures.

Television Distribution

We have an in-house television licensing and distribution organization. We license our content for pay television (including premium services and SVOD) and free television, as well as through other digital distribution platforms such as transactional VOD (“TVOD”) and advertising-supported VOD (“AVOD”) under various types of licensing agreements with customers worldwide. In the TVOD market, we license content to providers that allow consumers to rent our content, including recent theatrically released films, on a per exhibition basis. In the pay television and SVOD market, we license content to channels/platforms globally that generally require subscribers to pay a premium fee to view the channel. In the pay television, free television and VOD markets, we license our film and television content, including recently released and library content, on an individual basis and through output agreements. Output agreements typically require the licensee to license the Company’s recently released film content for a defined period of time with payments based on U.S. or international theatrical box office performance metrics. We continue to establish output agreements with customers throughout the world.

In addition, we license film and television content across a broad range of digital platforms that use various means of distribution to consumers electronically, including SVOD streaming services, such as Amazon, Hulu and Netflix, TVOD distribution via cable, satellite and internet, and AVOD services such as YouTube and Roku. We believe future increases in broadband penetration to consumer households, shifting consumer preferences for on-demand content across multiple platforms and devices, as well as the continued expansion of VOD platforms internationally will provide continued growth in this revenue.

Home Entertainment Distribution

Home entertainment distribution includes the sales, marketing and promotion of content for physical distribution (DVD, Blu-ray and 4K Blu-ray discs) and marketing and promotion in connection with electronic sell-through (“EST”). Fox Home Entertainment (“Fox”) provides our physical home entertainment distribution on a worldwide basis (excluding certain territories) for a substantial number of our feature films and television series, including *Spectre*, *Skyfall*, *Death Wish*, *RoboCop*, *Vikings*, *The Handmaid’s Tale*, *Teen Wolf* and other titles, as well as certain of our EST distribution rights for our feature films. Certain elements of our agreement with Fox expire on June 30, 2019 and June 30, 2020, and MGM has certain options to extend the term. In addition, for certain films, our co-production partners control physical home entertainment distribution rights. For example, Sony Pictures Entertainment, Inc. (“Sony”) is the physical home entertainment distributor for films in the *21 Jump Street* franchise, *The Magnificent Seven* and *The Girl in the Spider’s Web*; Lions Gate Entertainment Corp (“Lionsgate”) is the physical home entertainment distributor for *Overboard*; Warner Bros. Entertainment Inc. is the physical home entertainment distributor for *A Star is Born*, *Barbershop: The Next Cut*, *The Hobbit* trilogy, *Creed*, *Creed II*, *Everything, Everything*, *How to be Single*, *Max*, *Me Before You* and *Tomb Raider*; 20th Century Fox is the physical home entertainment distributor for *Poltergeist*; and Paramount Pictures Corporation (“Paramount”) is the physical home entertainment distributor for *Hercules*, *Sherlock Gnomes* and *Ben-Hur*. EST distribution rights for these and other co-financed films may be controlled by us or our partners depending on the terms of the applicable co-financing and distribution agreement.

As with theatrical distribution controlled by third parties, while we use the physical distribution services of third parties, we often have significant involvement in the decision-making process regarding key elements of distribution, including the creation and execution of marketing campaigns, sku configuration, pricing levels and the timing of releases, allowing our experienced management team to provide key input in the critical marketing and distribution strategies while avoiding the high fixed-cost infrastructure required for physical home entertainment distribution.

Industry revenue from the physical home entertainment market continues to decline due to changes in consumer preferences and behavior, increased competition and pricing pressure. However, consumers are increasingly viewing content on an on-demand or time-delayed basis on televisions (via smart televisions, set-top boxes, Blu-ray players, gaming consoles and other media devices), personal computers, and handheld and mobile devices. As a result, we continue to see growth in SVOD, EST and other forms of electronic delivery and streaming services (see *Television Distribution* above) across a broad range of platforms. These digital formats typically have a higher margin than physical formats, largely due to the expense associated with the production, packaging and delivery of physical media relative to digital distribution.

Ancillary Businesses

We license film and television content and other intellectual property rights for use in interactive games and consumer products. Prominent properties that we license in this regard include *James Bond*, *Pink Panther*, *Stargate*, *Rocky/Creed*, and *RoboCop*.

We also control music publishing rights to various compositions featured in our film and television content, as well as the soundtrack, master use and synchronization licensing rights to many properties. We exploit these rights through third-party licensing of publishing, soundtrack, master use and synchronization rights. In 2018, we had an agreement with Sony/ATV under which Sony/ATV administered much of this licensing. Beginning March 31, 2019, we have an agreement with Universal Music Publishing Group (“UMPG”) under which UMPG administers much of this licensing.

We license film clips, still images, and other elements from our film and television content for use in advertisements, feature films and other forms of media. We also license rights to certain properties for use in on-stage productions.

Media Networks

We distribute feature films and television content to audiences in the U.S. and certain international territories through our wholly-owned and joint venture television channels. Currently, we own and operate EPIX, a premium pay television network delivering a lineup of original programming and blockbuster movies. EPIX is available through cable, satellite, telecommunications and streaming TV providers as a linear television, video-on-demand and 'TV Everywhere' service and is currently available in the U.S. and Puerto Rico. EPIX also licenses content to SVOD operators.

We also own and operate an MGM-branded channel in the U.S., MGM HD, and we own and/or operate several multicast networks including ThisTV, Comet TV, LightTV and Charge!. ThisTV is a top performing free multicast movie network cleared in 74% of the U.S. and reaching approximately 84 million households. Comet TV is a sci-fi-oriented domestic multicast network featuring MGM content that is cleared in 86% of the country and reaches approximately 98 million households. LightTV is a multicast network focused on faith and family-oriented content that is cleared in 65% of the country and reaches approximately 75 million households. Charge! is a free action/adventure-oriented multicast network that is cleared in 53% of the country and reaches approximately 61 million households. We continue to seek and evaluate additional opportunities to create new channels or expand our existing channels.

EPIX Entertainment LLC (EPIX). In May 2017, we acquired EPIX Entertainment LLC (formerly Studio 3 Partners, LLC), which was previously a joint venture with Viacom Inc., Paramount and Lionsgate. Prior to May 2017, we had a 19.09% equity investment in EPIX Entertainment LLC. EPIX Entertainment LLC operates EPIX, a premium pay television channel that licenses first-run films, select library features and television content from these studios as well as other content providers, as well as premium original content. As part of the acquisition transaction, Paramount and Lionsgate will continue to provide their first-run theatrical releases to EPIX under multi-year agreements.

For financial reporting purposes, beginning May 11, 2017 we consolidated 100% of the revenue, expenses and net assets of EPIX. During the period from January 1 through May 10, 2017 we recorded our 19.09% share of the net income of EPIX using the equity method of accounting, which totaled \$7.1 million. Dividends received from EPIX during the period from January 1 through May 10, 2017 totaled \$14.3 million and were recorded against investments in affiliates in the consolidated balance sheet and included in undistributed earnings of affiliates in cash flow from operating activities in the consolidated statement of cash flow.

Joint Ventures

U.S. Theatrical Distribution Joint Venture. In October 2017, together with Annapurna, we formed a joint venture that will control and finance the U.S. theatrical marketing and distribution of certain MGM, Annapurna and third party films. During 2018, each partner's qualifying films were distributed by the joint venture under their respective banners. Beginning in 2019, films will be distributed under each partner's respective banner and the "United Artists Releasing" banner, and beginning March 1, 2019, films produced under the Orion Pictures banner will be distributed by this joint venture. Based on the underlying terms of the joint venture arrangement, we will account for our share of certain profits and losses of the joint venture using the equity method of accounting and will account for the U.S. theatrical marketing and distribution results for MGM and Orion Pictures films distributed by the joint venture on a net basis similar to our accounting for co-produced film content (refer to *Critical Accounting Policies and Estimates – Revenue Recognition* below for further discussion). We also make monthly capital contributions to the joint venture to fund our equitable share of overhead and other operating expenses. For the years ended December 31, 2018 and 2017, our total capital contributions amounted to \$7.8 million and \$40.3 million, respectively.

Telecine Programacao de Filmes Ltda. We have an equity investment in Telecine Programacao de Filmes Ltda. ("Telecine"), a joint venture with Globo Comunicacao e Participacoes S.A. ("Globo"), Paramount, 20th Century Fox and NBC Universal, Inc. that operates a pay television network in Brazil. Telecine is not consolidated in our financial statements and we do not record our share of the net income of Telecine in our financial statements since we use the cost method of accounting for our investment. As such, we recognize income from our investment in Telecine when we receive dividends. In addition, we recognize television licensing revenue from first-run and library films that we license to Telecine under a multi-year licensing agreement.

Cost Method Investments. Equity in net earnings of affiliates in our consolidated statements of income for the years ended December 31, 2018 and 2017 included \$5.5 million and \$8.1 million, respectively, of dividend income from cost method investments.

Corporate Information

MGM Holdings is a Delaware corporation and is the ultimate parent company of the MGM family of companies, including its subsidiary Metro-Goldwyn-Mayer Inc. ("MGM Inc.").

Our corporate headquarters is located at 245 North Beverly Drive, Beverly Hills, California 90210 and our telephone number at that address is (310) 449-3000. Our website address is www.mgm.com.

At December 31, 2018, our consolidated balance sheet reflected 44,760,170 shares of Class A common stock, par value \$0.01 per share (or 44,821,215 of outstanding shares less 61,045 shares subject to repurchase commitments). The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust, located at 1 State Street, 30th Floor, New York, New York 10004-1561. Contact and additional information regarding Continental Stock Transfer & Trust can be found at www.continentalstock.com.

Facilities

We lease approximately 151,000 square feet of office space, plus related parking and storage facilities, for our corporate headquarters in Beverly Hills, California under a lease that expires in 2026. We also lease approximately 50,500 square feet of office space in New York, New York that is primarily used for EPIX and our TV syndication group, 63,632 square feet of office space in New York, New York that is used for Big Fish, 25,883 square feet of office space in West Hollywood, California that is sublet by our U.S. theatrical distribution joint venture, 26,000 square feet of office space in Burbank, California that is used for Evolution, and approximately 33,500 square feet of office space in Culver City, California that is primarily used for our MGM channels related business activities. In addition, we have television distribution offices in Miami, London, Sydney and Toronto. On occasion, we may lease studio facilities, stages and other space from unaffiliated parties. Such leases are generally on an as-needed basis in connection with the production of various film, television and other projects.

Board of Directors and Office of the CEO

The members of the Board of Directors of MGM Holdings (the “Board”) are Kevin Ulrich (Chairman), Ann Mather (Lead Director), James Dondero, David Krane, Fredric Reynolds and Nancy Tellem. As of December 31, 2018, Anchorage Capital Partners, Highland Capital Partners and Solus Alternative Asset Management each individually, or together with their respective affiliated entities, owned more than 10% of the issued and outstanding shares of common stock of MGM Holdings. Anchorage Capital Partners and Highland Capital Partners each have a representative on the Board, Kevin Ulrich and James Dondero, respectively. Effective March 19, 2018 and following the exit of our former Chief Executive Officer (“CEO”), the Board established an Office of the CEO, comprised of a group of the Company’s senior leaders and division heads. As of January 7, 2019, Nancy Tellem has taken on the role of Executive Director of Strategy and Operations of the Company, in addition to joining the Office of the CEO and retaining her duties on the Board.

Affiliation with a Broker-Dealer

MGM Holdings is not affiliated, directly or indirectly, with any broker-dealer or any associated person of a broker-dealer.

Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto and other information contained elsewhere in this report. This discussion and analysis also contains forward-looking statements regarding the industry outlook and our expectations regarding the performance of our business. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in the section entitled “Forward-Looking Statements.” Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Sources of Revenue

Historically, our principal source of revenue has been from the exploitation of our film and television content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets. Following our acquisition of EPIX in May 2017, we began recognizing significant affiliate and SVOD distribution revenue from our distribution of EPIX. As such, beginning with the quarter ended June 30, 2017, we modified our financial reporting to reflect the following three business segments: 1) Film Content, 2) Television Content and 3) Media Networks.

Film and Television Content

Our film content is exploited through a series of domestic and international distribution platforms for periods of time, or windows, during which such exploitation is frequently exclusive against other distribution platforms for negotiated time periods. Typically, a film’s release begins with its theatrical exhibition window, which may run for a period of one to three months. Theatrical marketing costs are incurred prior to and during the theatrical window in an effort to create public awareness of a film and to help generate consumer interest in the film’s subsequent home entertainment and television windows. Following the theatrical window, a film is generally first made available (i) for physical (DVD and Blu-ray discs) home entertainment and EST, and in some cases transactional VOD, approximately three to six months after initial theatrical release; (ii) for the first pay television window, including SVOD platforms, approximately nine to twelve months after initial theatrical release; and (iii) for basic cable and syndication, approximately 24 to 36 months after initial theatrical release, depending on the territory. We generally recognize an increase in revenue with respect to a film when it initially enters each of these windows. The foregoing release pattern may not be applicable to every film, and continues to change based on consumer preferences and the emergence of digital distribution platforms.

In addition, we produce television content for initial broadcast on television networks, cable networks, premium subscription services and digital platforms. Following its initial airing, television content is typically licensed for further television exploitation internationally, and, in some cases, made available for EST and home entertainment distribution worldwide. Successful scripted television series, which typically include individual series with four or more seasons, may be licensed for off-network exhibition in the U.S. (including in syndication and to SVOD services, such as Amazon, Hulu and Netflix). We generally recognize an increase in revenue with respect to television content when (and if) it is initially distributed in each of these windows. Revenue for unscripted content may include executive producer and other production services fees, as well as rankings/ratings bonuses, product integration and revenue from tape or format sales. Revenue from executive producer and other production services fees, as well as product integration, are recognized upon delivery, and revenue for rankings/ratings bonuses and our share of tape or format sales is typically recognized when such amounts are estimable.

We generally recognize a substantial portion of the revenue generated by film and television content as a result of its initial passage through the abovementioned windows. We continue to recognize revenue for our content after initial passage through the various windows. During this subsequent time period, we may earn revenue simultaneously from multiple distribution methods including new and emerging digital distribution platforms.

Our film and television content is distributed worldwide. For the year ended December 31, 2018, we derived approximately 42% of our total consolidated revenue from international sources. Revenue from international sources fluctuates year-to-year and is dependent upon several variables including our release schedule, the timing of international theatrical and home entertainment release dates, the timing of television availabilities, the relative performance of individual feature films and television content and foreign exchange rates.

Other sources of revenue for our film and television content include various ancillary revenue, primarily consisting of the licensing of intellectual property rights for use in interactive games and consumer products, as well as music revenue from the licensing of publishing, soundtrack, master use and synchronization rights to various compositions featured in our film and television content.

Media Networks

Beginning with the quarter ended June 30, 2017, our financial reporting includes a Media Networks segment that consists of EPIX and our other wholly-owned and joint venture broadcast and cable networks, which currently include an MGM-branded channel in the U.S., MGM HD and several multicast networks including ThisTV, Comet TV, LightTV and Charge!. Through March 31, 2017, these broadcast and cable networks were historically reported as part of the prior Ancillary Businesses segment.

Revenue for EPIX is derived from affiliation agreements with U.S. multichannel video programming distributors (“MVPDs”), virtual MVPDs and OTT distribution through apps and online platforms, as well as fees associated with SVOD distribution arrangements. Affiliate revenue from cable television and satellite operators, telecommunication companies and online video distributors is recognized in the period during which the channel services are provided. Fees associated with SVOD distribution are recognized upon the availability of programming to the distributor.

Other sources of revenue for our Media Networks include cable subscriber fees and advertising sales associated with our broadcast and cable networks.

Cost Structure

Within our results of operations our expenses primarily include operating, distribution and marketing, and general and administrative (“G&A”) expenses.

Operating Expenses

Operating expenses primarily consist of film and television cost amortization expenses, accruals of talent participations, residuals and co-production share obligations (collectively, “P&R”) for film and television content, and programming cost amortization expenses for our Media Networks.

Film and television cost amortization expense includes the amortization of content production and acquisition costs, plus certain fair value adjustments, including step-up amortization expense and purchase accounting adjustments (both of which are defined and discussed below).

Talent participation costs represent contingent compensation that may be payable to producers, directors, writers and principal cast based on the performance of feature film and television content. Residual costs represent compensation that may be payable to various unions or guilds, such as the Directors Guild of America, Screen Actors Guild-American Federation of Television and Radio Artists, and Writers Guild of America, and are typically based on the performance of feature film and television content in certain markets. Co-production share expenses represent profit sharing costs that may be payable to our co-production partners and other intellectual property rights holders based on the performance of feature film and television content.

Programming cost amortization expense includes the amortization of production, acquisition and licensing costs for programming on our Media Networks, as well as certain fair value adjustments, including intercompany programming cost amortization expense (which is defined and discussed below).

In addition, we include in operating expenses the cost of duplicating physical prints, creating digital cinema packages, and replicating DVDs and Blu-ray discs, as well as personnel costs that are directly related to the operation of our Media Networks.

Film and Television Costs. Film and television costs include the costs of acquiring rights to content, the costs associated with producers, directors, writers and actors, and the costs involved in producing the content, such as studio rental, principal photography, sound and editing. Like film studios, we generally fund our film and television costs with cash flow from operating activities, and/or bank borrowings and other financing methods. From time to time, production overhead and related financing costs may be capitalized as part of film and television production costs.

We amortize film and television costs, including production costs, capitalized interest and overhead, and any related fair value adjustments, and we accrue P&R, using the individual-film-forecast method (“IFF method”). Under the IFF method such costs are charged against earnings, and included in operating expenses, in the ratio that the current period’s gross revenue bears to management’s estimate of total remaining “ultimate” gross revenue as of the beginning of the current period. “Ultimates” represent estimates of revenue and expenses expected to be recognized over a period not to exceed ten years from the initial release or broadcast date, or for a period not to exceed 20 years for acquired film and television libraries.

Step-up Amortization Expense. A significant portion of the carrying value of our film and television inventory consists of non-cash fair value adjustments. These fair value adjustments do not reflect a cash investment to produce or acquire content, but rather, fair value accounting adjustments recorded at the time of various company transactions and events. As such, our film and television inventory carrying value contains (a) unamortized cash investments to produce or acquire content and (b) unamortized non-cash fair value adjustments. We amortize our aggregate film and television inventory costs in accordance with the applicable accounting standards, and our aggregate amortization expense is higher than it otherwise would be had we not recorded non-cash fair value adjustments to “step-up” the carrying value of our film and television inventory costs. Unamortized fair value adjustments were approximately \$700 million at December 31, 2018 and are expected to be amortized using the IFF method over the next 7 years. We refer to the amortization of these fair value adjustments as “Step-up Amortization Expense” and disclose it separately to help the users of our financial statements better understand the components of our operating expenses.

Purchase Accounting Adjustments. The accounting for business combinations required us to record fair value accounting adjustments to initially state the content assets of UAMG, LLC (“United Artists Media Group” or “UAMG”), Evolution and Big Fish at fair value as of January 2016, July 2017 and June 2018, respectively. As a result, the carrying value of our film and television inventory include fair value adjustments to the content assets of UAMG, Evolution and Big Fish that result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. We separately record this non-operational amortization expense and include it within “Purchase Accounting Adjustments,” which is added back in our calculation of Adjusted EBITDA to help the users of our financial statements better understand the fundamental operating performance of the Company. A substantial portion of the Purchase Accounting Adjustments for UAMG and Evolution had been expensed as of December 31, 2018, and amounts for years thereafter are primarily related to fair value accounting adjustments for Big Fish, which are estimated to be substantially amortized by December 31, 2019.

Intercompany Programming Cost Amortization. Prior to MGM’s acquisition of EPIX in May 2017, MGM recorded film cost amortization expense related to its revenue from licensing content to EPIX. Due to the accounting requirements for business combinations, on May 11, 2017 we recorded intercompany programming cost assets on the balance sheet of EPIX related to these same licensed rights even though these represent intercompany assets for which amortization expense was already recorded through the pre-acquisition income statement of MGM. As a result, our operating results for periods occurring subsequent to the acquisition will include higher programming cost amortization expense related to these intercompany programming cost assets, which would not otherwise be recorded if such licenses occurred subsequent to the acquisition and consolidation of EPIX. We separately record this programming cost amortization expense and include it within “Intercompany Programming Cost Amortization,” which is added back in our calculation of Adjusted EBITDA to help the users of our financial statements better understand the consolidated operating performance of the Company excluding the impact of intercompany expenses.

Distribution and Marketing Expenses

Distribution and marketing expenses generally consist of theatrical advertising costs, marketing costs for other distribution windows and our Media Networks, third party distribution services fees for various distribution activities (where applicable), distribution expenses such as delivery costs, and other exploitation costs. Advertising costs associated with a theatrical feature film release are significant and typically involve large scale media campaigns, the cost of developing and producing marketing materials, as well as various publicity activities to promote the film. These costs are largely incurred and expensed prior to and during the initial theatrical release of a feature film. As a result, we will often recognize a significant amount of expenses with respect to a particular film before we recognize most of the revenue to be produced by that film. For films distributed by our U.S. theatrical distribution joint venture, theatrical distribution and marketing expenses will be included in the net income (loss) of the joint venture, and we will account for our share of such expenses (and related revenues) using the equity method of accounting.

Marketing expenses for our Media Networks substantially consist of advertising costs for original content on EPIX and marketing spend to promote the EPIX service. Marketing expenses may fluctuate from period to period based on the timing and number of original content premiering on EPIX, as well as the timing of marketing campaigns to promote EPIX and drive additional awareness. Marketing expenses are typically higher during periods in which original content initially premieres or EPIX launches on new platforms. For marketing costs that are contractually required to be spent on a customer's service or platform and primarily target that customer's subscribers, we record such costs as contra-revenue against the revenue from the respective customer.

In addition, we typically incur fees for distribution services provided by our co-production and distribution partners, which are expensed as incurred and included in distribution and marketing expenses. These fees are generally variable costs that fluctuate depending on the amount of revenue generated by our film and television content and are primarily incurred during the exploitation of our content in the theatrical and home entertainment windows.

Distribution and marketing expenses also include marketing and other promotional costs associated with home entertainment and television distribution, allowances for doubtful accounts receivable and realized foreign exchange gains and losses. In addition, we consider delivery costs such as shipping prints and physical home entertainment units to be distribution expenses and categorize such costs within distribution and marketing expenses.

General and Administrative Expenses

G&A expenses primarily include salaries and other employee-related expenses (including non-cash stock-based compensation expense), facility costs including rent and utilities, professional fees, consulting and temporary help, insurance premiums and travel expenses.

Foreign Currency Transactions

We earn certain revenue and incur certain operating, distribution and marketing, and G&A expenses in currencies other than the U.S. dollar, principally the Euro and the British Pound. As a result, fluctuations in foreign currency exchange rates can adversely affect our business, results of operations and cash flows. In certain instances, we enter into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. While we intend to continue to enter into such contracts in order to mitigate our exposure to certain foreign currency exchange rate risks, it is difficult to predict the impact that these hedging activities will have on our results of operations.

Library

We classify film and television content as library content at the beginning of the quarter of a title's second anniversary following its initial theatrical release or broadcast date. Library content is primarily exploited through television licensing, including pay and free television, SVOD, TVOD and AVOD windows, as well as home entertainment, including both physical distribution and EST. Our definition of library excludes revenue generated by our Media Networks and ancillary businesses, such as our interactive gaming, consumer products and music performance revenue, even though the majority of our ancillary revenue is generated from the licensing or other exploitation of library content and the underlying intellectual property rights.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. (“GAAP”) requires us to make estimates, judgments and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expenses, and the related disclosures of contingent liabilities in our financial statements and accompanying notes. We have identified the following critical accounting policies and estimates as the ones that are most important to the portrayal of our financial condition and results of operations and which require us to make our most subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. To the extent there are material differences between our estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions and judgments that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

Revenue Recognition

Film and Television Content

We recognize revenue in each market once all applicable recognition requirements are met. Revenue for film and television content is primarily comprised of the following distribution markets.

Theatrical: Revenue from theatrical distribution of film content is recognized on the dates of exhibition and typically represents a percentage of theatrical box office receipts collected by the exhibitors.

Television licensing: Revenue from television licensing is typically recognized when the film or television content is initially available to the licensee for telecast. Revenue from transactional video-on-demand distribution is recognized in the period in which the sales transaction occurs. Payments received in advance of initial availability are classified as deferred revenue until all revenue recognition requirements have been met. For scripted and unscripted television content, we typically recognize television licensing revenue ratably upon delivery of each episode to the licensee, even though the licensee may elect to delay the initial airing of each episode until a future date during the license period. Television licensing revenue for unscripted content may also include executive producer and other production services fees, as well as rankings/ratings bonuses, product integration revenue and revenue from tape or format sales. Revenue from executive producer and other production services fees, as well as product integration, are recognized upon delivery, and revenue for rankings/ratings bonuses and our share of tape or format sales is typically recognized when such amounts are estimable.

Home entertainment: Revenue from physical home entertainment distribution is recognized, net of reserves for estimated returns and doubtful accounts receivable, and together with related costs, in the period in which the product is shipped and is available for sale to the public. Revenue from transactional electronic sell-through distribution is recognized in the period in which the sales transaction occurs or is reported to us.

Ancillary: Ancillary revenue primarily includes the licensing of film and television content and other intellectual property rights for use in interactive games and consumer products, as well as music revenue from the licensing of publishing, soundtrack, master use and synchronization rights to various compositions featured in our film and television content. Revenue from the licensing of intellectual property rights for use in interactive games and consumer products is typically recognized ratably over the license period to the extent that the license grants the licensee use of the underlying intellectual property during the term. Separately, we account for the licensing of the interactive gaming, consumer products and music rights to our film and television content, as well as any profit sharing amounts, at the beginning of the license period or when such amounts become due and are reported to us by our licensees.

Other revenue: Other revenue primarily includes net revenue for our share of the distribution proceeds earned by our co-production partners for co-produced film and television content for which our partners control the distribution rights in various distribution windows, including theatrical, home entertainment, television licensing and ancillary businesses. Net revenue from co-produced film and television content is impacted by the timing of when a title’s cumulative aggregate revenue exceeds its cumulative aggregate distribution fees and expenses.

Accounting for revenue and expenses from co-produced feature films and television content in accordance with GAAP and the applicable accounting guidance is complex and requires significant judgment based on an evaluation of the specific terms and conditions of each agreement. Co-production agreements usually stipulate which of the partners will be responsible for exploiting the content in specified distribution windows and/or territories. For example, one partner might distribute a feature film in the theatrical and home entertainment windows, while the other partner might be responsible for distribution in television windows and over various digital platforms. Generally, for each distribution window, the partner controlling the distribution rights will record revenue and distribution expenses on a gross basis, while the other party will record its share of that window on a net basis. In such instances, the company recording revenue on a net basis will typically recognize net revenue in the first period in which an individual film's cumulative aggregate revenues exceed its cumulative aggregate distribution fees and expenses across all markets and territories controlled by its co-production partner, which may be several quarters after the film's initial release.

The accounting for our profit share from the distribution rights controlled by our co-production partner and our co-production partner's profit share from our distribution rights may differ from title to title. Typically, we classify our projected co-production partner's ultimate profit share from our distribution rights as P&R expense included within operating expenses and record it over the life of the film or television content using the IFF method. Separately, we account for our profit share from the distribution rights controlled by our co-production partner on a net basis in one of two ways: (i) if our projected ultimate profit share is expected to result in amounts due to us from our co-production partner, we classify this amount as revenue (net) and record it in each period in which an individual film's cumulative aggregate revenues exceed its cumulative aggregate distribution fees and expenses across all markets and territories controlled by our co-production partner; or (ii) if our projected ultimate profit share is expected to result in amounts due from us to our co-production partner, we either (a) classify this amount as a distribution expense included within distribution and marketing expenses and recognize it as incurred to the extent that there is a contractual true-up requirement, or (b) include this amount in our projected co-production partner's ultimate profit share from our distribution rights and record it as P&R expense over the life of the film or television content using the IFF method.

Our determination of the accounting for our co-production and distribution arrangements has a significant impact on the reported amount of our assets and liabilities, revenue and expenses, and the related disclosures.

Media Networks

Revenue for Media Networks is primarily comprised of the following:

EPIX: Revenue for EPIX is derived from affiliation agreements with U.S. MVPDs, virtual MVPDs and OTT distribution through apps and online platforms, as well as fees associated with SVOD distribution arrangements. Affiliate revenue from cable television and satellite operators, telecommunication companies and online video distributors is recognized in the period during which the channel services are provided. Fees associated with SVOD distribution are recognized upon the availability of programming to the distributor. To the extent that we maintain an on-going performance commitment over a contractual term, revenue may be recognized as such obligations are satisfied, or deferred until such obligations are satisfied or the term has concluded.

Other channels: We generate revenue from our wholly-owned and joint venture broadcast and cable networks, which currently include an MGM-branded channel in the U.S., MGM HD and several multicast networks including ThisTV, Comet TV, LightTV and Charge!. Revenue for these broadcast and cable networks is primarily comprised of cable subscriber fees and advertising sales, which are recorded as revenue in the period during which the channel services are provided.

Intercompany Eliminations

In the ordinary course of business, our business segments enter into various types of transactions with one another, including, but not limited to, the licensing of content from our Film Content segment and/or our Television Content segment to our Media Networks segment. All intercompany transactions are eliminated in consolidation.

For financial reporting purposes, intercompany licensing revenue, intercompany programming cost amortization expense and the corresponding assets and liabilities recognized by the segments that are counterparties to these transactions, are eliminated in consolidation. As such, licensing revenue that was previously recognized by

MGM on the availability date of the content licensed to EPIX is no longer recognized in our consolidated statements of income beginning May 11, 2017. In addition, the corresponding programming cost amortization expense that was previously recognized by EPIX over the license term for content licensed from MGM is no longer recognized in our consolidated statements of income beginning May 11, 2017. Amortization expense related to content licensed by MGM to EPIX prior to May 11, 2017 will be included in our consolidated statements of income but added back in our calculation of Adjusted EBITDA (refer to *Intercompany Programming Cost Amortization* above for further discussion).

Amortization of Film and Television Costs

We amortize film and television inventory costs, including production costs, capitalized interest and overhead (if any), and fair value and purchase accounting adjustments, and we accrue P&R, using the IFF method, as described above under *Cost Structure – Operating Expenses*. However, the carrying cost of any individual feature film or television content, or film or television content library, for which an ultimate loss is projected is immediately written down (through increased amortization expense) to its estimated fair value.

We regularly review, and revise when necessary, our ultimates for our film and television content, which may result in a prospective increase or decrease in the rate of amortization and/or a write-down to the carrying cost of the feature film or television content to its estimated fair value. As noted above, ultimates represent estimates of revenue and expenses expected to be recognized over a period not to exceed ten years from the initial release or broadcast date, or for a period not to exceed 20 years for acquired film and television libraries. We determine the estimated fair value of our film and television content based on estimated future cash flows using the discounted cash flow method of the income approach. Any revisions to ultimates can result in significant quarter-to-quarter and year-to-year fluctuations in film and television cost amortization expense. Ultimates by their nature contain inherent uncertainties since they are comprised of estimates over long periods of time, and, to a certain extent, will likely differ from actual results.

The commercial potential of feature film or television content varies dramatically, and is not directly correlated with the cost to produce or acquire the content. Therefore, it can be difficult to predict or project a trend of our income or loss. However, the likelihood that we will report losses for the quarter or year in which we release a feature film is increased by the industry's accounting standards that require theatrical advertising and other releasing costs to be expensed in the period in which they are incurred while revenue for the feature film is recognized over a much longer period of time. We may report such losses even for periods in which we release films that will ultimately be profitable for us.

Amortization of Programming Costs

Programming costs for content licensed, produced or acquired by our Media Networks are generally amortized on a title-by-title or episode-by-episode basis over the estimated future utilization, which is based on the number of anticipated exhibitions. In certain circumstances our Media Networks may control multiple distribution rights or control rights to more than one distribution window. For content with multiple distribution rights, we allocate the programming costs based on the estimated fair value of each distribution right. For content with multiple distribution windows, we allocate the programming costs based on the estimated fair value of each distribution window, which will generally result in the majority of the cost being allocated to the first window. Certain other programming costs may be amortized on a straight-line basis over the respective contractual license period.

Programming costs for original film and television content produced by MGM are allocated between pay television (EPIX) and other distribution markets, such as digital distribution, home entertainment and international television licensing, based on the estimated relative fair value. Programming costs allocated to the pay television market are amortized over the estimated future utilization of each title based on the anticipated number of exhibitions on EPIX, while programming costs associated with other distribution markets are amortized using an ultimate model. Programming costs for original film and television content produced by MGM are included in film and television costs in our consolidated balance sheets and related footnotes.

Estimates regarding the utilization of content for our Media Networks and the allocation of programming costs between pay television and other distribution markets will require us to make judgments that involve uncertainty. Any revisions to our estimates or ultimate revenue could result in significant quarter-to-quarter and year-to-year fluctuations in programming cost amortization expense, and may lead to the write down (through increased amortization expense) of programming costs to their estimated fair value.

Distribution and Marketing Costs

Exploitation costs, including advertising and marketing costs, third party distribution services fees for various distribution activities (where applicable), distribution expenses and other releasing costs, are expensed as incurred. As such, our results of operations, particularly for the quarter or year in which we release a feature film or original content on EPIX, may be negatively impacted by the incurrence of the related advertising costs, which are typically significant amounts. As discussed above under *Revenue Recognition*, in some instances, we account for theatrical advertising and other distribution costs on a net basis and may not expense any portion of such costs. In addition, from time to time, our co-production partners and distributors may advance our share of theatrical advertising and other distribution costs on our behalf and require that distribution proceeds first go to the co-production partner or distributor until such advanced amounts have been recouped, and we repay advanced amounts at a later date to the extent not recouped. In the event that such advanced amounts are not recouped from distribution proceeds, we typically remain contractually liable to our co-production partners and may repay such amounts using cash on hand, cash flow from the exploitation of our other film and television content, and, if necessary, funds available under our revolving credit facility.

As discussed above under *Revenue Recognition*, when we account for our profit share from the distribution rights controlled by our co-production partner on a net basis: (i) if our projected ultimate profit share is expected to result in amounts due to us from our co-production partner, we classify this amount as revenue (net) and record it as such amounts become due and are reported to us by our co-production partner; or (ii) if our projected ultimate profit share is expected to result in amounts due from us to our co-production partner, and there is a contractual true-up requirement, we classify this amount as a distribution expense included within distribution and marketing expenses and record the corresponding liability in accounts payable and accrued liabilities in our consolidated balance sheets when incurred and reported to us by our co-production partner. Instead of a contractual true-up requirement, our co-production partner may participate in additional distribution proceeds from the title, in which case we will include this amount in our projected co-production partner's ultimate profit share from our distribution rights and record it as P&R expense over the life of the film or television content using the IFF method.

Stock-Based Compensation

We have granted restricted stock to members of our board of directors and stock options to certain employees. Our restricted stock awards to our directors generally vest over a service period of one to three years from the date of grant and are subject to accelerated vesting provisions in certain circumstances. Stock options are generally granted in separate tranches, with each tranche containing a different exercise price. Each option tranche vests over a five-year service period from the date of grant and is subject to accelerated vesting provisions in certain circumstances.

We calculate compensation expense for awards of restricted stock and stock options using the fair value recognition provisions of the applicable accounting standards and recognize this amount on a straight-line basis over the requisite service period for each separately vesting portion of each award. We estimate the fair value of restricted stock based on the market value of the underlying shares on the grant date. We estimate the fair value of stock options using the Black-Scholes option pricing model, which requires inputs to be estimated as of each stock option grant date, such as the expected term, expected volatility, risk-free interest rate, and expected dividend yield and forfeiture rate. These inputs are subjective and are developed using analyses and judgment, which, if modified, could have a significant impact on the amount of compensation expense recorded by us in our results of operations.

Specifically, we estimate the expected term for stock option awards based on the estimated time to reach the exercise price of each tranche. The expected volatility is determined based on a study of historical and implied volatilities of publicly traded peer companies in our industry. The risk-free interest rate is based on the yield available to U.S. Treasury zero-coupon bonds. The expected dividend yield is based on our history of not paying dividends and our expectation about changes in dividends as of the stock option grant date. Estimated forfeiture

rates were determined based on historical and expected departures for identified employees and are subject to adjustment based on actual experience.

Refer to Note 12 to the consolidated financial statements as of December 31, 2018 for further discussion.

Income Taxes

We are subject to international and U.S. federal, state and local tax laws and regulations that affect our business, which are extremely complex and require us to exercise significant judgment in our interpretation and application of these laws and regulations. Accordingly, the tax positions we take are subject to change and may be challenged by tax authorities. Our interpretation and application of applicable tax laws and regulations has a significant impact on the reported amount of our deferred tax assets, including our federal and state net operating loss carryforwards, and the related valuation allowances, as applicable, as well as the reported amounts of our deferred tax liabilities and provision for income taxes. Our recognition of the tax benefits of taxable temporary differences and net operating loss carryforwards is subject to many factors, including the existence of sufficient taxable income in future years, and whether we believe it is more likely than not that the tax positions we have taken will be upheld if challenged by tax authorities. Changes to our interpretation and application of applicable tax laws and regulations could have a significant impact on our financial condition and results of operations.

Use of Non-GAAP Financial Measures

We utilize adjusted earnings before interest, taxes and depreciation and non-content amortization (“Adjusted EBITDA”) and adjusted diluted earnings per share (“Adjusted Diluted EPS”) to evaluate the operating performance of our business.

Adjusted EBITDA reflects net income attributable to MGM Holdings Inc. (inclusive of equity in net earnings of affiliates) before interest expense, interest and other income (expense), income tax provision, depreciation of fixed assets, amortization of non-content intangible assets and non-recurring gains and losses, and excludes the impact of the following items: (i) Step-up Amortization Expense (refer to *Cost Structure –Operating Expenses* above for further discussion), (ii) Purchase Accounting Adjustments (refer to *Cost Structure –Operating Expenses* above for further discussion), (iii) Intercompany Programming Cost Amortization (refer to *Cost Structure –Operating Expenses* above for further discussion), (iv) stock-based compensation expense, (v) non-recurring costs and other expenses related to mergers, acquisitions, capital market transactions and restructurings, to the extent that such amounts are expensed, and (vi) impairment of goodwill and other non-content intangible assets, if any.

Adjusted Diluted EPS reflects our earnings per share, using an adjusted net income that reflects net income attributable to MGM Holdings Inc., plus (i) Step-up Amortization Expense (refer to *Cost Structure –Operating Expenses* above for further discussion), (ii) Purchase Accounting Adjustments (refer to *Cost Structure –Operating Expenses* above for further discussion), (iii) Intercompany Programming Cost Amortization (refer to *Cost Structure –Operating Expenses* above for further discussion), (iv) stock-based compensation expense, (v) non-recurring costs and other expenses related to mergers, acquisitions, capital market transactions and restructurings, to the extent that such amounts are expensed, and (vi) impairment of goodwill and other non-content intangible assets, if any, each on an after-tax basis using the respective annual combined effective tax rate for U.S. federal and state income tax purposes.

We consider Adjusted EBITDA and Adjusted Diluted EPS to be important measures of comparative operating performance because they exclude the impact of certain non-cash and non-recurring items that do not reflect the fundamental performance of our business and allow investors, equity analysts and others to evaluate the impact of these items separately from the fundamental operations of the business.

Adjusted EBITDA and Adjusted Diluted EPS are non-GAAP financial measures and should be considered in addition to, but not as a substitute for, operating income, net income, earnings per share and other measures of financial performance prepared in accordance with GAAP. Among other limitations, Adjusted EBITDA and Adjusted Diluted EPS do not reflect certain expenses that affect the operating results of our business, as reported in accordance with GAAP, and involve judgment as to whether the excluded items affect the fundamental operating performance of our business. In addition, our calculation of Adjusted EBITDA and Adjusted Diluted EPS may be different from the calculations used by other companies and, therefore, comparability may be limited.

Results of Operations

The discussion and analysis of our results of operations set forth below are based on our consolidated financial statements and are presented in thousands, unless otherwise stated. This information should be read in conjunction with our consolidated financial statements and the related notes thereto contained in this report.

Overview of Financial Results

	Year Ended December 31,		Change	
	2018	2017	Amount	Percent
Revenue:				
Film content.....	678,953	623,719	55,234	9%
Television content.....	406,312	367,363	38,949	11%
Media Networks.....	489,094	313,668	175,426	56%
Total revenue.....	1,574,359	1,304,750	269,609	21%
Contribution:				
Film content.....	182,391	246,371	(63,980)	(26%)
Television content.....	130,242	121,049	9,193	8%
Media Networks.....	88,962	90,442	(1,480)	(2%)
Total contribution.....	401,595	457,862	(56,267)	(12%)
General and administrative.....	212,192	172,450	39,742	23%
Depreciation and non-content amortization.....	65,154	47,296	17,858	38%
Operating income.....	124,249	238,116	(113,867)	(48%)
Equity in net earnings (losses) of affiliates.....	(6,181)	16,690	(22,871)	(137%)
Gain on acquisition.....	-	123,587	(123,587)	NA
Loss on extinguishment of debt.....	(433)	-	(433)	NA
Interest expense.....	(66,100)	(30,803)	(35,297)	(115%)
Interest and other income, net.....	4,158	4,525	(367)	(8%)
Income before income taxes.....	55,693	352,115	(296,422)	(84%)
Income tax benefit.....	64,958	197,087	(132,129)	(67%)
Net income.....	120,651	549,202	(428,551)	(78%)
Less: Net income attributable to noncontrolling interests.....	(459)	(448)	(11)	(2%)
Net income attributable to MGM Holdings Inc.....	\$ 120,192	\$ 548,754	\$ (428,562)	(78%)

NA – Percentage is not applicable

Adjusted EBITDA

	Year Ended		Change	
	December 31,		Amount	Percent
	2018	2017		
Net income attributable to MGM Holdings Inc.....	\$ 120,192	\$ 548,754	\$ (428,562)	(78%)
Interest expense.....	66,100	30,803	35,297	115%
Interest income.....	(4,137)	(4,086)	(51)	(1%)
Other income, net.....	(21)	(439)	418	95%
Loss on extinguishment of debt.....	433	-	433	NA
Gain on acquisition.....	-	(123,587)	123,587	NA
Income tax benefit.....	(64,958)	(197,087)	132,129	67%
Depreciation and non-content amortization.....	65,154	47,296	17,858	38%
EBITDA.....	182,763	301,654	(118,891)	(39%)
Step-up Amortization Expense (1).....	70,806	68,569	2,237	3%
Purchase Accounting Adjustments (2).....	15,434	4,968	10,466	211%
Intercompany Programming Cost Amortization (3).....	23,593	24,846	(1,253)	(5%)
Stock-based compensation expense.....	14,702	9,189	5,513	60%
Non-recurring costs and expenses (4).....	23,152	13,640	9,512	70%
Adjusted EBITDA.....	\$ 330,450	\$ 422,866	\$ (92,416)	(22%)

NA – Percentage is not applicable

(1) Step-up Amortization Expense represents incremental amortization expense resulting from non-cash fair value adjustments to the carrying value of our film and television inventory. These fair value adjustments do not reflect a cash investment to produce or acquire content, but rather, fair value accounting adjustments recorded at the time of various Company transactions and events. Our amortization expense is higher than it otherwise would be had we not recorded non-cash fair value adjustments to “step-up” the carrying value of our film and television inventory costs. Refer to *Cost Structure – Operating Expenses* for additional information.

(2) Purchase Accounting Adjustments represent incremental amortization expense resulting from fair value accounting adjustments to the carrying value of the film and television inventory of United Artists Media Group, Evolution and Big Fish. These adjustments result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. Refer to *Cost Structure – Operating Expenses* for additional information.

(3) Intercompany Programming Cost Amortization represents programming cost amortization expense related to content that MGM licensed to EPIX prior to its acquisition and consolidation of EPIX in May 2017. Prior to the acquisition, MGM recorded film cost amortization expense related to its revenue from licensing content to EPIX. Due to the accounting requirements for business combinations, on May 11, 2017 we recorded intercompany programming cost assets on the balance sheet of EPIX related to these same licensed rights even though these represent intercompany assets for which amortization expense was already recorded through the income statement of MGM. As a result, these intercompany programming cost assets will cause higher programming cost amortization expense than we would otherwise record if such licenses occurred subsequent to the acquisition.

(4) Non-recurring costs and expenses for the year ended December 31, 2018 primarily consist of expenses related to the exit of our former CEO and costs associated with our strategic acquisition of Big Fish. Non-recurring costs and expenses for the year ended December 31, 2017 primarily consist of costs associated with our strategic acquisitions of EPIX and Evolution.

Adjusted EBITDA versus the Year Ended December 31, 2017

For the year ended December 31, 2018, Adjusted EBITDA of \$330.5 million was \$92.4 million lower than Adjusted EBITDA of \$422.9 million for the year ended December 31, 2017. Consistent with our planned objectives for 2018, Adjusted EBITDA reflected higher expenses related to our investment spending on growth initiatives. This included (i) increased programming costs for EPIX and higher marketing costs associated with new original content for EPIX, (ii) higher costs associated with our expanded theatrical distribution capabilities, which were incurred in advance of the incremental revenue we expect to generate from these films, and (iii) higher overhead due to our prior year acquisitions of EPIX and Evolution, recent acquisition of Big Fish, and targeted investments in personnel focused on areas of business growth. As a reminder, for financial reporting purposes, during the prior year we began consolidating 100% of the revenue and expenses of EPIX and Evolution as of May 11, 2017 and July 14, 2017, respectively. The current year also included unanticipated content impairment charges totaling \$38.4 million, and an unanticipated foreign currency loss differential of \$25.0 million versus the prior year. This was partially offset by \$18.4 million of higher Adjusted EBITDA from our Television Content segment primarily due to a more robust slate of new content, which included our scripted series *The Handmaid’s Tale* (season 2), *Vikings* (season 6), *Condor* (season 1) and *Luis Miguel: La Serie* (season 1). In addition, we continued to deliver a high volume of unscripted shows, including our new show for CBS, *TKO: Total Knock Out*, and new episodes of *The Voice* (seasons 14 and 15), *Survivor* (seasons 36 and 37) and *The Real Housewives of Beverly Hills* (season 8), among many other shows, such as *Live PD* and other titles from our strategic acquisition of Big Fish in June 2018.

Adjusted Diluted EPS

The following table reconciles net income attributable to MGM Holdings Inc. to adjusted net income for the purpose of reconciling diluted earnings per share to Adjusted Diluted EPS using a fully diluted share count of 46,528,848 and 48,807,482 for the years ended December 31, 2018 and 2017, respectively (in thousands, except per share amounts):

	Year Ended		Change	
	December 31,		Amount	Percent
	2018	2017		
Net income attributable to MGM Holdings Inc.....	\$ 120,192	\$ 548,754	\$ (428,562)	(78%)
Step-up Amortization Expense (1).....	70,806	68,569	2,237	3%
Purchase Accounting Adjustments (2).....	15,434	4,968	10,466	211%
Intercompany Programming Cost Amortization (3).....	23,593	24,846	(1,253)	(5%)
Stock-based compensation expense.....	14,702	9,189	5,513	60%
Non-recurring costs and expenses (4).....	23,152	13,640	9,512	70%
Less: Income tax effect.....	(32,491)	(43,636)	11,145	26%
Adjusted net income.....	\$ 235,388	\$ 626,330	\$ (390,942)	(62%)
Gain on acquisition.....	-	(123,587)	123,587	NA
Loss on extinguishment of debt.....	433	-	433	NA
Less: Income tax effect.....	(95)	-	(95)	NA
Less: Non-recurring income tax benefit (5).....	(86,748)	(272,581)	185,833	68%
Adjusted net income, excluding non-recurring items.....	\$ 148,978	\$ 230,162	\$ (81,184)	(35%)
Diluted earnings per share.....	\$ 2.58	\$ 11.24	\$ (8.66)	(77%)
Step-up Amortization Expense (1).....	1.52	1.40	0.12	9%
Purchase Accounting Adjustments (2).....	0.33	0.10	0.23	230%
Intercompany Programming Cost Amortization (3).....	0.51	0.51	-	NA
Stock-based compensation expense.....	0.32	0.19	0.13	68%
Non-recurring costs and expenses (4).....	0.50	0.28	0.22	79%
Less: Income tax effect.....	(0.70)	(0.89)	0.19	21%
Adjusted Diluted EPS.....	\$ 5.06	\$ 12.83	\$ (7.77)	(61%)
Gain on acquisition.....	-	(2.53)	2.53	NA
Loss on extinguishment of debt.....	0.01	-	0.01	NA
Less: Non-recurring income tax benefit (5).....	(1.86)	(5.58)	3.72	67%
Adjusted Diluted EPS, excluding non-recurring items.....	\$ 3.21	\$ 4.72	\$ (1.51)	(32%)

NA – Percentage is not applicable

(1) Step-up Amortization Expense represents incremental amortization expense resulting from non-cash fair value adjustments to the carrying value of our film and television inventory. These fair value adjustments do not reflect a cash investment to produce or acquire content, but rather, fair value accounting adjustments recorded at the time of various company transactions and events. Our amortization expense is higher than it otherwise would be had we not recorded non-cash fair value adjustments to “step-up” the carrying value of our film and television inventory costs. Refer to *Cost Structure – Operating Expenses* for additional information.

(2) Purchase Accounting Adjustments represent incremental amortization expense resulting from fair value accounting adjustments to the carrying value of the film and television inventory of United Artists Media Group, Evolution and Big Fish. These adjustments result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. Refer to *Cost Structure – Operating Expenses* for additional information.

(3) Intercompany Programming Cost Amortization represents programming cost amortization expense related to content that MGM licensed to EPIX prior to its acquisition and consolidation of EPIX in May 2017. Prior to the acquisition, MGM recorded film cost amortization expense related to its revenue from licensing content to EPIX. Due to the accounting requirements for business combinations, on May 11, 2017 we recorded intercompany programming cost assets on the balance sheet of EPIX related to these same licensed rights even though these represent intercompany assets for which amortization expense was already recorded through the income statement of MGM. As a result, these intercompany programming cost assets will cause higher programming cost amortization expense than we would otherwise record if such licenses occurred subsequent to the acquisition.

(4) Non-recurring costs and expenses for the year ended December 31, 2018 primarily consist of expenses related to the exit of our former CEO and costs associated with our strategic acquisition of Big Fish. Non-recurring costs and expenses for the year ended December 31, 2017 primarily consist of costs associated with our strategic acquisitions of EPIX and Evolution.

(5) Non-recurring income tax benefit for the year ended December 31, 2018 primarily included excess tax benefits from share-based payments and additional benefits for extra-territorial income exclusions. Non-recurring income tax benefit for the year ended December 31, 2017 primarily included a provisional benefit of \$190.5 million associated with the remeasurement of our net deferred tax liability using the new U.S. federal corporate tax rate of 21% under new tax legislation passed in December 2017, plus other one-time adjustments mainly related to foreign remittance taxes, which were historically treated as deductions in our calculation of taxable income but were converted into foreign tax credits for all recent tax years beginning in 2011.

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Film Content

	Year Ended December 31,		Change	
	2018	2017	Amount	Percent
Revenue:				
Theatrical.....	29,508	13,360	16,148	121%
Television licensing.....	475,725	464,161	11,564	2%
Home entertainment.....	104,555	91,910	12,645	14%
Other revenue.....	43,686	29,191	14,495	50%
Ancillary.....	25,479	25,097	382	2%
Total revenue.....	678,953	623,719	55,234	9%
Expenses:				
Operating (6).....	441,820	353,934	87,886	25%
Distribution and marketing.....	54,742	23,414	31,328	134%
Total expenses.....	496,562	377,348	119,214	32%
Contribution.....	\$ 182,391	\$ 246,371	\$ (63,980)	(26%)
Step-up Amortization Expense (6).....	63,664	60,688	2,976	5%
Adjusted EBITDA (pre-G&A).....	\$ 246,055	\$ 307,059	\$ (61,004)	(20%)

(6) Operating expenses for film content for the years ended December 31, 2018 and 2017 included \$63.7 million and \$60.7 million, respectively, of Step-up Amortization Expense. Refer to *Cost Structure – Operating Expenses* for additional information.

Film Content – Revenue

Theatrical. Worldwide theatrical revenue for film content was \$29.5 million for the year ended December 31, 2018, an increase of \$16.1 million, or 121%, as compared to \$13.4 million for the year ended December 31, 2017. Theatrical revenue for the current year primarily included international revenue for *Death Wish*, *Overboard*, *Sherlock Gnomes*, *Creed II* and *Tomb Raider* in certain territories and domestic theatrical revenue for the U.S. release of the Orion Pictures' films, *Every Day* and *Anna and the Apocalypse*. We did not recognize a substantial portion of the worldwide theatrical revenue for *Death Wish*, *Tomb Raider*, *Sherlock Gnomes*, *Overboard*, *Operation Finale* and *Creed II*, which are primarily accounted for on a net basis after deduction of theatrical advertising and other related distribution costs. In comparison, theatrical revenue for the prior year primarily included the U.S. release of *The Belko Experiment*.

Television Licensing. Worldwide television licensing revenue for film content was \$475.7 million for the year ended December 31, 2018, an increase of \$11.5 million, or 2%, as compared to \$464.2 million for the year ended December 31, 2017. Television licensing revenue for the current year primarily included the free television availabilities for *Spectre*, *Creed* and *Me Before You*, worldwide transactional VOD, SVOD and pay television revenue for *Tomb Raider*, international SVOD licensing of *Operation Finale*, as well as ongoing licensing revenue for previous film releases, such as *Death Wish*, *The Magnificent Seven* and *Everything, Everything*, plus higher revenue from library content. In comparison, television licensing revenue for the prior year included robust revenue from recent film releases, including the U.S. pay television premieres of *Me Before You* and *Barbershop: The Next Cut* on EPIX (prior to our acquisition of EPIX), our initial international pay television licensing of *The Magnificent Seven*, *Ben-Hur* and *Me Before You*, international free television availabilities for *Spectre* and *The Hobbit: The Battle of the Five Armies*, and worldwide VOD revenue for *The Magnificent Seven* and *Ben-Hur*.

Home Entertainment. Worldwide home entertainment revenue for film content was \$104.6 million for the year ended December 31, 2018, an increase of \$12.7 million, or 14%, as compared to \$91.9 million for the year ended December 31, 2017. Home entertainment revenue for the current year primarily included the domestic home entertainment release of *Death Wish* and worldwide EST revenue for *Tomb Raider*, plus our continued distribution of library content. In comparison, home entertainment revenue for the prior year primarily included worldwide EST revenue for *The Magnificent Seven* and *Ben-Hur*, home entertainment revenue for *The Belko Experiment*, plus ongoing revenue from *Spectre*, *The Hobbit* trilogy and other library content.

Other Revenue. Other revenue for film content was \$43.7 million for the year ended December 31, 2018, an increase of \$14.5 million, or 50%, as compared to \$29.2 million for the year ended December 31, 2017. Net revenue from co-produced films in the current year was primarily comprised of the initial net revenue recognition

for *Overboard*, *Tomb Raider* and *A Star is Born*. In comparison, net revenue from co-produced films in the prior year primarily included net revenue for *The Magnificent Seven*, *Me Before You*, *Creed* and *Max*.

Ancillary. Ancillary revenue for film content, which includes consumer products, interactive gaming, music performance and other revenue, was \$25.5 million for the year ended December 31, 2018, an increase of \$0.4 million as compared to \$25.1 million for the year ended December 31, 2017. The increase primarily reflected higher music performance revenue.

Film Content – Expenses

Operating Expenses. Operating expenses for film content were \$441.8 million for the year ended December 31, 2018, an increase of \$87.9 million as compared to \$353.9 million for the year ended December 31, 2017. The increase in operating expenses included \$98.8 million of higher aggregate film cost and P&R amortization expenses. Aggregate amortization expenses for the current year primarily included *Tomb Raider*, *Death Wish*, *Spectre*, *Overboard*, *Operation Finale*, *Creed*, and library content, plus \$36.3 million of unanticipated film impairment charges. In comparison, aggregate amortization expenses for the prior year primarily included *The Magnificent Seven*, *Spectre*, *The Hobbit* trilogy, *Me Before You*, *Ben-Hur* and *Barbershop: The Next Cut*, plus \$13.6 million of unanticipated film impairment charges. This was partially offset by lower home entertainment product costs in the current year.

Distribution and Marketing Expenses. Distribution and marketing expenses for film content were \$54.7 million for the year ended December 31, 2018, an increase of \$31.3 million as compared to \$23.4 million for the year ended December 31, 2017. The increase was primarily driven by fluctuations in foreign currency exchange rates in each year, mainly the British Pound and Euro, which caused \$8.8 million of unanticipated foreign currency losses in the current year, as compared to foreign currency gains totaling \$16.2 million in the prior year. In addition to the \$25.0 million negative currency variance, we incurred \$6.1 million of higher theatrical marketing expenses in the current year.

Television Content

	Year Ended December 31,		Change	
	2018	2017	Amount	Percent
Revenue:				
Television licensing.....	368,741	333,483	35,258	11%
Home entertainment and other.....	37,571	33,880	3,691	11%
Total revenue.....	406,312	367,363	38,949	11%
Expenses:				
Operating (7).....	263,810	234,162	29,648	13%
Distribution and marketing.....	12,260	12,152	108	1%
Total expenses.....	276,070	246,314	29,756	12%
Contribution.....	\$ 130,242	\$ 121,049	\$ 9,193	8%
Purchase Accounting Adjustments (7).....	15,434	4,968	10,466	211%
Step-up Amortization Expense (7).....	7,142	7,881	(739)	(9%)
Net income attributable to noncontrolling interests.....	(459)	44	(503)	(1,143%)
Adjusted EBITDA (pre-G&A).....	\$ 152,359	\$ 133,942	\$ 18,417	14%

(7) Operating expenses for television content for the year ended December 31, 2018 included \$15.4 million of Purchase Accounting Adjustments and \$7.1 million of Step-up Amortization Expense. Operating expenses for television content for the year ended December 31, 2017 included \$5.0 million of Purchase Accounting Adjustments and \$7.9 million of Step-up Amortization Expense. Refer to *Cost Structure – Operating Expenses* for additional information.

Television Content – Revenue

Television Licensing. Television licensing revenue for television content was \$368.7 million for the year ended December 31, 2018, an increase of \$35.2 million, or 11%, as compared to \$333.5 million for the year ended December 31, 2017. This increase was primarily driven by a more robust slate of television content in the current year, which included new episodes of our scripted series *The Handmaid's Tale* (season 2), *Vikings* (season 6), *Condor* (season 1) for AT&T's Audience Network and *Luis Miguel: La Serie* (season 1) for Telemundo. We also generated significant licensing revenue for all five prior seasons of our successful series *Vikings*. In addition, we continued to deliver a high volume of unscripted shows during the current year, including our new show for CBS,

TKO: Total Knock Out, plus new episodes of *The Voice* (seasons 14 and 15), *Survivor* (seasons 36 and 37), *The Real Housewives of Beverly Hills* (season 8), *Botched* (season 5), *Vanderpump Rules* (season 6), and *The Real Housewives of Orange County* (season 13), among many other shows, such as *Live PD* and other titles from our strategic acquisition of Big Fish in June 2018. In comparison, the prior year primarily included deliveries of new episodes of scripted series, including *Vikings* (season 5), *Fargo* (season 3) and *The Handmaid's Tale* (season 1), plus unscripted shows such as *Steve Harvey's Funderdome*, *Signed, Beat Shazam*, *The Voice* (seasons 12 and 13) and *Survivor* (seasons 34 and 35), among other shows.

Home Entertainment and Other. Home entertainment and other revenue for television content was \$37.6 million for the year ended December 31, 2018, an increase of \$3.7 million, or 11%, as compared to \$33.9 million for the year ended December 31, 2017. This increase was primarily driven by the continued strong home entertainment performance of *The Handmaid's Tale* (seasons 1 and 2).

Television Content – Expenses

Operating Expenses. Operating expenses for television content were \$263.8 million for the year ended December 31, 2018, an increase of \$29.6 million as compared to \$234.2 million for the year ended December 31, 2017. The increase in operating expenses was primarily due to higher revenue in the current year, which drove higher aggregate television content cost and P&R amortization expenses, primarily for scripted content including *Vikings* (all seasons), *The Handmaid's Tale* (seasons 1 and 2), *Condor* (season 1) and *Luis Miguel: La Serie* (season 1), as well as *TKO: Total Knock Out*, our new unscripted show which we record on a gross basis since we developed and control the underlying format.

Distribution and Marketing Expenses. Distribution and marketing expenses for television content were \$12.3 million and \$12.2 million for the years ended December 31, 2018 and 2017, respectively.

Media Networks

	Year Ended December 31,		Change	
	2018	2017	Amount	Percent
Revenue				
EPIX.....	449,434	265,312	184,122	69%
Other Channels.....	39,660	48,356	(8,696)	(18%)
Total revenue.....	489,094	313,668	175,426	56%
Expenses:				
Operating (8).....	349,616	187,319	162,297	87%
Distribution and marketing.....	50,516	35,907	14,609	41%
Total expenses.....	400,132	223,226	176,906	79%
Contribution.....	\$ 88,962	\$ 90,442	\$ (1,480)	(2%)
Intercompany Programming Cost Amortization (8).....	23,593	24,846	(1,253)	(5%)
Net income attributable to noncontrolling interests.....	-	(492)	492	100%
Adjusted EBITDA (pre-G&A).....	\$ 112,555	\$ 114,796	\$ (2,241)	(2%)

(8) Operating expenses for Media Networks for the year ended December 31, 2018 included \$17.4 million of Intercompany Programming Cost Amortization. Operating expenses for Media Networks for the year ended December 31, 2017 included \$23.6 million of Intercompany Programming Cost Amortization. Refer to *Cost Structure – Operating Expenses* for additional information.

Media Networks – Revenue

Total revenue from our Media Networks segment, which includes EPIX and our other wholly-owned and joint venture broadcast and cable networks, was \$489.1 million for the year ended December 31, 2018, an increase of \$175.4 million as compared to \$313.7 million for the year ended December 31, 2017. Higher revenue for the current year primarily reflected the consolidation of EPIX for the entire year versus a partial period consolidation of EPIX in the prior year following our acquisition on May 11, 2017, plus the renewal of our digital distribution agreements with improved terms.

Media Networks – Expenses

Operating Expenses. Operating expenses for our Media Networks were \$349.6 million for the year ended December 31, 2018, an increase of \$162.3 million as compared to \$187.3 million for the year ended December 31, 2017. This increase primarily reflected operating expenses for EPIX for the entire year versus a partial period consolidation of EPIX in the prior year following our acquisition on May 11, 2017, plus higher programming cost amortization expenses for new original content, including *Get Shorty* (seasons 1 and 2), *Berlin Station* (seasons 1 and 2), *The Contender* (season 1) and *Deep State* (season 1), plus first-run theatrical films from Paramount and Lionsgate, including *Transformers: The Last Knight*, *Daddy's Home 2*, *Arrival*, *Power Rangers*, *xXx: The Return of Xander Cage*, and *Baywatch*, among many other films.

Distribution and Marketing Expenses. Distribution and marketing expenses for our Media Networks were \$50.5 million for the year ended December 31, 2018, an increase of \$14.6 million as compared to \$35.9 million for the year ended December 31, 2017. This increase primarily reflected higher marketing costs associated with EPIX's new original content, including season 1 of *Deep State*, season 2 of *Get Shorty*, season 1 of *The Contender* and season 3 of *Berlin Station*, as well as marketing support related to the launch of EPIX on Comcast in June 2018.

General and Administrative Expenses

For the year ended December 31, 2018, total G&A expenses were \$212.2 million, an increase of \$39.7 million as compared to \$172.5 million for the year ended December 31, 2017. The increase in G&A expenses included \$9.5 million of higher non-recurring expenses, which primarily included expenses related to the exit of our former CEO and costs associated with our strategic acquisition of Big Fish. In addition, G&A expenses reflected a \$5.5 million increase in non-cash stock-based compensation expenses primarily related to new hires. Excluding non-recurring and stock-based compensation expenses, G&A expenses increased \$24.7 million, or 17%, in the current year, which primarily reflected the addition of EPIX, Evolution and Big Fish personnel following our acquisitions in May 2017, July 2017 and June 2018, respectively, plus targeted investments in personnel focused on areas of business growth, including, but not limited to, expanding our existing content creation and distribution capabilities. In the prior year, we recorded G&A expenses for EPIX and Evolution only for the partial periods following the respective acquisition dates.

Depreciation and non-content amortization

For the year ended December 31, 2018, depreciation and non-content amortization was \$65.2 million, an increase of \$17.9 million as compared to \$47.3 million for the year ended December 31, 2017. Amortization expense for identifiable non-content intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, totaled \$52.8 million and \$40.8 million for the years ended December 31, 2018 and 2017, respectively. The increase primarily reflected our recognition of new, amortizable non-content intangible assets resulting from our acquisitions of EPIX in May 2017, Evolution in July 2017 and Big Fish in June 2018. Depreciation expense for fixed assets was \$12.4 million and \$6.5 million for the years ended December 31, 2018 and 2017, respectively.

Equity in net earnings (losses) of affiliates

For the year ended December 31, 2018, equity in net losses of affiliates was \$6.2 million and was substantially comprised of our share of the net loss of our U.S. theatrical distribution joint venture, which primarily reflected the net U.S. theatrical performance of *Death Wish* and *Operation Finale* and the operating expenses of the joint venture. This was partially offset by \$5.5 million of dividend income from a cost method investment. For the year ended December 31, 2017, equity in net earnings of affiliates was \$16.7 million. The prior year primarily included \$7.1 million of equity income from EPIX due to the partial period recognition of equity income resulting from our acquisition and consolidation on May 11, 2017, \$8.1 million of dividend income from a cost method investment, and \$7.2 million of income from our monetization of a non-core cost method investment. This was partially offset by the initial recognition of our share of operating expenses for our U.S. theatrical distribution joint venture, which totaled \$5.8 million in the prior year.

Gain on acquisition

In May 2017, we acquired the remaining 80.91% interests of EPIX Entertainment LLC (formerly Studio 3 Partners, LLC). As a result, the accounting for business combinations required us to remeasure the carrying amount of our previously held 19.09% investment in EPIX and adjust it to fair value. Based on the accounting fair value of \$1.2 billion for 100% of the membership interests of EPIX as of May 2017, we recognized a nontaxable accounting remeasurement gain of \$123.6 million. This gain represented the amount by which the fair value of our 19.09% interest in EPIX of \$229.1 million exceeded the carrying amount of our investment of \$105.5 million immediately prior to our acquisition of the remaining 80.91% interests.

Loss on extinguishment of debt

In connection with the restructuring of our revolving credit facility and term loans in July 2018 (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion), we recorded a \$0.4 million loss on extinguishment of debt representing a write-off of unamortized deferred financing costs.

Interest expense

Interest expense is primarily comprised of contractual interest incurred under our \$1.8 billion revolving credit facility, \$400.0 million first lien term loan and \$400.0 million second lien term loan, as well as our prior \$850.0 million senior secured term loan (repaid in July 2018), and the amortization of related deferred financing costs (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion).

For the year ended December 31, 2018, total interest expense was \$66.1 million, an increase of \$35.3 million as compared to \$30.8 million for the year ended December 31, 2017. For the current year, interest expense included \$60.9 million of contractual interest and \$5.2 million of other interest costs. For the prior year, interest expense included \$27.1 million of contractual interest and \$3.7 million of other interest costs. Cash paid for interest was \$60.8 million and \$26.5 million for the years ended December 31, 2018 and 2017, respectively. Our higher interest expense and cash paid for interest in the current year primarily reflected interest associated with our new \$400.0 million first lien term loan and \$400.0 million second lien term loan, plus higher borrowings under our revolving credit facility to fund our investment spending on strategic growth initiatives, the stock repurchases and our strategic acquisition of Big Fish.

Interest income

Interest income primarily includes the amortization of discounts recorded on long-term accounts and contracts receivable, as well as interest earned on short-term investments. For the years ended December 31, 2018 and 2017, the amounts recorded as interest income were immaterial.

Other income, net

For the years ended December 31, 2018 and 2017, the amounts recorded as other income were immaterial.

Income tax provision

For the year ended December 31, 2018, we recorded an income tax benefit of \$65.0 million, which primarily reflected a non-recurring tax benefit associated with the exercise of stock options and additional benefits related to extra-territorial income exclusions for prior years. Excluding non-recurring items and based only on our U.S. federal and state statutory income tax rates, our income tax provision for the current year would have been \$13.0 million, representing an effective tax rate of 24%. For the year ended December 31, 2017, we recorded an income tax benefit of \$197.1 million, which primarily included a provisional benefit of \$190.5 million associated with the remeasurement of our net deferred tax liability using the new U.S. federal corporate tax rate of 21% under new tax legislation passed in December 2017. In addition, our income tax benefit for the prior year included one-time adjustments related to foreign remittance taxes, which were historically treated as deductions in our calculation of taxable income but were converted into foreign tax credits for all recent tax years beginning in 2011. Excluding one-time adjustments, our income tax provision for the prior year would have been \$75.5 million, representing an effective tax rate of 33% (which excludes the nontaxable accounting gain on our acquisition of EPIX, discussed above). Excluding non-recurring items, our lower income tax provision for the current year primarily reflected

lower pre-tax income, as discussed above, plus the impact of the lower U.S. federal income tax rate as a result of the new tax legislation passed in December 2017. In addition, our cash paid for income taxes was significantly less than our income tax provision due to the benefit we realized from deferred tax assets, primarily net operating loss carryforwards, as well as other items, such as foreign tax credits.

Liquidity and Capital Resources

General

Our operations are capital intensive. In recent years we have funded our operations primarily with cash flow from operating activities, bank borrowings, and through co-production arrangements. In 2019 and beyond, we expect to fund our operations with (a) cash flow from the exploitation of our film and television content, (b) cash on hand, (c) co-production arrangements, and (d) funds available under our revolving credit facility.

Bank Borrowings

In July 2018, we entered into a seven-year \$400.0 million first lien term loan (the “1L Term Loan”) and an eight-year \$400.0 million second lien term loan (the “2L Term Loan”). The 1L Term Loan was issued at a discount of 50 basis points, bears interest at 2.50% over LIBOR and matures on July 3, 2025. The 2L Term Loan was issued at a discount of 100 basis points, bears interest at 4.50% over LIBOR and matures on July 3, 2026. Proceeds from the issuance of these terms loans were primarily used to prepay our prior \$850.0 million senior secured term loan. In addition, we amended our senior secured revolving credit facility (the “Revolving Credit Facility”) to, among other things, increase the total commitments, lower the interest rate and modify certain covenants and components of our borrowing base. Our Revolving Credit Facility currently has \$1.8 billion of total commitments, bears interest at 1.75% over LIBOR and matures on July 3, 2023. The availability of funds under the Revolving Credit Facility is limited by a borrowing base calculation. At December 31, 2018, we had \$685.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The \$1.115 billion of remaining funds were entirely available to us.

The Revolving Credit Facility, 1L Term Loan and 2L Term Loan contain various affirmative and negative covenants and financial tests, including, as applicable, limitations on our ability to make certain expenditures, incur indebtedness, grant liens, dispose of property, merge, consolidate or undertake other fundamental changes, pay dividends and make distributions, make certain investments, enter into certain transactions, and pursue new lines of business outside of entertainment and/or media-related business activities. We were in compliance with all applicable covenants and there were no events of default at December 31, 2018.

Cash Provided By Operating Activities

Cash provided by operating activities was \$112.8 million and \$68.5 million for the years ended December 31, 2018 and 2017, respectively. We generated higher operating cash flow primarily due to the consolidation of EPIX for the entire current year, plus higher library cash flow. This was partially offset by \$22.0 million of higher net cash investment in content during the current year, which included investments in our strong slate of television content, such as *Vikings* (season 6), *The Handmaid’s Tale* (season 2) and *Get Shorty* (season 2), as well as new film content, such as *Creed II*, *The Addams Family*, and *The Girl in the Spider’s Web*, plus programming for our premium subscription platform, EPIX. In comparison, cash provided by operating activities for the prior year reflected lower production activity and higher cash flow from recently released film content.

Cash Used In Investing Activities

Cash used in investing activities was \$71.0 million for the year ended December 31, 2018 and primarily included \$46.4 million of net cash paid for our acquisition of Big Fish (\$65.0 million of cash paid net of \$18.6 million of cash acquired), plus capital expenditures mainly related to new information systems and capital contributions to our U.S. theatrical distribution joint venture. For the year ended December 31, 2017, cash used in investing activities was \$907.7 million and primarily included \$854.8 million of net cash paid for our acquisition of EPIX (\$970.9 million of cash paid net of \$116.2 million of cash acquired), plus strategic investments in content production and distribution businesses, including our U.S. theatrical distribution joint venture. This was partially offset by cash received from our monetization of a non-core cost method investment.

Cash Provided By Financing Activities

Cash provided by financing activities was \$51.2 million for the year ended December 31, 2018. This reflected new borrowings, including our \$400.0 million first lien term loan, \$400.0 million second lien term loan, and \$465.0 million of net borrowings under our Revolving Credit Facility. These borrowings were used to finance our investment spending on growth initiatives, \$346.6 million of aggregate stock repurchases including the repurchases from our former CEO, the prepayment of our prior \$850.0 million senior secured term loan and our strategic acquisition of Big Fish. For the year ended December 31, 2017, cash provided by financing activities was \$841.5 and primarily included \$850.0 million of borrowings under our prior senior secured term loan, \$20.0 million of net borrowings under our Revolving Credit Facility and which was partially offset by \$7.5 million of closing costs associated with the amendment to our credit facility in connection with our acquisition of EPIX.

Commitments

Future minimum commitments under corporate debt agreements, creative talent and employment agreements, non-cancelable operating leases net of subleasing income, and other contractual obligations at December 31, 2018, were as follows (in thousands):

	Year Ended December 31,							Total
	2019	2020	2021	2022	2023	Thereafter		
Corporate debt (1)	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 689,000	\$ 779,000	\$ 1,484,000	
Program rights (2).....	156,444	40,752	293	23	-	-	197,512	
Creative talent and employment agreements (3)...	150,604	29,773	14,522	7,797	-	-	202,696	
Operating leases	18,662	19,781	27,150	8,011	2,154	2,887	78,645	
Other contractual obligations (4).....	39,181	10,808	4,091	2,937	-	-	57,017	
	<u>\$ 368,891</u>	<u>\$ 105,114</u>	<u>\$ 50,056</u>	<u>\$ 22,768</u>	<u>\$ 691,154</u>	<u>\$ 781,887</u>	<u>\$ 2,019,870</u>	

⁽¹⁾ Corporate debt does not include interest costs.

⁽²⁾ Program rights include contractual commitments under programming license agreements related to film and television content that is not available for exhibition until a future date.

⁽³⁾ Creative talent and employment agreements include obligations to producers, directors, writers, actors and executives, as well as other creative costs involved in producing film and television content.

⁽⁴⁾ Other contractual obligations primarily include contractual commitments related to our acquisition of film and distribution rights. Future payments under these commitments are based on anticipated delivery or availability dates of the related film or contractual due dates of the commitment.

As discussed above under *Liquidity and Capital Resources –Bank Borrowings*, we have a \$1.8 billion Revolving Credit Facility. At December 31, 2018, we had \$685.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The \$1.115 billion of remaining funds were entirely available to us. Our future capital expenditure commitments are not significant.

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Report of Independent Auditors

The Board of Directors and Stockholders of
MGM Holdings Inc.

We have audited the accompanying consolidated financial statements of MGM Holdings Inc., which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 consolidated financial position of MGM Holdings Inc. at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

March 15, 2019

MGM Holdings Inc.

Consolidated Balance Sheets
(In thousands, except share data)

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 216,386	\$ 123,520
Accounts receivable, net	537,025	378,777
Current income taxes receivable	23,630	–
Other current assets and prepaid program rights	31,560	26,412
Program rights, net	<u>131,930</u>	<u>176,143</u>
Total current assets	<u>940,531</u>	<u>704,852</u>
Noncurrent assets:		
Accounts receivable, net	173,799	179,265
Other assets and prepaid program rights	29,249	15,677
Film and television costs and program rights, net	1,605,287	1,641,479
Investments in affiliates	58,999	63,401
Property and equipment, net	30,921	24,031
Goodwill	902,009	822,862
Other non-content intangible assets, net	<u>511,724</u>	<u>540,991</u>
Total noncurrent assets	<u>3,311,988</u>	<u>3,287,706</u>
Total assets	<u>\$ 4,252,519</u>	<u>\$ 3,992,558</u>
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 185,831	\$ 129,282
Accrued participants' share	64,797	54,149
Current income taxes payable	13,217	19,035
Program obligations	63,379	71,151
Corporate debt	4,000	31,875
Advances and deferred revenue	68,403	100,151
Other current liabilities	<u>10,939</u>	<u>1,631</u>
Total current liabilities	<u>410,566</u>	<u>407,274</u>
Noncurrent liabilities:		
Accrued liabilities	125,077	32,560
Accrued participants' share	216,748	228,301
Deferred income taxes payable	173,985	237,162
Program obligations	1,185	2,185
Corporate debt	1,464,411	1,033,146
Advances and deferred revenue	10,884	12,665
Other liabilities	<u>35,418</u>	<u>27,870</u>
Total noncurrent liabilities	<u>2,027,708</u>	<u>1,573,889</u>
Total liabilities	<u>2,438,274</u>	<u>1,981,163</u>
Commitments and contingencies		
Equity:		
Class A common stock, \$0.01 par value, 110,000,000 shares authorized, 78,879,116 and 76,413,950 shares issued, respectively, and 44,760,170 and 45,556,483 shares outstanding, respectively	789	764
Additional paid-in capital	2,124,185	2,103,888
Retained earnings	1,525,868	1,405,676
Accumulated other comprehensive loss	(11,106)	(459)
Treasury stock, at cost, 34,118,946 and 30,857,467 shares, respectively	<u>(1,827,450)</u>	<u>(1,498,825)</u>
Total MGM Holdings Inc. stockholders' equity	<u>1,812,286</u>	<u>2,011,044</u>
Noncontrolling interests	<u>1,959</u>	<u>351</u>
Total equity	<u>1,814,245</u>	<u>2,011,395</u>
Total liabilities and equity	<u>\$ 4,252,519</u>	<u>\$ 3,992,558</u>

The accompanying notes are an integral part of these consolidated financial statements.

MGM Holdings Inc.

Consolidated Statements of Income
(In thousands)

	Year Ended December 31,	
	2018	2017
Revenue	\$ 1,574,359	\$ 1,304,750
Expenses:		
Operating	1,055,246	775,415
Distribution and marketing	117,518	71,473
General and administrative	212,192	172,450
Depreciation and non-content amortization	65,154	47,296
Total expenses	<u>1,450,110</u>	<u>1,066,634</u>
Operating income	124,249	238,116
Equity in net (losses) earnings of affiliates	(6,181)	16,690
Gain on acquisition	-	123,587
Loss on extinguishment of debt	(433)	-
Interest expense:		
Contractual interest expense	(60,947)	(27,122)
Amortization of deferred financing costs, original issue discount and other interest costs	(5,153)	(3,681)
Interest income	4,137	4,086
Other income, net	21	439
Income before income taxes	55,693	352,115
Income tax benefit	64,958	197,087
Net income	<u>120,651</u>	<u>549,202</u>
Less: Net income attributable to noncontrolling interests	459	448
Net income attributable to MGM Holdings Inc.	<u>\$ 120,192</u>	<u>\$ 548,754</u>

The accompanying notes are an integral part of these consolidated financial statements.

MGM Holdings Inc.

Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,	
	2018	2017
Net income	\$ 120,651	\$ 549,202
Other comprehensive income, net of tax:		
Unrealized gain (loss) on securities	(63)	90
Unrealized gain (loss) on derivative instruments	(10,519)	5,080
Retirement plan adjustments	83	(113)
Foreign currency translation adjustments	(148)	(1,994)
Other comprehensive income (loss)	<u>(10,647)</u>	<u>3,063</u>
Less: Comprehensive income attributable to noncontrolling interests	<u>459</u>	<u>448</u>
Comprehensive income attributable to MGM Holdings Inc.	<u>\$ 109,545</u>	<u>\$ 551,817</u>

The accompanying notes are an integral part of these consolidated financial statements.

MGM Holdings Inc.

Consolidated Statements of Equity
(In thousands, except share data)

	MGM Holdings Inc. Stockholders' Equity								
	Common Stock Class A	Class A	Additional	Retained	Accumulated	Treasury	MGM	Noncontrolling	Total
	Number	Par	Paid-in	Earnings	Other	Stock	Holdings Inc.	Interests	Equity
	of Shares	Value	Capital		Comprehensive		Stockholders'		Equity
					Income (Loss)		Equity		
Balance, January 1, 2017	45,958,816	\$ 764	\$ 2,093,841	\$ 856,922	\$ (3,522)	\$ (1,453,294)	\$ 1,494,711	\$ (769)	\$ 1,493,942
Purchase of treasury stock	(450,500)	–	–	–	–	(45,531)	(45,531)	–	(45,531)
Issuance of common stock	46,000	–	2,100	–	–	–	2,100	–	2,100
Issuance of restricted stock	4,148	–	–	–	–	–	–	–	–
Forfeiture of restricted stock	(1,981)	–	(150)	–	–	–	(150)	–	(150)
Stock-based compensation expense	–	–	9,339	–	–	–	9,339	–	9,339
Acquisition of noncontrolling interests	–	–	(1,242)	–	–	–	(1,242)	672	(570)
Net income	–	–	–	548,754	–	–	548,754	448	549,202
Other comprehensive income	–	–	–	–	3,063	–	3,063	–	3,063
Balance, December 31, 2017	45,556,483	\$ 764	\$ 2,103,888	\$ 1,405,676	\$ (459)	\$ (1,498,825)	\$ 2,011,044	\$ 351	\$ 2,011,395
Purchase of treasury stock	(3,261,479)	–	–	–	–	(328,625)	(328,625)	–	(328,625)
Issuance of common stock	2,454,279	25	5,595	–	–	–	5,620	–	5,620
Issuance of restricted stock	10,887	–	–	–	–	–	–	–	–
Stock-based compensation expense	–	–	14,702	–	–	–	14,702	–	14,702
Contribution from noncontrolling interests	–	–	–	–	–	–	–	1,149	1,149
Net income	–	–	–	120,192	–	–	120,192	459	120,651
Other comprehensive income	–	–	–	–	(10,647)	–	(10,647)	–	(10,647)
Balance, December 31, 2018	44,760,170	\$ 789	\$ 2,124,185	\$ 1,525,868	\$ (11,106)	\$ (1,827,450)	\$ 1,812,286	\$ 1,959	\$ 1,814,245

The accompanying notes are an integral part of these consolidated financial statements.

MGM Holdings Inc.

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,	
	2018	2017
Operating activities		
Net income	\$ 120,651	\$ 549,202
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to film and television costs and program rights, net	(636,058)	(581,017)
Amortization of film and television costs and program rights	753,194	519,771
Depreciation and non-content amortization	65,154	47,296
Amortization of deferred financing costs and original issue discount	5,137	3,668
Stock-based compensation expense	14,702	9,189
Provision for doubtful accounts	3,428	5,393
Change in fair value of financial instruments	-	(457)
Undistributed losses of affiliates	11,713	5,752
Gain on acquisition	-	(123,587)
Loss on extinguishment of debt	433	-
Other non-cash expenses	(151)	60
Changes in operating assets and liabilities:		
Accounts receivable, net	(155,176)	(68,655)
Current income taxes receivable	(23,630)	-
Other assets and prepaid program rights	(15,900)	14,549
Accounts payable, accrued and other liabilities	92,420	(31,831)
Accrued participants' share	(905)	(29,498)
Current and deferred income taxes payable	(64,134)	(237,616)
Program obligations	(22,130)	3,860
Advances and deferred revenue	(35,909)	(17,615)
Net cash provided by operating activities	<u>112,839</u>	<u>68,464</u>
Investing activities		
Acquisition of EPIX (net of \$116.2 million of cash acquired)	-	(854,761)
Acquisition of Evolution (net of \$6.1 million of cash acquired)	-	(17,886)
Acquisition of Big Fish (net of \$18.6 million of cash acquired)	(46,428)	-
Investments in affiliates	(9,562)	(45,833)
Sale of investments	2,251	23,215
Additions to property and equipment	(17,287)	(12,411)
Net cash used in investing activities	<u>(71,026)</u>	<u>(907,676)</u>
Financing activities		
Borrowings from Term Loans	794,000	850,000
Repayments of Term Loans	(851,000)	-
Borrowings from Revolving Credit Facility	1,300,000	414,000
Repayments of Revolving Credit Facility	(835,000)	(394,000)
Issuance of common stock	5,620	2,100
Purchase of treasury stock	(346,566)	(22,531)
Deferred financing costs	(16,967)	(7,543)
Contribution from (acquisition of) noncontrolling interests	1,149	(570)
Net cash provided by financing activities	<u>51,236</u>	<u>841,456</u>
Net change in cash and cash equivalents from operating, investing and financing activities	<u>93,049</u>	<u>2,244</u>
Net change in cash due to foreign currency fluctuations	(183)	923
Net change in cash and cash equivalents	<u>92,866</u>	<u>3,167</u>
Cash and cash equivalents at beginning of year	<u>123,520</u>	<u>120,353</u>
Cash and cash equivalents at end of year	<u>\$ 216,386</u>	<u>\$ 123,520</u>

The accompanying notes are an integral part of these consolidated financial statements.

MGM Holdings Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

Note 1—Organization, Business and Summary of Significant Accounting Policies

Organization. The accompanying consolidated financial statements include the accounts of MGM Holdings Inc. (“MGM”), a Delaware corporation, and its direct, indirect and controlled majority-owned subsidiaries, including Metro-Goldwyn-Mayer Inc. (“MGM Inc.”), (collectively, the “Company”).

Business. The Company is a leading entertainment company. The Company’s operations include the development, production and financing of feature films and television content and the worldwide distribution of entertainment content primarily through television and digital distribution. The Company also distributes film and television content produced or financed, in whole or in part, by third parties. In addition, the Company generates revenue from the licensing of content and intellectual property rights for use in consumer products and interactive games, as well as various other licensing activities.

In May 2017, the Company acquired EPIX Entertainment LLC (formerly Studio 3 Partners, LLC), which owns and operates EPIX, a premium pay television network delivering the latest movie releases, classic film franchises, original series, documentaries, comedy specials and music events on television, through on demand services and via multiple devices (see Note 3). EPIX is available through cable, satellite and telecommunications multichannel television providers and digital distributors as a linear television, video-on-demand, “TV Everywhere” and over-the-top service, and is currently available in the U.S., Puerto Rico and Bermuda. EPIX also licenses content to subscription video-on-demand (“SVOD”) operators. The Company also owns or holds interests in MGM-branded channels in the United States (“U.S.”), as well as interests in pay television networks in the United States and Brazil.

Basis of Presentation and Principles of Consolidation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). Certain amounts presented in prior periods have been reclassified to conform to current period presentation.

In the ordinary course of business, the Company enters into various types of intercompany transactions including, but not limited to, the licensing of the Company’s film and/or television content to the Company’s media networks, including EPIX. Intercompany licensing revenue, programming cost amortization expense and the corresponding assets and liabilities recognized by the counterparties to these transactions are eliminated in consolidation and, therefore, do not affect the Company’s consolidated financial statements. The Company’s investments in affiliates, over which the Company has significant influence but not control, are accounted for using the equity method (see Note 8).

Cash and Cash Equivalents. The Company considers all high-quality money market investments and highly liquid debt instruments, purchased with an initial maturity of three months or less, to be cash equivalents. The carrying value of cash equivalents approximated fair value at the balance sheet dates primarily due to the short maturities of these instruments.

Accounts Receivable. At December 31, 2018 and 2017, accounts receivable (before allowance for doubtful accounts) aggregated \$724.0 million and \$570.8 million, respectively. Concentration of credit and geographic risk with respect to accounts receivable exists, but is limited due to the large number and general dispersion of accounts which constitute the Company’s customer base. The Company performs credit evaluations of its customers and in some instances requires collateral. Although the Company receives a significant amount of revenue through its distribution and servicing agreements, the Company does not view its distributors or co-production partners as customers. At December 31, 2018, there was one customer that individually accounted for 15% of the Company’s total accounts receivable. At December 31, 2017, there was one customer that individually accounted for 10% of total accounts receivable.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts. The Company determines its allowance by monitoring its delinquent accounts and estimating a reserve based on contractual terms and other customer-specific issues. Additionally, the Company records a general reserve against all customer receivables not reviewed on a specific basis. The Company charges off its receivables against the allowance when the receivable is deemed uncollectible. At December 31, 2018 and 2017, allowance for doubtful accounts aggregated \$13.2 million and \$12.8 million, respectively.

Revenue Recognition. The Company recognizes revenue in all markets once all applicable recognition requirements are met. Revenue from theatrical distribution of feature films is recognized on the dates of exhibition. Revenue from direct home entertainment distribution is recognized, net of an allowance for estimated returns, together with related costs, in the period in which the product is shipped and is available for sale to the public.

Revenue from television licensing, together with related costs, is recognized when the feature film or television program is initially available to the licensee for broadcast. Long-term, non-interest-bearing receivables arising from licensing agreements are discounted to present value. Payments received in advance of initial availability are classified as deferred revenue until all revenue recognition requirements have been met. At December 31, 2018 and 2017, deferred revenue primarily consisted of advances related to the Company's television licensing contracts under which the related content will be available in future periods.

Revenue from feature film and television content under the Company's various co-production and distribution arrangements is recorded in accordance with the accounting guidance governing gross versus net reporting and collaborative arrangements. The determination of the applicable accounting treatment involves judgment and is based on the Company's evaluation of the unique terms and conditions of each agreement. Revenue and expenses are recorded on a gross basis if the Company acts as a principal in a transaction, which it typically does for the distribution rights it controls. Revenue and expenses are recorded on a net basis if the Company acts as an agent in a transaction, which it typically does for the distribution rights controlled by its co-production partners and for third-party content distributed by MGM for a fee. Net revenue represents gross revenue less distribution fees and expenses.

Certain of the Company's co-production agreements qualify as collaborative arrangements for accounting purposes. A collaborative arrangement typically exists when two parties share equal ownership in a co-produced film or television program and jointly participate in production and distribution activities. When the Company either has a majority or minority share of distribution rights and ownership in a co-produced film or television program, the related co-production arrangement is generally not considered a collaborative arrangement for accounting purposes. In a collaborative arrangement, to the extent that ultimate net profit sharing between the Company and its co-production partner is expected to result in net profit sharing amounts due from the co-production partner, the Company classifies this amount as revenue (net) and records it over the life of the film or television program. Separately, to the extent that ultimate net profit sharing between the Company and its co-production partner is expected to result in net profit sharing amounts due to the co-production partner, the Company classifies this amount as participation expense included within operating expenses and records it over the life of the feature film or television content. The accounting guidance for collaborative arrangements is only specific to agreements that meet such criteria, whereas the accounting guidance for gross versus net reporting applies to all of the Company's co-production and distribution arrangements including the distribution rights within such agreements that qualify as collaborative arrangements. During the years ended December 31, 2018 and 2017, the Company recorded participation expense of \$1.4 million and \$7.8 million, respectively, for net profit sharing amounts due to its co-production partner under collaborative arrangements.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)

Revenues from the Company's media networks, including EPIX, primarily include amounts earned under affiliation agreements with U.S. Multichannel Video Programming Distributors ("MVPDs") and virtual MVPDs, as well as fees associated with SVOD distribution arrangements. Affiliate revenue from cable television and satellite operators, telecommunication companies and online video distributors is recognized in the period during which the channel services are provided. Fees associated with SVOD distribution are recognized upon the availability of programming to the distributor. To the extent that the Company maintains an on-going performance commitment or a requirement for a minimum number of titles over a contractual term, revenue may be recognized as such obligations are satisfied, or deferred until such obligations are satisfied or the term has concluded.

Sales Returns. In the home entertainment market, the Company calculates an estimate of future returns of product. In determining the estimate of product sales that will be returned, the Company performs an analysis that considers historical returns, changes in consumer demand and current economic trends. Based on this information, the Company records a returns reserve based on a percentage of home entertainment revenue, provided that the right of return exists.

Barter Transactions. Advertising revenue is recognized when the advertising spot is broadcast and is recorded net of agency fees, commissions and any under delivery obligation. The Company accounts for advertising time spots received as full or partial consideration from the licensing of feature film and television content product in the domestic syndication market at the estimated fair value of the advertising received. The Company recognized barter revenue of \$14.3 million and \$8.1 million, respectively, and minimal expenses during the years ended December 31, 2018 and 2017.

Film and Television Costs. Film and television costs include development, production and acquisition costs, as well as capitalized production overhead and financing costs. These costs, as well as participations and talent residuals, are charged against earnings and included in operating expenses in the ratio that the current period's gross revenue bears to management's estimate of total remaining ultimate gross revenue as of the beginning of the current period (the "individual film forecast method"). Ultimate revenues include all revenues expected to be recognized over a period not to exceed ten years from the initial release or broadcast date, or for a period not to exceed 20 years for acquired film and television libraries. Capitalized film and television costs are stated at the lower of unamortized cost or estimated fair value. Revenue and cost forecasts are periodically reviewed by management and revised when warranted by changing conditions.

When estimates of future revenue and costs indicate that a film or television program, or a film or television content library, will result in an ultimate loss, additional amortization is recognized to the extent that capitalized costs exceed estimated fair value. During the years ended December 31, 2018 and 2017, the Company recorded \$38.4 million and \$14.4 million, respectively, of fair value adjustments to certain film and television costs which were included in operating expenses in the consolidated statements of income. The estimated fair values were calculated using Level 3 inputs, as defined in the fair value hierarchy, including long-range projections of revenue, operating and distribution expenses, and a discounted cash flow methodology using discount rates based on a weighted-average cost of capital.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)

Program Rights. The cost of program rights for film and television content exhibited on the Company's media networks, including EPIX, are amortized on a title-by-title or episode-by-episode basis over the estimated future utilization of each title. Amortization of programming costs is generally calculated based on the number of actual exhibitions during each period as a percentage of total anticipated or contractual exhibitions. Program rights may include rights to more than one exploitation window. For film and television content with multiple windows, the license fee is allocated between the windows based upon the proportionate estimated fair value of each window which generally results in the majority of the cost being allocated to the first window. Programming costs for original film and television content produced by the Company are allocated between pay television and other distribution markets, such as digital distribution, home entertainment and international television licensing, based on the estimated relative fair value. Programming costs for original film and television content produced by the Company are included in film and television costs in the consolidated balance sheets and are classified as long term. Amounts included in program rights, other than internally produced programming, that are expected to be amortized within a year from the balance sheet date are classified as current.

Exploitation costs, including advertising and marketing costs, third-party distribution service fees for various distribution activities (where applicable), distribution expenses and other releasing costs are expensed as incurred and are included in distribution and marketing expenses in the consolidated statements of income. Advertising and marketing costs of approximately \$75.0 million and \$54.1 million were recorded during the years ended December 31, 2018 and 2017, respectively. Theatrical print costs are amortized over the periods of theatrical release in the respective territories and are included in operating expenses.

During the years ended December 31, 2018 and 2017, the Company incurred shipping and handling costs of \$5.8 million and \$7.0 million, respectively, which are included in distribution and marketing expenses in the consolidated statements of income.

The Company also maintains home entertainment inventory, which primarily consists of DVD and Blu-ray product that is stated at the lower of cost or market. The Company accounts for its home entertainment inventory using the first-in, first-out method, and the total value of home entertainment inventory, net of reserves, is included in other current assets and prepaid program rights in the consolidated balance sheets.

Property and Equipment. Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method over the expected useful lives of applicable assets, ranging from three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the related leases. When property is sold or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts, and any resulting gain or loss is included in income. The costs of normal maintenance, repairs and minor replacements are charged to expense when incurred.

Goodwill and Other Non-Content Intangible Assets. The Company has goodwill of \$902.0 million and other non-content intangible assets totaling \$511.7 million, net of accumulated amortization. Other non-content intangible assets include \$451.4 million of intangible assets subject to amortization, consisting primarily of certain carriage, licensing and distribution agreements with remaining lives ranging from 1 to 23 years. Additionally, trade name-related assets, valued at \$60.3 million, have indefinite lives.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives, while intangible assets with indefinite lives, including goodwill, are not subject to amortization, but instead are tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not the asset is impaired. Goodwill and non-content intangible assets are evaluated for impairment on an annual basis, using a qualitative and/or quantitative analysis, as appropriate in accordance with Accounting Standards Codification (“ASC”) Topic 350, *Intangibles—Goodwill and Other*. There were no impairment charges to goodwill or other non-content intangible assets recorded during the years ended December 31, 2018 and 2017.

Income Taxes. Deferred tax assets and liabilities are recognized with respect to the tax consequences attributable to differences between the financial statement carrying values and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. Furthermore, the financial effect on deferred tax assets and liabilities of changes in tax rates is recognized in the period of enactment. A valuation allowance is established, when necessary, to reduce deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. In addition, the Company recognizes a tax benefit for uncertain tax positions when the Company’s position is more likely than not to be sustained upon examination by the relevant taxing authority. The Company includes interest and penalties related to income tax matters as part of the income tax provision.

Foreign Currency Translation. Foreign currency denominated transactions are recorded at the exchange rate in effect at the time of occurrence, and the gains or losses resulting from subsequent translation at current exchange rates are included in the accompanying consolidated statements of income. Revenue and expenses of foreign subsidiaries are translated into United States dollars at the appropriate average prevailing exchange rates. Foreign currency denominated assets and liabilities are translated into United States dollars at the exchange rates in effect at the balance sheet date. The gains or losses that result from this process are included as a component of other comprehensive income in the consolidated statements of comprehensive income.

Other Comprehensive Income. Comprehensive income includes net income and other comprehensive income items, including unrealized gains and losses on derivative instruments, changes in the funded status of benefit plan obligations and foreign currency translation adjustments. Components of other comprehensive income, net of related income tax effects, are shown in the consolidated statements of comprehensive income, and accumulated other comprehensive income (loss) is shown in the consolidated statements of equity.

Financial Instruments. The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. Separately, the Company may enter into interest rate swaps or similar arrangements with certain counterparties to reduce its exposure to variable interest rates. The Company records its derivative financial instruments at fair value. Foreign currency exchange forward contracts are measured for effectiveness on a quarterly basis. Changes in the fair value of effective hedges are reflected in other comprehensive income (loss) in the consolidated statements of comprehensive income, while changes in ineffective hedges are reflected in other income (expense), net in the consolidated statements of income. All foreign currency exchange forward contracts designated for hedge accounting were deemed effective at December 31, 2018 and 2017.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation. The Company recognizes compensation expense related to the grant of restricted stock and stock options on a straight-line basis over the requisite service period for each separately vesting portion of each award, taking into consideration grant date estimated fair value and the applicable estimated forfeiture rates. The Company recorded total stock-based compensation expense of \$14.7 million and \$9.2 million during the years ended December 31, 2018 and 2017, respectively. Stock-based compensation expense is included in general and administrative expenses in the consolidated statements of income.

Noncontrolling Interests. Net income attributable to noncontrolling interests during the year ended December 31, 2018 primarily reflects the noncontrolling interest's 50% share of Gato Grande Productions, a joint venture between the Company and MAJ Productions LLC. For the year ended December 31, 2017, net income attributable to noncontrolling interests primarily included the reversal of amounts previously recorded for the noncontrolling interests' 35% share of LightWorkers Media OTT, LLC.

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes thereto.

Management estimates certain revenues and expenses for film and television content in accordance with the individual film forecast method. In addition, the Company is required to make estimates regarding the utilization of its program rights and the allocation of program rights between pay television and other distribution markets. All estimates require management to make judgments that involve uncertainty, and any revisions to these estimates can result in significant quarter-to-quarter and year-to-year fluctuations in amortization expense. Changes to such estimates may also lead to the write down (through increased amortization expense) of film and television costs or program rights to their estimated fair value.

Other estimates include reserves for future product returns from physical home entertainment distribution, allowances for doubtful accounts receivable and other items requiring judgment. Management bases its estimates and assumptions on historical experience, current trends and other factors believed to be relevant at the time the consolidated financial statements are prepared. Actual results may differ materially from those estimates and assumptions.

Subsequent Events. The Company evaluated, for potential recognition and disclosure, all activity and events that occurred through the date that these consolidated financial statements were available to be issued, March 15, 2019. Such review did not result in the identification of any subsequent events that would require recognition in the consolidated financial statements or disclosure in the notes to these consolidated financial statements.

New Accounting Pronouncements

Revenue Recognition. In May 2014, the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes the provisions of ASC Topic 605, *Revenue Recognition*, and most industry specific guidance throughout the Industry Topics of the Codification. The underlying principal of ASU 2014-09 is that companies will recognize revenue to depict the transfer of goods or services to customers at an amount that the company expects to be entitled to in exchange for those goods or services. Companies can choose to apply the provisions of ASU 2014-09 using the full retrospective approach or a modified approach, where financial statements will be prepared for the year of adoption using the new standard but prior periods will not be adjusted. Under the modified approach, companies will record a cumulative effect adjustment in retained earnings at the date of initial application. The Company elected to early adopt ASU 2014-09 as of January 1, 2019.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)

The Company has evaluated the effects of the new standard and concluded it will impact the timing of revenue recognition for multiple areas of the Company's business, the most notable being revenue associated with renewals or extensions of existing content licensing agreements. Upon adoption, revenue for renewals or extensions of existing contracts for titles that are in-window when the extension is executed will be recognized as revenue upon the commencement of the extension or renewal period instead of on the date the renewal or extension was agreed to (current methodology). In addition, certain intellectual property, such as brands, tradenames and logos, is categorized in the new guidance as symbolic. Under the new guidance, revenue from licenses of symbolic intellectual property is recognized over the corresponding license term. The Company has elected the "modified retrospective" approach as its method of adoption and modified applicable processes, systems, and controls accordingly to address the new provisions. The Company recorded a net transition adjustment for all incomplete contracts as of January 1, 2019 of \$33.4 million as a decrease to the balance of retained earnings.

Equity Investments. In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires that all equity investments in unconsolidated entities be measured at fair value through earnings. Equity investments that do not have a readily determinable fair value may be measured at cost, less impairment, plus or minus subsequent adjustments for observable price changes. ASU 2016-01 will be effective for the Company for the annual period ended December 31, 2019 and for interim and annual periods thereafter, with early adoption permitted. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

Lease Accounting. In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize a right-of-use asset and a lease liability for all leases with a lease term greater than 12 months. At lease inception, companies will be required to measure and record a lease liability equal to the present value of future lease payments. A corresponding right-of-use asset will be recorded based on the liability, subject to certain adjustments. ASU 2016-02 will be effective for the Company for the annual period ended December 31, 2020 and for interim and annual periods thereafter, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this new guidance will have on its consolidated financial statements; however, the Company currently believes the most significant change will be related to the increases in assets and liabilities for the recognition of right-of-use assets and lease liabilities on the Company's balance sheet for its operating leases.

Statement of Cash Flows. In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which is intended to reduce the diversity in practice for how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 provides guidance for certain cash flow classification issues where U.S. GAAP is either unclear or does not include specific guidance. The guidance requires changes to be applied on a retrospective basis to each period presented. ASU 2016-15 will be effective for the Company for the annual period ended December 31, 2019 and for interim and annual periods thereafter, with early adoption permitted, provided that all amendments are adopted in the same period. The Company elected to early adopt ASU 2016-15 as of January 1, 2018, which did not result in a change in the classification of cash receipts and cash payments in the statement of cash flows for the year ended December 31, 2018.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 1—Organization, Business and Summary of Significant Accounting Policies (Continued)

Derivatives and Hedging. In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which amends the current hedge accounting guidance to make more financial and nonfinancial hedging strategies eligible for hedge accounting. The new guidance also amends certain presentation and disclosure requirements and changes how companies assess effectiveness by allowing a qualitative assessment, instead of quantitative analysis, for certain hedges. For such qualifying cash flow hedges, the entire change in fair value of the hedging instrument included in the assessment of hedge effectiveness will be recorded in other comprehensive income (“OCI”), and amounts deferred in OCI will be reclassified to earnings in the same income statement line item that is used to present the earnings effect of the hedged item when the hedged item affects earnings. An initial quantitative test to establish that the hedge relationship is highly effective at inception is still required. ASU 2017-12 will be effective for the Company for the annual period ended December 31, 2020 and for interim and annual periods thereafter, with early adoption permitted. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

Tax Effects. In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which amends the current reporting comprehensive income guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The new guidance also requires companies to disclose their policy for releasing the income tax effects from accumulated OCI, as well as whether or not they elected to reclassify the income tax effects of the Act from accumulated OCI to retained earnings. ASU 2018-02 will be effective for the Company on January 1, 2019 and for interim and annual periods thereafter, with early adoption permitted. The Company elected to early adopt ASU 2018-02 during the year ended December 31, 2018. The Company elected not to reclassify the stranded tax effects of the Act into retained earnings and instead will account for such items using the portfolio approach. Thus, the adoption of this standard did not have any impact on the Company’s consolidated financial statements for the year ended December 31, 2018.

Defined Benefit Plans. In August 2018, the FASB issued ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*, which amends the current reporting guidance to remove various disclosure requirements no longer considered to be cost beneficial, such as the requirement to disclose amounts in accumulated other comprehensive income expected to be recognized into net periodic benefit cost. The new guidance also adds new disclosure requirements including an explanation of the reasons for significant gains and losses related to changes in the benefit obligation. ASU 2018-14 will be effective for the Company on January 1, 2021 and for interim and annual periods thereafter, with early adoption permitted. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

Production Cost Capitalization. In March 2019, the FASB issued ASU 2019-02, *Improvements to Accounting for Costs of Films and License Agreements for Program Materials*, which amends the current guidance to allow for costs to produce episodic television series to be capitalized as incurred, as is the case for production costs for films. The new guidance also introduces various new requirements, including that an entity test a film or license agreement for impairment at the film group level when the film or license agreement is predominantly monetized with other films/license agreements. Furthermore, any changes to estimates resulting from such a test must be amortized prospectively. ASU 2019-02 will be effective for the Company on January 1, 2021, and for interim and annual periods thereafter, with early adoption permitted. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 2—Acquisition of Big Fish

In June 2018, the Company acquired 100% of the issued and outstanding membership interests of Big Fish Entertainment LLC (“Big Fish”). Big Fish is a pioneering producer of “live reality” unscripted content like A&E’s hit show, *Live PD*, plus additional unscripted content like *Black Ink Crew* for VH1 and *Hustle & Soul* for WeTV, among other shows. As part of the acquisition, the Company paid \$65.0 million in cash (or \$46.4 million net after \$18.6 million of cash acquired) and provided an earnout that is payable to the sellers at future measurement dates based on predefined EBITDA targets over a five year period. The total earnout payment may range between zero and \$145.0 million. The Company recorded a contingent liability equal to the estimated fair value of the earnout as of the acquisition date, which totaled \$78.6 million, and remeasures the carrying value of the contingent liability at each reporting date. Any changes in the fair value of the contingent liability are classified within operating income in the consolidated statements of income. Increases in the fair value of the contingent liability totaled \$11.2 million for the period from the acquisition date through December 31, 2018.

The Company is not required to present pro forma financial statements for the year ended December 31, 2018. For financial reporting purposes, beginning June 1, 2018, the Company has consolidated 100% of the revenue, expenses, and net assets of Big Fish.

Estimates of the fair value of the net assets of Big Fish were determined using a combination of methodologies, as appropriate, depending on the type of asset acquired. Cash and cash equivalents, equipment and other assets were valued at book value since their respective carrying value approximated fair value. Content-specific assets, including produced programming, were valued primarily using Level 3 inputs, as defined in the fair value hierarchy, including long-range cash flow projections and a discounted cash flow methodology using a discount rate based on a weighted-average cost of capital. In addition, the Company recognized \$23.4 million of other identifiable intangible assets, which will be amortized over their respective estimated useful lives of 1.5 to 5 years, and \$79.1 million of goodwill, none of which is expected to be deductible for income tax purposes. Goodwill primarily reflects future cash flows associated with the estimated long-term growth of Big Fish and the forecasted production of new unscripted television shows.

Transaction costs associated with the acquisition were immaterial and were expensed as incurred. The accounting purchase price was allocated as follows (in thousands):

	<u>Amount</u>
Cash and cash equivalents	\$ 18,572
Accounts receivable	1,034
Property and equipment, net	1,972
Prepaid expenses and other assets	214
Film and television costs	39,220
Goodwill	79,147
Other non-content intangible assets	23,400
Deferred tax asset	206
Total assets	<u>163,765</u>
Accounts payable and accrued expenses	4,227
Loan payable	200
Production obligations	13,358
Deferred revenue	2,380
Total liabilities	<u>20,165</u>
Equity value	<u>\$ 143,600</u>

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 3—Acquisition of EPIX

On May 11, 2017, the Company acquired EPIX Entertainment LLC, which was previously a joint venture with Viacom Inc. (“Viacom”), Paramount Pictures Corporation (“Paramount”) and Lions Gate Entertainment Corp (“Lionsgate”). Prior to May 2017, the Company had a 19.09% equity investment in EPIX Entertainment LLC. EPIX Entertainment LLC operates EPIX, a premium pay television channel that licenses first-run films, select library features and television content from these studios as well as other content providers, and began airing original scripted series in the fourth quarter of 2016. Based on a fair value of \$1.2 billion for 100% of the membership interests of EPIX as of the acquisition date, the Company paid \$970.9 million in cash (or \$854.8 million net after \$116.2 million of cash acquired) to acquire the 80.91% membership interests held by Viacom, Paramount and Lionsgate. The Company funded the transaction with proceeds from a new \$850.0 million Term Loan (see Note 10) and borrowings under its Revolving Credit Facility.

Beginning May 11, 2017, the Company has consolidated 100% of the revenue, expenses and net assets of EPIX. In accordance with ASC Topic 805, the acquisition was accounted for as a “business combination achieved in stages.” Accordingly, the Company was required to remeasure the carrying amount of its investment in EPIX and adjust it to fair value, and as a result, the Company recognized a nontaxable accounting remeasurement gain of \$123.6 million. This gain represented the amount by which the fair value of the Company’s 19.09% interest in EPIX of \$229.1 million exceeded the carrying amount of the Company’s investment of \$105.5 million immediately prior to the acquisition date. The Company recorded this gain in other income in the consolidated statement of income for the year ended December 31, 2017.

Estimates of the fair values of the net assets of EPIX were determined using a combination of methodologies, as appropriate, depending on the type of asset acquired or liability assumed. Cash and cash equivalents, other assets and accounts payable and accrued liabilities were valued at book value since their respective carrying value approximated fair value. Content-specific net assets were valued primarily using Level 3 inputs, as defined in the fair value hierarchy, using a market-based approach to estimate the fair value of similar content. As a result, the Company recognized \$333.7 million of other identifiable intangible assets, of which \$315.4 million will be amortized over an estimated useful life of 19 years, \$18.3 million of trade name related intangible assets determined to have indefinite lives, and \$367.6 million of goodwill, \$257.7 million of which is expected to be deductible for income tax purposes. Goodwill primarily reflects estimated future cash flows from the long-term growth of EPIX, including expanded distribution across cable, satellite and digital platforms, direct-to-consumer opportunities, and growth in original content.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 3—Acquisition of EPIX (Continued)

Transaction costs associated with the acquisition were immaterial and were expensed as incurred. The accounting purchase price was allocated as follows (in thousands):

	<u>Amount</u>
Cash and cash equivalents	\$ 116,159
Accounts receivable	47,428
Program rights, net	446,344
Prepaid program rights	12,664
Prepaid expenses and other assets	1,819
Property and equipment, net	1,261
Goodwill and other non-content intangible assets	718,859
Total assets	<u>1,344,534</u>
Accounts payable and accrued expenses	51,029
Program rights	69,477
Deferred income taxes payable	4,014
Deferred revenue	20,014
Total liabilities	<u>144,534</u>
Equity value	<u>\$ 1,200,000</u>

Note 4—Acquisition of Evolution

On July 14, 2017, the Company acquired substantially all of the assets of Evolution Film & Tape, Inc. (“Evolution”). Evolution has produced over 50 unscripted series, including *The Real Housewives of Orange County*, *The Real Housewives of Beverly Hills*, *Vanderpump Rules*, and *Botched*. As part of the acquisition, the Company paid \$24.0 million in cash (or \$17.9 million net after \$6.1 million of cash acquired) and provided an earnout that is payable to the sellers at future measurement dates based on predefined performance targets. The total earnout payment may range between zero and \$11.0 million. The Company recorded a contingent liability equal to the fair value of the earnout as of the acquisition date and will remeasure the carrying value of the contingent liability each reporting date. Any changes in the fair value of the contingent liability are classified within operating income in the consolidated statements of income. Changes in the fair value of the contingent liability during the period from the acquisition date to December 31, 2018 were immaterial.

For financial reporting purposes, beginning July 14, 2017, the Company has consolidated 100% of the revenue, expenses, and assets of Evolution.

Estimates of the fair value of the net assets of Evolution were determined using a combination of methodologies, as appropriate, depending on the type of asset acquired. Cash and cash equivalents and other assets were valued at book value since their respective carrying value approximated fair value. Content-specific assets, including produced programming, were valued primarily using Level 3 inputs, as defined in the fair value hierarchy, including long-range cash flow projections and a discounted cash flow methodology using a discount rate based on a weighted-average cost of capital. In addition, the Company recognized \$7.9 million of other identifiable intangible assets, all of which will be amortized over an estimated useful life of 3 years, and \$13.7 million of goodwill, \$0.2 million of which is expected to be deductible for income tax purposes. Goodwill primarily reflects estimated future cash flows from the long-term growth of Evolution and the production of new unscripted television series.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 4—Acquisition of Evolution (Continued)

Transaction costs associated with the acquisition were immaterial and were expensed as incurred. The accounting purchase price was allocated as follows (in thousands):

	Amount
Cash and cash equivalents	\$ 6,114
Property and equipment, net	4,721
Prepaid expenses and other assets	77
Film and television costs	4,924
Goodwill	13,672
Deferred tax asset	2,201
Other non-content intangible assets	7,935
Total assets	39,644
Production obligations	3,778
Deferred revenue	2,336
Total liabilities	6,114
Equity value	\$ 33,530

Note 5—Goodwill and Other Non-Content Intangible Assets

Goodwill and Other Non-Content Intangible Assets. Goodwill and other non-content intangible assets and the related accumulated amortization and weighted-average remaining amortization period as of December 31, 2018 were as follows (in thousands):

Goodwill and Other Non-Content Intangible Assets	Gross Fair Value	Accumulated Amortization	Balance at December 31, 2018	Weighted- Average Remaining Amortization Period
Carriage and distribution agreements	\$ 315,400	\$ (27,978)	\$ 287,422	16.9 years
Production and distribution agreements	251,963	(97,989)	153,974	13.9 years
Ancillary business assets	46,000	(43,571)	2,429	3.0 years
Trademarks and other assets	10,710	(3,111)	7,599	6.8 years
Intangible assets subject to amortization	624,073	(172,649)	451,424	15.2 years
Trade name-related assets	60,300	–	60,300	Indefinite
Goodwill	902,009	–	902,009	Indefinite
Total goodwill and other non-content intangible assets	\$ 1,586,382	\$ (172,649)	\$ 1,413,733	N/A

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 5—Goodwill and Other Non-Content Intangible Assets (Continued)

Other non-content intangible assets and the related accumulated amortization and weighted-average remaining amortization period as of December 31, 2017 were as follows (in thousands):

Goodwill and Other Non-Content Intangible Assets	Gross Fair Value	Accumulated Amortization	Balance at December 31, 2017	Weighted- Average Remaining Amortization Period
Carriage and distribution agreements	\$ 315,400	\$ (10,848)	\$ 304,552	18.0 years
Production and distribution agreements	229,164	(68,830)	160,334	16.0 years
Ancillary business assets	46,000	(38,277)	7,723	1.6 years
Trademarks and other assets	10,110	(2,028)	8,082	8.0 years
Intangible assets subject to amortization	600,674	(119,983)	480,691	15.7 years
Trade name-related assets	60,300	—	60,300	Indefinite
Goodwill	822,862	—	822,862	Indefinite
Total goodwill and other non-content intangible assets	<u>\$ 1,483,836</u>	<u>\$ (119,983)</u>	<u>\$ 1,363,853</u>	N/A

The Company recorded amortization of identifiable other non-content intangible assets of \$52.8 million and \$40.8 million during the years ended December 31, 2018 and 2017, respectively. Amortization of other non-content intangible assets is included in depreciation and non-content amortization in the consolidated statements of income. The Company expects to record amortization of \$51.3 million during the year ended December 31, 2019, \$36.8 million during the year ended December 31, 2020, \$30.5 million during the year ended December 31, 2021, \$22.9 million during the year ended December 31, 2022, and \$22.7 million during the year ended December 31, 2023.

Impairment of Goodwill and Other Non-Content Intangible Assets. During each of the years ended December 31, 2018 and 2017, the Company performed a qualitative assessment of its goodwill and other non-content intangible assets and concluded that it was more likely than not that the fair value of such assets is greater than their respective carrying values at December 31, 2018 and 2017, respectively. As such, no fair value adjustments were recorded during the years ended December 31, 2018 and 2017.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 6—Film and Television Costs and Program Rights

Film and television costs and Program Rights, net of amortization, are summarized as follows (in thousands):

	December 31,	
	2018	2017
Theatrical productions:		
Released	\$ 750,545	\$ 782,878
Completed not released	15,905	1,502
In production	118,972	201,305
In development	36,637	19,271
Total theatrical productions	<u>922,059</u>	<u>1,004,956</u>
Television programs:		
Released	289,667	198,018
In production	122,672	155,456
In development	9,298	3,271
Total television programs	<u>421,637</u>	<u>356,745</u>
Media networks:		
Licensed program rights	393,521	455,913
In development	—	8
Total media networks	<u>393,521</u>	<u>455,921</u>
Film and television costs and program rights, net	<u>\$ 1,737,217</u>	<u>\$ 1,817,622</u>
Less: Current portion of licensed program rights	<u>(131,930)</u>	<u>(176,143)</u>
Noncurrent portion	<u>\$ 1,605,287</u>	<u>\$ 1,641,479</u>

Based on the Company's estimates of projected gross revenue as of December 31, 2018, approximately 33% of completed film and television costs, excluding program rights for the company's media networks business, are expected to be amortized over the next 12 months, and approximately \$64.8 million of accrued participants' share is estimated to be paid in the next 12 months.

As of December 31, 2018, the Company estimated that approximately 84% of unamortized film and television costs for released titles, excluding costs accounted for as acquired film and television libraries and excluding program rights, are expected to be amortized over the next three fiscal years.

As of each of the years ended December 31, 2018 and 2017, unamortized film and television costs accounted for as acquired film and television libraries were \$0.7 billion. The Company's film and television costs accounted for as acquired film and television libraries are being amortized under the individual film forecast method in order to properly match the expected future revenue streams and have an average remaining life of approximately seven years as of December 31, 2018.

Interest costs capitalized to theatrical productions were immaterial for the year ended December 31, 2018. During the year ended December 31, 2017, the company capitalized \$1.1 million of interest costs. The Company did not capitalize any overhead to theatrical or television productions during the years ended December 31, 2018 and 2017.

For the media networks business, licensed program rights include the costs to acquire or license film and television content to exhibit on EPIX.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 7—Fair Value Measurements

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on: (i) observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), (ii) inputs other than quoted prices for similar assets or liabilities in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at December 31, 2018 (in thousands):

Description	Balance	Fair Value Measurements at December 31, 2018 using		
		Level 1	Level 2	Level 3
Assets:				
Investments	\$ 946	\$ 946	\$ –	\$ –
Financial instruments	3,237	–	3,237	–
Liabilities:				
Deferred compensation plan	(946)	(946)	–	–
Financial instruments	(8,671)	–	(8,671)	–
Total	\$ (5,434)	\$ –	\$ (5,434)	\$ –

The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at December 31, 2017 (in thousands):

Description	Balance	Fair Value Measurements at December 31, 2017 using		
		Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 138	\$ 138	\$ –	\$ –
Investments	2,305	2,305	–	–
Financial instruments	7,223	–	7,223	–
Liabilities:				
Deferred compensation plan	(2,305)	(2,305)	–	–
Total	\$ 7,361	\$ 138	\$ 7,223	\$ –

Cash equivalents consist primarily of money market funds with original maturity dates of three months or less, for which fair value was determined based on quoted prices of identical assets that are trading in active markets.

Investments are included in other noncurrent assets in the consolidated balance sheets and are comprised of money market funds, mutual funds and other marketable securities that are held in deferred compensation plans. The related deferred compensation plan liabilities are included in accounts payable and accrued liabilities in the consolidated balance sheets. The fair value of these assets and the deferred compensation plan liabilities were determined based on quoted prices of identical assets that are trading in active markets.

Financial instruments at December 31, 2018 and 2017 primarily reflect the fair value of outstanding interest rate swaps or similar arrangements with certain counterparties entered into by the Company to reduce its exposure to variable interest rates. The fair value of such interest rate swaps were included in other current assets in the consolidated balance sheet at December 31, 2018 and 2017 and was determined using a market-based approach.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 7—Fair Value Measurements (Continued)

The Company also had certain outstanding foreign currency exchange forward contracts, which were included in other current assets and other current liabilities at December 31, 2018 and 2017, respectively, in the consolidated balance sheets. The fair value of these instruments was determined using a market-based approach.

Note 8—Investments in Affiliates

Investments in unconsolidated affiliates are summarized as follows (in thousands):

	December 31,	
	2018	2017
Equity method investments:		
Mirror Releasing, LLC (“Mirror”)	\$ 28,375	\$ 34,527
Studio 3 Partners, LLC (“EPIX”)	—	—
Cost method investments	<u>30,624</u>	<u>28,874</u>
	<u>\$ 58,999</u>	<u>\$ 63,401</u>

Mirror Releasing, LLC (Mirror). In October 2017, MGM formed a joint venture with Annapurna Pictures to control and finance the U.S. theatrical marketing and distribution of certain MGM, Annapurna and third party films. Qualifying films for MGM and Annapurna will be distributed by the joint venture under the respective company banners, while third party films will be distributed under the banner “Mirror Releasing.” The Company owns less than 50% of this joint venture and its obligation to absorb potential losses of the joint venture is limited. Therefore, the Company accounts for its share of certain profits and losses of the joint venture under the equity method of accounting.

During the year ended December 31, 2018, equity in net earnings (losses) of affiliates in the consolidated statement of income included \$16.0 million of losses from the Company’s interest in the joint venture, minus \$2.0 million of intercompany eliminations. During the year ended December 31, 2017, equity in net earnings (losses) of affiliates included \$ 5.8 million of losses from the Company’s interest in the joint venture. No intercompany eliminations were recorded for the year ended December 31, 2017. Capital contributions to Mirror totaled \$7.8 million and \$40.3 million during the years ended December 31, 2018 and 2017.

EPIX Entertainment LLC (EPIX). In May 2017, the Company acquired EPIX Entertainment LLC (formerly Studio 3 Partners, LLC), which was previously a joint venture with Viacom, Paramount and Lionsgate (see Note 3). Prior to May 2017, the Company had a 19.09% interest in EPIX Entertainment LLC. The Company made no capital contributions to EPIX during the years ended December 31, 2018 and 2017.

Prior to May 2017, the Company did not consolidate EPIX, but rather accounted for its investment in EPIX under the equity method of accounting due to the significance of its voting rights. During the period from January 1 to May 10, 2017, equity in affiliates in the consolidated statement of income included \$7.7 million of earnings from the Company’s 19.09% interest in EPIX, minus \$0.6 million of eliminations related to the Company’s share of profits on sales to EPIX. During the period from January 1 to May 10, 2017, the Company received \$14.3 million in dividends from its investment in EPIX.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 8—Investments in Affiliates (Continued)

Telecine Programacao de Filmes Ltda. MGM has an equity investment in Telecine Programacao de Filmes Ltda. (“Telecine”), a joint venture with Globo Comunicacao e Participacoes S.A., Paramount, Twentieth Century Fox and NBC Universal, Inc. that operates a pay television network in Brazil. The Company does not consolidate Telecine, but rather accounts for its investment in Telecine under the cost method of accounting. As such, the Company’s share of the net income of Telecine is not included in the Company’s consolidated statements of income. However, the Company recognizes income from its investment in Telecine when it receives dividends.

Cost Method Investments. During the years ended December 31, 2018 and 2017, the Company received \$5.5 million and \$8.1 million, respectively, of dividend income from cost method investments. Such amounts were included in equity in net earnings of affiliates in the consolidated statements of income.

Note 9—Property and Equipment

Property and equipment are summarized as follows (in thousands):

	December 31, 2018	December 31, 2017
Furniture, fixtures and equipment	\$ 57,672	\$ 40,821
Leasehold improvements	18,517	16,196
	76,189	57,017
Less accumulated depreciation and non-content amortization	(45,268)	(32,986)
	\$ 30,921	\$ 24,031

Note 10—Corporate Debt

Corporate debt is summarized as follows (in thousands):

	December 31, 2018	December 31, 2017
Revolving credit facility	\$ 685,000	\$ 220,000
1L Term Loan, net of discount	397,166	—
2L Term Loan, net of discount	396,247	—
Prior Term Loan	—	850,000
Deferred financing costs	(10,002)	(4,979)
	\$ 1,468,411	\$ 1,065,021
Less: Current portion	(4,000)	(31,875)
Noncurrent portion	\$ 1,464,411	\$ 1,033,146

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 10—Corporate Debt (Continued)

Amended Credit Facility. In July 2018, the Company entered into a seven-year \$400.0 million first lien term loan (the “1L Term Loan”) and an eight-year \$400.0 million second lien term loan (the “2L Term Loan”). The 1L Term Loan was issued at a discount of 50 basis points, bears interest at 2.50% over London Interbank Offered Rate (“LIBOR”) and matures on July 3, 2025. The 2L Term Loan was issued at a discount of 100 basis points, bears interest at 4.50% over LIBOR and matures on July 3, 2026. The face value of both the 1L and 2L Term Loans approximated fair value at December 31, 2018. In addition, the Company amended its prior senior secured revolving credit facility (the “Prior Revolving Credit Facility”) to, among other things, increase the total commitments, lower the interest rate and modify certain covenants and components of our borrowing base (“Amended Revolving Credit Facility”). The Company’s Amended Revolving Credit Facility currently has \$1.8 billion of total commitments, bears interest at 1.75% over LIBOR and matures on July 3, 2023 (all-in rate was 4.27% at December 31, 2018). Proceeds from the issuance of these terms loans and the Amended Revolving Credit Facility were primarily used to prepay the Company’s prior \$850.0 million senior secured term loan (“Prior Term Loan”) and for the share repurchases described in Note 12. To reduce its exposure on variable interest rates, the Company had \$785.0 million in interest rate swap contracts outstanding at December 31, 2018 that bore interest at a fixed blended rate of 2.22%. Interest expense for such contracts totaled \$0.8 million for the year ended December 31, 2018 (see Note 11).

Prepayment of the Prior Term Loan was accounted for as a partial extinguishment of debt and resulted in the write-off of \$0.4 million of deferred financing fees, which was included in interest expense in the consolidated statement of income for the year ended December 31, 2018. The Company incurred \$4.7 million and \$5.5 million in fees and other costs related to the 1L and 2L Term Loans, respectively, which were deferred and presented as a direct deduction from the related debt liabilities in the consolidated balance sheets. Aggregate deferred financing fees totaled \$5.2 million for the 1L Term Loan. Deferred financing fees and accretion of the debt discounts are being amortized over the terms of the 1L and 2L Term Loans, respectively, using the effective-interest method. During the year ended December 31, 2018, the Company recorded interest expense for the amortization of the 1L Term Loan and 2L Term Loan deferred financing costs of \$0.4 million and \$0.3 million, respectively. Interest expense recorded for the accretion of the respective discounts for the 1L Term Loan and 2L Term Loan totaled \$0.2 million and \$0.3 million, respectively during the year ended December 31, 2018.

Separately, the Company incurred \$6.7 million in fees and other costs related to the Amended Revolving Credit Facility, which were deferred and included in other assets in the consolidated balance sheet. Aggregate deferred financing costs of \$20.4 million are being amortized over the term of the Amended Revolving Credit Facility using the straight-line method. During the years ended December 31, 2018 and 2017, the Company recorded interest expense for the amortization of deferred financing costs of \$3.4 million and \$2.7 million, respectively.

The availability of funds under the Amended Revolving Credit Facility is limited by a borrowing base calculation and reduced by outstanding letters of credit, if any. As of December 31, 2018, there was \$685.0 million drawn against the Amended Revolving Credit Facility and there were no outstanding letters of credit. Currently, the \$1.12 billion of remaining funds under our Amended Revolving Credit Facility are entirely available to the Company. Lenders under the Amended Revolving Credit Facility have a senior security interest in substantially all the assets of MGM, with certain exceptions. At December 31, 2018, the Company was in compliance with all applicable covenants, and there were no events of default.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 10—Corporate Debt (Continued)

The Company incurs an annual commitment fee equal to 0.375% per annum. Payments are made quarterly based on the average daily amount undrawn during the period. During the year ended December 31, 2018, the Company incurred commitment fees of \$4.0 million. Separately, during the year ended December 31, 2018, the Company recorded \$18.2 million of interest expense for borrowings under the Prior and Amended Revolving Credit Facility. In addition, during year ended December 31, 2018, the Company recorded \$9.5 million and \$ 13.5 million of interest expense for the 1L Term Loan and 2L Term Loan, respectively. No interest expense was recorded for either the 1L Term Loan or the 2L Term Loan during the year ended December 31, 2017. Commitment fees and interest expense are included in contractual interest expense in consolidated statements of income.

Prior Credit Facility. In May 2017, and in connection with the Company's acquisition of EPIX (see Note 3), the Company amended its prior \$1.0 billion senior secured revolving credit facility to, among other things, add a senior secured term loan (the "Prior Term Loan"). In July 2018, the Prior Revolving Credit Facility was amended and the Prior Term Loan was prepaid, as discussed above. The Company's Prior Revolving Credit Facility had \$1.0 billion of total revolving commitments and the Prior Term Loan had \$850.0 million of commitments. Both the prior senior secured revolving credit facility and Prior Term Loan had a contractual interest rate of LIBOR plus 2.00% and a maturity date of May 11, 2022. Approximately 50% of the Prior Term Loan bore interest at LIBOR plus 2.00%, while the remaining 50% bore interest at a fixed blended rate of 3.68% due to interest rate swap contracts outstanding prior to the prepayment in July 2018 (see Note 11).

Under the Prior Revolving Credit Facility, the Company incurred an annual commitment fee of either 0.375% or 0.50% per annum, depending on the percentage of total commitments undrawn each day on the Prior Revolving Credit Facility. Payments were made quarterly based on the average daily amount undrawn during the period. During the year ended December 31, 2017, the Company incurred commitment fees of \$4.4 million. Separately, during the year ended December 31, 2017, the Company recorded \$4.2 million of interest expense for borrowings under the Prior Revolving Credit Facility. In addition, during the year ended December 31, 2017, the Company recorded \$18.3 million of interest expense for the Prior Term Loan. During the year ended December 31, 2017, the Company recorded interest expense for the amortization of the Prior Term Loan deferred financing costs of \$0.8 million. Commitment fees and interest expense were included in contractual interest expense in the consolidated statements of income.

Note 11—Financial Instruments

The Company transacts business globally and is subject to market risks resulting from fluctuations in foreign currency exchange rates. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. Such contracts generally have maturities between one and 16 months. As of December 31, 2018, the Company had several outstanding foreign currency exchange forward contracts primarily relating to anticipated production and distribution-related cash flows that qualified for hedge accounting. Such contracts were carried at fair value and included in other liabilities in the consolidated balance sheet. Separately, the Company may enter into interest rate swaps or similar arrangements with certain counterparties to reduce its exposure to variable interest rates. Such contracts generally have maturities between one and five years. As of December 31, 2018, the Company had several interest rate swap contracts outstanding, which were carried at fair value and included in other assets in the consolidated balance sheet. All foreign currency exchange forward contracts and interest rate swap contracts designated for hedge accounting were deemed effective at December 31, 2018. As such, changes in the fair value of such contracts were included in accumulated other comprehensive loss in the consolidated balance sheet.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 11—Financial Instruments (Continued)

During the year ended December 31, 2018, the Company recorded \$9.7 million of net unrealized losses (net of tax) relating to the change in fair value of such contracts in accumulated other comprehensive loss. At December 31, 2018, \$1.3 million of net unrealized losses included in accumulated other comprehensive loss are expected to be recognized into earnings within the next 12 months. The Company made \$0.3 million of net reclassifications out of accumulated other comprehensive loss and into earnings during the year ended December 31, 2018. Such amounts were included in operating expenses or distribution and marketing expenses, depending on the nature of the hedge, with the related tax effect recorded in the income tax provision in the consolidated statement of income.

As of December 31, 2017, the Company had four outstanding foreign currency exchange forward contracts which were carried at fair value and included in other assets in the consolidated balance sheet. Separately, the Company had several interest rate swap contracts outstanding, which were carried at fair value and included in other assets in the consolidated balance sheet. All foreign currency exchange forward contracts and interest rate swap contracts designated for hedge accounting were deemed effective at December 31, 2017 and, as such, changes in the fair value of such contracts were included in accumulated other comprehensive loss in the consolidated balance sheet. During the year ended December 31, 2017, the Company recorded \$4.1 million of net unrealized gains (net of tax) relating to the change in fair value of such contracts in accumulated other comprehensive loss.

Note 12—MGM Holdings Inc. Stockholders' Equity

Common Stock. The Company is authorized to issue 110,000,000 shares of Class A common stock, \$0.01 par value, and 110,000,000 shares of Class B common stock, \$0.01 par value. As of December 31, 2018, 44,760,170 aggregate shares of common stock were issued, all of which were shares of Class A common stock.

Preferred Stock. The Company is authorized to issue up to 10,000,000 shares of Preferred Stock, \$0.01 par value. As of December 31, 2018, no shares of Preferred Stock were issued or outstanding.

Treasury Stock. During the year ended December 31, 2018, the Company completed repurchases of 3,425,934 shares of its Class A common stock at a weighted-average price of \$101.16 per share for a total of \$346.6 million, which included 225,500 shares that the Company committed to repurchasing at December 31, 2017. Excluding amounts committed at December 31, 2017, the Company repurchased 3,200,434 additional shares of its Class A common stock at a weighted-average price of \$101.10 per share for a total of \$323.6 million, which included, among other repurchases, 274,392 shares of common stock and 3,883,529 stock options that were equivalent to 2,302,572 shares of common stock on a net basis, previously held by our former CEO. In addition, the Company committed to repurchase an additional 61,045 shares of its Class A common stock that it paid in the first quarter of 2019. In total, during the year ended December 31, 2018, the Company repurchased or committed to repurchase 3,486,979 shares of its Class A common stock at a weighted-average price of \$100.84 per share for a total of \$351.6 million.

During the year ended December 31, 2017, the Company completed repurchases of 225,000 shares of its Class A common stock at a weighted-average price of \$100.14 per share for a total of \$22.5 million. In addition, the Company committed to repurchase an additional 225,500 shares of its Class A common stock that it paid in the first quarter of 2018. In total, during the year ended December 31, 2017, the Company repurchased or committed to repurchase 450,500 shares of its Class A common stock at a weighted-average price of \$101.07 per share for a total of \$45.5 million.

All reacquired shares have been classified as treasury stock in the consolidated balance sheets and the consolidated statements of equity.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 12—MGM Holdings Inc. Stockholders' Equity (Continued)

Stock Incentive Plan. The Company's stock incentive plan (the "Stock Incentive Plan") allows for the granting of stock awards aggregating not more than 12,988,234 shares outstanding at any time. Awards under the Stock Incentive Plan are generally not restricted to any specific form or structure and may include, without limitation, non-qualified stock options, restricted stock awards and stock appreciation rights (collectively, "Awards"). Awards may be conditioned on continued employment, have various vesting schedules and have accelerated vesting and exercisability provisions in the event of, among other things, a change in control of the Company. All outstanding stock options under the Stock Incentive Plan have been issued at or above market value and generally vest over a period of five years.

Stock option activity under the Stock Incentive Plan was as follows:

	Year Ended December 31,			
	2018		2017	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	6,531,374	\$ 54.21	6,294,874	\$ 42.15
Granted	710,000	106.60	412,500	105.77
Exercised	(2,454,279)	41.55	(46,000)	45.65
Canceled or expired	(1,870,250)	49.01	(130,000)	92.31
Options outstanding at end of year	<u>2,916,845</u>	\$ 80.94	<u>6,531,374</u>	\$ 54.21
Options exercisable at end of year	<u>1,499,845</u>	\$ 62.45	<u>5,174,874</u>	\$ 45.07

The weighted-average remaining contractual life of all outstanding options as of December 31, 2018 was 6.5 years. As of December 31, 2018, total compensation cost related to non-vested awards not yet recognized under the Stock Incentive Plan was \$25.6 million, which is expected to be recognized over a weighted-average period of 1.4 years.

The fair value of stock options was estimated using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during the years ended December 31, 2018 and 2017 was \$36.26 and \$29.34 per share, respectively. Fair value was determined using the following assumptions: a dividend yield of 0%, an expected volatility ranging from 26% to 30%, an average expected life ranging from 6.0 years to 7.3 years, and a weighted-average assumed risk-free interest rate ranging from 1.91% to 3.11%. Expected volatility was determined based on the average of historical and implied volatilities for comparable peer companies.

Note 13—Income Taxes

For the year ended December 31, 2018, the Company recorded an income tax benefit of \$65.0 million. The income tax benefit primarily reflected a non-recurring tax benefit associated with the exercise of stock options of approximately \$46.8 million and additional benefits related to extra-territorial income exclusions for prior years of approximately \$30.6 million.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Reform"). Among other items, Tax Reform reduced the U.S. federal corporate tax rate from 35% to 21%, effective for tax years beginning after December 31, 2017, and established a one-time deemed repatriation transition tax on earnings of certain foreign subsidiaries that were previously tax deferred.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 13—Income Taxes (Continued)

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Reform, the SEC issued guidance on December 22, 2017 to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of Tax Reform. Although the Company is not a registrant, it applied this guidance to make reasonable estimates as described below of the effects of the Act and recorded provisional amounts in our financial statements as of December 31, 2017.

For the year ended December 31, 2017, the Company recorded a provisional net tax benefit of \$190.5 million related to the remeasurement of its net deferred tax liability using the new U.S. federal corporate tax rate of 21% and recorded a provisional amount for the one-time transitional tax liability for our foreign subsidiaries of approximately \$2.3 million. In the fourth quarter of 2018, the Company has completed the accounting for the tax effects of the Act and recorded a net tax benefit of \$5.4 million for the year ended December 31, 2018. This net tax benefit included \$1.3 million related to the remeasurement of its state deferred tax balances, \$2.3 million for the transition tax since the Company determined it owed zero transition tax liability, and \$1.8 million as the remeasurement of its net deferred tax liability was updated as a result of the 2017 U.S. federal tax return filing.

Net domestic and foreign tax liability (receivable) balances consisted of the following (in thousands):

	December 31,	
	2018	2017
Current	\$ (10,413)	\$ 19,035
Deferred	173,985	237,162
	<u>\$ 163,572</u>	<u>\$ 256,197</u>

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 13—Income Taxes (Continued)

Deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Operating loss carryforwards	\$ 135,395	\$ 114,843
Reserves	7,220	8,428
Stock options	10,716	15,314
Accrued participants' share	1,462	5,076
Real estate leases	3,427	3,559
Foreign tax credit	98,621	59,013
Other tax assets	18,578	3,399
Unrealized losses on derivative instruments and investments	3,258	73
Property and equipment	1,361	1,199
Investments in affiliates	4,647	3,034
	284,685	213,938
Valuation allowance	(65,803)	(43,789)
Total deferred tax assets	218,882	170,149
Deferred tax liabilities:		
Corporate debt	(190,019)	(182,515)
Film and television costs	(107,214)	(107,041)
Other non-content intangible assets	(36,058)	(37,606)
Film and television revenue	(59,576)	(80,149)
Total deferred tax liabilities	(392,867)	(407,311)
Net deferred tax liability	\$ (173,985)	\$ (237,162)

At December 31, 2018, the Company and its subsidiaries had net operating loss carryforwards for United States federal tax purposes of \$0.4 billion, which will be available to reduce future taxable income. The net operating loss carryforwards expire between the years ending December 31, 2028 and December 31, 2030. Net operating loss carryforwards in the amount of \$0.4 billion as of December 31, 2018 are subject to limitation on use under Section 382 of the Internal Revenue Code. In addition, the Company has net operating loss carryforwards for California state tax purposes of \$0.5 billion, which will expire between the years ending December 31, 2028 and December 31, 2030. As a result of the utilization of such net operating loss carryforwards, cash paid for income taxes was significantly lower than the Company's income tax provision.

As of December 31, 2018 and 2017, deferred tax assets in the amount of \$65.8 million and \$43.8 million, respectively, do not satisfy the criteria for realization. Accordingly, valuation allowances have been provided for these amounts.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 13—Income Taxes (Continued)

Details of the income tax (benefit) provision were as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Current taxes:		
Federal and state taxes	\$ (27,921)	\$ 59,945
Foreign taxes	14,767	9,574
Deferred taxes:		
Federal taxes	(75,207)	(268,515)
State taxes	1,389	9,361
Change in valuation allowance	22,014	(7,452)
Total income tax (benefit) provision	\$ (64,958)	\$ (197,087)

The following is a summary reconciliation of the federal tax rate to the effective tax rate:

	Year Ended December 31,	
	2018	2017
Federal tax rate on pre-tax book income	21%	35%
State taxes, net of federal income tax benefit	2	1
Changes in uncertain tax positions	17	(2)
Foreign taxes, net of federal income tax benefit	—	(17)
Gain on acquisition	—	(12)
Tax rate change	23	(55)
Change in valuation allowance	40	(2)
Other permanent differences	(220)	(4)
Effective tax rate	(117)%	(56)%

Foreign Taxes, Net of Federal Income Tax Benefit. The Company recognized an income tax benefit for the year ended December 31, 2018 resulting from filing an election for tax years beginning in 2011 to claim foreign tax credits against federal income taxes instead of recognizing a deduction for foreign taxes.

Gain on Acquisition. Gain on acquisition for the year ended December 31, 2017 in the federal tax rate reconciliation table above primarily included an accounting remeasurement gain on the Company's 19.09% equity investment in EPIX Entertainment LLC (see Note 3), which is not taxable for federal or state income tax purposes.

Tax Rate Change. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act, which reduces the U.S. federal corporate tax rate from 35% to 21% effective for the 2018 tax year. The Company recognized a significant income tax benefit from the rate reduction resulting from the reduced estimated future U.S. federal tax obligation associated with the Company's net deferred tax liability for the year ended December 31, 2017. The state tax rate for the year ended December 31, 2018, increased as a result of the Company's increased business activities in new state jurisdictions. The remeasurement of the deferred taxes due to the change in the state rate resulted in additional income tax expense.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 13—Income Taxes (Continued)

Other Permanent Differences. Other permanent differences for the year ended December 31, 2018 in the federal tax rate reconciliation above primarily include the recording of excess tax benefits from share-based payments and one-time adjustments associated with the Company's federal tax filing for 2017. These adjustments reflected additional benefits for extra-territorial income (ETI) exclusions for years dating back to 2001.

Other permanent differences for the year ended December 31, 2017 in the federal tax rate reconciliation above primarily included one-time adjustments associated with the Company's federal tax filing for 2016. These adjustments reflected additional benefits for extra-territorial income (ETI) exclusions for years dating back to 2001.

As of December 31, 2018 and 2017, the Company had \$18.6 million and \$6.8 million of unrecognized tax benefits, respectively. The Company has accrued interest and penalties associated with these unrecognized tax benefits of \$3.8 million for each of the years ending December 31, 2018 and 2017, of which zero and \$(5.1) million were recognized as a component of the income tax provision during the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, the Company had cumulative unrecognized tax benefits, including interest and penalties, of \$22.4 million, of which \$5.4 million, if recognized, would impact the effective tax rate. The Company believes that approximately \$0.9 million of additional unrecognized tax benefits, including interest and penalties, at December 31, 2018 are reasonably possible to reverse within the following year due to settlement of certain tax matters with tax authorities and expiration of the statute of limitations. The following is a summary reconciliation of the beginning and ending amount of unrecognized tax benefits (in thousands):

	December 31,	
	2018	2017
Unrecognized tax benefits at January 1	\$ 6,815	\$ 7,359
Increases based on tax positions taken during the current period	—	3,738
Increases based on tax positions taken during a prior period	25,141	695
Decreases based on tax positions taken during a prior period	(12,936)	(2)
Reductions as a result of settlement with tax authorities	—	(4,644)
Reductions as a result of a lapse of the statute of limitations	(377)	(490)
Foreign currency translation adjustments	—	159
Unrecognized tax benefits at December 31	<u>\$ 18,643</u>	<u>\$ 6,815</u>

The Company or one of its subsidiaries files income tax returns with federal, state, local and foreign jurisdictions. As of December 31, 2018, the tax years that remain subject to examination by significant jurisdiction are as follows:

U.S. federal	Tax year ended December 31, 2015 through the current period
New York State	Tax year ended December 31, 2013 through the current period
New York City	Tax year ended December 31, 2015 through the current period
California	Tax year ended December 31, 2011 through the current period

The California Franchise Tax Board commenced an examination of the Company's state income tax returns for the 2011 and 2012 tax years in the first quarter of 2014 that is anticipated to be completed in 2020.

The New York State Department of Taxation and Finance commenced an examination of the Company's state income tax returns for the 2013 through 2016 tax years in the second quarter of 2017.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 14—Retirement Plans

Defined Benefit Plan. The Company has a noncontributory retirement plan (the “Plan”). Benefits are based on years of service and compensation. Effective December 31, 2000, the Plan was amended to cease benefit accruals and no longer allow additional employees to participate in the Plan. A summary of the activity of the Plan and the amounts included in the consolidated balance sheets are as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 17,250	\$ 16,522
Service cost	207	—
Interest cost	602	617
Actuarial (gain) loss	(1,589)	747
Net benefits paid	(431)	(636)
Projected benefit obligation, end of year	\$ 16,039	\$ 17,250
Accumulated benefit obligation, end of year	\$ 16,039	\$ 17,250
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	\$ 12,568	\$ 12,097
Actual return on plan assets	(935)	1,107
Net benefits paid	(431)	(636)
Fair value of plan assets, end of year	\$ 11,202	\$ 12,568
Funded status:		
Fair value of plan assets	\$ 11,202	\$ 12,568
Projected benefit obligation	16,039	17,250
Funded status, and net balance sheet liability	\$ (4,837)	\$ (4,682)

Amounts recognized in accumulated other comprehensive loss, before tax, were as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Net actuarial loss	\$ 1,973	\$ 2,080
	\$ 1,973	\$ 2,080

Components of net periodic pension cost were as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Service cost on projected benefit obligation	\$ 207	\$ —
Interest cost on projected benefit obligation	602	617
Expected return on plan assets	(604)	(559)
Net actuarial loss	57	21
Net periodic pension expense	\$ 262	\$ 79

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 14—Retirement Plans (Continued)

No settlement losses were incurred during the years ended December 31, 2018 and 2017.

The unrecognized net liability is being amortized over the estimated remaining service life of 6.2 years as of December 31, 2018 and 2017. Domestic pension benefits and expense were determined under the entry age actuarial cost method.

No material amounts included in accumulated other comprehensive loss are expected to be recognized into net periodic pension cost within the next 12 months.

Weighted-average assumptions used in actuarial computations were as follows:

	Year Ended December 31,	
	2018	2017
Assumptions – benefit obligations		
Discount rate	<u>4.13%</u>	<u>3.59%</u>
Rate of increase in future compensation levels	<u>N/A</u>	<u>N/A</u>
Assumptions – net periodic pension cost		
Discount rate	<u>3.59%</u>	<u>3.99%</u>
Long-term rate of return on assets	<u>5.00%</u>	<u>5.00%</u>
Rate of increase in future compensation levels	<u>N/A</u>	<u>N/A</u>

The overall expected long-term rate of return on Plan assets was based on the performance of the Plan assets in the past three years and on the expected performance of the Plan assets over the next five years pursuant to the investment policies and strategies stated within this pension footnote. The overall expected long-term rate of return on Plan assets for pension footnote purposes was selected in coordination with the actuarial valuation interest rate for minimum funding purposes.

As of December 31, 2018, benefits expected to be paid under the Plan for the next ten years are as follows (in thousands):

<u>Calendar Year</u>	<u>Amount</u>
2019	\$ 1,001
2020	865
2021	1,034
2022	1,469
2023	1,373
2024–2028	<u>6,758</u>
	<u>\$ 12,500</u>

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 14—Retirement Plans (Continued)

The following table sets forth by level, within the fair value hierarchy described in Note 5, the Plan’s assets required to be carried at fair value on a recurring basis as of December 31, 2018 (in thousands):

Description	Balance	Fair Value Measurements at December 31, 2018 using		
		Level 1	Level 2	Level 3
Pooled separate accounts	\$ 11,202	\$ —	\$ 11,202	\$ —
Total	<u>\$ 11,202</u>	<u>\$ —</u>	<u>\$ 11,202</u>	<u>\$ —</u>

The following table sets forth the Plan’s assets required to be carried at fair value on a recurring basis as of December 31, 2017 (in thousands):

Description	Balance	Fair Value Measurements at December 31, 2017 using		
		Level 1	Level 2	Level 3
Pooled separate accounts	\$ 12,568	\$ —	\$ 12,568	\$ —
Total	<u>\$ 12,568</u>	<u>\$ —</u>	<u>\$ 12,568</u>	<u>\$ —</u>

Pooled separate accounts primarily consist of investments in mutual funds that include fixed income securities. Investments in pooled separate accounts are valued by Prudential, the trustee of the Plan’s assets, based on the Plan’s share of the fair value of the assets held in the pooled separate accounts.

Investments in the guaranteed deposit account are stated at approximately fair value as reported by Prudential.

Plan assets by category were as follows:

	Year Ended December 31, 2018	2017
Debt securities and other	<u>100%</u>	<u>100%</u>
	<u>100%</u>	<u>100%</u>

The Plan’s pension investments are allocated in a manner designed to provide a long-term investment return greater than the actuarial assumption, maximize investment return commensurate with appropriate levels of risk and comply with the Employee Retirement Income Security Act of 1974 (“ERISA”) by investing the funds in a manner consistent with ERISA fiduciary standards. Assets are allocated to provide adequate liquidity for the Plan’s disbursements, such as benefit payments and ongoing expenses. The Plan’s assets are managed such that all retirement benefit payments are met as they become due. The Plan’s investment strategy focuses on long-term asset value to take into account the long-term nature of the Plan’s liabilities. The asset allocation strategy is implemented with due regard for the Plan’s long-term needs and in a manner designed to control volatility and with regard for the Company’s risk tolerance. The risk tolerance is comprised of financial and other relevant characteristics of the Company, as well as the Company’s risk philosophy for pension assets. Certain business characteristics may reduce the Company’s tolerance for volatility of investment returns and potential swings in contribution levels.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 14—Retirement Plans (Continued)

The Company's current investment strategy is to stabilize Plan assets and the Plan's funded status. Due to the Company's risk tolerance, 100% of Plan assets are allocated to fixed income securities at December 31, 2018. No contributions were made to the Plan during the years ended December 31, 2018 and 2017. The Company does not expect to make any required or discretionary contributions to the Plan during the year ending December 31, 2019.

MGM Savings Plan. The Company also provides each of its employees, including its officers, the opportunity to participate in the MGM Savings Plan (the "Savings Plan"), a defined contribution plan. The Company makes matching contributions, on a monthly basis, up to 100% of the first 5% of the participant's basic earnings on a pre- and after-tax basis up to a maximum of \$5,000 per participant per plan year. Contributions to the Savings Plan totaled \$2.0 million and \$1.1 million during the years ended December 31, 2018 and 2017, respectively.

Multi-Employer Pension Plans. The Company contributes to various multi-employer defined benefit pension plans under the terms of collective-bargaining agreements that cover certain of its union-represented production employees. The risks of participating in these multi-employer pension plans are different from single-employer pension plans such that: (a) contributions made by the Company to the multi-employer pension plans may be used to provide benefits to employees of other participating employers; (b) if the Company chooses to stop participating in certain of these multi-employer pension plans, it may be required to pay those plans an amount based on the underfunded status of the plan, which is referred to as its withdrawal liability; and (c) actions taken by a participating employer that lead to a deterioration of the financial health of a multi-employer pension plan may result in the unfunded obligations of the multi-employer pension plan to be borne by its remaining participating employers. None of the multi-employer pension plans contributed to by the Company are individually significant to the Company, nor was the Company listed in the Form 5500 of any plan as providing more than 5% of total contributions based on the current information available. As of the most recent available funded status, one of the plans in which the Company contributes is at least 80% funded, two are between 65% to 80% funded and one is less than 65% funded. Aggregate contributions to these plans totaled \$8.3 million and \$10.3 million during the years ended December 31, 2018 and 2017, respectively.

Note 15—Other Comprehensive Income (Loss)

Components of accumulated other comprehensive income (loss) were as follows (in thousands):

	Unrealized Gain (Loss) on Securities	Unrealized Gain (Loss) on Derivative Instruments	Retirement Plan Adjustments	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2017	\$ (60)	\$ (734)	\$ (1,218)	\$ (1,510)	\$ (3,522)
Current period					
comprehensive income	141	7,937	(177)	923	8,824
Income tax effect	(51)	(2,857)	64	(2,917)	(5,761)
Balance, December 31, 2017	30	4,346	(1,331)	(3,504)	(459)
Current period					
comprehensive income	(81)	(15,146)	106	(190)	(15,311)
Income tax effect	18	4,627	(23)	42	4,664
Balance, December 31, 2018	\$ (33)	\$ (6,173)	\$ (1,248)	\$ (3,652)	\$ (11,106)

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 16—Related-Party Transactions

The Company has equity interests in certain television ventures located in the United States and various international territories to which the Company licenses feature films and television content produced or distributed by the Company. Aggregate license fees under these agreements of \$34.5 million and \$67.4 million were recognized as revenue during the years ended December 31, 2018 and 2017, respectively. Additionally, accounts receivable due from the Company's equity interests totaled \$22.4 million and \$21.6 million during the years ended December 31, 2018 and 2017, respectively. In May 2017, the Company acquired the remaining interest in EPIX Entertainment LLC (see Note 3). Subsequent to the acquisition date, all revenue recognized from content licensed to EPIX is considered an intercompany transaction and thus is eliminated in consolidation.

During each of the years ended December 31, 2018 and 2017, the Company incurred \$0.1 million of television costs for production-related services performed by relatives of Mark Burnett, the Company's Chairman of Worldwide Television Group.

Note 17—Commitments and Contingencies

Litigation. Various legal proceedings involving alleged breaches of contract, copyright infringement and other claims are now pending, which the Company considers routine to its business activities. The Company has provided an accrual for pending litigation as of December 31, 2018, for which an outcome is probable and reasonably estimable. Management believes that the outcome of any pending claim or legal proceeding in which the Company is currently involved will not materially affect the Company's consolidated financial statements.

Creative Talent and Employment Agreements. The Company has entered into contractual agreements for creative talent related to future film and television content development and production. The Company also has employment agreements with various officers and employees, which provide for minimum salary levels.

Program Rights. The Company has entered into contractual commitments under programming license agreements for its media networks business to license film and television content that is not available for exhibition until a future date. These licensing arrangements were entered into in the ordinary course of business and represent obligations that are payable over several years.

Leases. The Company has operating leases for offices and equipment through 2026. Certain property leases include provisions for increases over base year rents as well as for escalation clauses for maintenance and other building operations. Rent expense was approximately \$13.3 million and \$9.8 million during the years ended December 31, 2018 and 2017, respectively.

Other Commitments. The Company has various other commitments entered into in the ordinary course of business relating to operating leases for equipment, contractual marketing obligations for certain affiliate agreements, and contractual obligations under co-production arrangements. Where necessary, the Company has provided an accrual for such amounts as of December 31, 2018.

MGM Holdings Inc.

Notes to Consolidated Financial Statements (Continued)

Note 17—Commitments and Contingencies (Continued)

Future minimum cash commitments under corporate debt agreements, creative talent and employment agreements, non-cancelable operating leases net of subleasing income and other contractual obligations at December 31, 2018 were as follows (in thousands):

	Year Ended December 31,						Total
	2019	2020	2021	2022	2023	Thereafter	
Corporate debt ⁽¹⁾	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 689,000	\$ 779,000	\$ 1,484,000
Program Rights ⁽²⁾	156,444	40,752	293	23	—	—	197,512
Creative talent and employment agreements ⁽³⁾	150,604	29,773	14,522	7,797	—	—	202,696
Operating leases	18,662	19,781	27,150	8,011	2,154	2,887	78,645
Other contractual obligations ⁽⁴⁾	39,181	10,808	4,091	2,937	—	—	57,017
	<u>\$ 368,891</u>	<u>\$ 105,114</u>	<u>\$ 50,056</u>	<u>\$ 22,768</u>	<u>\$ 691,154</u>	<u>\$ 781,887</u>	<u>\$ 2,019,870</u>

⁽¹⁾ Excludes interest costs.

⁽²⁾ Program rights include contractual commitments under programming license agreements related to film and television content that is not available for exhibition until a future date.

⁽³⁾ Creative talent and employment agreements include obligations to producers, directors, writers, actors and executives, as well as other creative costs involved in producing film and television content.

⁽⁴⁾ Other contractual obligations primarily include contractual commitments related to operating leases for equipment and the Company's acquisition of film and distribution rights. Future payments for acquired film and distribution rights are based on anticipated delivery or availability dates of the related film or contractual due dates of the commitment.

The Company has a \$1.8 billion Revolving Credit Facility. At December 31, 2018, there was \$685.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The \$1.12 million of remaining funds were entirely available to the Company (see Note 10).

Note 18—Supplementary Cash Flow Information

The Company paid interest of \$60.8 million and \$26.5 million during the years ended December 31, 2018 and 2017, respectively. The Company paid taxes of \$14.1 million and \$41.2 million during the years ended December 31, 2018 and 2017, respectively.