



# **MGM HOLDINGS INC.**

**For the year ended December 31, 2016**

**Delaware**

(State or other jurisdiction of incorporation or organization)

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

Telephone number, including area code: **(310) 449-3000**

## Table of Contents

Company Background and Business Overview	3
Management's Discussion & Analysis of Financial Condition and Results of Operations	11
Index to Consolidated Financial Statements and Footnotes	30

## **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 films or television content, or predict consumer tastes;
- our ability to exploit emerging and evolving technologies, including alternative forms of delivery and storage of content;
- our ability to finance and co-produce films and television content;
- 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 financial position and sources of revenue;
- our liquidity and capital expenditures;
- 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, 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 global production and distribution of film and television content. 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 addition, we currently own or hold interests in MGM-branded channels in the United States (“U.S.”), as well as interests in pay television networks in the U.S. and Brazil.

We control one of the deepest libraries of premium film and television content. Our film content library includes the *James Bond*, *Hobbit*, *Rocky*, *RoboCop*, *Pink Panther* and *21 Jump Street* franchises, as well as *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*, *Fame*, *American Gladiators*, *Teen Wolf* and *In the Heat of the Night*. In addition, beginning in January 2016, our television content includes our economics for the prominent unscripted shows produced by UAMG, LLC (“United Artists Media Group” or “UAMG”), such as *The Voice*, *Survivor*, *Apprentice*, *Shark Tank*, *Lucha Underground*, and other titles, as well as the faith-based content of United Artists Media Group, such as the film *Son of God* and the scripted television series *The Bible*.

### Business

#### *Production of film and television content*

Film Content. We are involved in the development, production and co-production of film content, and typically participate with third parties in various co-production arrangements to produce, co-finance and distribute our content, as well as content developed by our partners. We have several internally-developed feature films in various stages of development, production and post-production, including, but not limited to, *The Belko Experiment*, *Creed 2*, *Death Wish*, *Deeper*, *The Domestics*, *Everything Everything*, *I Am Pilgrim*, *Max 2*, *Dirty Rotten Scoundrels*, *Operation Finale*, *Overboard*, *Tomb Raider* and *Valley Girl*. We are also working closely with our partners who are developing additional film content that we anticipate co-producing and distributing, including, but not limited to, *Sherlock Gnomes* with our partner Paramount Pictures Corporation (including affiliates thereof, “Paramount”).

We have co-production agreements with Paramount, Sony, 20<sup>th</sup> Century Fox Film Corporation (“20th Century Fox”) and Warner Bros. Entertainment Inc. (“Warner Bros.”). We continue to seek and evaluate additional co-production, production and distribution opportunities with our existing partners and potential new partners globally.

Television Content. We have several successful scripted television series and unscripted television shows that we are co-producing and/or distributing.

Scripted series. We control distribution rights on a worldwide basis (excluding Canada) to the television series *Vikings*. The first half of the fourth season of *Vikings* began its initial U.S. broadcast on A&E Television Networks’ History channel in February 2016 and the second half of the fourth season began airing in the fourth quarter of 2016. History renewed *Vikings* for a 20-episode fifth season that is expected to air in 2017. *Teen Wolf*, which we are co-producing with an affiliate of MTV Networks, began airing its 20-episode sixth and final season in

the fourth quarter of 2016. *Fargo* is in production on its third season and is anticipated to begin airing on FX in April 2017. The first two seasons of *Fargo* aired in 2014 and 2015, respectively, and received numerous awards, including the Emmy award for Outstanding Miniseries and the Golden Globe award for Best Mini-Series for the first season. We also have several other internally-developed scripted television series in advanced stages of development and production that we expect to deliver in 2017, including, but not limited to, *The Handmaid's Tale*, *Get Shorty* and *Condor*.

**Unscripted shows.** We have several successful and enduring unscripted television shows that we are currently producing. *The Voice* commenced its 11<sup>th</sup> season in the third quarter of 2016 and its 12<sup>th</sup> season in the first quarter of 2017. NBC renewed the show for a 13<sup>th</sup> season, which is expected to air later in 2017. *Survivor* completed its 32<sup>nd</sup> and 33<sup>rd</sup> seasons on CBS in the second quarter and fourth quarter of 2016, respectively, and has been renewed for its 34<sup>th</sup> and 35<sup>th</sup> seasons. *Shark Tank* completed its 7<sup>th</sup> season on ABC in the second quarter of 2016, commenced its 8<sup>th</sup> season in the third quarter of 2016, and was renewed for a 9<sup>th</sup> season that is anticipated to air in the third quarter of 2017. *Lucha Underground* completed its second season on the El Rey network and the third season commenced airing in the third quarter of 2016. The 8<sup>th</sup> season of *Celebrity Apprentice* (the 15<sup>th</sup> overall season of *Apprentice*) began airing on NBC in January 2017. In addition, *Lauren Lake's Paternity Court*, our nationally syndicated courtroom show, began airing its fourth season in the third quarter of 2016. We also have a wealth of additional unscripted television content in various stages of development, production and post-production including, but not limited to, *Steve Harvey's Funderdome*, which is a new business competition show for ABC, plus a hip-hop music competition show for MTV, as well as *Beat Shazam*, an interactive music game show for Fox hosted by Jamie Foxx, and *Couples Court with The Cutlers*, a nationally syndicated courtroom show focused on couples in crisis.

## 2017 Release Schedule

The following tables summarize the tentative 2017 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 2018 and beyond.

### Film Content:

Title	Co-production Partner	Actual or Estimated U.S. Release Date
<i>The Belko Experiment</i>	None	March 17, 2017
<i>Everything, Everything</i>	Warner Bros.	May 19, 2017
<i>Max 2</i>	Warner Bros.	Q2 2017
<i>Death Wish</i>	None	Q4 2017
<i>The Domestics</i>	None	Q4 2017

### Television Content:

Title	Channel	Actual or Estimated Initial Broadcast Date
<b>Scripted Series:</b>		
<i>The Handmaid's Tale, Season 1</i>	Hulu	April 26, 2017
<i>Fargo, Season 3</i>	FX	April 19, 2017
<i>Teen Wolf, Season 6b</i>	MTV	Summer 2017
<i>Vikings, Season 5</i>	History	TBD 2017
<i>Get Shorty, Season 1</i>	Epix	TBD 2017
<b>Unscripted Shows:</b>		
<i>The New Celebrity Apprentice, Season 15</i>	NBC	January 2, 2017
<i>People's Choice Awards</i>	CBS	January 18, 2017
<i>The Voice, Season 12</i>	NBC	February 27, 2017
<i>Survivor, Season 34</i>	CBS	March 8, 2017
<i>Lucha Underground, Season 3b</i>	El Rey	May 31, 2017
<i>The Voice, Season 13</i>	NBC	Q3 2017
<i>Survivor, Season 35</i>	CBS	Q3 2017
<i>Shark Tank, Season 9</i>	ABC	TBD 2017
<i>Steve Harvey's Funderdome, Season 1</i>	ABC	TBD 2017
<i>Hip-hop music competition show, Season 1</i>	MTV	TBD 2017
<i>Beat Shazam, Season 1</i>	Fox	TBD 2017
<i>Minor Renovations, Season 1</i>	Bell Media	TBD 2017
<i>Lauren Lake's Paternity Court, Season 5</i>	Syndicated	TBD 2017
<i>Couples Court with The Cutlers, Season 1</i>	Syndicated	TBD 2017

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***

We participate with third parties in various arrangements to distribute feature films theatrically. These arrangements allow us to distribute new releases by utilizing third parties, generally major studios, 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. Generally, our co-production partner provides theatrical distribution services and for certain films in certain territories we utilize the services of other distributors. We released five feature films theatrically in 2016, which are summarized in the following table.

<b>Title</b>	<b>Co-production Partner</b>	<b>U.S. Release Date</b>
<i>How to Be Single</i>	Warner Bros.	February 12, 2016
<i>Barbershop: The Next Cut</i>	Warner Bros.	April 15, 2016
<i>Me Before You</i>	Warner Bros.	June 3, 2016
<i>Ben-Hur</i>	Paramount	August 19, 2016
<i>The Magnificent Seven</i>	Sony	September 23, 2016

### ***Television Distribution***

We have an in-house television licensing and distribution organization. We license our content for pay television (including premium services, subscription video-on-demand (“SVOD”) and pay-per-view (“PPV”)) and free television, and 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 and PPV markets, we license content to providers that allow subscribers to rent individual programs, including recent theatrically released films, on a per exhibition basis. In the pay television market, we license content to channels 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 delivering content to consumers electronically, including SVOD streaming services, such as Amazon, Hulu and Netflix, transactional VOD distribution via cable, satellite, IP television systems, gaming consoles and online services, and AVOD services such as YouTube and Hulu. 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 growth in this revenue.

### ***Home Entertainment Distribution***

Home entertainment distribution includes the sales, marketing and promotion of content for physical distribution (DVD and Blu-ray discs) and 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 content, including *Spectre*, *Skyfall*, *Carrie*, *RoboCop*, *If I Stay*, *Vikings*, *Teen Wolf* and *A.D.: The Bible Continues*, as well as certain of our EST distribution rights for our feature

film and television content. Our agreement with Fox expires on June 30, 2020. In addition, for certain of our co-produced feature films, our co-production partners control physical home entertainment distribution rights. For example, Sony is the physical home entertainment distributor for films in the *21 Jump Street* franchise and *The Magnificent Seven*; Warner Bros. is the physical home entertainment distributor for *The Hobbit* trilogy, *Creed*, *Max*, *Barbershop: The Next Cut*, *Hot Pursuit*, *How to Be Single* and *Me Before You*; 20<sup>th</sup> Century Fox is the physical home entertainment distributor for *Poltergeist*; and Paramount is the physical home entertainment distributor for *Ben-Hur* and *Hot Tub Time Machine 2*. 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, 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 of marketing campaigns, 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 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.

### ***MGM Channels***

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 an MGM-branded channel in the U.S. and an action-oriented VOD service, “Impact,” which has approximately 13 million subscribers in the U.S. and was recently launched domestically on PlayStation Vue. We also own and/or operate several multicast networks including “ThisTV,” “Comet TV” and “Light TV.” ThisTV is a top performing free multicast movie network cleared in 85% of the U.S. and reaching approximately 97 million households. Comet TV is a sci-fi-oriented domestic multicast network that we launched in October 2015, together with Sinclair Broadcasting, and that features MGM content. Comet TV is cleared in 83% of the country and reaches approximately 95 million households. We continue to seek and evaluate additional opportunities to create new channels or expand our existing channels, and in December 2016, together with Fox Television Stations Group, we launched Light TV, a new multicast network focused on faith and family-oriented content that was initially launched in New York and Los Angeles. Also, we anticipate launching “Charge,” a free action/adventure-oriented multicast network, in the first quarter of 2017 in partnership with Sinclair Broadcasting.

### ***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, and have an agreement with Sony/ATV under which Sony/ATV 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.

## Joint Ventures

*United Artists Media Group.* In January 2016, we acquired all minority interests of United Artists Media Group (the “2016 Acquisition”), which was previously a joint venture with Mark Burnett, Roma Downey and Hearst Productions. In connection with the 2016 Acquisition, we reissued 1,337,360 treasury shares at \$90.00 per share and paid \$113.5 million in cash in exchange for the remaining 45% minority interests. Simultaneous with this transaction, Mark Burnett became the president of MGM’s global television and digital creative and production business operations. As a result, MGM has elevated its position as a leader in the production and distribution of premium unscripted television content and faith based programming, which includes many successful, unscripted television shows currently on air, such as *The Voice*, *Survivor*, *Celebrity Apprentice*, *Shark Tank* and *Lucha Underground*, and faith based content such as *The Bible* series and the theatrical feature film *Son of God*. Prior to the 2016 Acquisition, from September 22, 2014 (the initial acquisition date) through December 31, 2015, MGM owned 55% of United Artists Media Group.

For financial reporting purposes, beginning January 2016, we have consolidated 100% of the revenue, expenses and net assets of United Artists Media Group. The accounting for business combinations required us to record fair value accounting adjustments to initially state the content assets of UAMG at fair value as of January 2016. As a result, our film and television inventory carrying value includes fair value adjustments for UAMG’s content that result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. We separately track 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. We estimate that a substantial portion of the Purchase Accounting Adjustments will be expensed in 2016 and 2017, and that amounts for years thereafter will be immaterial. Refer to the discussion in *Critical Accounting Policies and Estimates* below for additional information.

From September 22, 2014 through December 31, 2015, we did not consolidate United Artists Media Group, but rather accounted for our 55% investment using the equity method of accounting. Our share of the net income of UAMG during that period was recorded as part of equity in net earnings of affiliates in our consolidated statements of income, and was reduced by non-operational amortization expense since the equity method of accounting required us to amortize a portion of our investment over time. Refer to the discussion in *Critical Accounting Policies and Estimates* below for additional information regarding “UAMG Basis Increase Amortization,” which is now included in “Purchase Accounting Adjustments” and added back in our calculation of Adjusted EBITDA. The following table summarizes the amounts reported under the equity method of accounting during 2015, including (i) MGM’s share of UAMG’s net income, (ii) Purchase Accounting Adjustments, and (iii) cash dividends received from UAMG (in thousands).

	<b>Year Ended December 31, 2015</b>
MGM share of UAMG net income.....	\$ 22,455
Less: Purchase Accounting Adjustments.....	(16,498)
MGM net equity income.....	<u>\$ 5,957</u>
Cash dividends received from UAMG.....	<u>\$ 35,572</u>

*Studio 3 Partners, LLC (Epix).* We have a 19.09% equity investment in Studio 3 Partners, LLC, a joint venture with Viacom Inc. (“Viacom”), Paramount and Lions Gate Entertainment Corp (“Lions Gate”) that operates Epix, a premium television channel and SVOD service. Epix licenses first-run films, select library features and television content from these studio partners as well as other content providers, and began airing original scripted series in the fourth quarter of 2016. Epix is not consolidated in our financial statements, however, due to the significant influence we have over the business operations of Epix, we record our share of the net income of Epix using the equity method of accounting. Any dividends received from Epix are 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. The following table summarizes (i) MGM’s share of the net income of Epix and (ii) the adjustment related to MGM profits recorded on content licenses to Epix for the years ended December 31, 2016 and 2015 (in thousands).

	Year Ended December 31,		Change	
	2016	2015	Amount	Percent
MGM share of Epix net income.....	\$ 28,018	\$ 34,184	\$ (6,166)	-18%
Adjustment for profits on content licenses to Epix...	(2,258)	576	(2,834)	-492%
MGM equity income.....	<u>\$ 25,760</u>	<u>\$ 34,760</u>	<u>\$ (9,000)</u>	<u>-26%</u>
Cash dividends received from Epix.....	\$ 8,591	\$ -	\$ 8,591	100%

*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, 20<sup>th</sup> 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, 2016 and 2015 included \$5.7 million and \$5.1 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](http://www.mgm.com).

At December 31, 2016, 45,958,816 shares of Class A common stock, par value \$0.01 per share were outstanding. The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust. Contact and additional information regarding Continental Stock Transfer & Trust can be found at [www.continentalstock.com](http://www.continentalstock.com).

## Facilities

We lease approximately 151,000 square feet of office space, as well as related parking and storage facilities, for our corporate headquarters in Beverly Hills, California under a lease that expires in 2026. We also have television distribution offices in London, Sydney, Munich, New York and Toronto, as well as office space in Santa Monica, California that is primarily used for production-related activities. On occasion, we may lease studio facilities and stages from unaffiliated parties. Such leases are generally on an as-needed basis in connection with the production of specific feature film and television projects.

**Chief Executive Officer and the Board of Directors**

Gary Barber is the Chairman and Chief Executive Officer of MGM Inc. and a member of the Board of Directors of MGM Holdings. The other members of the seven-member Board of Directors of MGM Holdings are Ann Mather (Lead Director), James Dondero, Jason Hirschhorn, Fredric Reynolds, Nancy Tellem and Kevin Ulrich. As of December 31, 2016, 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 designee on our Board of Directors, Kevin Ulrich and James Dondero, respectively.

**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

Our principal source of revenue is 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.

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 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 become known or are reported to us.

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. Although we receive a significant amount of our revenue through our co-production agreements, we do not view our co-production partners as customers, and therefore we do not have significant customer concentration. For the year ended December 31, 2016, we derived approximately 61% of our 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 include cable subscriber fees and advertising sales associated with our broadcast and cable networks, as well as various ancillary revenue, primarily from licensing intellectual property rights for use in interactive games and consumer products.

## **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 consist primarily of film and television cost amortization expenses and accruals of talent participations, residuals and co-production share obligations (collectively, “P&R”). Film and television cost amortization expense includes the amortization of content costs and certain fair value adjustments, including step-up amortization expense (which is 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. In addition, we include the cost of duplicating prints, which may be a physical or digital product, and replicating DVDs and Blu-ray discs in operating expenses.

***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 \$650 million at December 31, 2016 and are expected to be amortized using the IFF method over the next 9 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.*** In January 2016, we acquired all minority interests of United Artists Media Group and, beginning January 2016, we have consolidated 100% of the revenue, expenses and net assets of UAMG. The accounting for business combinations also required us to record fair value accounting adjustments to initially state the content assets of UAMG at fair value as of January 2016. As a result, our film and television inventory carrying value includes fair value adjustments for UAMG’s content that result in non-operational

amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. We separately track 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. We estimate that a substantial portion of the Purchase Accounting Adjustments will be expensed in 2016 and 2017, and that amounts for years thereafter will be immaterial.

From September 22, 2014 through December 31, 2015, we did not consolidate UAMG, but rather accounted for our 55% investment using the equity method of accounting. Our share of the net income of UAMG during that period was recorded as part of equity in net earnings of affiliates in our consolidated statements of income, and was reduced by non-operational amortization expense since the equity method of accounting required us to amortize a portion of our investment over time. Refer to the discussion in *Critical Accounting Policies and Estimates* below for additional information. During the period from September 22, 2014 through December 31, 2015, we separately tracked this non-operational amortization expense and disclosed it as “UAMG Basis Increase Amortization” to help the users of our financial statements better understand the components of our equity income and the fundamental operating performance of UAMG. As a result of the 2016 Acquisition, beginning January 2016 we have consolidated 100% of the revenue and expenses of United Artists Media Group. Also beginning January 2016, our definition of Adjusted EBITDA now includes equity in net earnings of affiliates. As such, for comparative purposes we have disclosed the prior UAMG Basis Increase Amortization within “Purchase Accounting Adjustments” which is added back in our calculation of Adjusted EBITDA.

#### ***Distribution and Marketing Expenses***

Distribution and marketing expenses generally consist of theatrical advertising costs, marketing costs for other distribution windows, 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. 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, transactional VOD and PPV, and ad-supported VOD windows, as well as home entertainment, including both physical distribution and EST. In line with the library disclosures of certain of our industry peers, our definition of library excludes our ancillary businesses, such as our television channels, interactive gaming, consumer products, music performance and other revenue, even though the majority of our ancillary business 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***

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 feature films 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 feature 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 or is reported to us. 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 become known or are reported to us.

***Home Entertainment:*** Revenue from physical home entertainment distribution is recognized, net of a reserve for estimated returns, 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.

***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, and also depends on whether the arrangement with each of our partners qualifies as a collaborative arrangement under the applicable accounting guidance (usually, a 50% partnership with equally shared distribution rights qualifies).

For a collaborative arrangement, we net (a) our projected ultimate profit share from the distribution rights controlled by our co-production partner with (b) our projected co-production partner's ultimate profit share from our distribution rights. To the extent that the ultimate net profit sharing between us and our co-production partner is expected to result in net profit sharing amounts due from the co-production partner to us, we classify this amount as revenue (net) and record the revenue over the life of the film or television content. To the extent that the ultimate net profit sharing between us and our co-production partner is expected to result in net profit sharing amounts due from us to our co-production partner, we classify this amount as P&R expense included within operating expenses and record it over the life of the film or television content using the IFF method, as described above under *Cost Structure – Operating Expenses*.

When we have a majority or minority share of distribution rights and ownership in co-produced film or television content, the related co-production arrangement is generally not considered a collaborative arrangement for accounting purposes. In these instances, 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. 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 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, we classify this amount as a distribution expense included within distribution and marketing expenses and recognize it as incurred and reported to us by our co-production partner.

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.

#### ***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.

### ***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, may be negatively impacted by the incurrence of theatrical 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, 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.

### ***Home Entertainment Sales Returns***

In the home entertainment market, we calculate an estimate of future product returns. In determining the estimate of physical home entertainment product sales that will be returned, we perform an analysis that considers historical returns, changes in consumer demand, industry trends and current economic conditions. Based on this information, a percentage of home entertainment revenue is reserved, provided that the right of return exists. Future changes to our historical estimates, including modifications to the percentage of each sale reserved or the period of time over which returns are generally expected to be received, could have a significant impact on the reported amount of our assets, liabilities, revenue and expenses, particularly in the period in which the change occurs.

### ***Allowance for Doubtful Accounts Receivable***

For all of our distribution activities, we estimate an allowance for doubtful accounts receivable by monitoring our delinquent accounts and estimating a reserve based on contractual terms and other customer-specific issues. We exercise judgment in our determination of collectability of customer accounts and the related reserves required. Where we rely on third parties for distribution of our content, our allowances are primarily determined based on data from our distribution partners who maintain the direct relationship with the customer. We specifically review all receivables from customers with past due balances greater than 90 days, as well as any other receivables with collectability concerns. Additionally, we record a general reserve against all customer receivables not specifically reviewed.

### ***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 10 to the consolidated financial statements as of December 31, 2016 for further discussion.

### ***Accounting for United Artists Media Group***

In January 2016, we acquired all minority interests of United Artists Media Group, which was previously a joint venture with Mark Burnett, Roma Downey and Hearst Productions. As such, beginning January 2016, we have consolidated 100% of the revenue, expenses and net assets of UAMG. The accounting for business combinations also required us to record fair value accounting adjustments to initially state the content assets of UAMG at fair value as of January 2016. As a result, our film and television inventory carrying value includes fair value adjustments for UAMG's content that result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. We separately track 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. We estimate that a substantial portion of the Purchase Accounting Adjustments will be expensed in 2016 and 2017, and that amounts for years thereafter will be immaterial.

From September 22, 2014 through December 31, 2015, we did not consolidate UAMG, but rather accounted for our 55% investment using the equity method of accounting. Our share of the net income of UAMG during that period was recorded as part of equity in net earnings of affiliates in our consolidated statements of

income, and was reduced by non-operational amortization expense since the equity method of accounting required us to amortize a portion of our investment over time. Under the equity method of accounting, the amount by which our investment in UAMG exceeded our proportionate interest in the book value of UAMG's net assets was considered a basis difference for financial reporting purposes (the "UAMG Basis Increase"). The equity method of accounting required us to amortize the corresponding portion of the UAMG Basis Increase over the useful life of each underlying asset, except for assets deemed to have indefinite lives. Amortization expense attributable to the basis increase reduced the amount we recorded in equity in net earnings of affiliates in our consolidated statement of income, but did not impact our share of UAMG's net cash flow.

From September 22, 2014 through December 31, 2015, we separately tracked and disclosed the UAMG Basis Increase Amortization to help the users of our financial statements better understand the components of our equity income and the fundamental operating performance of UAMG. As a result of the 2016 Acquisition, beginning January 2016 we have consolidated 100% of the revenue and expenses of United Artists Media Group. Also beginning January 2016, our definition of Adjusted EBITDA now includes equity in net earnings of affiliates. As such, for comparative purposes we have disclosed the prior UAMG Basis Increase Amortization within "Purchase Accounting Adjustments" which is added back in our calculation of Adjusted EBITDA.

### ***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) stock-based compensation expense, (iv) non-recurring, external costs and other expenses related to mergers, acquisitions, capital market transactions and restructurings, to the extent that such amounts are expensed, and (v) 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) stock-based compensation expense, (iv) non-recurring, external costs and other expenses related to mergers, acquisitions, capital market transactions and restructurings, to the extent that such amounts are expensed, and (v) 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 calculations 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. This information should be read in conjunction with our consolidated financial statements and the related notes thereto contained elsewhere in this report.

### Overview of Financial Results

	Year Ended December 31,		Change	
	2016	2015	Amount	Percent
<b>Revenue:</b>				
Film content.....	841,385	1,300,133	(458,748)	(35%)
Television content.....	275,494	186,126	89,368	48%
Ancillary businesses.....	67,335	72,105	(4,770)	(7%)
Total revenue.....	1,184,214	1,558,364	(374,150)	(24%)
<b>Contribution:</b>				
Film content.....	233,118	283,957	(50,839)	(18%)
Television content.....	105,486	53,855	51,631	96%
Ancillary businesses.....	44,648	48,682	(4,034)	(8%)
Total contribution.....	383,252	386,494	(3,242)	(1%)
General and administrative.....	126,638	109,912	16,726	15%
Depreciation and non-content amortization.....	35,277	17,803	17,474	98%
Operating income.....	221,337	258,779	(37,442)	(14%)
Equity in net earnings of affiliates.....	35,086	33,491	1,595	5%
Gain on acquisition.....	7,306	-	7,306	NM
Loss on extinguishment of debt.....	(6,017)	-	(6,017)	NM
Interest expense.....	(18,147)	(24,070)	5,923	25%
Interest and other income, net.....	3,527	6,112	(2,585)	(42%)
Income before income taxes.....	243,092	274,312	(31,220)	(11%)
Income tax provision.....	(87,868)	(21,858)	(66,010)	302%
Net income.....	155,224	252,454	(97,230)	(39%)
Add: Net loss attributable to noncontrolling interests...	769	-	769	NM
Net income attributable to MGM Holdings Inc.....	\$ 155,993	\$ 252,454	\$ (96,461)	(38%)

### Adjusted EBITDA

	Year Ended December 31,			Change		Change	
	2016	2015	2015	Amount	Percent	Amount	Percent
		(New Definition)	(Previously Reported)	(New Definition)		(Previously Reported)	
Net income attributable to MGM Holdings Inc.....	\$ 155,993	\$ 252,454	\$ 252,454	\$ (96,461)	(38%)	\$ (96,461)	(38%)
Interest expense.....	18,147	24,070	24,070	(5,923)	(25%)	(5,923)	(25%)
Interest income.....	(3,856)	(5,731)	(5,731)	1,875	33%	1,875	33%
Other income (expense), net.....	329	(381)	(381)	710	186%	710	186%
Gain on acquisition.....	(7,306)	-	-	(7,306)	NM	(7,306)	NM
Loss on extinguishment of debt.....	6,017	-	-	6,017	NM	6,017	NM
Equity in net earnings of affiliates.....	-	-	(33,491)	-	NA	33,491	NM
Income tax provision.....	87,868	21,858	21,858	66,010	302%	66,010	302%
Depreciation and non-content amortization.....	35,277	17,803	17,803	17,474	98%	17,474	98%
EBITDA.....	292,469	310,073	276,582	(17,604)	(6%)	15,887	6%
Step-up Amortization Expense (1).....	71,934	93,563	93,563	(21,629)	(23%)	(21,629)	(23%)
Purchase Accounting Adjustments (2).....	21,286	16,498	-	4,788	29%	21,286	NM
Stock-based compensation expense.....	13,348	10,167	10,167	3,181	31%	3,181	31%
Non-recurring costs and expenses.....	2,037	902	902	1,135	NA	1,135	NA
Adjusted EBITDA.....	\$ 401,074	\$ 431,203	\$ 381,214	\$ (30,129)	(7%)	\$ 19,860	5%

NA – Percentage is not applicable  
 NM – Percentage is not meaningful

(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 for 2016 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. These adjustments result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. In 2015, our share of UAMG’s net income was recorded as part of equity in net earnings of affiliates and was reduced by non-operational amortization expense since the equity method of accounting required us to amortize a portion of our investment over time. Refer to *Cost Structure – Operating Expenses* for additional information.

### Adjusted EBITDA versus the Year Ended December 31, 2015 Results (New Definition)

For the year ended December 31, 2016, Adjusted EBITDA of \$401.1 million was \$30.1 million lower than Adjusted EBITDA of \$431.2 million for the year ended December 31, 2015, primarily due to \$60.6 million of film impairment charges comprised mainly of *Ben-Hur*. The current year included significantly higher Adjusted EBITDA from television content, which grew \$74.7 million, or 125%, over the prior year as a result of our acquisition of UAMG, deliveries of new seasons of *Vikings*, *The New Celebrity Apprentice*, *The Voice*, *Survivor*, *Shark Tank* and several other shows, plus significant international SVOD revenue from our successful scripted television series *Vikings*, *Teen Wolf* and *Fargo*. Adjusted EBITDA also benefitted from the highly successful performance of *Me Before You*, as well as the ongoing distribution of our franchise films, *Spectre* and *Creed*, across multiple distribution windows. This was offset by lower television licensing for film content, primarily reflecting the timing of television licensing revenue for library film content following the recognition of significant television licenses in the prior year. In addition, we recognized \$13.2 million of unanticipated foreign currency losses in the current year primarily due to the devaluation of the British Pound following the Brexit vote, as well as higher G&A expenses primarily due to our acquisition of UAMG and targeted staffing additions focused on areas of business growth.

### 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 51,255,879 and 54,901,331 for the years ended December 31, 2016 and 2015, respectively (in thousands, except per share amounts):

	Year Ended December 31,		Change	
	2016	2015	Amount	Percent
Net income attributable to MGM Holdings Inc.....	\$ 155,993	\$ 252,454	\$ (96,461)	(38%)
Step-up Amortization Expense (1).....	71,934	93,563	(21,629)	(23%)
Purchase Accounting Adjustments (2).....	21,286	16,498	4,788	29%
Stock-based compensation expense.....	13,348	10,167	3,181	31%
Non-recurring costs and expenses.....	2,037	902	1,135	126%
Less: Income tax effect.....	(39,098)	(43,607)	4,509	10%
Adjusted net income.....	\$ 225,500	\$ 329,977	(104,477)	(32%)
Gain on acquisition.....	(7,306)	-	(7,306)	NA
Loss on extinguishment of debt.....	6,017	-	6,017	NA
Less: Income tax effect .....	(2,166)	-	(2,166)	NA
Less: Non-recurring income tax benefit.....	-	(90,910)	90,910	100%
Adjusted net income, excluding non-recurring items.....	\$ 222,045	\$ 239,067	\$ (17,022)	(7%)
Diluted earnings per share.....	\$ 3.04	\$ 4.60	\$ (1.55)	(34%)
Step-up Amortization Expense (1).....	1.40	1.70	(0.30)	(18%)
Purchase Accounting Adjustments (2).....	0.42	0.30	0.11	38%
Stock-based compensation expense.....	0.26	0.19	0.08	41%
Non-recurring costs and expenses.....	0.04	0.02	0.02	142%
Less: Income tax effect.....	(0.76)	(0.79)	0.03	4%
Adjusted Diluted EPS.....	\$ 4.40	\$ 6.01	\$ (1.61)	(27%)
Gain on acquisition.....	(0.14)	-	(0.14)	NA
Loss on extinguishment of debt.....	0.12	-	0.12	NA
Less: Income tax effect .....	(0.04)	-	(0.04)	NA
Less: Non-recurring income tax benefit.....	-	(1.66)	1.66	100%
Adjusted Diluted EPS, excluding non-recurring items.....	\$ 4.33	\$ 4.35	\$ (0.02)	(0%)

(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 for 2016 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. These adjustments result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. In 2015, our share of UAMG's net income was recorded as part of equity in net earnings of affiliates and was reduced by non-operational amortization expense since the equity method of accounting required us to amortize a portion of our investment over time. Refer to *Cost Structure – Operating Expenses* for additional information.

*Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015*

**Film Content**

	Year Ended December 31,		Change	
	2016	2015	Amount	Percent
Revenue:				
Theatrical.....	33,612	465,705	(432,093)	(93%)
Television licensing.....	520,364	576,113	(55,749)	(10%)
Home entertainment.....	206,451	225,727	(19,276)	(9%)
Other revenue.....	80,958	32,588	48,370	148%
Total revenue.....	841,385	1,300,133	(458,748)	(35%)
Expenses:				
Operating (3).....	541,462	772,987	(231,525)	(30%)
Distribution and marketing.....	66,805	243,189	(176,384)	(73%)
Total expenses.....	608,267	1,016,176	(407,909)	(40%)
Contribution.....	\$ 233,118	\$ 283,957	\$ (50,839)	(18%)
Step-up Amortization Expense (3).....	64,210	87,617	(23,407)	(27%)
<b>Adjusted EBITDA (pre-G&amp;A).....</b>	<b>\$ 297,328</b>	<b>\$ 371,574</b>	<b>\$ (74,246)</b>	<b>(20%)</b>

(3) Operating expenses for film content for the years ended December 31, 2016 and 2015 included \$64.2 million and \$87.6 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 \$33.6 million for the year ended December 31, 2016, a decrease of \$432.1 million as compared to \$465.7 million for the year ended December 31, 2015. Theatrical revenue for the current year primarily included the tail-end of our theatrical distribution for *Spectre*, which we initially released in October 2015. As a result, the prior year included significant worldwide theatrical revenue for *Spectre*, as well as revenue from the international<sup>(4)</sup> theatrical distribution of *The Hobbit: The Battle of the Five Armies*, which we released in December 2014. Also, during the current year we did not recognize a substantial portion of the theatrical revenue for *Creed*, *How to Be Single*, *Barbershop: The Next Cut*, *Me Before You*, *Ben-Hur* or *The Magnificent Seven*, which is primarily accounted for on a net basis<sup>(5)</sup> after deduction of theatrical advertising and other related distribution costs. Net revenue from co-produced films is classified as other revenue from film content (see below).

*Television Licensing.* Worldwide television licensing revenue for film content was \$520.4 million for the year ended December 31, 2016, a decrease of \$55.7 million as compared to \$576.1 million for the year ended December 31, 2015. This decrease primarily reflects the timing of television licensing revenue for library film content due to the recognition of significant television licenses in the prior year, plus revenue from several titles entering new television distribution windows during the prior year, including *Skyfall*, *The Hobbit* trilogy, *Hercules*, *If I Stay* and *22 Jump Street*. In comparison, our television licensing revenue for the current year was comprised of robust revenue from recently released film content, including the U.S. pay television premieres of *Spectre*, *Creed* and *Hot Pursuit* on Epix, international pay television and worldwide VOD revenue for *Spectre* and *Creed*, free television availabilities for *The Hobbit: The Desolation of Smaug* and *The Hobbit: The Battle of the Five Armies* internationally,<sup>(4)</sup> and our ongoing television licensing of other recent film releases, including *22 Jump Street*, *RoboCop*, *Hercules* and *Poltergeist*.

(4) Based on the applicable accounting guidance and contractual terms of the co-production and distribution arrangement, we record international distribution revenue and expenses for each film in *The Hobbit* trilogy on a gross basis and primarily recognize our share of domestic distribution profits as a reduction to operating expenses on a net basis over the life of each film in accordance with the accounting for collaborative arrangements. Refer to the discussion in *Critical Accounting Policies and Estimates* above for additional information.

(5) Based on the applicable accounting guidance and contractual terms of the respective co-production and distribution arrangements, we did not recognize the majority of the theatrical and home entertainment revenue for *Creed*, *How to Be Single*, *Barbershop: The Next Cut*, *Me Before You*, *Ben-Hur* or *The Magnificent Seven*. For distribution rights we do not control, we recognize our share of the distribution profit earned by our co-production partner as 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 our co-production partner, which may be several quarters after a film's initial release. Refer to the discussion in *Critical Accounting Policies and Estimates* above for additional information.

Home Entertainment. Worldwide home entertainment revenue for film content was \$206.5 million for the year ended December 31, 2016, a decrease of \$19.2 million as compared to \$225.7 million for the year ended December 31, 2015. Home entertainment revenue for the current year primarily included our worldwide release of *Spectre*, including strong electronic sell-through performance in the U.S. and the U.K, plus the tail-end of the home entertainment promotion for the *James Bond* franchise, which began in September 2015. In comparison, the prior year primarily included revenue from the international<sup>(6)</sup> home entertainment release of *The Hobbit: The Battle of the Five Armies* and significant revenue from our worldwide home entertainment promotion for the *James Bond* franchise.

Other Revenue. Other revenue for film content was \$81.0 million for the year ended December 31, 2016, an increase of \$48.4 million, or 148%, as compared to \$32.6 million for the year ended December 31, 2015. We generated significantly higher net revenue from co-produced films primarily due to the highly successful performance of *Me Before You*, *Creed* and *Max*, which were released in June 2016, November 2015 and June 2015, respectively. In comparison, the prior year included net revenue recognition for several titles, including *22 Jump Street*, *Hercules* and *21 Jump Street*.

### **Film Content – Expenses**

Operating Expenses. Operating expenses for film content were \$541.5 million for the year ended December 31, 2016, a decrease of \$231.5 million as compared to \$773.0 million for the year ended December 31, 2015. The decrease in operating expenses included \$205.0 million of lower aggregate film cost and P&R amortization expenses. Aggregate amortization expenses for the current year primarily included *Spectre*, *Creed*, *The Hobbit* trilogy, the *James Bond* library, *Hercules*, *Max*, *Hot Pursuit* and *Me Before You*, plus \$60.6 million of film impairment charges comprised mainly of *Ben-Hur*. In comparison, aggregate amortization expenses for the prior year primarily included *Spectre*, *The Hobbit: The Battle of the Five Armies*, the *James Bond* library, *Hercules*, *If I Stay* and *22 Jump Street*. In addition, we incurred lower home entertainment product costs during the current year, which primarily included our worldwide home entertainment release of *Spectre*. In comparison, the prior year included the international<sup>(6)</sup> home entertainment release of *The Hobbit: The Battle of the Five Armies* and our worldwide home entertainment promotion for the *James Bond* franchise.

Distribution and Marketing Expenses. Distribution and marketing expenses for film content were \$66.8 million for the year ended December 31, 2016, a decrease of \$176.4 million as compared to \$243.2 million for the year ended December 31, 2015. The decrease primarily reflected \$157.6 million of lower theatrical marketing expenses primarily due to the worldwide theatrical marketing costs for *Spectre* in the prior year. In addition, we incurred lower home entertainment distribution expenses in the current year.

<sup>(6)</sup> Based on the applicable accounting guidance and contractual terms of the co-production and distribution arrangement, we record international distribution revenue and expenses for each film in *The Hobbit* trilogy on a gross basis and primarily recognize our share of domestic distribution profits as a reduction to operating expenses on a net basis over the life of each film in accordance with the accounting for collaborative arrangements. Refer to the discussion in *Critical Accounting Policies and Estimates* above for additional information.

## Television Content

	Year Ended December 31,		Change	
	2016	2015	Amount	Percent
Revenue:				
Television licensing.....	241,852	148,843	93,009	62%
Home entertainment and other.....	33,642	37,283	(3,641)	(10%)
Total revenue.....	275,494	186,126	89,368	48%
Expenses:				
Operating (7).....	159,385	117,608	41,777	36%
Distribution and marketing.....	10,623	14,663	(4,040)	(28%)
Total expenses.....	170,008	132,271	37,737	29%
Contribution.....	\$ 105,486	\$ 53,855	\$ 51,631	96%
Purchase Accounting Adjustments (7).....	21,286	-	21,286	NM
Step-up Amortization Expense (7).....	7,724	5,946	1,778	30%
<b>Adjusted EBITDA (pre-G&amp;A).....</b>	<b>\$ 134,496</b>	<b>\$ 59,801</b>	<b>\$ 74,695</b>	<b>125%</b>

(7) Operating expenses for television content for the year ended December 31, 2016 included \$21.3 million of Purchase Accounting Adjustments and \$7.7 million of Step-up Amortization Expense. Operating expenses for television content for the year ended December 31, 2015 included \$5.9 million of Step-up Amortization Expense and no Purchase Accounting Adjustments. Refer to *Cost Structure – Operating Expenses* for additional information.

### Television Content – Revenue

**Television Licensing.** Television licensing revenue for television content was \$241.9 million for the year ended December 31, 2016, an increase of \$93.1 million, or 62%, as compared to \$148.8 million for the year ended December 31, 2015. We generated higher revenue with deliveries of new episodes of our scripted series *Vikings* (season 4), plus new episodes of unscripted shows including *Celebrity Apprentice* (season 8), *The Voice* (seasons 10 and 11), *Survivor* (seasons 32 and 33), *Shark Tank* (seasons 7 and 8), *Beyond the Tank* (season 2), *Lucha Underground* (seasons 2 and 3) and several other shows, many of which are accounted for on a net basis. In addition, we generated significant international SVOD revenue with our ongoing licensing of our successful scripted television series *Vikings*, *Teen Wolf* and *Fargo*. Our growth in television licensing revenue was bolstered by our consolidation of United Artists Media Group following our acquisition of the remaining 45% minority interests in January 2016. In comparison, the year ended December 31, 2015 primarily included the delivery of season 2 of *Fargo*, the partial delivery of season 3 of *Vikings* plus our continued international licensing of prior seasons of *Vikings*, *Fargo* and *Teen Wolf*.

**Home Entertainment and Other.** Home entertainment and other revenue for television content was \$33.6 million for the year ended December 31, 2016, a decrease of \$3.7 million as compared to \$37.3 million for the year ended December 31, 2015, and primarily included home entertainment revenue for scripted television content in each year.

### Television Content – Expenses

**Operating Expenses.** Operating expenses for television content were \$159.4 million for the year ended December 31, 2016, an increase of \$41.8 million as compared to \$117.6 million for the year ended December 31, 2015. The increase in operating expenses included \$38.7 million of higher aggregate television content cost and P&R amortization expenses, which primarily included amortization expenses for *Vikings* (season 4) and *Celebrity Apprentice* (season 8), plus \$21.3 million of Purchase Accounting Adjustments. For unscripted shows that we record on a net basis, we do not generally recognize significant operating expenses.

**Distribution and Marketing Expenses.** Distribution and marketing expenses for television content were \$10.6 million and \$14.7 million for the years ended December 31, 2016 and 2015, respectively, and primarily included home entertainment marketing costs and distribution expenses in each year.

## Ancillary Businesses

	Year Ended December 31,		Change	
	2016	2015	Amount	Percent
Revenue.....	67,335	72,105	(4,770)	(7%)
Expenses:				
Operating.....	20,273	21,045	(772)	(4%)
Distribution and marketing.....	2,414	2,378	36	2%
Total expenses.....	22,687	23,423	(736)	(3%)
Contribution.....	\$ 44,648	\$ 48,682	\$ (4,034)	(8%)

### Ancillary Businesses – Revenue

Total revenue from our ancillary businesses, which include MGM branded television channel operations, interactive gaming, consumer products, music performance and other revenue, was \$67.3 million for the year ended December 31, 2016, a decrease of \$4.8 million as compared to \$72.1 million for the year ended December 31, 2015. The decrease reflected slightly lower revenue from our domestic digital terrestrial broadcast channels.

### Ancillary Businesses – Expenses

Total expenses for our ancillary businesses were \$22.7 million for the year ended December 31, 2016, a decrease of \$0.7 million as compared to \$23.4 million for the year ended December 31, 2015. The decrease primarily reflected lower participation expenses related to our consumer products licensing business.

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### General and Administrative Expenses

For the year ended December 31, 2016, total G&A expenses were \$126.6 million, an increase of \$16.7 million as compared to \$109.9 million for the year ended December 31, 2015. As expected, our G&A for the year ended December 31, 2016 reflected a net increase in personnel resulting from our acquisition and consolidation of United Artists Media Group and targeted staffing additions focused on areas of business growth, including television content creative development. The increase in G&A expenses also included \$3.2 million of higher stock-based compensation expense and \$2.0 million of incremental professional fees related to certain non-recurring projects.

### Depreciation and non-content amortization

For the year ended December 31, 2016, depreciation and non-content amortization was \$35.3 million, an increase of \$17.5 million as compared to \$17.8 million for the year ended December 31, 2015. 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 \$28.6 million and \$10.9 million for the years ended December 31, 2016 and 2015, respectively. The increase reflected additional non-content intangible assets resulting from our acquisition and consolidation of United Artists Media Group. Depreciation expense for fixed assets was \$6.7 million and \$6.9 million for the years ended December 31, 2016 and 2015, respectively.

### ***Equity in net earnings of affiliates***

For the year ended December 31, 2016, equity in net earnings of affiliates was \$35.1 million, an increase of \$1.6 million as compared to \$33.5 million for the year ended December 31, 2015. The increase was primarily due to our monetization of certain non-core cost method investments in the current year. Separately, due to our acquisition of the remaining 45% minority interests of United Artists Media Group, we began consolidating UAMG in January 2016 and no longer record our share of income using the equity method of accounting. As a result, our equity income declined by \$6.0 million during the year ended December 31, 2016, however, we significantly grew revenue and contribution from our television content, as discussed above. In addition, our equity income from Epix was lower due to a non-recurring revenue item that benefitted the prior year and the upfront marketing expenses incurred during the current year for two new original series that began airing on Epix in October 2016. This was offset by fair value adjustments recorded in the prior year to other business investments accounted for under the costs method of accounting. There were no such fair value adjustments recorded in the current year.

### ***Gain on Acquisition***

In January 2016, we acquired the remaining 45% minority interests of United Artists Media Group. As a result, the accounting for business combinations required us to remeasure the carrying amount of our previously held 55% investment in UAMG and adjust it to fair value. Based on an estimated fair value of \$605.7 million for 100% of the equity of UAMG as of January 2016 (after \$64.7 million of prior distributions), we recognized a \$7.3 million pretax remeasurement gain. This gain represented the amount by which the fair value of our 55% investment in UAMG of \$333.1 million exceeded the carrying amount of \$325.8 million immediately prior to our acquisition of the remaining 45% minority interests. Refer to Note 2 to the consolidated financial statements as of December 31, 2016 for further discussion.

### ***Loss on extinguishment of debt***

In connection with the prepayment of our \$300.0 million second lien term loan in June 2016, we recorded a \$6.0 million loss on extinguishment of debt representing a \$3.0 million call premium and a \$3.0 million write-off of unamortized deferred financing costs. Concurrent with our prepayment of the second lien term loan, we refinanced, upsized and extended our revolving credit facility, which is expected to result in significant cash interest savings while providing us with an optimal capital structure to finance our operations (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion).

### ***Interest expense***

Interest expense is primarily comprised of contractual interest incurred under our senior secured revolving credit facility, our prior second lien term loan credit facility (repaid in June 2016) 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, 2016, total interest expense was \$18.1 million, a reduction of \$6.0 million as compared to \$24.1 million for the year ended December 31, 2015. For the current year, interest expense included \$15.0 million of contractual interest and \$3.1 million of other interest costs. For the prior year, interest expense included \$20.8 million of contractual interest and \$3.3 million of other interest costs. Cash paid for interest was \$14.9 million and \$20.4 million for the years ended December 31, 2016 and 2015, respectively. Our lower interest expense and cash paid for interest for the current year reflected the prepayment of our prior \$300.0 million second lien term loan and refinancing of our revolving credit facility in June 2016 (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion).

### ***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, 2016 and 2015, interest income totaled \$3.9 million and \$5.7 million, respectively.

***Other income (expense), net***

For the years ended December 31, 2016 and 2015, the amounts recorded as other income (expense) were immaterial.

***Income tax provision***

For the year ended December 31, 2016, we recorded an income tax provision of \$87.9 million, which represented an effective tax rate of 36%. For the year ended December 31, 2015, we recorded an income tax provision of \$21.9 million. Our income tax provision for the prior year was reduced by one-time adjustments associated with our Federal income tax filing for 2014, which primarily included additional benefits for extra-territorial income (“ETI”) exclusions for years dating back to 2001 and the impact of a tax accounting method change for film and television cost amortization. Excluding these non-recurring positive items, our income tax provision was \$113.0 million for the prior year, representing an effective tax rate of 41%. Our income tax provision for each year primarily included accruals for U.S. federal and state income taxes using statutory income tax rates, as well as foreign remittance taxes attributable to international distribution revenue. However, 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.

## 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 2016 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*

We have a senior secured revolving credit facility (the “Revolving Credit Facility”) with \$1.0 billion of total commitments, an interest rate of 2.25% over LIBOR and a maturity date of June 25, 2021. The availability of funds under the Revolving Credit Facility is limited by a borrowing base calculation. At December 31, 2016, we had \$200.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The \$800.0 million of remaining funds were entirely available to us.

In June 2016, following the refinancing, upsizing and extension of our Revolving Credit Facility, we prepaid in full our \$300.0 million second lien term loan including a \$3.0 million call premium. Our refinancing of the Revolving Credit Facility and early retirement of the term loan are expected to result in significant cash interest savings while providing us with an optimal capital structure to finance our operations.

The Revolving Credit Facility contains (and term loan contained) various affirmative and negative covenants and financial tests, including 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, 2016.

### *Cash Provided By Operating Activities*

Cash provided by operating activities was \$520.3 million and \$323.9 million for the years ended December 31, 2016 and 2015, respectively. We generated significantly higher operating cash flow during the current year due to the significant cash generation of our franchise films, *Spectre* and *Creed*, our growing television content business, and strong cash flow from our library following the past two years of significant growth in library Adjusted EBITDA. Our net additions to film and television content for the current year decreased \$224.3 million primarily due to the production of *Spectre*, *Creed*, *Ben-Hur* and *The Magnificent Seven* during the prior year.

### *Cash Used In Investing Activities*

Cash used in investing activities was \$89.3 million for the year ended December 31, 2016 and primarily included our acquisition of the remaining 45% minority interests of United Artists Media Group, as well as certain cost method investments. For the year ended December 31, 2015, cash used in investing activities was \$22.7 million and included certain cost method investments and capital expenditures.

### *Cash Used In Financing Activities*

Cash used in financing activities was \$629.6 million for the year ended December 31, 2016 and included the prepayment of our \$300.0 million second lien term loan plus \$10.3 million of financing costs related to our Revolving Credit Facility. In addition, we completed \$518.4 million of aggregate repurchases of our Class A common stock during the year ended December 31, 2016. This was partially offset by \$200.0 million of net borrowings under our Revolving Credit Facility. For the year ended December 31, 2015 cash used in financing activities was \$236.4 million and primarily included repurchases of our Class A common stock.

### 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, 2016, were as follows (in thousands):

	Year Ended December 31,						Total
	2017	2018	2019	2020	2021	Thereafter	
Corporate debt (1) .....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,000	\$ 200,000
Creative talent and employment agreements (2)...	93,257	11,611	4,930	2,000	-	-	111,798
Operating leases .....	9,721	9,606	10,193	10,880	17,831	2,897	61,128
Other contractual obligations (3).....	13,641	3,171	-	-	-	-	16,812
	<u>\$ 116,619</u>	<u>\$ 24,388</u>	<u>\$ 15,123</u>	<u>\$ 12,880</u>	<u>\$ 17,831</u>	<u>\$ 202,897</u>	<u>\$ 389,738</u>

<sup>(1)</sup> Does not include interest costs. In June 2016, we prepaid our \$300.0 million second lien term loan.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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 \$1.0 billion Revolving Credit Facility. At December 31, 2016, we had \$200.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The \$800.0 million of remaining funds were entirely available to us. Our future capital expenditure commitments are not significant.

## Index to Consolidated Financial Statements and Footnotes

Report of Independent Auditors	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Income	F-3
Consolidated Statements of Comprehensive Income	F-4
Consolidated Statements of Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7



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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, 2016 and 2015, 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, 2016 and 2015, 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.

*Ernst & Young LLP*

March 3, 2017

MGM Holdings Inc.

Consolidated Balance Sheets  
(In thousands, except share data)

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 120,353	\$ 319,283
Accounts and contracts receivable (net of allowance for doubtful accounts of \$9,843 and \$14,159, respectively)	473,471	604,681
Film and television costs, net	1,321,070	1,461,577
Investments in affiliates	150,781	444,541
Property and equipment, net	12,146	16,092
Goodwill and other non-content intangible assets, net	681,648	180,721
Other assets	20,031	10,905
Total assets	<u>\$ 2,779,500</u>	<u>\$ 3,037,800</u>
<b>Liabilities and equity</b>		
Liabilities:		
Corporate debt	\$ 200,000	\$ 296,604
Accounts payable and accrued liabilities	104,079	135,950
Accrued participants' share	311,948	404,767
Current and deferred income taxes payable	500,055	431,760
Advances and deferred revenue	151,774	86,968
Other liabilities	17,702	17,401
Total liabilities	<u>1,285,558</u>	<u>1,373,450</u>
Commitments and contingencies		
Equity:		
Class A common stock, \$0.01 par value, 110,000,000 shares authorized, 76,365,783 and 75,976,457 shares issued, respectively, and 45,958,816 and 50,132,879 shares outstanding, respectively	764	760
Class B common stock, \$0.01 par value, 110,000,000 shares authorized, zero and 27,653 shares issued, respectively, and zero and 27,653 shares outstanding, respectively	-	-
Additional paid-in capital	2,093,841	2,012,151
Retained earnings	856,922	700,929
Accumulated other comprehensive loss	(3,522)	(4,243)
Treasury stock, at cost, 30,406,967 and 25,843,578 shares, respectively	<u>(1,453,294)</u>	<u>(1,045,247)</u>
Total MGM Holdings Inc. stockholders' equity	<u>1,494,711</u>	<u>1,664,350</u>
Noncontrolling interests	<u>(769)</u>	<u>-</u>
Total equity	<u>1,493,942</u>	<u>1,664,350</u>
Total liabilities and equity	<u>\$ 2,779,500</u>	<u>\$ 3,037,800</u>

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

MGM Holdings Inc.

Consolidated Statements of Income  
(In thousands)

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Revenue	\$ 1,184,214	\$ 1,558,364
Expenses:		
Operating	721,120	911,640
Distribution and marketing	79,842	260,230
General and administrative	126,638	109,912
Depreciation and non-content amortization	35,277	17,803
Total expenses	<u>962,877</u>	<u>1,299,585</u>
Operating income	221,337	258,779
Other income (expense):		
Equity in net earnings of affiliates	35,086	33,491
Gain on acquisition	7,306	–
Loss on extinguishment of debt	(6,017)	–
Interest expense:		
Contractual interest expense	(15,068)	(20,748)
Amortization of deferred financing costs and other interest costs	(3,079)	(3,322)
Interest income	3,856	5,731
Other income (expense), net	(329)	381
Total other income	<u>21,755</u>	<u>15,533</u>
Income before income taxes	243,092	274,312
Income tax provision	(87,868)	(21,858)
Net income	<u>155,224</u>	<u>252,454</u>
Add: Net loss attributable to noncontrolling interests	769	–
Net income attributable to MGM Holdings Inc.	<u>\$ 155,993</u>	<u>\$ 252,454</u>

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

MGM Holdings Inc.

Consolidated Statements of Comprehensive Income  
(In thousands)

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Net income	\$ 155,224	\$ 252,454
Other comprehensive income (loss), net of tax:		
Unrealized loss on securities	(3)	(48)
Unrealized gain (loss) on derivative instruments	971	(75)
Retirement plan adjustments	185	588
Foreign currency translation adjustments	(432)	(749)
Other comprehensive income (loss)	<u>721</u>	<u>(284)</u>
Add: Comprehensive loss attributable to noncontrolling interests	<u>769</u>	<u>—</u>
Comprehensive income attributable to MGM Holdings Inc.	<u>\$ 156,714</u>	<u>\$ 252,170</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'										
	Common Stock Class A Number of Shares	Class A Par Value	Common Stock Class B Number of Shares	Class B Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	MGM Holdings Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2015	53,700,025	\$ 757	82,566	\$ 1	\$ 1,996,912	\$ 448,475	\$ (3,959)	\$ (747,486)	\$ 1,694,700	\$ -	\$ 1,694,700
Purchase of treasury stock	(3,837,704)	-	-	-	-	-	-	(297,761)	(297,761)	-	(297,761)
Issuance of common stock	215,645	2	-	-	(2)	-	-	-	-	-	-
Conversion of Class B to Class A stock	54,913	1	(54,913)	(1)	-	-	-	-	-	-	-
Stock-based compensation expense	-	-	-	-	10,167	-	-	-	10,167	-	10,167
Excess tax benefits from stock-based compensation	-	-	-	-	5,074	-	-	-	5,074	-	5,074
Net income	-	-	-	-	-	252,454	-	-	252,454	-	252,454
Other comprehensive loss	-	-	-	-	-	-	(284)	-	(284)	-	(284)
Balance, December 31, 2015	50,132,879	760	27,653	-	2,012,151	700,929	(4,243)	(1,045,247)	1,664,350	-	1,664,350
Purchase of treasury stock	(5,900,749)	-	-	-	-	-	-	(462,143)	(462,143)	-	(462,143)
Issuance of treasury stock	1,337,360	-	-	-	66,266	-	-	54,096	120,362	-	120,362
Issuance of common stock	356,154	4	-	-	2,076	-	-	-	2,080	-	2,080
Issuance of restricted stock	5,519	-	-	-	-	-	-	-	-	-	-
Conversion of Class B to Class A stock	27,653	-	(27,653)	-	-	-	-	-	-	-	-
Stock-based compensation expense	-	-	-	-	13,348	-	-	-	13,348	-	13,348
Net income	-	-	-	-	-	155,993	-	-	155,993	(769)	155,224
Other comprehensive income	-	-	-	-	-	-	721	-	721	-	721
Balance, December 31, 2016	<b>45,958,816</b>	<b>\$ 764</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 2,093,841</b>	<b>\$ 856,922</b>	<b>\$ (3,522)</b>	<b>\$ (1,453,294)</b>	<b>\$ 1,494,711</b>	<b>\$ (769)</b>	<b>\$ 1,493,942</b>

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,	
	2016	2015
<b>Operating activities</b>		
Net income	\$ 155,224	\$ 252,454
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to film and television costs, net	(221,417)	(445,673)
Amortization of film and television costs	400,970	465,182
Depreciation and non-content amortization	35,277	17,803
Amortization of discount and deferred financing costs	3,075	3,317
Stock-based compensation expense	13,348	10,167
Provision for doubtful accounts	(2,516)	(796)
Change in fair value of financial instruments	106	(372)
Undistributed losses (earnings) of affiliates	(18,815)	7,187
Gain on acquisition	(7,306)	–
Loss on extinguishment of debt	6,017	–
Other non-cash expenses	309	902
Changes in operating assets and liabilities:		
Accounts and contracts receivable	151,970	(218,895)
Other assets	(1,952)	519
Accounts payable, accrued and other liabilities	(4,939)	28,846
Accrued participants' share	(92,151)	185,727
Current and deferred income taxes payable	58,694	(13,304)
Advances and deferred revenue	44,400	30,813
Net cash provided by operating activities	<u>520,294</u>	<u>323,877</u>
<b>Investing activities</b>		
Acquisition of UAMG (net of cash acquired)	(73,705)	–
Investments in affiliates	(15,400)	(15,300)
Sale of investment	2,519	19
Additions to property and equipment	(2,704)	(7,433)
Net cash used in investing activities	<u>(89,290)</u>	<u>(22,714)</u>
<b>Financing activities</b>		
Additions to Revolving Credit Facility	289,000	–
Repayments of Revolving Credit Facility	(89,000)	–
Repayment of Term Loan, including \$3.0 million call premium	(303,000)	–
Issuance of common stock	2,080	–
Excess tax benefits from stock-based compensation	–	5,074
Purchase of treasury stock	(518,390)	(241,514)
Deferred financing costs	(10,314)	–
Net cash used in financing activities	<u>(629,624)</u>	<u>(236,440)</u>
Net change in cash and cash equivalents from operating, investing and financing activities	(198,620)	64,723
Net change in cash due to foreign currency fluctuations	(310)	(2,916)
Net change in cash and cash equivalents	(198,930)	61,807
Cash and cash equivalents at beginning of year	319,283	257,476
Cash and cash equivalents at end of year	<u>\$ 120,353</u>	<u>\$ 319,283</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, 2016 and 2015

### **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 currently owns or holds interests in MGM-branded channels in the United States, as well as interests in pay television channels in the United States and Brazil. The Company also 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.

*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. As permitted under accounting guidance for producers and distributors of filmed entertainment, unclassified balance sheets have been presented. 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 6). All material intercompany balances and transactions have been eliminated. Certain reclassifications have been made to amounts previously reported to conform to current period presentation, including amounts reported in other assets and corporate debt in the consolidated balance sheets and statement of cash flows after the adoption of Accounting Standards Update (“ASU”) 2015-22. Separately, immaterial net unrealized (gains) losses on production-related cash flow hedges have been adjusted from film and television costs to accumulated other comprehensive income (net of tax) in the consolidated balance sheet to conform to current period presentation.

*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 and Contracts Receivable.* At December 31, 2016 and 2015, accounts and contracts receivable (before allowance for doubtful accounts) aggregated \$483.3 million and \$618.8 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, 2016, there was one customer that individually accounted for 12% of total accounts and contracts receivable. At December 31, 2015, the Company did not have any significant customer concentration.

*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, 2016 and 2015, allowance for doubtful accounts aggregated \$9.8 million and \$14.2 million, respectively.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

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

*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, 2016 and 2015, 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, 2016 and 2015, the Company recorded participation expense of \$15.1 million and \$68.9 million, respectively, for net profit sharing amounts due to its co-production partner under collaborative arrangements.

*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.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

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

*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 \$7.8 million and \$9.1 million, respectively, and minimal expenses during the years ended December 31, 2016 and 2015.

*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, 2016 and 2015, the Company recorded \$60.6 million and \$23.5 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.

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 \$38.8 million and \$179.8 million were recorded during the years ended December 31, 2016 and 2015, respectively. Theatrical print costs are amortized over the periods of theatrical release in the respective territories and are included in operating expenses.

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 film and television costs in the consolidated balance sheets.

During the years ended December 31, 2016 and 2015, the Company incurred shipping and handling costs of \$10.2 million and \$19.4 million, respectively, which are included in distribution and marketing expenses in the consolidated statements of income.

*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.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

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

*Goodwill and Other Non-Content Intangible Assets.* The Company has goodwill of \$441.6 million and other non-content intangible assets totaling \$240.0 million, net of accumulated amortization. Other non-content intangible assets include \$198.0 million of intangible assets subject to amortization, consisting primarily of certain operating agreements with remaining lives ranging from 2 to 17 years. Additionally, trade name-related assets, valued at \$42.0 million, have indefinite lives.

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, 2016 and 2015.

*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 comprehensive income in the consolidated statements of comprehensive income.

*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. 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, 2016.

# 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 \$13.3 million and \$10.2 million during the years ended December 31, 2016 and 2015, respectively. Stock-based compensation expense is included in general and administrative expenses in the consolidated statements of income.

*Noncontrolling Interests.* Net loss attributable to noncontrolling interests primarily included the noncontrolling interests' 45% 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, 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 3, 2017. 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 650, *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 recognize the cumulative effect of applying the new standard at the date of initial application. ASU 2014-09 will be effective for the Company on January 1, 2019 and for annual and interim periods thereafter, with early adoption permitted no earlier than January 1, 2017. The Company expects that the new standard will impact the timing of recognition for revenue associated with renewals or extensions of existing content licensing agreements, which upon adoption will be recognized as revenue when the licensed content becomes available under the renewal or extension instead of when the agreement is renewed or extended. The Company is in the process of determining the method of adoption, as well as quantifying the impact that the new standard will have on its consolidated financial statements.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

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

*Debt Issuance Costs.* In April 2015, the FASB issued ASU 2015-22, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the liability rather than as an asset. The U.S. Securities and Exchange Commission staff will not object to an entity presenting the cost of securing a revolving credit line as an asset, regardless of whether the balance is outstanding. The application of ASU 2015-22 affects only the presentation of debt issuance costs, and therefore does not change how amounts are recognized and measured in the consolidated financial statements. The Company adopted this new presentation on January 1, 2016 on a retrospective basis for all periods presented in the consolidated financial statements. The adoption of this presentation resulted in a reclassification of certain amounts included in other assets to corporate debt in the consolidated balance sheets. As of December 31, 2015, \$3.4 million of unamortized debt issuance costs related to the Company's prior second lien term loan were reclassified in the consolidated balance sheet from other assets to corporate debt. The Company will continue to defer and present debt issuance costs related to its revolving credit facility in other assets and amortize them over the term of the related agreement.

*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 on January 1, 2019, and for annual and interim 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 on January 1, 2020, and for annual and interim 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.

*Stock Compensation.* In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify various aspects of how share-based payments are accounted for and presented in the financial statements. ASU 2016-09 will require companies to record all excess tax benefits and shortfalls through the statements of income instead of recording an adjustment to stockholders' equity. This change is required to be applied prospectively to all tax effects resulting from tax settlements after the date of adoption. ASU 2016-09 also requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Separately, ASU 2016-09 increases the current statutory tax withholding requirements that qualify for the exception of liability classification for shares used to satisfy an employer's statutory income tax obligation, among other things. ASU 2016-09 will be effective for the Company on January 1, 2018, and for interim and annual periods thereafter, with early adoption permitted. The Company elected to early adopt ASU 2016-09 as of January 1, 2016 on a prospective basis, and as such, prior periods have not been adjusted.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

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

*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 on January 1, 2018 and for interim and annual periods thereafter, with early adoption permitted, provided that all amendments are adopted in the same period. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

### Note 2—Acquisition of UAMG

In September 2014, the Company acquired a 55% interest in UAMG, LLC (“United Artists Media Group” or “UAMG”), and in January 2016, the Company acquired the remaining 45% minority interests (the “2016 Acquisition”). This acquisition is consistent with the Company’s emphasis on growing its television content business. In connection with the 2016 Acquisition, MGM reissued 1,337,360 treasury shares valued at \$90.00 per share, and the Company paid \$113.5 million in cash, which was funded by cash on hand, in exchange for the remaining 45% minority interests. Following the 2016 Acquisition, the Company owned and controlled 100% of the membership interests of UAMG, and beginning January 2016 the Company consolidated all of the revenue, expenses and net assets of UAMG.

In accordance with ASC Topic 805, *Business Combinations*, the Company accounted for the 2016 Acquisition as a “business combination achieved in stages.” Accordingly, the Company remeasured the carrying amount of its initial 55% investment in UAMG and adjusted it to fair value. Based on an estimated fair value of \$605.7 million for 100% of the equity of UAMG at the date of the 2016 Acquisition (after \$64.7 million of prior distributions), the Company recognized a pretax remeasurement gain of \$7.3 million. This gain represents the amount by which the estimated fair value of the Company’s 55% interest in UAMG of approximately \$333.1 million exceeded its carrying amount of \$325.8 million at the date of the 2016 Acquisition. This gain was included in gain on acquisition in the consolidated statement of income for the year ended December 31, 2016.

The fair value of the net assets of UAMG was 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, including long-range cash flow projections and a discounted cash flow methodology using discount rates based on a weighted-average cost of capital. As a result, the Company recorded purchase accounting adjustments to increase the carrying value of the content-related net assets to fair value. In addition, the Company recognized \$441.6 million of goodwill, \$333.6 million of which is expected to be deductible for income tax purposes, and \$87.9 million of other identifiable intangible assets that will be amortized over the estimated useful lives of the underlying assets ranging from four to ten years. Goodwill primarily reflects estimates of future cash flows from the expected production and distribution of new content resulting from the 2016 Acquisition, as well as the assembled workforce of UAMG.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 2—Acquisition of UAMG (Continued)

For accounting purposes only, the accounting purchase price for the 2016 Acquisition was \$567.0 million, which reflects the sum of the acquisition-date fair value of the Company's 55% interest in UAMG, plus the value of the reissued treasury shares and cash consideration paid in January 2016. The accounting purchase price was allocated to the assets acquired and liabilities assumed in the 2016 Acquisition, which is as follows (in thousands):

	<b>Amount</b>
Cash and cash equivalents	\$ 39,797
Accounts receivable	19,744
Film and television costs, net	36,879
Investment in affiliate	375
Goodwill and other intangible assets	529,554
Other assets	318
Total assets	626,667
Accounts payable and accrued liabilities	2,458
Accrued participants' share	832
Deferred income taxes payable	8,832
Production obligations	27,138
Deferred revenue	20,406
Total liabilities	59,666
Net assets acquired	\$ 567,001

Transaction costs associated with the 2016 Acquisition were immaterial and were expensed as incurred.

### Note 3—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, 2016 were as follows (in thousands):

<b>Goodwill and Other Non-Content Intangible Assets</b>	<b>Gross Fair Value</b>	<b>Accumulated Amortization</b>	<b>Balance at December 31, 2016</b>	<b>Weighted- Average Remaining Amortization Period</b>
Production and distribution agreements	\$ 221,229	\$ (45,446)	\$ 175,783	17 years
Ancillary business assets	56,057	(42,892)	13,165	2 years
Trademarks and other assets	10,110	(1,014)	9,096	9 years
Intangible assets subject to amortization	287,396	(89,352)	198,044	14.3 years
Trade name-related assets	42,000	–	42,000	Indefinite
Goodwill	441,604	–	441,604	Indefinite
Total goodwill and other non-content intangible assets	\$ 771,000	\$ (89,352)	\$ 681,648	N/A

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 3—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, 2015 were as follows (in thousands):

<b>Goodwill and Other Non-Content Intangible Assets</b>	<b>Gross Fair Value</b>	<b>Accumulated Amortization</b>	<b>Balance at December 31, 2015</b>	<b>Weighted- Average Remaining Amortization Period</b>
Film production and distribution agreements	\$ 143,389	\$ (23,276)	\$ 120,113	26 years
Ancillary business assets	56,057	(37,449)	18,608	3 years
Intangible assets subject to amortization	199,446	(60,725)	138,721	19.7 years
Trade name-related assets	42,000	—	42,000	Indefinite
Total goodwill and other non-content intangible assets	<u>\$ 241,446</u>	<u>\$ (60,725)</u>	<u>\$ 180,721</u>	N/A

The Company recorded amortization of identifiable other non-content intangible assets of \$28.6 million and \$10.9 million during the years ended December 31, 2016 and 2015, 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 \$28.6 million during the year ending December 31, 2017, \$28.5 million during the year ended December 31, 2018, \$24.0 million during the year ended December 31, 2019, \$11.1 million during the year ended December 31, 2020, and \$9.5 million during the year ended December 31, 2021.

*Impairment of Goodwill and Other Non-Content Intangible Assets.* During each of the years ended December 31, 2016 and 2015, 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, 2016 and 2015, respectively. As such, no fair value adjustments were recorded during the years ended December 31, 2016 and 2015.

### Note 4—Film and Television Costs

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

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Theatrical productions:		
Released	\$ 938,738	\$ 1,084,337
In production	77,470	181,718
In development	9,607	7,355
Total theatrical productions	<u>1,025,815</u>	<u>1,273,410</u>
Television programs:		
Released	137,763	139,289
In production	156,050	47,378
In development	1,442	1,500
Total television programs	<u>295,255</u>	<u>188,167</u>
	<u>\$ 1,321,070</u>	<u>\$ 1,461,577</u>

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 4—Film and Television Costs (Continued)

None of the Company's feature film or television programs were completed but not released at December 31, 2016 or 2015.

Based on the Company's estimates of projected gross revenue as of December 31, 2016, approximately 18% of completed film and television costs are expected to be amortized over the next 12 months, and approximately \$95.6 million of accrued participants' share is estimated to be paid in the next 12 months.

As of December 31, 2016, the Company estimated that approximately 81% of unamortized film and television costs for released titles, excluding costs accounted for as acquired film and television libraries, are expected to be amortized over the next three fiscal years.

As of December 31, 2016 and 2015, unamortized film and television costs accounted for as acquired film and television libraries were \$0.8 billion and \$0.9 billion, respectively. 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 nine years as of December 31, 2016.

Interest costs capitalized to theatrical productions were \$1.3 million and \$0.6 million for the years ended December 31, 2016 and 2015, respectively. The Company did not capitalize any overhead to theatrical or television productions during the years ended December 31, 2016 and 2015.

### Note 5—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, 2016 (in thousands):

Description	Balance	Fair Value Measurements at December 31, 2016 using		
		Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 138	\$ 138	\$ —	\$ —
Investments	500	500	—	—
Financial instruments	779	—	779	—
Liabilities:				
Deferred compensation plan	(500)	(500)	—	—
Total	\$ 917	\$ 138	\$ 779	\$ —

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 5—Fair Value Measurements (Continued)

The following table presents information about the Company’s financial assets and liabilities carried at fair value on a recurring basis at December 31, 2015 (in thousands):

<b>Description</b>	<b>Balance</b>	<b>Fair Value Measurements at December 31, 2015 using</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Cash equivalents	\$ 112,010	\$ 112,010	\$ –	\$ –
Investments	753	753	–	–
Financial instruments	1,429	–	1,429	–
<b>Liabilities:</b>				
Deferred compensation plan	(753)	(753)	–	–
<b>Total</b>	<b>\$ 113,439</b>	<b>\$ 112,010</b>	<b>\$ 1,429</b>	<b>\$ –</b>

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

Financial instruments at December 31, 2016 and 2015 reflect the fair value of outstanding foreign currency exchange forward contracts and are included in other assets in the consolidated balance sheets. The fair value of these instruments was determined using a market-based approach.

### Note 6—Investments in Affiliates

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

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Equity method investments:</b>		
Studio 3 Partners, LLC (“Epix”)	\$ 112,662	\$ 95,492
United Artists Media Group	–	325,830
<b>Cost method investments</b>	<b>38,119</b>	<b>23,219</b>
	<b>\$ 150,781</b>	<b>\$ 444,541</b>

The Company has ownership interests in certain television joint ventures which are accounted for under the equity or cost method of accounting, depending on certain facts, including the Company’s ownership percentage and voting rights.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 6—Investments in Affiliates (Continued)

*United Artists Media Group.* In September 2014, the Company acquired a 55% interest in United Artists Media Group, and in January 2016, the Company acquired the remaining 45% minority interests (see Note 2). Following the 2016 Acquisition, the Company owned and controlled 100% of the membership interests of UAMG, and beginning January 2016 the Company consolidated all of the revenue, expenses and net assets of UAMG. For the period from September 2014 through December 31, 2015, the Company accounted for its 55% interest in UAMG using the equity method of accounting. During the year ended December 31, 2015, equity in net earnings of affiliates in the consolidated statement of income included \$22.5 million of earnings from the Company's 55% interest in UAMG, minus \$16.5 million in amortization expense required by the equity method of accounting. In addition, during the year ended December 31, 2015, the Company received \$35.6 million in dividends from its investment in UAMG.

*Studio 3 Partners, LLC.* MGM Studios has a 19.09% interest in Studio 3 Partners, LLC, a joint venture with Viacom Inc., Paramount Pictures Corporation ("Paramount") and Lions Gate Entertainment Corp. that operates Epix, a premium television channel and subscription video-on-demand service. Epix licenses first-run films, select library films and television content from these studio partners as well as other content providers. The Company made no capital contributions to Epix during the years ended December 31, 2016 and 2015.

The Company does not consolidate Epix, but rather accounts for its investment in Epix under the equity method of accounting due to the significance of its voting rights. During the year ended December 31, 2016, equity in net earnings of affiliates in the consolidated statements of income included \$28.0 million of earnings from the Company's 19.09% interest in Epix, minus \$2.3 million of eliminations related to the Company's share of profits on sales to Epix. During the year ended December 31, 2015, equity in net earnings of affiliates in the consolidated statements of income included \$34.2 million of earnings from the Company's 19.09% interest in Epix, plus \$0.6 million of reversals of prior eliminations related to the Company's share of profits on sales to Epix. During the year ended December 31, 2016, the Company received \$8.6 million in dividends from its investment in Epix. The Company did not receive any dividends from its investment in Epix during the year ended December 31, 2015.

Certain feature films were made available to Epix for exhibition in pay television windows and for which \$49.2 million and \$32.0 million of revenue was recognized by the Company during the years ended December 31, 2016 and 2015, respectively.

*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.* Equity in net earnings of affiliates in the consolidated statements of income included \$5.7 million and \$5.1 million of dividend income during the years ended December 31, 2016 and 2015, respectively.

In December 2015, the Company recorded \$12.3 million of non-cash fair value adjustments to certain business investments accounted for under the cost method of accounting. The estimated fair value of each investment was calculated using Level 3 inputs, as defined in the fair value hierarchy, such as the current price of each underlying security, expected volatility, expected dividend yield, time to liquidity, and a risk-free rate of interest. Such fair value adjustments are included in equity in net earnings of affiliates in the consolidated income statement for the year ended December 31, 2015. No such fair value adjustments were recorded during the year ended December 31, 2016.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 7—Property and Equipment

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

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Furniture, fixtures and equipment	\$ 24,974	\$ 22,072
Leasehold improvements	<b>14,086</b>	14,310
	<b>39,060</b>	36,382
Less accumulated depreciation and non-content amortization	<b>(26,914)</b>	(20,290)
	<b>\$ 12,146</b>	\$ 16,092

### Note 8—Corporate Debt

Corporate debt is summarized as follows (in thousands):

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Revolving credit facility	\$ 200,000	\$ —
Term loan	—	300,000
Deferred financing costs	—	(3,396)
	<b>\$ 200,000</b>	\$ 296,604

*Revolving Credit Facility.* The Company previously had a \$665.0 million senior secured revolving credit facility (the “Revolving Credit Facility”) with an interest rate of London Interbank Offered Rate (“LIBOR”) plus 2.75%. In June 2016, the Company amended the Revolving Credit Facility by increasing total commitments to \$1.0 billion, lowering the interest rate to LIBOR plus 2.25% (all-in rate was 3.02% at December 31, 2016), extending the maturity date to June 25, 2021 and modifying certain financial and other covenants.

The availability of funds under the Revolving Credit Facility is limited by a borrowing base calculation and reduced by outstanding letters of credit, if any. At December 31, 2016, there was \$200.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The \$800.0 million of remaining funds were entirely available to the Company. Lenders under the Revolving Credit Facility have a senior security interest in substantially all the assets of MGM, with certain exceptions. At December 31, 2016, the Company was in compliance with all applicable covenants, and there were no events of default.

The Company incurred \$10.3 million in fees and other costs related to the Revolving Credit Facility amendment, which were deferred and included in other assets in the consolidated balance sheets. Aggregate deferred financing costs of \$14.2 million are being amortized over the term of the amended Revolving Credit Facility using the straight-line method. During the years ended December 31, 2016 and 2015, the Company recorded interest expense for the amortization of deferred financing costs of \$2.7 million and \$2.6 million, respectively.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 8—Corporate Debt (Continued)

Under the amended Revolving Credit Facility, the Company incurs an annual commitment fee equal to either 0.375% or 0.5% per annum, depending on the percentage of total commitments undrawn each day. Payments are made quarterly based on the average daily amount undrawn during the period. During the years ended December 31, 2016 and 2015, the Company incurred commitment fees of \$4.6 million and \$5.0 million, respectively. Separately, during the year ended December 31, 2016, the Company recorded \$2.7 million of interest expense for borrowings under the Revolving Credit Facility. No interest expense was recorded during the year ended December 31, 2015. Commitment fees and interest expense are included in contractual interest expense in the consolidated statements of income.

*Term Loan.* In June 2014, the Company entered into a six-year \$300.0 million second lien term loan with a syndicate of lenders (the “Term Loan”). The Term Loan had a fixed interest rate of 5.125% per annum and a maturity date of June 25, 2020. In June 2016, the Company prepaid the Term Loan in full resulting in a \$6.0 million loss on extinguishment of debt representing a \$3.0 million call premium and a \$3.0 million write-off of unamortized deferred financing costs. Separately, for the years ended December 31, 2016 and 2015, the Company recorded interest expense of \$7.6 million, and \$15.4 million, respectively. The lower interest expense represents approximately six months of interest savings as a result of our prepayment. Interest expense is included in contractual interest expense in the consolidated statements of income.

### Note 9—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, 2016, 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 assets in the consolidated balance sheet. All foreign currency exchange forward contracts designated for hedge accounting were deemed effective at December 31, 2016. 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, 2016, the Company recorded \$0.4 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, 2016, \$1.9 million of net unrealized gains included in accumulated other comprehensive loss are expected to be recognized into earnings within the next 12 months.

During the year ended December 31, 2016, the Company reclassified \$0.5 million of net realized gains out of accumulated other comprehensive loss and into earnings for foreign currency exchange forward contracts. Such amounts were included in distribution and marketing expenses or operating 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, 2015, the Company had several outstanding foreign currency exchange forward contracts which were carried at fair value and included in other assets in the consolidated balance sheet. All foreign currency exchange forward contracts designated for hedge accounting were deemed effective at December 31, 2015 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, 2015, the Company recorded \$3.2 million of net unrealized gains (net of tax) relating to the change in fair value of such contracts.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 10—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, 2016, 76,365,783 aggregate shares of common stock were issued, all of which were shares of Class A common stock. In its consolidated balance sheet as of December 31, 2016, the Company reported aggregate shares, net of cumulative repurchased shares, totaling 45,958,816.

In January 2016, MGM reissued 1,337,360 treasury shares valued at \$90.00 per share and the Company paid \$113.5 million in cash in exchange for the remaining 45% minority interests in UAMG (see Note 2).

As of December 31, 2015, 76,004,110 aggregate shares of common stock were issued, which included 75,976,457 shares of Class A common stock and 27,653 shares of Class B common stock. In its consolidated balance sheet as of December 31, 2015, the Company reported net aggregate shares totaling 50,160,532, which included 50,132,879 outstanding shares of Class A common stock, 27,653 outstanding shares of Class B common stock, and commitments to repurchase 731,700 shares of Class A common stock that were paid in the first quarter of 2016.

*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, 2016, no shares of Preferred Stock were issued or outstanding.

*Treasury Stock.* During the year ended December 31, 2016, the Company completed repurchases of 6,632,449 shares of its Class A common stock at a weighted-average price of \$78.16 per share for a total of \$518.4 million, which included 731,700 shares that the Company committed to repurchasing at December 31, 2015. Excluding amounts committed at December 31, 2015, the Company repurchased 5,900,749 shares of its Class A common stock at a weighted-average price of \$78.32 per share for a total of \$462.1 million during the year ended December 31, 2016.

During the year ended December 31, 2015, the Company repurchased or committed to repurchase a total of 3,837,704 shares of its Class A common stock at a weighted-average price of \$77.59 per share for a total of \$297.8 million.

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

*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.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 10—MGM Holdings Inc. Stockholders' Equity (Continued)

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

	Year Ended December 31,			
	2016		2015	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	6,546,102	\$ 46.77	6,401,529	\$ 42.04
Granted	550,000	90.91	650,000	90.65
Exercised	(356,154)	40.40	(215,645)	35.66
Canceled or expired	(445,074)	38.73	(289,782)	44.20
Options outstanding at end of year	6,294,874	\$ 51.55	6,546,102	\$ 46.77
Options exercisable at end of year	4,741,874	\$ 42.15	4,974,782	\$ 39.67

The weighted-average remaining contractual life of all outstanding options as of December 31, 2016 was 5.4 years. As of December 31, 2016, total compensation cost related to non-vested awards not yet recognized under the Stock Incentive Plan was \$18.1 million, which is expected to be recognized over a weighted-average period of 1.6 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, 2016 and 2015 was \$24.26 and \$25.55, respectively. Fair value was determined using the following assumptions: a dividend yield of 0%, an expected volatility ranging from 29% to 33%, an average expected life ranging from 6.5 years to 7.4 years, and a weighted-average assumed risk-free interest rate ranging from 1.33% to 2.10%. Expected volatility was determined based on the average of historical and implied volatilities for comparable peer companies.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 11—Income Taxes

Domestic and foreign tax liability balances consisted of the following (in thousands):

	December 31,	
	2016	2015
Current	\$ 13,834	\$ 27,227
Deferred	<b>486,221</b>	404,533
	<b>\$ 500,055</b>	\$ 431,760

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

	December 31,	
	2016	2015
Deferred tax assets:		
Operating loss carryforwards	\$ 178,257	\$ 306,722
Reserves	18,644	18,200
Stock options	22,072	19,330
Accrued participants' share	9,157	14,682
Real estate leases	8,046	7,937
Other tax assets	4,571	4,708
Unrealized losses on derivative instruments and investments	3,296	3,832
Property and equipment	2,426	1,885
	246,469	377,296
Valuation allowance	(51,242)	(57,323)
Total deferred tax assets	195,227	319,973
Deferred tax liabilities:		
Corporate debt	(299,508)	(299,513)
Film and television costs	(216,446)	(253,391)
Other non-content intangible assets	(66,936)	(65,060)
Film and television revenue	(94,623)	(103,185)
Investments in affiliates	(3,935)	(3,357)
Total deferred tax liabilities	(681,448)	(724,506)
Net deferred tax liability	<b>\$ (486,221)</b>	\$ (404,533)

At December 31, 2016, 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, 2016 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 \$0.6 billion, which will expire between the years ending December 31, 2017 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, 2016 and 2015, deferred tax assets in the amount of \$51.2 million and \$57.3 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 11—Income Taxes (Continued)

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

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Current taxes:		
Federal and state taxes	\$ 598	\$ 568
Foreign taxes	13,563	21,269
Deferred taxes:		
Federal taxes	69,615	(6,852)
State taxes	10,173	13,738
Change in valuation allowance	(6,081)	(6,865)
Total income tax provision	\$ 87,868	\$ 21,858

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

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Federal tax rate on pre-tax book income	35%	35%
State taxes, net of federal income tax benefit	1	1
Changes in uncertain tax positions	–	(1)
Foreign taxes, net of federal income tax benefit	3	6
Change in valuation allowance	(2)	(2)
Other permanent differences	(1)	(31)
Effective tax rate	36%	8%

Other permanent differences for the year ended December 31, 2016 in the federal tax rate reconciliation table above primarily include the recording of excess tax benefits from share-based payments, a non-taxable accounting remeasurement gain on the Company's 55% equity interest in UAMG, and the expiration of California net operating loss carryforwards. Other permanent differences for the year ended December 31, 2015 in the federal tax rate reconciliation table above primarily included one-time adjustments associated with the Company's Federal income tax filing for 2014. These adjustments primarily reflected additional benefits for extra-territorial income exclusions for years dating back to 2001 and the impact of a tax accounting method change for film and television cost amortization.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 11—Income Taxes (Continued)

As of December 31, 2016 and 2015, the Company had \$7.4 million and \$7.7 million of unrecognized tax benefits, respectively. The Company has accrued interest and penalties associated with these unrecognized tax benefits of \$6.4 million and \$6.2 million as of December 31, 2016 and 2015, respectively, of which \$0.1 million and \$(0.9) million were recognized as a component of the income tax provision during the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, the Company had cumulative unrecognized tax benefits, including interest and penalties, of \$13.8 million, of which \$10.5 million, if recognized, would impact the effective tax rate. The Company believes that approximately \$10.4 million of additional unrecognized tax benefits, including interest and penalties, at December 31, 2016 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):

	<b>December 31,</b>	<b>2015</b>
	<b>2016</b>	<b>2015</b>
Unrecognized tax benefits at January 1	\$ 7,657	\$ 10,895
Increases based on tax positions taken during a prior period	354	666
Decreases based on tax positions taken during a prior period	(111)	(1,317)
Reductions as a result of settlement with tax authorities	(339)	–
Reductions as a result of a lapse of the statute of limitations	(339)	(2,029)
Foreign currency translation adjustments	137	(558)
Unrecognized tax benefits at December 31	\$ 7,359	\$ 7,657

The Company or one of its subsidiaries files income tax returns with federal, state, local and foreign jurisdictions. As of December 31, 2016, the tax years that remain subject to examination by significant jurisdiction are as follows:

U.S. federal	Tax year ended December 31, 2013 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, 2013 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 2017.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 12—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):

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Change in benefit obligation:</b>		
Projected benefit obligation, beginning of year	\$ 16,832	\$ 21,593
Interest cost	678	808
Actuarial loss (gain)	237	(1,577)
Settlement gain	(115)	(281)
Net benefits paid	(1,110)	(3,710)
Projected benefit obligation, end of year	\$ 16,522	\$ 16,833
Accumulated benefit obligation, end of year	\$ 16,522	\$ 16,833
<b>Change in fair value of plan assets:</b>		
Fair value of plan assets, beginning of year	\$ 12,366	\$ 16,750
Actual return on plan assets	841	(674)
Net benefits paid	(1,110)	(3,710)
Fair value of plan assets, end of year	\$ 12,097	\$ 12,366
<b>Funded status:</b>		
Fair value of plan assets	\$ 12,097	\$ 12,366
Projected benefit obligation	16,522	16,833
Funded status, and net balance sheet liability	\$ (4,425)	\$ (4,467)

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

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Net actuarial loss	\$ 1,902	\$ 2,192
	\$ 1,902	\$ 2,192

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

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Interest cost on projected benefit obligation	\$ 678	\$ 808
Expected return on plan assets	(587)	(809)
Net actuarial loss	69	108
Settlement loss	88	436
Net periodic pension expense	\$ 248	\$ 543

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 12—Retirement Plans (Continued)

During the years ended December 31, 2016 and 2015, the Company incurred settlement losses of \$0.1 million and \$0.4 million, respectively, due to lump-sum amounts paid out of the Plan during each respective year.

The unrecognized net liability is being amortized over the estimated remaining service life of 7.2 years and 7.5 years as of December 31, 2016 and 2015, respectively. 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:

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Assumptions – benefit obligations		
Discount rate	<b>3.99%</b>	4.19%
Rate of increase in future compensation levels	<b>N/A</b>	N/A
Assumptions – net periodic pension cost		
Discount rate	<b>4.19%</b>	3.87%
Long-term rate of return on assets	<b>5.00%</b>	5.00%
Rate of increase in future compensation levels	<b>N/A</b>	N/A

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, 2016, benefits expected to be paid under the Plan for the next ten years are as follows (in thousands):

<b>Calendar Year</b>	<b>Amount</b>
2017	\$ 1,342
2018	616
2019	1,053
2020	904
2021	1,120
2022–2026	7,758
	\$ 12,793

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 12—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, 2016 (in thousands):

<b>Description</b>	<b>Balance</b>	<b>Fair Value Measurements at December 31, 2016 using</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Pooled separate accounts	\$ 12,097	\$ —	\$ 12,097	\$ —
Total	<u>\$ 12,097</u>	<u>\$ —</u>	<u>\$ 12,097</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, 2015 (in thousands):

<b>Description</b>	<b>Balance</b>	<b>Fair Value Measurements at December 31, 2015 using</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Pooled separate accounts	\$ 12,366	\$ —	\$ 12,366	\$ —
Total	<u>\$ 12,366</u>	<u>\$ —</u>	<u>\$ 12,366</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:

	<b>Year Ended December 31,</b>	<b>Year Ended December 31,</b>
	<b>2016</b>	<b>2015</b>
Equity securities	<b>0%</b>	0%
Debt securities and other	<b>100</b>	100
	<u><b>100%</b></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 12—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, 2016. No contributions were made to the Plan during the years ended December 31, 2016 and 2015. The Company does not expect to make any required or discretionary contributions to the Plan during the year ending December 31, 2017.

*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 4% of the participant's basic earnings on a pre- and after-tax basis up to a maximum of \$3,000 per participant per plan year. Contributions to the Savings Plan totaled \$0.8 million and \$0.5 million during the years ended December 31, 2016 and 2015, 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, all of the plans in which the Company contributes are at least 80% funded, except one that is less than 65% funded. Aggregate contributions to these plans totaled \$10.7 million and \$9.8 million during the years ended December 31, 2016 and 2015, respectively.

### Note 13—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, 2015	\$ (9)	\$ (1,630)	\$ (1,991)	\$ (329)	\$ (3,959)
Current period					
comprehensive income	(75)	(117)	919	(2,917)	(2,190)
Income tax effect	27	42	(331)	2,168	1,906
Balance, December 31, 2015	(57)	(1,705)	(1,403)	(1,078)	(4,243)
Current period					
comprehensive income	(5)	1,517	289	(311)	1,490
Income tax effect	2	(546)	(104)	(121)	(769)
Balance, December 31, 2016	\$ (60)	\$ (734)	\$ (1,218)	\$ (1,510)	\$ (3,522)

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### Note 14—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 \$76.9 million and \$61.0 million were recognized as revenue during the years ended December 31, 2016 and 2015, respectively.

### Note 15—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, 2016, 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.

*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 \$6.9 million and \$6.5 million during the years ended December 31, 2016 and 2015, respectively.

*Other Commitments.* The Company has various other commitments entered into in the ordinary course of business relating to operating leases for equipment and contractual obligations under co-production arrangements. Where necessary, the Company has provided an accrual for such amounts as of December 31, 2016.

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, 2016 were as follows (in thousands):

	Year Ended December 31,						Total
	2017	2018	2019	2020	2021	Thereafter	
Corporate debt <sup>(1)</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,000	\$ 200,000
Creative talent and employment agreements <sup>(2)</sup>	93,257	11,611	4,930	2,000	-	-	111,798
Operating leases	9,721	9,606	10,193	10,880	17,831	2,897	61,128
Other contractual obligations <sup>(3)</sup>	13,641	3,171	-	-	-	-	16,812
	<u>\$ 116,619</u>	<u>\$ 24,388</u>	<u>\$ 15,123</u>	<u>\$ 12,880</u>	<u>\$ 17,831</u>	<u>\$ 202,897</u>	<u>\$ 389,738</u>

<sup>(1)</sup> Excludes interest costs.

<sup>(2)</sup> 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.

<sup>(3)</sup> Other contractual obligations primarily include contractual commitments related to the Company's 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.

# MGM Holdings Inc.

## Notes to Consolidated Financial Statements (Continued)

### **Note 15—Commitments and Contingencies (Continued)**

The Company has a \$1.0 billion Revolving Credit Facility. At December 31, 2016, there was \$200.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The \$800.0 million of remaining funds were entirely available to the Company (see Note 8).

### **Note 16—Supplementary Cash Flow Information**

The Company paid interest of \$14.9 million and \$20.4 million during the years ended December 31, 2016 and 2015, respectively. The Company paid taxes of \$29.1 million and \$30.7 million during the years ended December 31, 2016 and 2015, respectively.