MGM HOLDINGS INC.

For the quarter ended September 30, 2018

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

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Forward-Looking Statements

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

- our ability to predict the popularity of our film and television content, or predict consumer tastes;
- our ability to maintain and renew affiliation agreements and content licensing agreements for EPIX and our other wholly-owned and joint venture channels;
- our ability to exploit emerging and evolving technologies, including alternative forms of content and delivery, and the storage of content;
- our ability to finance and produce film and television content, and to do so in accordance with the anticipated schedule or budget, or with the creative talent anticipated to be included in the projects;
- increased costs for producing and marketing feature films and television content;
- our ability to acquire film and television content on favorable terms;
- our ability to exploit our library of film and television content;
- our ability to integrate acquired businesses and operate joint ventures;
- our financial position, sources of revenue and results of operations;
- our liquidity, access to capital and capital expenditures;
- our ability to attract, retain and successfully replace critical senior management personnel and other key employees;
- inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, or other rates or prices; and
- trends in the entertainment industry.

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

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

Company Background and Business Overview

Overview

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

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

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

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

Business

Production of film and television content

<u>*Film Content*</u>. We are involved in the development, production and acquisition of film content, and for certain films, we participate with third parties through co-production arrangements to produce, co-finance and distribute our content, as well as content developed by our partners. We have several feature films in various stages of development, production and post-production, including, but not limited to, the 25th installment of the *James Bond* franchise, *The Addams Family*, *Anna and the Apocalypse, Bad Trip*, *Child’s Play*, *Creed II*, *Fighting with My Family*, *Gretel and Hansel*, *The Hustle*, *I Am Pilgrim*, *Legally Blonde 3*, *The Prodigy*, *RoboCop*, *Taking Flight, The Sun is Also a Star* and *Valley Girl*.

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

Scripted series. We control distribution rights on a worldwide basis (excluding Canada) to the award-winning television series *Vikings*. The second half of the 20-episode fifth season of *Vikings* will premiere on History on November 28, 2018. History has already renewed the series for a 20-episode sixth season, which is currently in production. *Fargo* completed its third season on FX in June 2017 and received 16 Emmy nominations (winning one) and three Golden Globe nominations (winning one). FX recently renewed *Fargo* for a fourth season that is anticipated to begin production in 2019. *The Handmaid’s Tale* completed its first season on Hulu in June 2017 and received an incredible eight Emmy awards, including Outstanding Drama Series, two Golden Globe awards, including Best Television Series Drama, as well as the Peabody Award, a BAFTA award and many other distinguished awards. Season 2 of *The Handmaid's Tale* premiered on April 25, 2018 and received three Emmy Awards, bringing the series total to eleven Emmy Awards. Hulu has renewed the series for a third season, which recently began production. *Get Shorty* premiered its second season on EPIX on August 12, 2018, and production on season three is expected to start in 2019. Our new series, *Condor* premiered June 6, 2018 on AT&T's Audience Network and has been picked up for a second season, and *Luis Miguel: La Serie*, an officially authorized series based on the life of internationally renowned music superstar Luis Miguel, premiered in April 2018 in the U.S. on Telemundo and on Netflix in Latin America and Spain and has been renewed for a second season. We are currently in production on *Our Lady, LTD* for EPIX and will start production in November, 2018 on *Four Weddings and a Funeral* for Hulu. We have several other internally-developed scripted television series in advanced stages of development and production that we expect to deliver in future periods.

Unscripted shows. We have numerous successful and enduring unscripted television shows that we are currently producing. *The Voice* commenced its 15th season on NBC in September 2018. Last year *The Voice* won an Emmy Award for Outstanding Reality Competition Program and this year the show was nominated for an impressive ten Emmy Awards. *Survivor* commenced its 37th season on CBS in September 2018. *Shark Tank* finished airing its 9th season in February 2018 and was renewed by ABC for a 10th season that premiered in October 2018. *Shark Tank* was nominated for two Emmy Awards this year including Outstanding Structured Reality Program. *Lucha Underground* commenced its fourth season in June 2018. *Beat Shazam*, our interactive music game show for FOX hosted by Jamie Foxx, commenced its second season in May, 2018 and was recently picked up for a third season. In addition, we produced the new show, *TKO: Total Knock Out* hosted by actor and comedian Kevin Hart, which premiered on CBS on July 11, 2018 and announced the return of the endurance race *Eco-Challenge* with Bear Grylls for Amazon. We also have a robust slate of unscripted television content in various stages of development and production that we expect to deliver in future periods, including season 2 of our Emmy-nominated nationally syndicated daytime courtroom show, *Couples Court with The Cutlers*, season 6 of the Emmy-nominated *Lauren Lake's Paternity Court*, *The World's Best*, which will air on CBS, and many other shows.

In July 2017, we acquired the assets of Evolution Film & Tape, Inc. ("Evolution"), which includes successful unscripted shows such as *The Real Housewives of Orange County*, which premiered its 13th season on July 16, 2018, *The Real Housewives of Beverly Hills*, which is currently in production on its 9th season, and *Vanderpump Rules*, which is currently in production on its 7th season. In addition, we are currently in production on *The Hills: New Beginnings* for MTV, wrapped production on season 5 of *Botched* for the E! network and season 2 of *Sweet Home* for Bravo, and on July 16, 2018 our new show, *Bug Juice: My Adventures at Camp*, premiered on the Disney Channel. Evolution has several additional projects in various stages of development that we expect to deliver in future periods.

In June 2018, we acquired Big Fish Entertainment LLC ("Big Fish") further augmenting our television content segment with a slate of successful unscripted shows: *Live PD*, currently airing its third season on A&E, *Black Ink Crew New York,* currently airing its 7th season on VH1, *Black Ink Crew Chicago*, which recently completed its 4th season on VH1, and *Hustle & Soul*, which was renewed for a third season on WE tv in September 2018. Big Fish also has additional unscripted television content in various stages of development, production and post-production that we expect to deliver in future periods.

<u>*EPIX*</u>. We are developing, producing and acquiring original programming for EPIX, including targeted scripted series, unscripted shows and docuseries. We are focused on investing in compelling content to create a consistent presence of original programming for EPIX that augments the strong pipeline of theatrical releases and library content that currently exist on the platform. EPIX premiered its eight-episode espionage series, *Deep State*, on June 17, 2018, season 2 of *Get Shorty* on August 12, 2018, its seminal competition boxing show, *The Contender*, hosted by Andre Ward, on August 24, 2018 and the unscripted comedy show *Unprotected Sets* on October 5. EPIX's hit show *Berlin Station* will return for its third season on December 3, 2018. In addition, we have a robust pipeline of original programming in various stages of production and development for 2019 and beyond, including *Pennyworth*, a dark telling of the superhero origins of Batman's legendary butler Alfred Pennyworth from Warner Bros. and DC Comics, *The Godfather of Harlem*, a 10 episode gangster crime drama starring Forest Whitaker, *Our Lady, LTD* starring Ben Kingsley, *Slaughterhouse-Five* and *Shook Up*, as well as several other scripted and unscripted shows.

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

Distribution of film and television content

Theatrical Distribution

In October 2017, together with Annapurna Releasing, LLC ("Annapurna"), we formed a joint venture that will control and finance the U.S. theatrical marketing and distribution of certain MGM and Annapurna films. Each partner's qualifying films will be distributed by the joint venture under their respective banners, while third party films will be distributed under the banner "Mirror Releasing." Refer to *Joint Ventures* below for further discussion. *Death Wish* was the first film released under the MGM banner by this joint venture on March 2, 2018, and *Operation Finale* was released on August 29, 2018. Our upcoming franchise film, *Creed II*, is set to premiere in U.S. theaters on November 21, 2018.

In addition, in September 2017, we announced the re-launch of Orion Pictures as our in-house theatrical marketing and distribution company that will control and finance the U.S. theatrical marketing and distribution of a slate of modestly budgeted MGM-produced and acquired films. *Every Day* was the first film released by Orion Pictures on February 23, 2018, with *Anna and the Apocalypse* set to release on November 30, 2018.

In May 2018, we announced the re-launch of Orion Classics as our in-house distribution company that will focus on multiplatform and specialized releases, as well as acquisitions. *The Domestics* was the first film released by Orion Classics on June 28, 2018. Orion Classics also acquired rights to Nijla Mu'min's award winning drama *JINN* for release in November 2018; Suzi Yoonessi's *Unlovable* for release in November 2018; Bridey Elliott's drama *Clara's Ghost* for release in December 2018; *Maine*, a drama directed by Matthew Brown and planned for release in December 2018; and Melissa Miller Costanzo's drama, *All These Small Moments*, for release in January 2019.

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

We also participate with third parties in various arrangements to distribute feature films theatrically. These arrangements allow us to distribute new releases by utilizing third parties to book theaters and execute marketing campaigns and promotions in return for distribution fees. While third parties provide theatrical distribution services on a film-by-film basis, we often have significant involvement in the decision process regarding key elements of distribution, such as the creation of marketing campaigns and the timing of the film release schedule, allowing our experienced management team to provide key input in the critical marketing and distribution strategies while avoiding the high fixed-cost infrastructure required for physical distribution. For our co-produced films, our co-production partner generally provides worldwide theatrical distribution services for the applicable film, though for certain films in certain territories (including the U.S.) we may distribute the film under the MGM banner and/or utilize the services of other distributors. To-date, we have released five co-produced films theatrically during 2018. We released *Tomb Raider* on March 16, 2018 with our co-production partner Warner Bros. Pictures, *Sherlock*

Gnomes on March 23, 2018 with our co-production partner Paramount, *Overboard* on May 4, 2018 with our co-production partner Pantelion Films, *A Star is Born* on October 5, 2018 with our co-production partner Warner Bros. Pictures, and *The Girl in the Spider's Web* on November 9, 2018 with our co-production partner Sony Pictures.

Television Distribution

We have an in-house television licensing and distribution organization. We license our content for pay television (including premium services, SVOD and pay-per-view ("PPV")) and free television, and through other digital distribution platforms such as 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 consumers to rent our content, 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, TVOD distribution via cable, satellite, IP television systems, gaming consoles and other 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 series, including *Spectre*, *Skyfall*, *Death Wish*, *RoboCop*, *Vikings*, *Get Shorty*, *The Handmaid's Tale*, *Teen Wolf* and other titles, 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 films, our co-production partners control physical home entertainment distribution rights. For example, Sony Pictures Entertainment, Inc. ("Sony") is the physical home entertainment distributor for films in the *21 Jump Street* franchise and *The Magnificent Seven*; Warner Bros. Entertainment Inc. is the physical home entertainment distributor for *The Hobbit* trilogy, *Creed*, *Everything, Everything*, *Max*, *Me Before You* and *Tomb Raider*; 20th Century Fox is the physical home entertainment distributor for *Poltergeist*; and Paramount Pictures Corporation ("Paramount") is the physical home entertainment distributor for *Sherlock Gnomes* and *Ben-Hur*. EST distribution rights for these and other co-financed films may be controlled by us or our partners depending on the terms of the applicable co-financing and distribution agreement.

As with theatrical distribution controlled by third parties, while we use the physical distribution services of third parties, we often have significant involvement in the decision-making process regarding key elements of distribution, including the creation 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.

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.

Media Networks

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

We also own and operate an MGM-branded channel in the U.S., MGM HD, and 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, LightTV and Charge!. ThisTV is a top performing free multicast movie network cleared in 73% of the U.S. and reaching approximately 84 million households. Comet TV is a sci-fi-oriented domestic multicast network featuring MGM content that is cleared in 89% of the country and reaches approximately 102 million households. LightTV is a multicast network focused on faith and family-oriented content that is cleared in 64% of the country and reaches approximately 74 million households. Charge! is a free action/adventure-oriented multicast network that is cleared in 61% of the country and reaches approximately 71 million households. We continue to seek and evaluate additional opportunities to create new channels or expand our existing channels.

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

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

Joint Ventures

U.S. Theatrical Distribution Joint Venture. In October 2017, together with Annapurna, we formed a joint venture that will control and finance the U.S. theatrical marketing and distribution of certain MGM, Annapurna and third party films. Each partner's qualifying films will be distributed by the joint venture under their respective banners, while third party films will be distributed under the banner "Mirror Releasing." Based on the underlying terms of the joint venture arrangement, we will account for our share of certain profits and losses of the joint venture using the equity method of accounting and will account for the U.S. theatrical marketing and distribution results for MGM films distributed by the joint venture on a net basis similar to our accounting for co-produced film content (refer to *Critical Accounting Policies and Estimates – Revenue Recognition* below for further discussion).

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

Cost Method Investments. Equity in net earnings of affiliates in our consolidated statements of income for the nine month periods ended September 30, 2018 and 2017 included $2.3 million and $3.2 million, respectively, of dividend income from cost method investments.

Corporate Information

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

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

At September 30, 2018, 44,774,954 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, located at 1 State Street, 30th Floor, New York, New York 10004-1561. Contact and additional information regarding Continental Stock Transfer & Trust can be found at www.continentalstock.com.

Facilities

We lease approximately 151,000 square feet of office space, plus related parking and storage facilities, for our corporate headquarters in Beverly Hills, California under a lease that expires in 2026. We also lease approximately 50,500 square feet of office space in New York, New York that is primarily used for EPIX and our TV syndication group, 22,904 square feet of office space in New York, New York that is used for Big Fish, 26,000 square feet of office space in Burbank, California that is used for Evolution, and approximately 33,500 square feet of office space in Culver City, California that is primarily used for our MGM channels related business activities. In addition, we have television distribution offices in Miami, London, Sydney and Toronto. On occasion, we may lease studio facilities, stages and other space from unaffiliated parties. Such leases are generally on an as-needed basis in connection with the production of various film, television and other projects.

Board of Directors and Office of the CEO

The members of the Board of Directors of MGM Holdings (the "Board") are Kevin Ulrich (Chairman), Ann Mather (Lead Director), James Dondero, David Krane, Fredric Reynolds and Nancy Tellem. As of September 30, 2018, Anchorage Capital Partners, Highland Capital Partners and Solus Alternative Asset Management each individually, or together with their respective affiliated entities, owned more than 10% of the issued and outstanding shares of common stock of MGM Holdings. Anchorage Capital Partners and Highland Capital Partners each have a representative on the Board, Kevin Ulrich and James Dondero, respectively. Effective March 19, 2018 and following the exit of our former Chief Executive Officer ("CEO"), the Board established an Office of the CEO, comprised of a group of the Company's senior leaders and division heads.

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.

MGM Holdings Inc.

Consolidated Balance Sheets
(Unaudited, in thousands, except share data)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 208,953**	$ 123,520
Accounts receivable, net	**405,849**	378,777
Current income taxes receivable	**7,717**	–
Other current assets and prepaid program rights	**44,737**	26,412
Program rights, net	**117,705**	176,143
Total current assets	**784,961**	704,852
Noncurrent assets:		
Accounts receivable, net	**154,136**	179,265
Other assets and prepaid program rights	**22,626**	15,677
Film and television costs and program rights, net	**1,630,580**	1,641,479
Investments in affiliates	**56,800**	63,401
Property and equipment, net	**30,008**	24,031
Goodwill	**902,214**	822,862
Other non-content intangible assets, net	**525,658**	540,991
Total noncurrent assets	**3,322,022**	3,287,706
Total assets	**$ 4,106,983**	$ 3,992,558
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 152,215**	$ 129,282
Accrued participants' share	**58,076**	54,149
Current income taxes payable	**–**	19,035
Program obligations	**59,109**	71,151
Corporate debt	**4,000**	31,875
Advances and deferred revenue	**78,648**	100,151
Other current liabilities	**7,422**	1,631
Total current liabilities	**359,470**	407,274
Noncurrent liabilities:		
Accrued liabilities	**125,000**	32,560
Accrued participants' share	**210,157**	228,301
Deferred income taxes payable	**154,631**	237,162
Program obligations	**1,276**	2,185
Corporate debt	**1,419,846**	1,033,146
Advances and deferred revenue	**7,607**	12,665
Other liabilities	**33,105**	27,870
Total noncurrent liabilities	**1,951,622**	1,573,889
Total liabilities	**2,311,092**	1,981,163
Commitments and contingencies		
Equity:		
Class A common stock, $0.01 par value, 110,000,000 shares authorized, 78,832,855 and 76,413,950 shares issued, respectively, and 44,774,954 and 45,556,483 shares outstanding, respectively	**788**	764
Additional paid-in capital	**2,117,308**	2,103,888
Retained earnings	**1,494,191**	1,405,676
Accumulated other comprehensive income (loss)	**3,415**	(459)
Treasury stock, at cost, 34,057,901 and 30,857,467 shares, respectively	**(1,822,391)**	(1,498,825)
Total MGM Holdings Inc. stockholders' equity	**1,793,311**	2,011,044
Noncontrolling interests	**2,580**	351
Total equity	**1,795,891**	2,011,395
Total liabilities and equity	**$ 4,106,983**	$ 3,992,558

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

MGM Holdings Inc.

Consolidated Statements of Income
(Unaudited, in thousands)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenue	**$ 380,153**	$ 267,742	**$ 1,059,699**	$ 856,842
Expenses:				
Operating	**287,049**	135,164	**730,112**	501,607
Distribution and marketing	**28,767**	23,881	**74,316**	49,607
General and administrative	**52,053**	48,819	**161,626**	122,617
Depreciation and non-content amortization	**16,180**	13,183	**45,792**	32,755
Total expenses	**384,049**	221,047	**1,011,846**	706,586
Operating income	**(3,896)**	46,695	**47,853**	150,256
Equity in net (losses) earnings of affiliates	**(7,248)**	33	**(11,622)**	17,639
Gain on acquisition	**–**	–	**–**	123,587
Loss on extinguishment of debt	**(433)**	–	**(433)**	–
Interest expense:				
Contractual interest expense	**(18,269)**	(9,012)	**(41,356)**	(17,169)
Amortization of deferred financing costs, original issue discount and other interest costs	**(1,579)**	(992)	**(3,556)**	(2,683)
Interest income	**1,148**	938	**3,104**	3,206
Other income (expense), net	**2**	435	**(14)**	452
Income (loss) before income taxes	**(30,275)**	38,097	**(6,024)**	275,288
Income tax benefit	**55,563**	76,086	**95,307**	30,224
Net income	**25,288**	114,183	**89,283**	305,512
Less: Net income attributable to noncontrolling interests	**72**	1,426	**768**	467
Net income attributable to MGM Holdings Inc.	**$ 25,216**	$ 112,757	**$ 88,515**	$ 305,045

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

MGM Holdings Inc.

Consolidated Statements of Comprehensive Income

(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Net income	**$ 25,288**	$ 114,183	**$ 89,283**	$ 305,512
Other comprehensive income, net of tax:				
Unrealized gain on securities	**17**	–	**20**	–
Unrealized gain on derivative instruments	**844**	1,705	**3,658**	1,864
Retirement plan adjustments	**52**	16	**155**	47
Foreign currency translation adjustments	**266**	159	**41**	(202)
Other comprehensive income	**1,179**	1,880	**3,874**	1,709
Less: Comprehensive income attributable to noncontrolling interests	**72**	1,426	**768**	467
Comprehensive income attributable to MGM Holdings Inc.	**$ 26,395**	$ 114,637	**$ 92,389**	$ 306,754

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

MGM Holdings Inc.

Consolidated Statement of Equity

(Unaudited, in thousands, except share data)

	MGM Holdings Inc. Stockholders' Equity								
	Common Stock Class A Number of Shares	**Par Value**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**	**MGM Holdings Inc. Stockholders' Equity**	**Noncontrolling Interests**	**Total Equity**
Balance, January 1, 2018	45,556,483	$ 764	$ 2,103,888	$ 1,405,676	$ (459)	$ (1,498,825)	$ 2,011,044	$ 351	$ 2,011,395
Purchase of treasury stock	**(3,200,434)**	**–**	**–**	**–**	**–**	**(323,566)**	**(323,566)**	**–**	**(323,566)**
Issuance of common stock	**2,415,279**	**24**	**3,644**	**–**	**–**	**–**	**3,668**	**–**	**3,668**
Issuance of restricted stock	**3,626**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Stock-based compensation expense	**–**	**–**	**9,776**	**–**	**–**	**–**	**9,776**	**–**	**9,776**
Contribution from noncontrolling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,461**	**1,461**
Net income	**–**	**–**	**–**	**88,515**	**–**	**–**	**88,515**	**768**	**89,283**
Other comprehensive income	**–**	**–**	**–**	**–**	**3,874**	**–**	**3,874**	**–**	**3,874**
Balance, September 30, 2018	**44,774,954**	**$ 788**	**$ 2,117,308**	**$ 1,494,191**	**$ 3,415**	**$ (1,822,391)**	**$ 1,793,311**	**$ 2,580**	**$ 1,795,891**

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

MGM Holdings Inc.

Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Nine Months Ended September 30, 2018	2017
Operating activities		
Net income	**$ 89,283**	$ 305,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to film and television costs and program rights, net	**(420,571)**	(397,633)
Amortization of film and television costs and program rights	**527,627**	323,545
Depreciation and non-content amortization	**45,792**	32,755
Amortization of deferred financing costs and original issue discount	**3,550**	2,680
Stock-based compensation expense	**9,776**	7,454
Provision for doubtful accounts	**(2,935)**	7,145
Change in fair value of financial instruments	**–**	(388)
Undistributed (earnings) losses of affiliates	**13,919**	(54)
Gain on acquisition	**–**	(123,587)
Loss on extinguishment of debt	**433**	–
Other non-cash expenses	**234**	74
Changes in operating assets and liabilities:		
Accounts receivable, net	**2,036**	39,191
Current income taxes receivable	**(7,717)**	–
Other assets and prepaid program rights	**(7,043)**	9,361
Accounts payable, accrued and other liabilities	**61,217**	(10,091)
Accrued participants' share	**(14,217)**	(33,438)
Current and deferred income taxes payable	**(101,191)**	(47,890)
Program obligations	**(26,716)**	20,949
Advances and deferred revenue	**(28,984)**	(13,385)
Net cash provided by operating activities	**144,493**	122,200
Investing activities		
Acquisition of Epix (net of $116.2 million of cash acquired)	**–**	(854,761)
Acquisition of Evolution (net of $6.1 million of cash acquired)	**–**	(17,886)
Acquisition of Big Fish Entertainment (net of $18.6 million of cash acquired)	**(46,428)**	–
Investments in affiliates	**(8,092)**	(4,000)
Sale of investment	**774**	20,468
Additions to property and equipment	**(10,970)**	(4,539)
Net cash used in investing activities	**(64,716)**	(860,718)
Financing activities		
Term Loan borrowings	**800,000**	850,000
Repayments of Term Loan	**(850,000)**	–
Revolving Credit Facility borrowings	**1,165,000**	245,000
Repayments of Revolving Credit Facility	**(745,000)**	(322,000)
Issuance of common stock	**3,669**	2,100
Purchase of treasury stock	**(346,566)**	–
Deferred financing costs and original issue discount	**(22,967)**	(7,543)
Contribution from noncontrolling interests	**1,461**	(821)
Net cash provided by financing activities	**5,597**	766,736
Net change in cash and cash equivalents from operating, investing and financing activities	**85,374**	28,218
Net change in cash due to foreign currency fluctuations	**59**	675
Net change in cash and cash equivalents	**85,433**	28,893
Cash and cash equivalents at beginning of year	**123,520**	120,353
Cash and cash equivalents at end of period	**$ 208,953**	$ 149,246

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

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

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

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

In May 2017, the Company acquired EPIX Entertainment LLC, which owns and operates EPIX, a premium pay television network delivering a lineup of original programming and blockbuster movies. EPIX is available through cable, satellite, telecommunications and streaming TV providers as a linear television, video-on-demand and 'TV Everywhere' service and is currently available in the United States ("U.S.") and Puerto Rico (see Note 3). EPIX also licenses content to subscription video-on-demand (“SVOD”) operators. The Company also owns or holds interests in MGM-branded channels in the U.S., as well as interests in pay television networks in the U.S. and Brazil.

Basis of Presentation and Principles of Consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”) for interim financial statements. Accordingly, these financial statements do not include certain information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments necessary for a fair presentation of these financial statements. The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2017.

Inventories related to home entertainment distribution are included in other current assets in the unaudited condensed consolidated classified balance sheet.

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

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

Allowance for Doubtful Accounts. The Company determines its allowance by monitoring its delinquent accounts and estimating a reserve based on contractual terms and other customer-specific issues. Additionally, the Company records a general reserve against all customer receivables not reviewed on a specific basis. The Company charges off its receivables against the allowance when the receivable is deemed uncollectible. At September 30, 2018 and December 31, 2017, allowance for doubtful accounts aggregated $9.2 million and $12.8 million, respectively.

Goodwill and Other Non- Content Intangible Assets. 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*.

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and the related notes thereto. Amortization expense for capitalized film and television costs is calculated in accordance with the individual-film-forecast method of accounting utilizing management estimates of future revenue and expenses expected to be recognized over a period not to exceed ten years from the initial broadcast date, or for a period not to exceed 20 years for acquired film and television libraries. In addition, the Company is required to make estimates regarding the utilization of its program rights and the allocation of program rights between pay television and other distribution markets. All estimates require management to make judgments that involve uncertainty, and any revisions to these estimates can result in significant quarter-to-quarter and year-to-year fluctuations in amortization expense. Changes to such estimates may also lead to the write down (through increased amortization expense) of film and television costs or program rights to their estimated fair value.

Other estimates include reserves for future product returns from physical home entertainment distribution, allowances for doubtful accounts receivable and other items requiring judgment. Management bases its estimates and assumptions on historical experience, current trends and other factors believed to be relevant at the time the unaudited condensed 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 of issuance, November 14, 2018. Such review did not result in the identification of any subsequent events that would require recognition in the unaudited condensed consolidated financial statements or disclosure in the notes to these unaudited condensed consolidated financial statements.

New Accounting Pronouncements

Revenue Recognition. In May 2014, the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes the provisions of ASC Topic 605, *Revenue Recognition*, and most industry specific guidance throughout the Industry Topics of the Codification. The underlying principal of ASU 2014-09 is that companies will recognize revenue to depict the transfer of goods or services to customers at an amount that the company expects to be entitled to in exchange for those goods or services. Companies can choose to apply the provisions of ASU 2014-09 using the full retrospective approach or a modified approach, where financial statements will be prepared for the year of adoption using the new standard but prior periods will not be adjusted. Under the modified approach, companies will record a cumulative effect adjustment in retained earnings at the date of initial application. ASU 2014-09 will be effective for the Company for the annual period ended December 31, 2019 and for interim and annual periods thereafter, with early adoption permitted.

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

The Company expects that the new standard will impact the timing of revenue recognition for multiple areas of the company's business, the most notable being revenue associated with renewals or extensions of existing content licensing agreements. Upon adoption, revenue for renewals or extensions of existing contracts for titles that are in-window when the extension is executed will be recognized as revenue upon the commencement of the extension or renewal period instead of on the date the renewal or extension was agreed to (current methodology). In addition, certain intellectual property, such as brands, tradenames and logos, is categorized in the new guidance as symbolic. Under the new guidance, revenue from licenses of symbolic intellectual property is recognized over the corresponding license term. The Company has elected the "modified retrospective" approach as its method of adoption but is still in the process of quantifying the impact that the new standard will have on its consolidated financial statements.

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

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

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

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

Tax Effects. In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which amends the current reporting comprehensive income guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The new guidance also requires companies to disclose their policy for releasing the income tax effects from accumulated OCI, as well as whether or not they elected to reclassify the income tax effects of the Act from accumulated OCI to retained earnings. ASU 2018-02 will be effective for the Company on January 1, 2019 and for interim and annual periods thereafter, with early adoption permitted. The Company elected to early adopt ASU 2018-02 during the nine months ended September 30 2018. The Company elected not to reclassify the stranded tax effects of the Act into retained earnings and instead will account for such items using the portfolio approach. Thus, the adoption of this standard did not have any impact on the Company's unaudited condensed consolidated financial statements for the nine months ended September 30, 2018.

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

Note 2—Acquisition of Big Fish Entertainment

In June 2018, the Company acquired Big Fish Entertainment LLC ("Big Fish"). Big Fish is a pioneering producer of "live reality" unscripted content like A&E's hit show, *Live PD*, plus additional unscripted content like *Black Ink Crew* for VH1 and *Hustle & Soul* for WeTV, among other shows. As part of the acquisition, the Company paid $65.0 million in cash (or $46.4 million net after $18.6 million of cash acquired) and provided an earnout that is payable to the sellers at future measurement dates based on predefined EBITDA targets over a five year period. The Company recorded a contingent liability equal to the estimated fair value of the earnout as of the acquisition date, which totaled $78.6 million, and remeasures the carrying value of the contingent liability at each reporting date. Any changes in the fair value of the contingent liability are classified within operating income in the unaudited condensed consolidated statements of income. Changes in the fair value of the contingent liability totaled $6.4 million for the period from the acquisition date through September 30, 2018.

The Company is not required to present pro forma financial statements for the nine months ended September 30, 2018. Rather, for financial reporting purposes, beginning June 1, 2018, the Company has consolidated 100% of the revenue, expenses, and net assets of Big Fish.

Estimates of the fair value of the net assets of Big Fish were determined using a combination of methodologies, as appropriate, depending on the type of asset acquired. Cash and cash equivalents, equipment and other assets were valued at book value since their respective carrying value approximated fair value. Content-specific assets, including produced programming, were valued primarily using Level 3 inputs, as defined in the fair value hierarchy, including long-range cash flow projections and a discounted cash flow methodology using a discount rate based on a weighted-average cost of capital. In addition, the Company recognized $23.4 million of other identifiable intangible assets, which will be amortized over their respective estimated useful lives of 1.5 to 5 years, and $79.4 million of goodwill. Goodwill primarily reflects future cash flows associated with the estimated long-term growth of Big Fish and the forecasted production of new unscripted television shows. The Company is in the process of estimating the amount of goodwill that could be deductible for income tax purposes.

Note 2—Acquisition of Big Fish Entertainment (Continued)

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

	Amount
Cash and cash equivalents	$ 18,572
Accounts receivable	1,034
Property and equipment, net	1,972
Prepaid expenses and other assets	214
Film and television costs	39,220
Goodwill	79,353
Other non-content intangible assets	23,400
Total assets	163,765
Accounts payable and accrued expenses	4,227
Loan payable	200
Production obligations	13,358
Deferred revenue	2,380
Total liabilities	20,165
Equity value	$ 143,600

Note 3—Acquisition of EPIX

On May 11, 2017, the Company acquired EPIX Entertainment LLC, which was previously a joint venture with Viacom Inc. ("Viacom"), Paramount Pictures Corporation ("Paramount") and Lions Gate Entertainment Corp ("Lionsgate"). Prior to May 2017, the Company had a 19.09% equity investment in EPIX Entertainment LLC. EPIX Entertainment LLC operates EPIX, a premium pay television channel that licenses first-run films, select library features and television content from these studios as well as other content providers, and began airing original scripted series in the fourth quarter of 2016. Based on a fair value of $1.2 billion for 100% of the membership interests of EPIX as of the acquisition date, the Company paid $970.9 million in cash (or $854.8 million net after $116.2 million of cash acquired) to acquire the 80.91% membership interests held by Viacom, Paramount and Lionsgate. The Company funded the transaction with proceeds from its $850.0 million Term Loan (see Note 9) and borrowings under its Revolving Credit Facility.

Beginning May 11, 2017, the Company has consolidated 100% of the revenue, expenses and net assets of EPIX. In accordance with ASC Topic 805, the acquisition was accounted for as a "business combination achieved in stages." Accordingly, the Company was required to remeasure the carrying amount of its investment in EPIX and adjust it to fair value, and as a result, the Company recognized a nontaxable accounting remeasurement gain of $123.6 million. This gain represented the amount by which the fair value of the Company's 19.09% interest in EPIX of $229.1 million exceeded the carrying amount of the Company's investment of $105.5 million immediately prior to the acquisition date. The Company recorded this gain in other income in the unaudited condensed consolidated statement of income for the three and nine months ended September 30, 2017.

Note 3—Acquisition of EPIX (Continued)

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

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

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

Note 4—Acquisition of Evolution

On July 14, 2017, the Company acquired substantially all of the assets of Evolution Film & Tape, Inc. (“Evolution”). Evolution has produced over 50 unscripted series, including *The Real Housewives of Orange County*, *The Real Housewives of Beverly Hills*, *Vanderpump Rules*, and *Botched*. As part of the acquisition, the Company paid $24.0 million in cash (or $17.9 million net after $6.1 million of cash acquired) and provided an earnout that is payable to the sellers at future measurement dates based on predefined performance targets. The Company recorded a contingent liability equal to the fair value of the earnout as of the acquisition date and remeasures the carrying value of the contingent liability at each reporting date. Any changes in the fair value of the contingent liability are classified within operating income in the unaudited condensed consolidated statements of income. Changes in the fair value of the contingent liability during the three and nine months ended September 30, 2018 were immaterial.

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

Note 4—Acquisition of Evolution (Continued)

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

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

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

Note 5—Goodwill and Other Non-Content Intangible Assets

As of September 30, 2018, the Company had goodwill of $902.2 million and other non-content intangible assets totaling $525.7 million, net of accumulated amortization. Other non-content intangible assets of $465.4 million are subject to amortization, and consist primarily of certain carriage, licensing and production agreements with remaining useful lives ranging from less than one to 24 years. Additionally, aggregate trade name-related assets, valued at $60.3 million, were identified and determined to have indefinite lives. For the three month periods ended September 30, 2018 and 2017, the Company recorded amortization of identifiable intangible assets of $14.0 million and $11.4 million, respectively, and during the nine month periods ended September 30, 2018 and 2017, the Company recorded amortization of identifiable intangible assets of $38.8 million and $28.3 million, respectively. Amortization expense for other intangible assets is included in depreciation and non-content amortization in the unaudited condensed consolidated statements of income.

Note 6—Film and Television Costs and Program Rights

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

	September 30, 2018	December 31, 2017
Theatrical productions:		
Released	**$ 763,548**	$ 782,878
Completed not released	**15,920**	1,502
In production	**144,785**	201,305
In development	**29,048**	19,271
Total theatrical productions	**953,301**	1,004,956
Television programs:		
Released	**294,104**	198,018
In production	**88,920**	155,456
In development	**10,601**	3,271
Total television programs	**393,625**	356,745
Media networks:		
Licensed program rights	**401,359**	455,913
In development	**-**	8
Total media networks	**401,359**	455,921
Film and television costs and program rights, net	**$ 1,748,285**	$ 1,817,622
Less: Current portion of licensed program rights	**(117,705)**	(176,143)
Noncurrent portion	**$ 1,630,580**	$ 1,641,479

Based on the Company's estimates of projected gross revenue as of September 30, 2018, approximately 19.9% of completed film and television costs, excluding licensed program rights, are expected to be amortized over the next 12 months. Approximately 83.5% of unamortized film and television costs for released titles, excluding costs accounted for as acquired film and television libraries and excluding licensed program rights, are expected to be amortized over the next three fiscal years.

As of September 30, 2018 and December 31, 2017, unamortized film and television costs accounted for as acquired film and television libraries were $0.7 billion for each period. 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 7 years as of September 30, 2018.

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

During the nine months ended September 30, 2018, the Company recorded $26.4 million of fair value adjustments to certain titles included in film and television costs. These fair value adjustments were included in operating expenses in the unaudited condensed 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. No such fair value adjustments were recorded during the nine months ended September 30, 2017.

Note 7—Fair Value Measurements

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on: (i) observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), (ii) inputs other than quoted prices for similar assets or liabilities in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at September 30, 2018 (in thousands):

		Fair Value Measurements at September 30, 2018 using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	**$ 52**	**$ 52**	$ –	$ –
Investments	**1,641**	**1,641**	–	–
Financial instruments	**17,359**	–	**17,359**	–
Liabilities:				
Deferred compensation plans	**(1,641)**	**(1,641)**	–	–
Financial instruments	**(5,465)**	–	**(5,465)**	–
Total	**$ 11,946**	**$ 52**	**$ 11,894**	**$ –**

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

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

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

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

Financial instruments at September 30, 2018 and December 31, 2017 primarily reflect the fair value of outstanding interest rate swaps or similar arrangements with certain counterparties entered into by the Company to reduce its exposure to variable interest rates. The fair value of such interest rate swaps were included in other current assets in the unaudited condensed consolidated balance sheet at September 30, 2018 and December 31, 2017 and was determined using a market-based approach.

Note 7—Fair Value Measurements (Continued)

The Company also had certain outstanding foreign currency exchange forward contracts, which were included in other current liabilities at September 30, 2018 and in other current assets at December 31, 2017, in the unaudited condensed consolidated balance sheets. The fair value of these instruments was determined using a market-based approach.

Note 8—Investments in Affiliates

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

	September 30, 2018	December 31, 2017
Equity method investments:		
Mirror Releasing, LLC (“Mirror”)	**$ 26,176**	$ 34,527
Cost method investments	**30,624**	28,874
	$ 56,800	$ 63,401

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

During the three months ended September 30, 2018, equity in net earnings (losses) of affiliates in the unaudited condensed consolidated statement of income included $9.7 million of losses from the Company’s interest in the joint venture, minus $1.7 million of intercompany eliminations. During the nine months ended September 30, 2018, equity in net earnings (losses) of affiliates included $16.9 million of losses from the Company’s interest in the joint venture, minus $2.2 million of intercompany eliminations. Capital contributions to Mirror totaled $2.2 million and $6.3 million, respectively, during the three and nine months ended September 30, 2018.

EPIX Entertainment LLC (EPIX). In May 2017, the Company acquired EPIX Entertainment LLC (formerly Studio 3 Partners, LLC), which was previously a joint venture with Viacom, Paramount and Lionsgate (see Note 3). Prior to May 2017, the Company had a 19.09% interest in EPIX Entertainment LLC. The Company made no capital contributions to EPIX during the nine months ended September 30, 2017.

The Company did not record equity in net earnings of affiliates for EPIX during the three months ended September 30, 2017 due to the acquisition in May 2017. Prior to May 2017, the Company did not consolidate EPIX, but rather accounted for its investment in EPIX under the equity method of accounting due to the significance of its voting rights. During the nine months ended September 30, 2017, equity in net earnings of affiliates in the unaudited condensed consolidated statements of income included $7.7 million of earnings from the Company’s 19.09% interest in EPIX, minus $0.6 million of eliminations related to the Company’s share of profits on sales to EPIX.

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 unaudited condensed consolidated statements of income. However, the Company recognizes income from its investment in Telecine when it receives dividends.

Note 8—Investments in Affiliates (Continued)

Cost Method Investments. No dividend income was received from the Company's cost method investments during the three month periods ended September 30, 2018 and 2017. During the nine month periods ended September 30, 2018 and 2017, the Company received $2.3 million and $3.2 million of dividend income, respectively, from cost method investments. Such amounts were included in equity in net earnings of affiliates in the unaudited condensed consolidated statements of income.

Note 9—Property and Equipment

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

	September 30, 2018	December 31, 2017
Furniture, fixtures and equipment	**$ 51,529**	$ 40,821
Leasehold improvements	**18,365**	16,196
	69,894	57,017
Less accumulated depreciation and non-content amortization	**(39,886)**	(32,986)
	$ 30,008	$ 24,031

Note 10—Corporate Debt

Corporate debt is summarized as follows (in thousands):

	September 30, 2018	December 31, 2017
Prior Term Loan	**$ –**	$ 850,000
Revolving credit facility	**640,000**	220,000
1L Term Loan, net of discount	**398,084**	–
2L Term Loan, net of discount	**396,122**	–
Deferred financing costs	**(10,360)**	(4,979)
	$ 1,423,846	$ 1,065,021
Less: Current portion	**(4,000)**	(31,875)
Noncurrent portion	**$ 1,419,846**	$ 1,033,146

Note 10—Corporate Debt (Continued)

Amended Credit Facility. In July 2018, the Company entered into a seven-year $400.0 million first lien term loan (the "1L Term Loan") and an eight-year $400.0 million second lien term loan (the "2L Term Loan"). The 1L Term Loan was issued at a discount of 50 basis points, bears interest at 2.50% over London Interbank Offered Rate ("LIBOR") and matures on July 3, 2025. The 2L Term Loan was issued at a discount of 100 basis points, bears interest at 4.50% over LIBOR and matures on July 3, 2026. The face value of both the 1L and 2L Term Loans approximated fair value at September 30, 2018. In addition, the Company amended its prior senior secured revolving credit facility (the "Prior Revolving Credit Facility") to, among other things, increase the total commitments, lower the interest rate and modify certain covenants and components of our borrowing base ("Amended Revolving Credit Facility"). The Company's Amended Revolving Credit Facility currently has $1.8 billion of total commitments, bears interest at 1.75% over LIBOR and matures on July 3, 2023 (all-in rate was 4.01% at September 30, 2018). Proceeds from the issuance of these terms loans and the Amended Revolving Credit Facility were primarily used to prepay the Company's prior $850.0 million senior secured term loan ("Prior Term Loan") and for the share repurchases described in Note 12. To reduce its exposure on variable interest rates, the Company had $785.0 million in interest rate swap contracts outstanding at September 30, 2018 that bore interest at a fixed blended rate of 2.22% (see Note 11).

Prepayment of the Prior Term Loan was accounted for as a partial extinguishment of debt and resulted in the write-off of $0.4 million of deferred financing fees, which was included in interest expense in the unaudited consolidated statement of income for the three and nine month periods ended September 30, 2018. The Company incurred $4.7 million and $5.5 million in fees and other costs related to the 1L and 2L Term Loans, respectively, which were deferred and presented as a direct deduction from the related debt liabilities in the unaudited condensed consolidated balance sheets. Aggregate deferred financing fees totaled $5.2 million for the 1L Term Loan. Deferred financing fees and accretion of the debt discounts are being amortized over the terms of the 1L and 2L Term Loans, respectively, using the effective-interest method. During the three and nine month periods ended September 30, 2018, the Company recorded interest expense for the amortization of the 1L Term Loan and 2L Term Loan deferred financing costs of $0.2 million each. Interest expense recorded for the accretion of the respective discounts for the 1L Term Loan and 2L Term Loan totaled $0.1 million each during the three and nine month periods ended September 30, 2018.

Separately, the Company incurred $6.7 million in fees and other costs related to the Amended Revolving Credit Facility, which were deferred and included in other assets in the unaudited condensed consolidated balance sheet. Aggregate deferred financing costs of $20.4 million are being amortized over the term of the Amended Revolving Credit Facility using the straight-line method. During each of the three month periods ended September 30, 2018 and 2017, the Company recorded interest expense for the amortization of deferred financing costs of $1.0 million and $0.7 million, respectively, and during the nine month periods ended September 30, 2018 and 2017, the Company recorded interest expense of $2.4 million and $2.1 million, respectively.

The availability of funds under the Amended Revolving Credit Facility is limited by a borrowing base calculation and reduced by outstanding letters of credit, if any. As of September 30, 2018, there was $640.0 million drawn against the Amended Revolving Credit Facility and there were no outstanding letters of credit. Currently, the $1.16 billion of remaining funds under our Amended Revolving Credit Facility are entirely available to the Company. Lenders under the Amended Revolving Credit Facility have a senior security interest in substantially all the assets of MGM, with certain exceptions. At September 30, 2018, the Company was in compliance with all applicable covenants, and there were no events of default.

Note 10—Corporate Debt (Continued)

The Company incurs an annual commitment fee equal to 0.375% per annum. Payments are made quarterly based on the average daily amount undrawn during the period. During the three month period ended September 30, 2018, the Company incurred commitment fees of $1.1 million, and during the nine month period ended September 30, 2018, the Company incurred commitment fees of $2.9 million. Separately, during the three and nine month periods ended September 30, 2018, the Company recorded $6.2 million and $11.4 million, respectively, of interest expense for borrowings under the Prior and Amended Revolving Credit Facility. In addition, during the three and nine month periods ended September 30, 2018, the Company recorded $4.6 million and $6.6 million of interest expense for the 1L Term Loan and 2L Term Loan, respectively. No interest expense was recorded for either the 1L Term Loan or the 2L Term Loan during the three and nine months periods ended September 30, 2017. Commitment fees and interest expense are included in contractual interest expense in the unaudited condensed consolidated statements of income.

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

Under the Prior Revolving Credit Facility, the Company incurred an annual commitment fee of either 0.375% or 0.50% per annum, depending on the percentage of total commitments undrawn each day on the Prior Revolving Credit Facility. Payments were made quarterly based on the average daily amount undrawn during the period. During the three month period ended September 30, 2017, the Company incurred commitment fees of $1.2 million and during the nine month period ended September 30, 2017, the Company incurred commitment fees of $3.3 million. Separately, during the three and nine month periods ended September 30, 2017, the Company recorded $0.8 million and $3.0 million, respectively, of interest expense for borrowings under the Prior Revolving Credit Facility. In addition, during the three and nine month periods ended September 30, 2017, the Company recorded $7.0 million and $10.7 million of interest expense for the Prior Term Loan. During the three and nine month periods ended September 30, 2017, the Company recorded interest expense for the amortization of the Prior Term Loan deferred financing costs of $0.3 million and $0.5 million, respectively. Commitment fees and interest expense were included in contractual interest expense in the unaudited condensed consolidated statements of income.

Note 11—Financial Instruments

The Company transacts business globally and is subject to market risks resulting from fluctuations in foreign currency exchange rates. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. Such contracts generally have maturities between four and 19 months. As of September 30, 2018, the Company had several outstanding foreign currency exchange forward contracts primarily relating to anticipated production and distribution-related cash flows that qualified for hedge accounting. Such contracts were carried at fair value and included in other liabilities in the unaudited condensed consolidated balance sheet for the three and nine months ended September 30, 2018. Separately, the Company may enter into interest rate swaps or similar arrangements with certain counterparties to reduce its exposure to variable interest rates. Such contracts generally have maturities between one and five years. As of September 30, 2018, the Company had several interest rate swap contracts outstanding, which were carried at fair value and included in other assets in the unaudited condensed consolidated balance sheet. All foreign currency exchange forward contracts and interest rate swap contracts designated for hedge accounting were deemed effective at September 30, 2018. As such, changes in the fair value of such contracts were included in accumulated other comprehensive income (loss) in the unaudited condensed consolidated balance sheet.

During the three month period ended September 30, 2018, the Company recorded $1.3 million of net unrealized gains (net of tax) relating to the change in fair value of such contracts in accumulated other comprehensive income (loss). During the nine month period ended September 30, 2018, the Company recorded $3.6 million of net unrealized gains (net of tax) relating to the change in fair value of such contracts in accumulated other comprehensive income (loss). At September 30, 2018, the amount of net unrealized losses included in accumulated other comprehensive income (loss) that are expected to be recognized into earnings within the next 12 months were immaterial. No significant reclassifications were made out of accumulated other comprehensive income (loss) and into earnings during the three or nine months ended September 30, 2018. Such amounts were included in operating expenses with the related tax effect recorded in the income tax provision in the unaudited condensed consolidated statements of income.

As of September 30, 2017, the Company had several foreign currency exchange forward contracts and interest rate swap contracts outstanding, which were carried at fair value and included in other assets in the unaudited condensed consolidated balance sheet. All foreign currency exchange forward contracts and interest rate swap contracts designated for hedge accounting were deemed effective at September 30, 2017 and as such, changes in the fair value of all other contracts were included in accumulated other comprehensive income (loss) in the unaudited condensed consolidated balance sheet. During the three and nine month periods ended September 30, 2017, the Company recorded $1.5 million and $1.1 million, respectively, of net unrealized losses (net of tax) relating to the change in fair value of such contracts in accumulated other comprehensive income (loss).

Note 12—MGM Holdings Inc. Stockholders' Equity

Common Stock. The Company is authorized to issue 110,000,000 shares of Class A common stock, $0.01 par value, and 110,000,000 shares of Class B common stock, $0.01 par value. As of September 30, 2018 and December 31, 2017, 78,832,855 and 76,413,950 aggregate shares of common stock were issued, respectively, and 44,774,954 and 45,556,483 aggregate shares of common stock were outstanding, all of which were Class A common stock.

Preferred Stock. The Company is authorized to issue up to 10,000,000 shares of Preferred Stock, $0.01 par value. As of September 30, 2018, no shares of Preferred Stock were issued or outstanding.

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

Treasury Stock. During the nine months ended September 30, 2018, the Company completed repurchases of 3,425,934 shares of its Class A common stock at a weighted-average price of $101.16 per share for a total of $346.6 million, which included 225,500 shares that the Company committed to repurchasing at December 31, 2017. Excluding amounts committed at December 31, 2017, the Company repurchased 3,200,434 additional shares of its Class A common stock at a weighted-average price of $101.10 per share for a total of $323.6 million, which included, among other repurchases, 274,392 shares of common stock and 3,883,529 stock options that were equivalent to 2,302,572 shares of common stock on a net basis, previously held by our former CEO. The Company did not repurchase any shares during the nine months ended September 30, 2017.

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

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018		Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Shares	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Options outstanding at beginning of period	**2,817,845**	**$ 78.82**	**6,531,374**	**$ 54.21**	6,318,874	$ 52.16	6,294,874	$ 51.55
Granted	**135,000**	**95.28**	**655,000**	**107.41**	52,500	100.00	142,500	100.00
Exercised	**(52,000)**	**43.22**	**(2,415,279)**	**41.42**	-	-	(46,000)	45.65
Canceled or expired	-	-	**(1,870,250)**	**49.01**	(20,000)	90.00	(40,000)	90.00
Options outstanding at end of period	**2,900,845**	**$ 80.22**	**2,900,845**	**$ 80.22**	6,351,374	$ 52.44	6,351,374	$ 52.44
Options exercisable at end of period	**1,471,845**	**$ 60.34**	**1,471,845**	**$ 60.34**	5,164,874	$ 45.15	5,164,874	$ 45.15

The fair value of option grants was estimated using the Black-Scholes option pricing model. Total stock-based compensation expense recorded under the Stock Incentive Plan was $4.7 million and $1.8 million during the three month periods ended September 30, 2018 and 2017, respectively, and $9.8 million and $7.5 million during the nine month periods ended September 30, 2018 and 2017. As of September 30, 2018, total stock-based compensation expense related to non-vested awards not yet recognized under the Stock Incentive Plan was $28.6 million, which is expected to be recognized over a weighted-average period of 1.43 years.

Note 13—Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Reform"). Among other items, Tax Reform reduced the U.S. federal corporate tax rate from 35% to 21%, effective for tax years beginning after December 31, 2017, and established a one-time deemed repatriation transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. For the year ended December 31, 2017, the Company recorded a provisional net tax benefit of $190.5 million related to the remeasurement of its net deferred tax liability using the new U.S. federal corporate tax rate of 21% and recorded a provisional amount for the one-time transitional tax liability for our foreign subsidiaries of approximately $2.3 million. For the three and nine month periods ended September 30, 2018, the Company recorded a provisional net tax benefit of $4.1 million. This provisional net tax benefit included $2.3 million related to the transition tax since the Company determined it owed zero transition tax liability and $1.8 million as the remeasurement of its net deferred tax liability was updated as a result of the 2017 U.S. federal tax return filing. As we collect and prepare necessary data, and interpret the Act and any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts. Those adjustments may materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the Act will be completed in the fourth quarter of 2018.

The Company recorded an income tax benefit of $55.6 million and $76.1 million during the three month periods ended September 30, 2018 and 2017, respectively, and a benefit of $95.3 million and $30.2 million during the nine month periods ended September 30, 2018 and 2017, respectively. The income tax benefit for the three and nine months ended September 30, 2018 primarily included the recording of excess tax benefits from share-based payments of approximately $44.5 million year-to-date, additional benefits for extra-territorial income exclusions of approximately $30.6 million year-to-date, and the impact of incremental deductions for certain types of content-related costs of approximately $16.2 million year-to-date. At the end of each interim period, the Company computes the year-to-date tax provision by applying the estimated annual effective tax rate to year-to-date pretax book income.

The income tax provision recorded during the nine month periods ended September 30, 2018 and 2017 included a provision for federal and state income taxes that reflected standard United States statutory income tax rates, as well as foreign remittance taxes attributable to international distribution revenues. Foreign remittance taxes are creditable against U.S. federal income taxes.

At September 30, 2018, the Company and its subsidiaries had net operating loss carryforwards for United States federal tax purposes of $0.5 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, 2038, and are subject to limitation on use under Section 382 of the Internal Revenue Code. In addition, the Company has net operating loss carryforwards for California state tax purposes of $0.5 billion, which will expire between the years ending December 31, 2028 and December 31, 2038. 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.

Note 13—Income Taxes (Continued)

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

	Three Months Ended September 30,		**Nine months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
Federal tax rate on pre tax book income	**21%**	35%	**21%**	35%
State taxes, net of federal income tax benefit	**1**	1	**1**	1
Changes in uncertain tax positions	–	–	**(2)**	–
Foreign taxes, net of federal income tax benefit	–	(188)	–	(22)
Gain on acquisition	–	–	–	(16)
Change in valuation allowance	**1**	(4)	**(120)**	(1)
Net income attributable to noncontrolling interests	–	7	**179**	–
Other permanent differences	**161**	(51)	**1,503**	(8)
Effective tax rate	**184%**	(200)%	**1,582%**	(11)%

Foreign Taxes, Net of Federal Income Tax Benefit. The Company recognized an income tax benefit for the three and nine months ended September 30, 2018. This income tax benefit resulted from an election made in the third quarter of the year ended December 31, 2017 to claim foreign tax credits against federal income taxes instead of recognizing a deduction for foreign taxes.

Change in Valuation Allowance. The Company recorded a provisional amount for the nine month period ended September 30, 2018 related to the change in valuation allowance as a result of the remeasurement of its deferred taxes related to Tax Reform.

Other Permanent Differences. Other permanent differences for the three and nine month periods ended September 30, 2018 in the federal tax rate reconciliation above primarily include the recording of excess tax benefits from share-based payments, one-time adjustments associated with the Company's federal tax filing for 2017, and a provisional amount related to the remeasurement of the Company's deferred taxes as a result of Tax Reform.

Note 14—Retirement Plans

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

	Three Months Ended September 30,		Nine months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Service cost on projected benefit obligation	**$ 52**	$ –	**$ 155**	$ –
Interest cost on projected benefit obligation	**152**	158	**456**	475
Expected return on plan assets	**(153)**	(143)	**(460)**	(429)
Net actuarial loss	**15**	10	**47**	28
Net periodic pension expense	**$ 66**	$ 25	**$ 198**	$ 74

No contributions were made to the Plan during the three or nine month periods ended September 30, 2018 and 2017. The Company does not expect to make any required or discretionary contributions to the Plan during the year ending December 31, 2018.

Note 15—Other Comprehensive Income (Loss)

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

	Unrealized Loss on Securities	**Unrealized Gain (Loss) on Derivative Instruments**	**Retirement Plan Adjustments**	**Foreign Currency Translation Adjustments**	**Accumulated Other Comprehensive Income (Loss)**
Balance, January 1, 2018	$ 30	$ 4,346	$ (1,331)	$ (3,504)	$ (459)
Current period comprehensive income	**26**	**4,690**	**197**	**52**	**4,965**
Income tax effect	**(6)**	**(1,032)**	**(42)**	**(11)**	**(1,091)**
Balance, September 30, 2018	**$ 50**	**$ 8,004**	**$ (1,176)**	**$ (3,463)**	**$ 3,415**

Note 16—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 September 30, 2018, for which an outcome is probable and reasonably estimable. Management believes that the outcome of any pending claim or legal proceeding in which the Company is currently involved will not materially affect the Company's unaudited condensed consolidated financial statements.

Other Commitments. The Company has various other commitments entered into in the ordinary course of business relating to corporate debt agreements, creative talent and employment agreements, non-cancelable operating leases, contractual marketing and other contractual obligations under co-production arrangements. Following its full acquisition of EPIX (see Note 3), the Company has commitments related to program rights, which represent contractual commitments under programming license agreements related to film and television content that is not available for exhibition until a future date. Where necessary, the Company has provided an accrual for such amounts as of September 30, 2018.

Note 17—Supplementary Cash Flow Information

The Company paid interest of $17.7 million and $8.3 million during the three month periods ended September 30, 2018 and 2017, respectively, and $41.2 million and $16.7 million during the nine month periods ended September 30, 2018 and 2017, respectively.

The Company paid taxes, primarily foreign remittance taxes, of $3.8 million and $6.4 million during the three month periods ended September 30, 2018 and 2017, respectively, and $8.7 million and $16.3 million during the nine month periods ended September 30, 2018 and 2017, respectively.

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

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

Sources of Revenue

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

Film and Television Content

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

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

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

Our film and television content is distributed worldwide. For the year ended December 31, 2017, we derived approximately 47% of our total consolidated revenue from international sources. Revenue from international sources fluctuates year-to-year and is dependent upon several variables including our release schedule, the timing of international theatrical and home entertainment release dates, the timing of television availabilities, the relative performance of individual feature films and television content and foreign exchange rates.

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

Media Networks

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

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

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

Cost Structure

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

Operating Expenses

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

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

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

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

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

<u>*Film and Television Costs*</u>. 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 $550 million at September 30, 2018 and are expected to be amortized using the IFF method over the next 7 years. We refer to the amortization of these fair value adjustments as "Step-up Amortization Expense" and disclose it separately to help the users of our financial statements better understand the components of our operating expenses.

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

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

Distribution and Marketing Expenses

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

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

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

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

General and Administrative Expenses

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

Foreign Currency Transactions

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

Library

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

Film and Television Content

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

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

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

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

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

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

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

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

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

Media Networks

Revenue for Media Networks is primarily comprised of the following:

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

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

Intercompany Eliminations

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

For financial reporting purposes, intercompany licensing revenue, intercompany programming cost amortization expense and the corresponding assets and liabilities recognized by the segments that are counterparties to these transactions, are eliminated in consolidation. As such, licensing revenue that was previously recognized by MGM on the availability date of the content licensed to EPIX is no longer recognized in our consolidated statements of income beginning May 11, 2017. In addition, the corresponding programming cost amortization expense that was previously recognized by EPIX over the license term for content licensed from MGM is no longer recognized in our consolidated statements of income beginning May 11, 2017. Amortization expense related to content licensed by MGM to EPIX prior to May 11, 2017 will be included in our consolidated statements of income but added back in our calculation of Adjusted EBITDA (refer to *Intercompany Programming Cost Amortization* above for further discussion).

Amortization of Film and Television Costs

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

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

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

Amortization of Programming Costs

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

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

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

Distribution and Marketing Costs

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

As discussed above under *Revenue Recognition*, when we account for our profit share from the distribution rights controlled by our co-production partner on a net basis: (i) if our projected ultimate profit share is expected to result in amounts due to us from our co-production partner, we classify this amount as revenue (net) and record it as such amounts become due and are reported to us by our co-production partner; or (ii) if our projected ultimate profit share is expected to result in amounts due from us to our co-production partner, 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.

Stock-Based Compensation

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

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

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

Refer to Note 12 to the consolidated financial statements as of September 30, 2018 for further discussion.

Income Taxes

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

Use of Non-GAAP Financial Measures

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

We consider Adjusted EBITDA to be an important measure of comparative operating performance because it excludes the impact of certain non-cash and non-recurring items that do not reflect the fundamental performance of our business and allows investors, equity analysts and others to evaluate the impact of these items separately from the fundamental operations of the business.

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

Results of Operations

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

Overview of Financial Results

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2018	2017	Amount	Percent	2018	2017	Amount	Percent
Revenue:								
Film content	155,303	117,015	38,288	33%	432,228	408,339	23,889	6%
Television content	107,837	36,730	71,107	194%	292,151	252,131	40,020	16%
Media Networks	117,013	113,997	3,016	3%	335,320	196,372	138,948	71%
Total revenue	380,153	267,742	112,411	42%	1,059,699	856,842	202,857	24%
Contribution:								
Film content	27,201	57,624	(30,423)	(53%)	112,563	166,121	(53,558)	(32%)
Television content	40,340	13,041	27,299	209%	96,331	68,857	27,474	40%
Media Networks	(3,204)	38,032	(41,236)	(108%)	46,377	70,650	(24,273)	(34%)
Total contribution	64,337	108,697	(44,360)	(41%)	255,271	305,628	(50,357)	(16%)
General and administrative	52,053	48,819	3,234	7%	161,626	122,617	39,009	32%
Depreciation and non-content amortization	16,180	13,183	2,997	23%	45,792	32,755	13,037	40%
Operating income	(3,896)	46,695	(50,591)	(108%)	47,853	150,256	(102,403)	(68%)
Equity in net earnings (losses) of affiliates	(7,248)	33	(7,281)	NM	(11,622)	17,639	(29,261)	(166%)
Gain on acquisition	-	-	-	NA	-	123,587	(123,587)	NA
Loss on extinguishment of debt	(433)	-	(433)	NA	(433)	-	(433)	NA
Interest expense	(19,848)	(10,004)	(9,844)	(98%)	(44,912)	(19,852)	(25,060)	(126%)
Interest and other income, net	1,150	1,373	(223)	(16%)	3,090	3,658	(568)	(16%)
Income (loss) before income taxes	(30,275)	38,097	(68,372)	(179%)	(6,024)	275,288	(281,312)	(102%)
Income tax benefit	55,563	76,086	(20,523)	(27%)	95,307	30,224	65,083	215%
Net income	25,288	114,183	(88,895)	(78%)	89,283	305,512	(216,229)	(71%)
Less: Net income attributable to noncontrolling interests	(72)	(1,426)	1,354	95%	(768)	(467)	(301)	(64%)
Net income attributable to MGM Holdings Inc.	$ 25,216	$ 112,757	$ (87,541)	(78%)	$ 88,515	$ 305,045	$ (216,530)	(71%)

Adjusted EBITDA

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2018	2017	Amount	Percent	2018	2017	Amount	Percent
Net income attributable to MGM Holdings Inc.	$ 25,216	$ 112,757	$ (87,541)	(78%)	$ 88,515	$ 305,045	$ (216,530)	(71%)
Interest expense	19,848	10,004	9,844	98%	44,912	19,852	25,060	126%
Interest income	(1,148)	(938)	(210)	(22%)	(3,104)	(3,206)	102	3%
Other expense (income), net	(2)	(435)	433	100%	14	(452)	466	103%
Loss on extinguishment of debt	433	-	433	NA	433	-	433	NA
Gain on acquisition	-	-	-	NA	-	(123,587)	123,587	NA
Income tax benefit	(55,563)	(76,086)	20,523	27%	(95,307)	(30,224)	(65,083)	(215%)
Depreciation and non-content amortization	16,180	13,183	2,997	23%	45,792	32,755	13,037	40%
EBITDA	4,964	58,485	(53,521)	(92%)	81,255	200,183	(118,928)	(59%)
Step-up Amortization Expense (1)	19,271	15,670	3,601	23%	46,056	40,174	5,882	15%
Purchase Accounting Adjustments (2)	518	639	(121)	(19%)	3,735	1,981	1,754	89%
Intercompany Programming Cost Amortization (3)	3,877	7,648	(3,771)	(49%)	17,375	13,373	4,002	30%
Stock-based compensation expense	4,717	1,797	2,920	162%	9,776	7,454	2,322	31%
Non-recurring costs and expenses (4)	1,109	6,523	(5,414)	(83%)	21,912	9,468	12,444	131%
Adjusted EBITDA	$ 34,456	$ 90,762	$ (56,306)	(62%)	$ 180,109	$ 272,633	$ (92,524)	(34%)

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

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

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

Adjusted EBITDA versus the Three and Nine Months Ended September 30, 2017

For the three months ended September 30, 2018, Adjusted EBITDA of $34.5 million was $56.3 million lower than Adjusted EBITDA of $90.8 million for the three months ended September 30, 2017. Consistent with our planned objectives for 2018, Adjusted EBITDA for the current year's third quarter reflected higher expenses related to our investment spending on growth initiatives. This included (i) increased programming costs for EPIX and higher marketing costs associated with new original content for EPIX, (ii) higher costs associated with our expanded theatrical distribution capabilities, which were incurred in advance of the incremental revenue we expect to generate from these films, and (iii) higher overhead due to our prior year acquisitions of EPIX and Evolution, recent acquisition of Big Fish, and targeted investments in personnel focused on areas of business growth. In addition, the current year's third quarter was negatively impacted by unanticipated film impairment charges totaling $19.7 million. This was partially offset by $32.0 million of higher Adjusted EBITDA from our Television Content segment due to robust licensing activity for our successful series *Vikings*, as well as deliveries of new episodes of *Vikings* (season 6) and *The Handmaid's Tale* (season 2). We also continued to deliver a high volume of unscripted shows, including our new show for CBS, *TKO: Total Knock Out*, plus new episodes of *Live PD* from our strategic acquisition of Big Fish in June 2018, *The Real Housewives of Orange County* (season 13), *Survivor* (season 37), *Botched* (season 5), *The Voice* (season 15), and many other shows.

For the nine months ended September 30, 2018, Adjusted EBITDA of $180.1 million was $92.5 million lower than Adjusted EBITDA of $272.6 million for the nine months ended September 30, 2017. Consistent with our planned objectives for 2018, Adjusted EBITDA reflected higher expenses related to our investment spending on growth initiatives. This included (i) increased programming costs for EPIX and higher marketing costs associated with new original content for EPIX, (ii) higher costs associated with our expanded theatrical distribution capabilities, which were incurred in advance of the incremental revenue we expect to generate from these films, and (iii) higher overhead due to our prior year acquisitions of EPIX and Evolution, recent acquisition of Big Fish, and targeted investments in personnel focused on areas of business growth. As a reminder, for financial reporting purposes, during the 2017 period we began consolidating 100% of the revenue and expenses of EPIX and Evolution as of May 11, 2017 and July 14, 2017, respectively. The 2018 period also included unanticipated film impairment charges totaling $26.4 million and unanticipated foreign currency losses totaling $5.3 million. This was partially offset by $34.7 million of higher Adjusted EBITDA from our Television Content segment primarily due to a more robust slate of new content, which included our scripted series *The Handmaid's Tale* (season 2), *Vikings* (season 6), *Condor* (season 1) and *Luis Miguel: La Serie*. In addition, we continued to deliver a high volume of unscripted shows, including our new show for CBS, *TKO: Total Knock Out*, and new episodes of *The Voice* (seasons 14 and 15), *Survivor* (seasons 36 and 37) and *The Real Housewives of Beverly Hills* (season 8), among many other shows, such as *Live PD* and other titles from our strategic acquisition of Big Fish in June 2018.

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

Film Content

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change Amount	Change Percent
Revenue:				
Theatrical	5,292	2,909	2,383	82%
Television licensing	110,243	86,923	23,320	27%
Home entertainment	21,826	16,853	4,973	30%
Other revenue	12,208	3,035	9,173	302%
Ancillary	5,734	7,295	(1,561)	(21%)
Total revenue	155,303	117,015	38,288	33%
Expenses:				
Operating (5)	120,878	55,536	65,342	118%
Distribution and marketing	7,224	3,855	3,369	87%
Total expenses	128,102	59,391	68,711	116%
Contribution	$ 27,201	$ 57,624	$ (30,423)	(53%)
Step-up Amortization Expense (5)	12,621	13,929	(1,308)	(9%)
Adjusted EBITDA (pre-G&A)	**$ 39,822**	**$ 71,553**	**$ (31,731)**	**(44%)**

(5) Operating expenses for film content for the three month periods ended September 30, 2018 and 2017 included $12.6 million and $13.9 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 $5.3 million for the three months ended September 30, 2018, an increase of $2.4 million as compared to $2.9 million for the three months ended September 30, 2017. Theatrical revenue for the current year's third quarter primarily included international revenue for *Overboard* and *Tomb Raider* in certain territories. We did not recognize a substantial portion of the theatrical revenue for *Operation Finale* since it was primarily accounted for on a net basis after deduction of theatrical advertising and other related distribution costs.

Television Licensing. Worldwide television licensing revenue for film content was $110.2 million for the three months ended September 30, 2018, an increase of $23.3 million, or 27%, as compared to $86.9 million for the three months ended September 30, 2017. Television licensing revenue for the current year's third quarter primarily included international SVOD licensing of *Operation Finale*, worldwide transactional VOD and SVOD revenue for for *Tomb Raider* and our ongoing licensing revenue for previous film releases, such as *The Magnificent Seven*, *Ben-Hur* and *Death Wish*, as well as library content. In comparison, television licensing revenue for the prior year's third quarter was primarily comprised of the licensing of several recently released films, including *Me Before You*, *The Magnificent Seven*, *Max* and other films, as well as revenue from library content.

Home Entertainment. Worldwide home entertainment revenue for film content was $21.8 million for the three months ended September 30, 2018, an increase of $4.9 million, or 30%, as compared to $16.9 million for the three months ended September 30, 2017. Home entertainment revenue for the current year's third quarter primarily included worldwide EST revenue for *Tomb Raider* and the ongoing domestic home entertainment distribution of *Death Wish* and *Every Day*, plus our continued distribution of library content. In comparison, home entertainment revenue for the prior year's third quarter primarily included our distribution of *The Belko Experiment*, *The Magnificent Seven* and library content.

Other Revenue. Other revenue for film content was $12.2 million for the three months ended September 30, 2018, an increase of $9.2 million, or 302%, as compared to $3.0 million for the three months ended September 30, 2017. The increase in the current year's third quarter was primarily comprised of the initial net revenue recognition for *Overboard* and ongoing net revenue from *Tomb Raider* and *Max*.

Ancillary. Ancillary revenue for film content, which includes consumer products, interactive gaming, music performance and other revenue, was $5.7 million for the three months ended September 30, 2018, a decrease of $1.6 million as compared to $7.3 million for the three months ended September 30, 2017. The decrease reflected the expected reversal of the early timing of music performance revenue in the current year's second quarter.

Film Content – Expenses

Operating Expenses. Operating expenses for film content were $120.9 million for the three months ended September 30, 2018, an increase of $65.4 million as compared to $55.5 million for the three months ended September 30, 2017. The increase in operating expenses primarily included $65.7 million of higher aggregate film cost and P&R amortization expenses. Aggregate amortization expenses for the current year's third quarter primarily included *Operation Finale*, *Tomb Raider*, *Overboard*, *Death Wish* and library content, plus $19.7 million of unanticipated film impairment charges. In comparison, aggregate amortization expenses for the prior year's third quarter primarily included *The Magnificent Seven*, *Me Before You* and library content.

Distribution and Marketing Expenses. Distribution and marketing expenses for film content were $7.2 million for the three months ended September 30, 2018, an increase of $3.3 million as compared to $3.9 million for the three months ended September 30, 2017. The increase was primarily driven by fluctuations in foreign currency exchange rates, mainly the British Pound and Euro, which caused $0.5 million of unanticipated foreign currency losses in the current year's third quarter, as compared to foreign currency gains totaling $5.1 million in the prior year's third quarter. The $5.6 million negative currency variance was partially offset by lower bad debt expenses, plus lower home entertainment and television distribution costs in the current year's third quarter.

Television Content

	Three Months Ended September 30,				Change			
	2018		2017		Amount		Percent
Revenue:							
Television licensing..		99,961		28,725		71,236	248%
Home entertainment and other....................................		7,876		8,005		(129)	(2%)
Total revenue...		107,837		36,730		71,107	194%
Expenses:							
Operating (6)..		65,303		21,159		44,144	209%
Distribution and marketing..		2,194		2,530		(336)	(13%)
Total expenses...		67,497		23,689		43,808	185%
Contribution...	$	40,340	$	13,041	$	27,299	209%
Purchase Accounting Adjustments (6)..........................		518		639		(121)	(19%)
Step-up Amortization Expense (6)...............................		6,650		1,741		4,909	282%
Net (income) loss attributable to noncontrolling interests		(72)		6		(78)	NM
Adjusted EBITDA (pre-G&A).....................................	**$**	**47,436**	**$**	**15,427**	**$**	**32,009**	**207%**

NM – Percentage is not meaningful

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(6) Operating expenses for television content for the three months ended September 30, 2018 included $0.5 million of Purchase Accounting Adjustments and $6.7 million of Step-up Amortization Expense. Operating expenses for television content for the three months ended September 30, 2017 included $0.6 million of Purchase Accounting Adjustments and $1.7 million of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

Television Content – Revenue

Television Licensing. Television licensing revenue for television content was $100.0 million for the three months ended September 30, 2018, an increase of $71.3 million, or 248%, as compared to $28.7 million for the three months ended September 30, 2017. This increase was driven by robust licensing activity for scripted television content, including significant revenue for all five prior seasons of our successful series *Vikings*, as well as deliveries of new episodes of *Vikings* (season 6) and *The Handmaid's Tale* (season 2). We also continued to deliver a high volume of unscripted shows, including our new show for CBS, *TKO: Total Knock Out*, plus new episodes of *Live PD* from our strategic acquisition of Big Fish in June 2018, *The Real Housewives of Orange County* (season 13), *Survivor* (season 37), *Botched* (season 5), *The Voice* (season 15), and many other shows. In comparison, the prior year's third quarter primarily included deliveries of new episodes of *Vikings* (season 5), plus a partial period consolidation of television shows from Evolution following our acquisition in July 2017, which included *The Real Housewives of Orange County* (season 12), *Botched* (season 4) and *Growing Up Supermodel* (season 1).

Home Entertainment and Other. Home entertainment and other revenue for television content was $7.9 million for the three months ended September 30, 2018, which was largely in line with $8.0 million of revenue for the three months ended September 30, 2017. Revenue in each period was primarily driven by the continued strong home entertainment performance of *The Handmaid's Tale* (seasons 1 and 2).

Television Content – Expenses

Operating Expenses. Operating expenses for television content were $65.3 million for the three months ended September 30, 2018, an increase of $44.1 million as compared to $21.2 million for the three months ended September 30, 2017. The increase in operating expenses was due to significantly higher revenue in the current year's third quarter, which drove higher aggregate television content cost and P&R amortization expenses, primarily for *Vikings* (all seasons), *The Handmaid's Tale* (seasons 1 and 2) and *TKO: Total Knock Out*, our new unscripted show which we record on a gross basis since we developed and control the underlying format.

Distribution and Marketing Expenses. Distribution and marketing expenses for television content were $2.2 million and $2.5 million for the three months ended September 30, 2018 and 2017, respectively.

Media Networks

	Three Months Ended September 30,		Change	
	2018	2017	Amount	Percent
Revenue				
EPIX	108,695	103,042	5,653	5%
Other Channels	8,318	10,955	(2,637)	(24%)
Total revenue	117,013	113,997	3,016	3%
Expenses:				
Operating (7)	100,868	58,469	42,399	73%
Distribution and marketing	19,349	17,496	1,853	11%
Total expenses	120,217	75,965	44,252	58%
Contribution	$ (3,204)	$ 38,032	$ (41,236)	(108%)
Intercompany Programming Cost Amortization (7)	3,877	7,648	(3,771)	(49%)
Net income attributable to noncontrolling interests	-	(1,432)	1,432	100%
Adjusted EBITDA (pre-G&A)	**$ 673**	**$ 44,248**	**$ (43,575)**	**(98%)**

(7) Operating expenses for Media Networks for the three months ended September 30, 2018 included $3.9 million of Intercompany Programming Cost Amortization. Operating expenses for Media Networks for the three months ended September 30, 2017 included $7.6 million of Intercompany Programming Cost Amortization. Refer to *Cost Structure –Operating Expenses* for additional information.

Media Networks – Revenue

Total revenue from our Media Networks segment, which includes EPIX and our other wholly-owned and joint venture broadcast and cable networks, was $117.0 million for the three months ended September 30, 2018, an increase of $3.0 million as compared to $114.0 million for the three months ended September 30, 2017. The increase in the current year's third quarter reflected higher revenue from EPIX primarily due to the renewal of a digital distribution agreement on improved terms.

Media Networks – Expenses

Operating Expenses. Operating expenses for our Media Networks were $100.9 million for the three months ended September 30, 2018, an increase of $42.4 million as compared to $58.5 million for the three months ended September 30, 2017. This increase primarily reflected operating expenses for EPIX, which were substantially comprised of higher programming cost amortization expenses for new original content, including the premiere of *Get Shorty* (season 2) and *The Contender* (season 1), plus first-run theatrical films from Paramount and Lionsgate, including *Transformers: The Last Knight*, *Baywatch*, *Power Rangers*, *How to be a Latin Lover*, *Arrival* and *xXx: The Return of Xander Cage*.

Distribution and Marketing Expenses. Distribution and marketing expenses for our Media Networks were $19.3 million for the three months ended September 30, 2018, an increase of $1.8 million as compared to $17.5 million for the three months ended September 30, 2017. This increase primarily reflected higher marketing costs associated with EPIX's new original content, including season 1 of *The Contender*, season 2 of *Get Shorty* and season 1 of *Deep State*, as well as marketing support related to the launch of EPIX on Comcast in June 2018.

General and Administrative Expenses

For the three months ended September 30, 2018, total G&A expenses were $52.1 million, an increase of $3.3 million as compared to $48.8 million for the three months ended September 30, 2017. The increase in G&A expenses primarily reflected the addition of EPIX, Evolution and Big Fish personnel following our acquisitions in May 2017, July 2017 and June 2018, respectively, plus targeted investments in personnel focused on areas of business growth, including, but not limited to, expanding our existing content creation and distribution capabilities.

Depreciation and non-content amortization

For the three months ended September 30, 2018, depreciation and non-content amortization was $16.2 million, an increase of $3.0 million as compared to $13.2 million for the three months ended September 30, 2017. Amortization expense for identifiable non-content intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, totaled $14.0 million and $11.4 million for the three month periods ended September 30, 2018 and 2017, respectively. The increase primarily reflected our recognition of new, amortizable non-content intangible assets resulting from our acquisitions of EPIX in May 2017, Evolution in July 2017 and Big Fish in June 2018. Depreciation expense for fixed assets was $2.2 million and $1.8 million for the three month periods ended September 30, 2018 and 2017, respectively.

Equity in net earnings (losses) of affiliates

For the three months ended September 30, 2018, equity in net losses of affiliates was $7.2 million and was substantially comprised of our share of the net loss of our U.S. theatrical distribution joint venture, which primarily reflected the net U.S. theatrical performance of *Operation Finale* and the operating expenses of the joint venture. For the three months ended September 30, 2017, equity in net earnings of affiliates was immaterial.

Loss on extinguishment of debt

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

Interest expense

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

For the three months ended September 30, 2018, total interest expense was $19.8 million, an increase of $9.8 million as compared to $10.0 million for the three months ended September 30, 2017. For the current year's third quarter, interest expense included $18.2 million of contractual interest and $1.6 million of other interest costs. For the prior year's third quarter, interest expense included $9.0 million of contractual interest and $1.0 million of other interest costs. Cash paid for interest was $17.7 million and $8.3 million for the three month periods ended September 30, 2018 and 2017, respectively. Our higher interest expense and cash paid for interest for the current year's third quarter reflected interest associated with our new $400.0 million first lien term loan and $400.0 million second lien term loan, plus higher borrowings under our revolving credit facility to fund our investment spending on strategic growth initiatives, the stock repurchases and our strategic acquisition of Big Fish.

Interest income

Interest income primarily includes the amortization of discounts recorded on long-term accounts and contracts receivable, as well as interest earned on short-term investments. For the three month periods ended September 30, 2018 and 2017, the amounts recorded as interest income were immaterial.

Other income, net

For the three month periods ended September 30, 2018 and 2017, the amounts recorded as other income were immaterial.

Income tax benefit (provision)

For the three months ended September 30, 2018, we recorded an income tax benefit of $55.6 million, which primarily reflected one-time adjustments associated with our Federal income tax filing for 2017. This included additional benefits related to extra-territorial income exclusions for prior years and the impact of incremental deductions for certain types of content-related costs. Excluding non-recurring items and based only on our U.S. federal and state statutory income tax rates, our income tax benefit for the current year's third quarter was $6.8 million, which represented an effective tax rate of 22%. For the three months ended September 30, 2017, we recorded an income tax benefit of $76.1 million. This benefit primarily included one-time adjustments related to foreign remittance taxes, which were historically treated as deductions in our calculation of taxable income but were converted into foreign tax credits for all recent tax years beginning in 2011. Excluding one-time adjustments, our income tax provision for the prior year's third quarter was $11.2 million, which represented an effective tax rate of 31%. Excluding non-recurring items, our lower income tax provision and effective tax rate for the current year's third quarter primarily reflected lower pre-tax income, as discussed above, plus the impact of the lower U.S. federal income tax rate as a result of the new tax legislation passed in December 2017. In addition, our cash paid for income taxes was significantly less than our income tax provision due to the benefit we realized from deferred tax assets, primarily net operating loss carryforwards, as well as other items, such as foreign tax credits.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Film Content

	Nine Months Ended September 30,		Change	
	2018	**2017**	**Amount**	**Percent**
Revenue:				
Theatrical	20,996	10,181	10,815	106%
Television licensing	289,103	287,073	2,030	1%
Home entertainment	78,106	67,587	10,519	16%
Other revenue	23,104	23,904	(800)	(3%)
Ancillary	20,919	19,594	1,325	7%
Total revenue	432,228	408,339	23,889	6%
Expenses:				
Operating (8)	292,891	224,504	68,387	30%
Distribution and marketing	26,774	17,714	9,060	51%
Total expenses	319,665	242,218	77,447	32%
Contribution	$ 112,563	$ 166,121	$ (53,558)	(32%)
Step-up Amortization Expense (8)	36,130	36,498	(368)	(1%)
Adjusted EBITDA (pre-G&A)	**$ 148,693**	**$ 202,619**	**$ (53,926)**	**(27%)**

(8) Operating expenses for film content for the nine month periods ended September 30, 2018 and 2017 included $36.1 million and $36.5 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 $21.0 million for the nine months ended September 30, 2018, an increase of $10.8 million, or 106%, as compared to $10.2 million for the nine months ended September 30, 2017. Theatrical revenue for the 2018 period primarily included international revenue for *Death Wish*, *Sherlock Gnomes*, *Overboard* and *Tomb Raider* in certain territories and domestic theatrical revenue for the U.S. release of the Orion Pictures' film, *Every Day*. We did not recognize a substantial portion of the worldwide theatrical revenue for *Death Wish*, *Tomb Raider*, *Sherlock Gnomes*, *Overboard* and *Operation Finale*, which are primarily accounted for on a net basis after deduction of theatrical advertising and other related distribution costs. In comparison, theatrical revenue for the 2017 period primarily included the U.S. release of *The Belko Experiment*.

Television Licensing. Worldwide television licensing revenue for film content was $289.1 million for the nine months ended September 30, 2018, an increase of $2.0 million as compared to $287.1 million for the nine months ended September 30, 2017. Television licensing revenue for the 2018 period primarily included the free television availabilities for *Spectre*, *Creed* and *Me Before You*, international SVOD licensing of *Operation Finale*, worldwide transactional VOD, SVOD and pay television revenue for *Tomb Raider,* as well as ongoing licensing revenue for previous film releases, such as *Death Wish*, *The Magnificent Seven* and *Everything, Everything*, as well as revenue from library content. In comparison, television licensing revenue for the 2017 period included robust revenue from recent film releases, including the U.S. pay television premieres of *Me Before You* and *Barbershop: The Next Cut* on Epix (prior to our acquisition of Epix), our initial international pay television licensing of *The Magnificent Seven*, *Ben-Hur* and *Me Before You*, free television availabilities for *The Hobbit: The Battle of the Five Armies* in several territories internationally, and worldwide VOD revenue for *The Magnificent Seven* and *Ben-Hur.*

Home Entertainment. Worldwide home entertainment revenue for film content was $78.1 million for the nine months ended September 30, 2018, an increase of $10.5 million, or 16%, as compared to $67.6 million for the nine months ended September 30, 2017. Home entertainment revenue for the 2018 period primarily included the domestic home entertainment release of *Death Wish* and worldwide EST revenue for *Tomb Raider*, plus our continued distribution of library content. In comparison, home entertainment revenue for the 2017 period included revenue from recent film releases, primarily worldwide EST revenue for *The Magnificent Seven* and *Ben-Hur*, home entertainment revenue for *The Belko Experiment,* plus ongoing revenue from *Spectre*, *The Hobbit* trilogy and additional library content.

Other Revenue. Other revenue for film content was $23.1 million for the nine months ended September 30, 2018, a slight decrease of $0.8 million as compared to $23.9 million for the nine months ended September 30, 2017. Net revenue from co-produced films in the 2018 period was primarily comprised of the initial net revenue recognition for *Overboard* and *Tomb Raider*. In comparison, net revenue from co-produced films in the 2017 period primarily included ongoing net revenue for *The Magnificent Seven, Me Before You* and *Creed.*

Ancillary. Ancillary revenue for film content, which includes consumer products, interactive gaming, music performance and other revenue, was $20.9 million for the nine months ended September 30, 2018, an increase of $1.3 million as compared to $19.6 million for the nine months ended September 30, 2017. The increase primarily reflected higher licensing revenue for intellectual property used in consumer products.

Film Content – Expenses

Operating Expenses. Operating expenses for film content were $292.9 million for the nine months ended September 30, 2018, an increase of $68.4 million as compared to $224.5 million for the nine months ended September 30, 2017. The increase in operating expenses included $72.8 million of higher aggregate film cost and P&R amortization expenses. Aggregate amortization expenses for the 2018 period primarily included *Death Wish, Tomb Raider*, *Operation Finale, Spectre, Overboard*, *Creed,* and library content, plus $26.4 million of unanticipated film impairment charges. In comparison, aggregate amortization expenses for the 2017 period primarily included *The Magnificent Seven, Me Before You, Ben-Hur, Barbershop: The Next Cut* and *The Hobbit: The Battle of the Five Armies*. This was partially offset by lower home entertainment product costs in the 2018 period.

Distribution and Marketing Expenses. Distribution and marketing expenses for film content were $26.8 million for the nine months ended September 30, 2018, an increase of $9.1 million as compared to $17.7 million for the nine months ended September 30, 2017. The increase was primarily driven by fluctuations in foreign currency exchange rates, mainly the British Pound and Euro, which caused $5.3 million of unanticipated foreign currency losses in the 2018 period, as compared to foreign currency gains totaling $15.1 million in the 2017 period. The $20.4 million negative currency variance was partially offset by lower bad debt expenses in the 2018 period.

Television Content

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change Amount	Change Percent
Revenue:				
Television licensing	265,295	230,863	34,432	15%
Home entertainment and other	26,856	21,268	5,588	26%
Total revenue	292,151	252,131	40,020	16%
Expenses:				
Operating (9)	186,576	174,913	11,663	7%
Distribution and marketing	9,244	8,361	883	11%
Total expenses	195,820	183,274	12,546	7%
Contribution	$ 96,331	$ 68,857	$ 27,474	40%
Purchase Accounting Adjustments (9)	3,735	1,981	1,754	89%
Step-up Amortization Expense (9)	9,926	3,676	6,250	170%
Net (income) loss attributable to noncontrolling interests	(768)	26	(794)	(3,054%)
Adjusted EBITDA (pre-G&A)	**$ 109,224**	**$ 74,540**	**$ 34,684**	**47%**

NM – Percentage is not meaningful

(9) Operating expenses for television content for the nine months ended September 30, 2018 included $3.7 million of Purchase Accounting Adjustments and $9.9 million of Step-up Amortization Expense. Operating expenses for television content for the nine months ended September 30, 2017 included $2.0 million of Purchase Accounting Adjustments and $3.7 million of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

Television Content – Revenue

Television Licensing. Television licensing revenue for television content was $265.3 million for the nine months ended September 30, 2018, an increase of $34.4 million, or 15%, as compared to $230.9 million for the nine months ended September 30, 2017. This increase was primarily driven by a more robust slate of television content in the 2018 period, which included new episodes of our scripted series *The Handmaid's Tale* (season 2), *Vikings* (season 6), *Condor* (season 1) for AT&T's Audience Network and *Luis Miguel: La Serie* for Telemundo. We also generated significant licensing revenue for all five prior seasons of our successful series *Vikings*. In addition, we continued to deliver a high volume of unscripted shows during the 2018 period, including our new show for CBS, *TKO: Total Knock Out*, plus new episodes of *The Voice* (seasons 14 and 15), *Survivor* (seasons 36 and 37), *The Real Housewives of Beverly Hills* (season 8), *Botched* (season 5), *Vanderpump Rules* (season 6), and *The Real Housewives of Orange County* (season 13), among many other shows, such as *Live PD* and other titles from our strategic acquisition of Big Fish in June 2018. In comparison, the 2017 period primarily included deliveries of new episodes of scripted series, including *Fargo* (season 3), *Vikings* (season 5) and *The Handmaid's Tale* (season 1), plus unscripted shows such as *Steve Harvey's Funderdome*, *Signed*, *The Voice* (season 12) and *Survivor* (season 34).

Home Entertainment and Other. Home entertainment and other revenue for television content was $26.9 million for the nine months ended September 30, 2018, an increase of $5.6 million, or 26%, as compared to $21.3 million for the nine months ended September 30, 2017. This increase was primarily driven by the continued strong home entertainment performance of *The Handmaid's Tale* (seasons 1 and 2).

Television Content – Expenses

Operating Expenses. Operating expenses for television content were $186.6 million for the nine months ended September 30, 2018, an increase of $11.7 million as compared to $174.9 million for the nine months ended September 30, 2017. The increase in operating expenses was primarily due to higher revenue in the 2018 period, which drove higher aggregate television content cost and P&R amortization expenses, primarily for scripted content including *Vikings* (all seasons), *The Handmaid's Tale* (seasons 1 and 2), *Condor* and *Luis Miguel: La Serie*, as well as *TKO: Total Knock Out*, our new unscripted show which we record on a gross basis since we developed and control the underlying format.

Distribution and Marketing Expenses. Distribution and marketing expenses for television content were $9.2 million and $8.4 million for the nine month periods ended September 30, 2018 and 2017, respectively.

Media Networks

	Nine Months Ended September 30,		Change	
	2018	2017	Amount	Percent
Revenue				
EPIX	305,584	160,003	145,581	91%
Other Channels	29,736	36,369	(6,633)	(18%)
Total revenue	335,320	196,372	138,948	71%
Expenses:				
Operating (10)	250,645	102,190	148,455	145%
Distribution and marketing	38,298	23,532	14,766	63%
Total expenses	288,943	125,722	163,221	130%
Contribution	$ 46,377	$ 70,650	$ (24,273)	(34%)
Intercompany Programming Cost Amortization (10).	17,375	13,373	4,002	30%
Net income attributable to noncontrolling interests	-	(492)	492	100%
Adjusted EBITDA (pre-G&A)	**$ 63,752**	**$ 83,531**	**$ (19,779)**	**(24%)**

(10) Operating expenses for Media Networks for the nine months ended September 30, 2018 included $17.4 million of Intercompany Programming Cost Amortization. Operating expenses for Media Networks for the nine months ended September 30, 2017 included $13.4 million of Intercompany Programming Cost Amortization. Refer to *Cost Structure –Operating Expenses* for additional information.

Media Networks – Revenue

Total revenue from our Media Networks segment, which includes EPIX and our other wholly-owned and joint venture broadcast and cable networks, was $335.3 million for the nine months ended September 30, 2018, an increase of $138.9 million as compared to $196.4 million for the nine months ended September 30, 2017. Higher revenue for the 2018 period primarily reflected the consolidation of EPIX for the entire nine month period versus a partial period consolidation of EPIX in the 2017 period following our acquisition on May 11, 2017.

Media Networks – Expenses

Operating Expenses. Operating expenses for our Media Networks were $250.6 million for the nine months ended September 30, 2018, an increase of $148.4 million as compared to $102.2 million for the nine months ended September 30, 2017. This increase primarily reflected operating expenses for EPIX, which were substantially comprised of higher programming cost amortization expenses for new original content, including *Get Shorty* (seasons 1 and 2), *Berlin Station* (seasons 1 and 2), *The Contender* (season 1) and *Deep State* (season 1), plus first-run theatrical films from Paramount and Lionsgate, including *Transformers: The Last Knight*, *Baywatch*, *Power Rangers*, *xXx: The Return of Xander Cage*, *Arrival* and *Star Trek Beyond*, among many other films.

Distribution and Marketing Expenses. Distribution and marketing expenses for our Media Networks were $38.3 million for the nine months ended September 30, 2018, an increase of $14.8 million as compared to $23.5 million for the nine months ended September 30, 2017. This increase primarily reflected higher marketing costs associated with EPIX's new original content, including season 1 of *Deep State*, season 1 of *The Contender* and season 2 of *Get Shorty*, as well as marketing support related to the launch of EPIX on Comcast in June 2018.

General and Administrative Expenses

For the nine months ended September 30, 2018, total G&A expenses were $161.6 million, an increase of $39.0 million as compared to $122.6 million for the nine months ended September 30, 2017. The increase in G&A expenses primarily reflected $12.4 million of higher non-recurring expenses, which included expenses related to the exit of our former CEO and costs associated with our strategic acquisition of Big Fish. Excluding non-recurring expenses, G&A expenses increased $26.6 million in the 2018 period, which primarily reflected the addition of EPIX, Evolution and Big Fish personnel following our acquisitions in May 2017, July 2017 and June 2018, respectively, plus targeted investments in personnel focused on areas of business growth, including, but not limited to, expanding our existing content creation and distribution capabilities. In the 2017 period, we recorded G&A expenses for EPIX and Evolution only for the partial periods following the respective acquisition dates.

Depreciation and non-content amortization

For the nine months ended September 30, 2018, depreciation and non-content amortization was $45.8 million, an increase of $13.0 million as compared to $32.8 million for the nine months ended September 30, 2017. Amortization expense for identifiable non-content intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, totaled $38.8 million and $28.3 million for the nine month periods ended September 30, 2018 and 2017, respectively. The increase primarily reflected our recognition of new, amortizable non-content intangible assets resulting from our acquisitions of EPIX in May 2017, Evolution in July 2017 and Big Fish in June 2018. Depreciation expense for fixed assets was $7.0 million and $4.5 million for the nine month periods ended September 30, 2018 and 2017, respectively.

Equity in net earnings (losses) of affiliates

For the nine months ended September 30, 2018, equity in net losses of affiliates was $11.6 million and was substantially comprised of our share of the net loss of our U.S. theatrical distribution joint venture, which primarily reflected the net U.S. theatrical performance of *Death Wish* and *Operation Finale* and the operating expenses of the joint venture. This was partially offset by $2.3 million of dividend income from a cost method investment. For the nine months ended September 30, 2017, equity in net earnings of affiliates was $17.6 million. The 2017 period primarily included $7.1 million of equity income from EPIX due to the partial period recognition of equity income resulting from our acquisition and consolidation on May 11, 2017, $3.2 million of dividend income from a cost method investment, and $7.2 million of income from our monetization of a non-core cost method investment.

Gain on acquisition

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

Loss on extinguishment of debt

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

Interest expense

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

For the nine months ended September 30, 2018, total interest expense was $44.9 million, an increase of $25.0 million as compared to $19.9 million for the nine months ended September 30, 2017. For the 2018 period, interest expense included $41.4 million of contractual interest and $3.5 million of other interest costs. For the 2017 period, interest expense included $17.2 million of contractual interest and $2.7 million of other interest costs. Cash paid for interest was $41.2 million and $16.7 million for the nine month periods ended September 30, 2018 and 2017, respectively. Our higher interest expense and cash paid for interest for the 2018 period reflected interest associated with our prior $850.0 million senior secured term loan borrowed in connection with our acquisition of EPIX in May 2017 (repaid in July 2018), our new $400.0 million first lien term loan and $400.0 million second lien term loan, plus higher borrowings under our revolving credit facility to fund our investment spending on strategic growth initiatives, the stock repurchases and our strategic acquisition of Big Fish.

Interest income

Interest income primarily includes the amortization of discounts recorded on long-term accounts and contracts receivable, as well as interest earned on short-term investments. For the nine month periods ended September 30, 2018 and 2017, the amounts recorded as interest income were immaterial.

Other income, net

For the nine month periods ended September 30, 2018 and 2017, the amounts recorded as other income were immaterial.

Income tax provision

For the nine months ended September 30, 2018, we recorded an income tax benefit of $95.3 million, which primarily reflected a non-recurring tax benefit associated with the exercise of stock options and one-time adjustments associated with our Federal income tax filing for 2017. This included additional benefits related to extra-territorial income exclusions for prior years and the impact of incremental deductions for certain types of content-related costs. Excluding non-recurring items and based only on our U.S. federal and state statutory income tax rates, our income tax benefit for the 2018 period was $1.5 million, which represented an effective tax rate of 23%. For the nine months ended September 30, 2017, we recorded an income tax benefit of $30.2 million. This benefit primarily included one-time adjustments related to foreign remittance taxes, which were historically treated as deductions in our calculation of taxable income but were converted into foreign tax credits for all recent tax years beginning in 2011. Excluding one-time adjustments, our income tax provision for the 2017 period was $51.8 million, which represented an effective tax rate of 34% (which excludes the nontaxable accounting gain on our acquisition of EPIX, discussed above). Excluding non-recurring items, our lower income tax provision for the 2018 period primarily reflected lower pre-tax income, as discussed above, plus the impact of the lower U.S. federal income tax rate as a result of the new tax legislation passed in December 2017. In addition, our cash paid for income taxes was significantly less than our income tax provision due to the benefit we realized from deferred tax assets, primarily net operating loss carryforwards, as well as other items, such as foreign tax credits.

Liquidity and Capital Resources

General

Our operations are capital intensive. In recent years we have funded our operations primarily with cash flow from operating activities, bank borrowings, and through co-production arrangements. In 2018 and beyond, we expect to fund our operations with (a) cash flow from the exploitation of our film and television content, (b) cash on hand, (c) co-production arrangements, and (d) funds available under our revolving credit facility.

Bank Borrowings

In July 2018, we entered into a seven-year $400.0 million first lien term loan (the “1L Term Loan”) and an eight-year $400.0 million second lien term loan (the “2L Term Loan”). The 1L Term Loan was issued at a discount of 50 basis points, bears interest at 2.50% over LIBOR and matures on July 3, 2025. The 2L Term Loan was issued at a discount of 100 basis points, bears interest at 4.50% over LIBOR and matures on July 3, 2026. Proceeds from the issuance of these terms loans were primarily used to prepay our prior $850.0 million senior secured term loan. In addition, we amended our senior secured revolving credit facility (the “Revolving Credit Facility”) to, among other things, increase the total commitments, lower the interest rate and modify certain covenants and components of our borrowing base. Our Revolving Credit Facility currently has $1.8 billion of total commitments, bears interest at 1.75% over LIBOR and matures on July 3, 2023. The availability of funds under the Revolving Credit Facility is limited by a borrowing base calculation. At September 30, 2018, we had $640.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The $1.16 billion of remaining funds were entirely available to us.

The Revolving Credit Facility, 1L Term Loan and 2L Term Loan contain various affirmative and negative covenants and financial tests, including, as applicable, limitations on our ability to make certain expenditures, incur indebtedness, grant liens, dispose of property, merge, consolidate or undertake other fundamental changes, pay dividends and make distributions, make certain investments, enter into certain transactions, and pursue new lines of business outside of entertainment and/or media-related business activities. We were in compliance with all applicable covenants and there were no events of default at September 30, 2018.

Cash Provided By Operating Activities

Cash provided by operating activities was $144.5 million and $122.2 million for the nine month periods ended September 30, 2018 and 2017, respectively. Despite our ramp in content investment, we generated higher operating cash flow primarily due to the consolidation of EPIX for the entire nine months ended September 30, 2018, plus higher library cash flow. This was partially offset by $21.1 million of higher net cash investment in content during the 2018 period, which included investments in our strong slate of television content, such as *Vikings* (season 6), *The Handmaid's Tale* (season 2) and *Get Shorty* (season 2), as well as new film content, such as *Creed II*, *The Addams Family*, and *The Girl in the Spider's Web*, plus programming for our premium subscription platform, EPIX. This was partially offset by higher receipts from our full consolidation of EPIX during the 2018. In comparison, cash provided by operating activities for the 2017 period reflected lower production activity and higher cash flow from recently released film content.

Cash Used In Investing Activities

Cash used in investing activities was $64.7 million for the nine months ended September 30, 2018 and primarily included $46.4 million of net cash paid for our acquisition of Big Fish ($65.0 million of cash paid net of $18.6 million of cash acquired), plus capital expenditures mainly related to new information systems and capital contributions to our U.S. theatrical distribution joint venture. For the nine months ended September 30, 2017, cash used in investing activities was $860.7 million and primarily included $854.8 million of net cash paid for our acquisition of Epix ($970.9 million of cash paid net of $116.2 million of cash acquired), which was partially offset by cash received from our monetization of a non-core cost method investment.

Cash Provided By Financing Activities

Cash provided by financing activities was $5.6 million for the nine months ended September 30, 2018. This reflected new borrowings, including our $400.0 million first lien term loan, $400.0 million second lien term loan, and $420.0 million of net borrowings under our Revolving Credit Facility. These borrowings were used to finance our investment spending on growth initiatives, $346.6 million of aggregate stock repurchases including the repurchases from our former CEO, the prepayment of our prior $850.0 million senior secured term loan and our strategic acquisition of Big Fish. For the nine months ended September 30, 2017, cash provided by financing activities was $766.7 and primarily included $850.0 million of borrowings under our prior senior secured term loan, which was partially offset by $77.0 million of net repayments under our Revolving Credit Facility and $7.5 million of closing costs associated with the amendment to our credit facility in connection with our acquisition of Epix.

Commitments

Future minimum commitments under corporate debt agreements, creative talent and employment agreements, non-cancelable operating leases net of subleasing income, and other contractual obligations at September 30, 2018, were as follows (in thousands):

	Three Months Ended December 31,	Year Ended December 31,					
	2018	2019	2020	2021	2022	Thereafter	Total
Corporate debt (1)	$ 1,000	$ 4,000	$ 4,000	$ 4,000	$ 4,000	$1,423,000	$ 1,440,000
Program rights (2)	79,670	119,062	17,084	292	22	-	216,130
Creative talent and employment agreements (3)	99,009	41,705	25,669	13,428	7,775	-	187,586
Operating leases	3,948	16,385	17,259	23,297	5,840	2,503	69,232
Other contractual obligations (4)	29,295	23,115	10,179	3,457	2,282	-	68,328
	$ 212,922	$ 204,267	$ 74,191	$ 44,474	$ 19,919	$1,425,503	$ 1,981,276

(1) Corporate debt does not include interest costs.

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

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

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

As discussed above under *Liquidity and Capital Resources –Bank Borrowings*, we have a $1.8 billion Revolving Credit Facility. At September 30, 2018, we had $640.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The $1.16 billion of remaining funds were entirely available to us. Our future capital expenditure commitments are not significant.