MGM HOLDINGS INC.

For the quarter ended September 30, 2014

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 films or television content, or predict consumer tastes;
- our ability to exploit emerging and evolving technologies, including alternative forms of delivery and storage of content;
- our ability to finance and co-produce films and television content;
- increased costs for producing and marketing feature films and television content;
- our ability to acquire film and television content on favorable terms;
- our ability to exploit our library of film and television content;
- our financial position and sources of revenue;
- our liquidity and capital expenditures;
- inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, or other rates or prices; and
- trends in the entertainment industry.

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

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

Company Background and Business Overview

Overview

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

We have historically generated revenue from the exploitation of our content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets. We also generate revenue from the licensing of our content and intellectual property rights for use in consumer products and interactive games, as well as various other licensing activities. Our operations include the development, production and financing of feature films and television content and the worldwide distribution of entertainment content primarily through television and digital distribution. In addition, we currently own or hold interests in MGM-branded channels in the United States ("U.S.") and Germany, as well as interests in pay television networks in the U.S. and Brazil.

We control one of the deepest libraries of premium film and television content. Our film library includes the *James Bond*, *Hobbit*, *RoboCop* and *Rocky* franchises, as well as *Silence of the Lambs, Pink Panther, Carrie, Four Weddings and a Funeral, Death Wish* and *21 Jump Street*. Our television library includes *Stargate SG-1*, which is one of the longest running science fiction series in U.S. television history, *Stargate Atlantis, Stargate Universe, Fame*, *American Gladiators*, *Teen Wolf*, *Vikings* and *Fargo*.

In September 2014, we acquired a 55% interest in UAMG, LLC ("United Artists Media Group" or "UAMG"), a joint venture with Mark Burnett, Roma Downey and Hearst Productions that develops, produces and finances premium television and feature film content across all platforms. United Artists Media Group, which includes entities previously controlled by Mark Burnett, Roma Downey and Hearst Productions, such as One Three Media and LightWorkers Media, is a proven leader in the production of high quality television content and faith-based programming. This includes a number of successful, unscripted television shows such as *The Voice*, *Survivor*, *Apprentice* and *Shark Tank*, as well as the 10-episode scripted television series entitled *The Bible* and the theatrical feature film entitled *Son of God*. UAMG has several projects in various stages of development, production and release, including a 12-episode scripted television series entitled *A.D.* that will be initially broadcast on NBC, and a number of unscripted television shows. We also have an agreement whereby we provide distribution services for UAMG productions.

Business

Production of film and television content

We are involved in the development, production and co-production of film and television content, and typically participate with third parties in various co-production arrangements to produce, co-finance and distribute our content. We have several internally-developed feature films in various stages of production, including *Hot Tub Time Machine 2*, *Max*, *Poltergeist* and an untitled Reese Witherspoon / Sofia Vergara film and *Ben Hur*. In addition, the 24th installment of the *James Bond* franchise is currently in pre-production with a projected theatrical release in the 2015 fourth quarter.

We have an agreement with New Line Cinema, a subsidiary of Warner Bros. Entertainment Inc. ("Warner Bros."), to co-produce 50% of each of three films based on J.R.R. Tolkien's novel, *The Hobbit*, a book which has sold more than 100 million copies worldwide. The first two films in this trilogy, *The Hobbit: An Unexpected Journey* and *The Hobbit: The Desolation of Smaug*, were released theatrically in December 2012 and December 2013, respectively. The third film, *The Hobbit: The Battle of the Five Armies*, has an anticipated worldwide theatrical release date in December 2014. In addition, we have co-production agreements with Paramount Pictures Corporation (including affiliates thereof, "Paramount"), Sony Pictures Entertainment, Inc. ("Sony"), Twentieth Century Fox Film Corporation ("20th Century Fox") and Warner Bros. for our upcoming film content.

We have several television series that we are co-producing or distributing. *Teen Wolf*, which we are co-producing with an affiliate of MTV Networks, recently completed its fourth season, which began airing in June 2014, and was renewed for a fifth season that is tentatively anticipated in 2015. Additionally, we control distribution rights on a worldwide basis (excluding Canada) to the television series *Vikings*. The second season of *Vikings* completed its initial U.S. broadcast on A&E Television Networks' History channel in May 2014 and based on its strong ratings, History ordered a third season that is anticipated to be initially broadcast during the first half of 2015. The first season of *Fargo* completed its initial U.S. broadcast on FX in June 2014 and received 18 Emmy nominations and three Emmy awards including Outstanding Miniseries. FX renewed *Fargo* for a second season with a tentative initial U.S. broadcast in late 2015. In September 2014, our nationally syndicated courtroom show, *Lauren Lake's Paternity Court*, began airing its 110 episode second season.

We continue to seek and evaluate co-production, production and distribution opportunities with our existing partners and potential new partners.

Distribution of film and television content

Theatrical Distribution

We participate with third parties in various arrangements to distribute feature films theatrically. These arrangements allow us to distribute new releases by utilizing third parties, generally major studios, to book theaters and execute marketing campaigns and promotions in return for distribution fees. While third parties provide theatrical distribution services on a film-by-film basis, we often have significant involvement in the decision process regarding key elements of distribution, such as the creation of marketing campaigns and the timing of the film release schedule, allowing our experienced management team to provide key input in the critical marketing and distribution strategies while avoiding the high fixed-cost infrastructure required for physical distribution. Generally, our co-production partner provides theatrical distribution services and for certain films in certain territories we utilize the services of other distributors. In August 2014, we released *If I Stay* through our co-production partner, Warner Bros., who will theatrically release the third and final film in *The Hobbit* trilogy, *The Hobbit: The Battle of the Five Armies* in December 2014. In July 2014, we released *Hercules* through our co-production partner, Paramount, who will also theatrically release *Hot Tub Time Machine 2* in February 2015. In addition, in June 2014 and February 2014, we released *22 Jump Street* and *RoboCop*, respectively, through our co-production partner, Sony.

Home Entertainment Distribution

Fox Home Entertainment ("Fox") provides sales, marketing and other distribution services for our physical home entertainment distribution under a distribution services agreement. This distribution services agreement covers the worldwide distribution (excluding certain territories) of a substantial number of our feature films and television content, including *Skyfall*, *Carrie*, *RoboCop*, *If I Stay*, *Vikings* and *Teen Wolf*, and upcoming releases such as the 24th installment of the *James Bond* franchise, as well as certain of our electronic sell-through ("EST") distribution rights for our feature film and television content. In consideration for its distribution services, Fox receives a variable distribution fee based on receipts. The distribution agreement expires on March 31, 2016. In addition, for certain of our co-produced feature films, we use the physical home entertainment distribution services of our co-production partners. For example, Sony is the home entertainment distributor for *22 Jump Street* and *21 Jump Street*, Warner Bros. is the home entertainment distributor for *The Hobbit* trilogy (excluding certain territories for which MGM utilizes the services of other distributors), and Paramount is the primary home entertainment distributor for *Hot Tub Time Machine 2*, *Hercules*, *G.I. Joe: Retaliation* and *Hansel & Gretel: Witch Hunters*.

As with theatrical distribution, while we use the physical distribution services of third parties, we often have significant involvement in the decision-making process regarding key elements of distribution. Under the Fox distribution services agreement we maintain control over 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.

In recent years, industry revenue from the physical home entertainment market has declined due to changes in consumer preferences and behavior, increased competition and pricing pressure. Consumers are increasingly viewing content on a time-delayed or on-demand basis on their televisions, from the Internet and on handheld and mobile devices. As a result, we continue to see growth in video-on-demand ("VOD"), subscription video-on-demand ("SVOD") and EST as well as from other forms of electronic delivery (see *Television Distribution* below). 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.

Television Distribution

We have an in-house television licensing and distribution organization. We license our content for VOD, pay-per-view ("PPV"), pay and free television exploitation under various types of licensing agreements with customers worldwide. In the VOD and PPV markets, we license content to providers that allow subscribers to rent individual programs, including recent theatrically released films, on a per exhibition basis. In the pay television market, we license content to channels globally that generally require subscribers to pay a premium fee to view the channel. In the pay and free television markets, we license theatrically released films and television content, including new content and library content, on an individual basis and through output agreements. Output agreements typically require the channel to license a set number of recently released films over a multi-year period with payments based on U.S. or international theatrical box office performance metrics. We are continually establishing output agreements with digital platforms throughout the world.

In addition, we license film and television content to various SVOD streaming services, such as Netflix and Amazon, and for transactional VOD distribution via cable, satellite, IP television systems and online services. 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 expansion of SVOD platforms internationally will provide growth in this revenue.

MGM Channels and Joint Ventures

In September 2014, we acquired a 55% interest in United Artists Media Group, a joint venture with Mark Burnett, Roma Downey and Hearst Productions that develops, produces and finances premium television and feature film content across all platforms. United Artists Media Group, which includes entities previously controlled by Mark Burnett, Roma Downey and Hearst Productions, such as One Three Media and LightWorkers Media, is a proven leader in the production of high quality television content and faith-based programming. This includes a number of successful, unscripted television shows such as *The Voice*, *Survivor*, *Apprentice* and *Shark Tank*, as well as the 10-episode scripted television series entitled *The Bible* and the theatrical feature film entitled *Son of God*. UAMG has several projects in various stages of development, production and release, including a 12-episode scripted television series entitled *A.D.* that will be initially broadcast on NBC, and a number of unscripted television shows. We also have an agreement whereby we provide distribution services for UAMG productions.

For financial reporting purposes, we do not consolidate United Artists Media Group, but rather account for our investment using the equity method of accounting. Refer to the discussion in *Critical Accounting Policies and Estimates* below for additional information.

In addition, 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 MGM-branded channels in the U.S. and Germany, as well as ThisTV, a digital broadcast network, and Impact, a VOD service available to Comcast subscribers. On April 1, 2014, we launched a new domestic digital terrestrial broadcast channel, The Works, in partnership with Titan Broadcasting.

Studio 3 Partners, LLC. We have a 19.09% equity investment in Studio 3 Partners, LLC, a joint venture with Viacom Inc. ("Viacom"), Paramount and Lions Gate Entertainment Corp ("Lions Gate") that operates Epix, a premium television channel and SVOD service. Epix licenses first-run films, select library features and television content from these studio partners as well as other content providers. Studio 3 Partners, LLC is not consolidated in our financial statements. Our share of the net income of Studio 3 Partners, LLC is recorded using the equity method of accounting. During the nine months ended September 30, 2014, equity in net earnings of affiliates in our unaudited consolidated statement of income included $15.9 million of earnings from our 19.09% interest in Epix minus $0.5 million of eliminations related to our share of profits on content licenses to Epix. During the year ended December 31, 2013, equity in net earnings of affiliates in our consolidated statement of income included $17.1 million of earnings from our 19.09% interest in Epix minus $1.5 million of eliminations related to our share of profits on content licenses to Epix. In addition, during both the nine months ended September 30, 2014 and the year ended December 31, 2013, we received $8.6 million of dividends from our investment in Epix. Refer to Note 5 to the unaudited condensed consolidated financial statements as of September 30, 2014 for additional information.

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, Twentieth 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. Refer to Note 5 to the unaudited condensed consolidated financial statements as of September 30, 2014 for additional information.

Cost Method Investments. Equity in net earnings of affiliates in our unaudited consolidated statements of income for the nine months ended September 30, 2014 and 2013 included $4.2 million and $2.5 million, respectively, of dividend income from cost method investments. For the year ended December 31, 2013, equity in net earnings of affiliates included $5.8 million of dividend income from cost method investments.

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, RoboCop* and *Hercules*.

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 such 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.

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").

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, 2014, 53,832,356 aggregate shares of Class A and Class B common stock, par value $0.01 per share, were outstanding. The transfer agent and registrar for our common stock is Computershare. Contact and additional information regarding Computershare can be found at www.computershare.com/Investor.

Facilities

We lease approximately 143,000 square feet of office space, as well as related parking and storage facilities, for our corporate headquarters in Beverly Hills, California under a lease that expires in 2026. We also lease approximately 5,700 square feet in New York City under a lease that expires on June 30, 2018. Our New York City office houses our advertising sales business and also serves as a television distribution office. In addition, we have television distribution offices in Toronto, London, Sydney and Munich. On occasion, we may lease studio facilities and stages from unaffiliated parties. Such leases are generally on an as-needed basis in connection with the production of specific feature film and television projects.

Chief Executive Officer and the Board of Directors

Gary Barber is the Chairman and Chief Executive Officer of MGM and a member of the Board of Directors of MGM Holdings. The other members of the seven-member Board of Directors of MGM Holdings are Ann Mather (Lead Director), James Dondero, Jason Hirschhorn, Fredric Reynolds, Nancy Tellem and Kevin Ulrich. As of September 30, 2014, Anchorage Capital and Highland Capital each individually, or together with their affiliated entities, owned more than 10% of the issued and outstanding shares of common stock of MGM Holdings, and the designee of each on our Board of Directors is Kevin Ulrich and James Dondero, respectively.

Affiliation with a Broker-Dealer

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

MGM Holdings Inc.

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

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	**$ 218,420**	$ 41,959
Accounts and contracts receivable (net of allowance for doubtful accounts of $10,608 and $11,805, respectively)	**507,512**	499,762
Film and television costs, net	**1,602,487**	1,685,262
Investments in affiliates	**421,442**	69,164
Property and equipment, net	**14,196**	15,640
Other intangible assets, net	**194,410**	202,623
Other assets	**16,762**	32,179
Total assets	**$ 2,975,229**	$ 2,546,589
Liabilities and stockholders' equity		
Liabilities:		
Bank debt	**$ 300,000**	$ 105,000
Accounts payable and accrued liabilities	**79,538**	65,754
Accrued participants' share	**423,077**	373,337
Current and deferred income taxes payable	**412,100**	355,673
Advances and deferred revenue	**86,109**	94,225
Other liabilities	**16,263**	14,978
Total liabilities	**1,317,087**	1,008,967
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, $0.01 par value, 110,000,000 shares authorized, 75,619,626 and 75,424,149 shares issued, respectively, and 53,669,223 and 53,543,487 shares outstanding, respectively	**756**	755
Class B common stock, $0.01 par value, 110,000,000 shares authorized, 163,133 and 238,063 shares issued, respectively, and 163,133 and 238,063 shares outstanding, respectively	**2**	2
Additional paid-in capital	**1,994,288**	1,982,976
Retained earnings	**406,764**	292,818
Accumulated other comprehensive loss	**(10)**	(385)
Treasury stock, at cost, 21,950,403 and 21,880,662 shares, respectively	**(743,658)**	(738,544)
Total stockholders' equity	**1,658,142**	1,537,622
Total liabilities and stockholders' equity	**$ 2,975,229**	$ 2,546,589

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

MGM Holdings Inc.

Condensed Consolidated Statements of Income
(Unaudited, in thousands)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenue	**$ 233,472**	$ 242,895	**$ 885,587**	$ 1,063,535
Expenses:				
Operating	**132,923**	154,333	**522,804**	640,272
Distribution and marketing	**25,898**	25,723	**105,747**	159,673
General and administrative	**25,019**	23,981	**74,232**	69,899
Depreciation and non-film amortization	**3,912**	3,493	**11,549**	10,423
Total expenses	**187,752**	207,530	**714,332**	880,267
Operating income	**45,720**	35,365	**171,255**	183,268
Other income (expense):				
Equity in net earnings of affiliates	**5,049**	1,539	**20,727**	12,452
Interest expense:				
Contractual interest expense	**(5,177)**	(1,395)	**(8,227)**	(6,651)
Amortization of discount, deferred financing costs and other interest costs	**(817)**	(603)	**(2,062)**	(3,168)
Interest income	**829**	894	**2,305**	2,553
Other income, net	**1,480**	105	**1,675**	203
Total other income	**1,364**	540	**14,418**	5,389
Income before income taxes	**47,084**	35,905	**185,673**	188,657
Income tax provision	**(18,497)**	(19,311)	**(71,727)**	(78,720)
Net income	**$ 28,587**	$ 16,594	**$ 113,946**	$ 109,937

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

MGM Holdings Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	**2014**	2013
Net income	**$ 28,587**	$ 16,594	**$ 113,946**	$ 109,937
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on derivative instruments	**(223)**	(604)	**(555)**	503
Unrealized gain (loss) on securities	**(31)**	5	**(27)**	(7)
Retirement plan adjustments	**(71)**	–	**(212)**	(10)
Foreign currency translation adjustments	**(905)**	451	**1,169**	781
Other comprehensive income (loss)	**(1,230)**	(148)	**375**	1,267
Comprehensive income	**$ 27,357**	$ 16,446	**$ 114,321**	$ 111,204

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

MGM Holdings Inc.

Condensed Consolidated Statement of Stockholders' Equity
(Unaudited, in thousands, except share data)

	Common Stock Class A		Common Stock Class B					
	Number of Shares	**Par Value**	**Number of Shares**	**Par Value**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**	**Total Stockholders' Equity**
Balance, January 1, 2014	53,543,487	$ 755	238,063	$ 2	$ 1,982,976	$ 292,818	$ (385)	$ (738,544)	$ 1,537,622
Purchase of treasury stock	**(69,741)**	–	–	–	–	–	–	**(5,114)**	**(5,114)**
Conversion of Class B to Class A stock	**74,930**	–	**(74,930)**	–	–	–	–	–	–
Issuance of common stock	**120,547**	**1**	–	–	**2,486**	–	–	–	**2,487**
Stock-based compensation expense	–	–	–	–	**8,826**	–	–	–	**8,826**
Net income	–	–	–	–	–	**113,946**	–	–	**113,946**
Other comprehensive income	–	–	–	–	–	–	**375**	–	**375**
Balance, September 30, 2014	**53,669,223**	**$ 756**	**163,133**	**$ 2**	**$ 1,994,288**	**$ 406,764**	**$ (10)**	**$ (743,658)**	**$ 1,658,142**

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

MGM Holdings Inc.

Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2014	**2013**
Operating activities		
Net income	**$ 113,946**	$ 109,937
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to film and television costs, net	**(170,121)**	(276,494)
Amortization of film and television costs	**252,896**	288,002
Depreciation and non-film amortization	**11,549**	10,423
Amortization of discount and deferred financing costs	**1,855**	3,174
Stock-based compensation expense	**8,826**	8,185
Provision for doubtful accounts	**(978)**	(3,835)
Change in fair value of financial instruments	**(1,735)**	–
Undistributed earnings of affiliates	**(11,749)**	(10,103)
Other non-cash expenses	**(360)**	(7)
Changes in operating assets and liabilities:		
Accounts and contracts receivable	**(7,302)**	187,461
Other assets	**19,736**	(11,358)
Accounts payable, accrued and other liabilities	**14,230**	25,480
Accrued participants' share	**49,740**	(28,506)
Film and television co-financing obligations	**–**	(17,145)
Current and deferred income taxes payable	**58,886**	59,381
Advances and deferred revenue	**(8,116)**	(15,160)
Foreign currency exchange loss	**530**	1,647
Net cash provided by operating activities	**331,833**	331,082
Investing activities		
Dividends received from investees	**4,200**	8,783
Investment in UAMG, including $2.5 million of transaction costs	**(346,228)**	–
Investments in affiliates	**(4,000)**	–
Sale of investment	**5,892**	–
Additions to property and equipment	**(1,892)**	(1,576)
Net cash provided by (used in) investing activities	**(342,028)**	7,207
Financing activities		
Additions to borrowed funds	**328,000**	132,000
Repayments of borrowed funds	**(133,000)**	(503,000)
Issuance of common stock	**2,487**	983
Purchase of treasury stock	**(5,114)**	(17,067)
Financing costs and other	**(4,875)**	(4,889)
Net cash provided by (used in) financing activities	**187,498**	(391,973)
Net change in cash and cash equivalents from operating, investing and financing activities	**177,303**	(53,684)
Net increase (decrease) in cash due to foreign currency fluctuations	**(842)**	1,231
Net change in cash and cash equivalents	**176,461**	(52,453)
Cash and cash equivalents at beginning of period	**41,959**	103,545
Cash and cash equivalents at end of period	**$ 218,420**	$ 51,092

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

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2014

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 Holdings"), a Delaware corporation, and its direct, indirect and controlled majority-owned subsidiaries, including Metro-Goldwyn-Mayer Inc. ("MGM"), (collectively, the "Company").

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

Basis of Presentation and Principles of Consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements. Accordingly, these financial statements do not include certain information and footnotes required by accounting principles generally accepted in the United States 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, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States 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, 2013.

As permitted under accounting guidance for producers and distributors of filmed entertainment, unclassified balance sheets have been presented. Certain reclassifications have been made to amounts reported in the consolidated statement of cash flows for the prior period to conform to the current presentation. 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 5). All material intercompany balances and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and the related notes thereto. Management estimates certain revenues and expenses for film and television content, reserves for future product returns from physical home entertainment distribution, allowances for doubtful accounts receivable and other items requiring judgment. Management bases its estimates and assumptions on historical experience, current trends, and other factors believed to be relevant at the time the 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 12, 2014. Such review did not result in the identification of any subsequent events that would require recognition in the financial statements or disclosure in the notes to these unaudited condensed consolidated financial statements.

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

New Accounting Pronouncements

Presentation of Unrecognized Tax Benefits. In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists* ("ASU 2013-11"), which amends the provisions of Accounting Standards Codification Topic 740, *Income Taxes*, to clarify the presentation of unrecognized tax benefits. The accounting update requires companies to present a deferred tax asset net of related unrecognized tax benefits if there is a net operating loss or other tax carryforwards that would apply in settlement of the uncertain tax position. To the extent that an uncertain tax position would not be settled through a reduction of a net operating loss or other tax carryforwards, the unrecognized tax benefit will be presented as a liability. The Company adopted the provisions of ASU 2013-11 in January 2014, which had no impact on the unaudited condensed consolidated financial statements.

Revenue Recognition. In May 2014, the FASB and International Accounting Standards Board issued Accounting Standard Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes the provisions of Accounting Standards Codification Topic 650, *Revenue Recognition*, and most industry specific guidance throughout the Industry Topics of the Codification. The underlying principal of ASU 2014-09 is that companies will recognize revenue to depict the transfer of goods or services to customers at an amount that the company expects to be entitled to in exchange for those goods or services. Companies can choose to apply the provisions of ASU 2014-09 using the full retrospective approach or a modified approach, where financial statements will be prepared for the year of adoption using the new standard but prior periods will not be adjusted. Under the modified approach, companies will recognize the cumulative effect of applying the new standard at the date of initial application. ASU 2014-09 will be effective for the Company on January 31, 2018 and for annual and interim periods thereafter, with early adoption permitted no earlier than January 1, 2017. The Company is in the process of determining the method of adoption, as well as evaluating the impact that the new standard will have on its consolidated financial statements.

Note 2—Other Intangible Assets

The Company has other non-film intangible assets totaling $194.4 million, net of accumulated amortization, of which none are expected to be deductible for tax purposes. These other intangible assets include $152.4 million of identifiable intangible assets subject to amortization, consisting primarily of certain operating agreements with remaining useful lives ranging from 1 to 27 years. Additionally, trade name-related assets, valued at $42.0 million, were identified and determined to have indefinite lives. During each of the three months ended September 30, 2014 and 2013, the Company recorded amortization of identifiable intangible assets of $2.7 million, and during each of the nine months ended September 30, 2014 and 2013, the Company recorded amortization of identifiable intangible assets of $8.2 million. Amortization of other intangible assets is included in depreciation and non-film amortization in the unaudited condensed consolidated statements of income.

Note 3—Film and Television Costs

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

	September 30, 2014	December 31, 2013
Theatrical productions:		
Released	**$ 2,201,591**	$ 2,010,638
Less: accumulated amortization	**(1,022,470)**	(834,655)
	1,179,121	1,175,983
In production	**220,943**	329,801
In development	**22,062**	8,592
Total theatrical productions	**1,422,126**	1,514,376
Television programs:		
Released	**309,359**	249,087
Less: accumulated amortization	**(163,128)**	(106,925)
	146,231	142,162
In production	**33,970**	28,314
In development	**159**	410
Total television programs	**180,360**	170,886
	$ 1,602,486	$ 1,685,262

Based on the Company's estimates of projected gross revenue as of September 30, 2014, approximately 20% of completed film and television costs are expected to be amortized over the next 12 months. Approximately 80% of unamortized film and television costs for released titles, excluding costs accounted for as acquired film and television libraries, are expected to be amortized over the next three fiscal years.

As of September 30, 2014 and December 31, 2013, unamortized film and television costs accounted for as acquired film and television libraries were $1.0 billion and $1.1 billion, respectively. The Company's film and television costs accounted for as acquired film and television libraries are being amortized under the individual film forecast method in order to properly match the expected future revenue streams and have an average remaining life of approximately 12 years as of September 30, 2014.

During the nine months ended September 30, 2014 and 2013, the Company recorded $12.7 million and $14.3 million, respectively, 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.

Note 4—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, 2014 (in thousands):

		Fair Value Measurements at September 30, 2014 using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash equivalents	**$ 136,972**	**$ 136,972**	**$ –**	**$ –**
Investments	**779**	**779**	**–**	**–**
Liabilities				
Financial instruments	**(754)**	**–**	**(754)**	**–**
Deferred compensation plan	**(779)**	**(779)**	**–**	**–**
Total	**$ 136,218**	**$ 136,972**	**$ (754)**	**$ –**

The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at December 31, 2013 (in thousands):

		Fair Value Measurements at December 31, 2013 using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash equivalents	$ 55	$ 55	$ –	$ –
Investments	807	807	–	–
Financial instruments	114	–	114	–
Liabilities				
Deferred compensation plan	(807)	(807)	–	–
Total	$ 169	$ 55	$ 114	$ –

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

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

Note 4—Fair Value Measurements (Continued)

Financial instruments at September 30, 2014 and December 31, 2013 reflect the fair value of outstanding foreign currency exchange forward contracts and were included in other liabilities and other assets, respectively, in the unaudited condensed consolidated balance sheets. The fair value of these instruments was determined using a market-based approach.

Note 5—Investments in Affiliates

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

	September 30, 2014	December 31, 2013
Equity method investments:		
United Artists Media Group	**$ 346,228**	$ –
Studio 3 Partners, LLC (“Epix”)	**53,937**	47,139
Other equity method investments	**25**	25
Cost method investments	**21,252**	22,000
	$ 421,442	$ 69,164

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

United Artists Media Group. In September 2014, the Company acquired a 55% interest in UAMG, LLC (“United Artists Media Group” or “UAMG”), a joint venture with Mark Burnett, Roma Downey and Hearst Productions that develops, produces and finances premium television and feature film content across all platforms. United Artists Media Group, which includes entities previously controlled by Mark Burnett, Roma Downey and Hearst Productions, such as One Three Media and LightWorkers Media, is a proven leader in the production of high quality television content and faith-based programming. This includes a number of successful, unscripted television shows such as *The Voice*, *Survivor*, *Apprentice* and *Shark Tank*, as well as the 10-episode scripted television series entitled *The Bible* and the theatrical feature film entitled *Son of God*. UAMG has several projects in various stages of development, production and release, including a 12-episode scripted television series entitled *A.D.* that will be initially broadcast on NBC, and a number of unscripted television shows. Metro-Goldwyn-Mayer Studios Inc. (“MGM Studios”) also has an agreement whereby it provides distribution services for UAMG productions.

The Company does not consolidate United Artists Media Group, but rather accounts for its investment under the equity method of accounting since control over the activities of UAMG is shared amongst the members. Under the equity method of accounting, the amount by which the Company’s investment in UAMG exceeded its proportionate interest in the book value of UAMG’s net assets was considered a basis difference for financial reporting purposes (the “basis increase”). The equity method of accounting requires the Company to amortize the basis increase over the useful life of each underlying asset, except for assets deemed to have indefinite lives. Amortization expense attributable to the basis increase will reduce the amount the Company records in equity in net earnings of affiliates in our unaudited condensed consolidated statement of income, but will not impact the Company’s share of UAMG’s net cash flow.

During the three and nine months ended September 30, 2014, the Company’s equity in the net earnings of United Artists Media Group was immaterial due to the timing of the Company’s investment, which occurred late in September 2014.

Note 5—Investments in Affiliates (Continued)

Studio 3 Partners, LLC. MGM Studios has a 19.09% interest in Studio 3 Partners, LLC, a joint venture with Viacom Inc., Paramount Pictures Corporation ("Paramount") and Lions Gate Entertainment Corp. that operates Epix, a premium television channel and subscription video-on-demand service. Epix licenses first-run films, select library films and television content from these studio partners as well as other content providers.

The Company does not consolidate Epix, but rather accounts for its investment in Epix under the equity method of accounting due to the significance of its voting rights. During the three months ended September 30, 2014, equity in net earnings of affiliates in the unaudited condensed consolidated statement of income included $5.3 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 content licenses to Epix. During the three months ended September 30, 2013, equity in net earnings of affiliates in the unaudited condensed consolidated statement of income included $4.2 million of earnings from the Company's 19.09% interest in Epix minus $2.2 million of eliminations related to the Company's share of profits on content licenses to Epix. In addition, during the three months ended September 30, 2014, the Company received dividends of $1.0 million from its investment in Epix. The Company did not receive any dividends from its investment in Epix during the three months ended September 30, 2013.

During the nine months ended September 30, 2014, equity in net earnings of affiliates in the unaudited condensed consolidated statement of income included $15.9 million of earnings from the Company's 19.09% interest in Epix minus $0.5 million of eliminations related to the Company's share of profits on content licenses to Epix. During the nine months ended September 30, 2013, equity in net earnings of affiliates in the unaudited condensed consolidated statement of income included $12.7 million of earnings from the Company's 19.09% interest in Epix minus $2.5 million of eliminations related to the Company's share of profits on content licenses to Epix. In addition, during each of the nine months ended September 30, 2014 and September 30, 2013, the Company received dividends of $8.6 million from its investment in 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.

Cost Method Investments. No dividend income was received from the Company's other investments accounted for under the cost method of accounting during the three months ended September 30, 2014 and 2013. During the nine months ended September 30, 2014 and 2013, the Company recorded $4.2 million and $2.5 million, respectively, of dividend income for amounts received from certain investments accounted for under the cost method of accounting. Such amounts were included in equity in net earnings of affiliates in the unaudited condensed consolidated statements of income.

Note 6—Property and Equipment

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

	September 30, 2014	December 31, 2013
Leasehold improvements	**$ 12,416**	$ 12,407
Furniture, fixtures and equipment	**13,907**	12,137
	26,323	24,544
Less accumulated depreciation and amortization	**(12,127)**	(8,904)
	$ 14,196	$ 15,640

Note 7—Bank Debt

Bank debt is summarized as follows (in thousands):

	September 30, 2014	December 31, 2013
Term loan	**$ 300,000**	**$ –**
Revolving credit facility	**–**	105,000
	$ 300,000	$ 105,000

Term Loan. In June 2014, the Company entered into a six-year $300.0 million second lien term loan with a syndicate of lenders (the "Term Loan"). The Term Loan bears interest at a fixed rate of 5.125% until its maturity date, June 25, 2020. During the three and nine months ended September 30, 2014, the Company recorded interest expense of $3.8 million and $4.1 million, respectively, which is included in contractual interest expense in the unaudited condensed consolidated statement of income. The face value of the Term Loan approximated fair value at September 30, 2014. Borrowings under the Term Loan have a second lien secured interest in substantially all the assets of MGM, with certain exceptions. At September 30, 2014, the Company was in compliance with all applicable covenants under the Term Loan, and there were no events of default.

The Company incurred $4.5 million in fees and other costs associated with the Term Loan, which were deferred and included in other assets in the unaudited condensed consolidated balance sheet. The deferred financing costs are being amortized over the term of the Term Loan using the effective-interest method. During the three and nine months ended September 30, 2014, the Company recorded $0.2 million of interest expense for the amortization of deferred financing costs.

Note 7—Bank Debt (Continued)

Revolving Credit Facility. In January 2013, the Company amended and restated its senior secured revolving credit facility (the "Revolving Credit Facility") and increased total commitments to $650.0 million, lowered the interest rate to 2.75% over LIBOR (2.91% at September 30, 2014) and modified certain financial and other covenants. In July 2013, the Company further amended the Revolving Credit Facility to permit an aggregate increase of $100.0 million to the commitments thereunder, and in August 2013 the Company increased such commitments by $15.0 million to a current total of $665.0 million. The availability of funds under the Revolving Credit Facility is limited by a borrowing base calculation. At September 30, 2014, there were no borrowings nor any outstanding letters of credit under the Revolving Credit Facility and all remaining funds were available to the Company. Borrowings under the Revolving Credit Facility have a senior secured interest in substantially all the assets of MGM, with certain exceptions. At September 30, 2014, the Company was in compliance with all applicable covenants under the Revolving Credit Facility, and there were no events of default.

The January 2013 amendment to the Revolving Credit Facility was accounted for as a partial extinguishment. As a result, the Company recognized $1.3 million of additional interest expense for the write-off of certain deferred financing fees during the nine months ended September 30, 2013. The Company incurred $4.9 million in fees and other costs associated with the January 2013 amendment to the Revolving Credit Facility, which were deferred and included in other assets in the unaudited condensed consolidated balance sheets. The deferred financing costs are being amortized over the term of the Revolving Credit Facility using the straight-line method. During each of the three months ended September 30, 2014 and 2013, the Company recorded interest expense of $0.6 million and during the nine months ended September 30, 2014 and 2013, the Company recorded interest expense of $1.9 million and $1.8 million, respectively, for the amortization of deferred financing costs.

The Company is required to pay a quarterly commitment fee of 0.75% per year, and that fee is dependent on the average daily amount undrawn during the period. During the three months ended September 30, 2014 and 2013, the Company incurred commitment fees of $1.3 million and $1.2 million, respectively, and during the nine months ended September 30, 2014 and 2013, the Company incurred commitment fees of $3.7 million and $2.6 million, respectively. During the three months ended September 30, 2014 and 2013, the Company recorded interest expense of zero and $0.1 million, respectively, and during the nine months ended September 30, 2014 and 2013, the Company recorded interest expense of $0.4 million and $3.9 million, respectively. Commitment fees and interest expense are included in contractual interest expense in the unaudited condensed consolidated statements of income. The maturity date of the Revolving Credit Facility is December 20, 2017.

Note 8—Financial Instruments

The Company transacts business globally and is subject to market risks resulting from fluctuations in foreign currency exchange rates. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. Such contracts generally have maturities between one and 16 months. As of September 30, 2014, the Company had several outstanding foreign currency exchange forward contract relating to anticipated production-related cash flows for feature films that qualified for hedge accounting. Such contracts were carried at fair value and included in other liabilities in the unaudited condensed consolidated balance sheet. All foreign currency exchange forward contracts designated for hedge accounting were deemed effective at September 30, 2014. As such, changes in the fair value of such contracts were included in accumulated other comprehensive income in the unaudited condensed consolidated balance sheet. During the three and nine months ended September 30, 2014, the Company recorded $0.2 million and $0.5 million of net unrealized losses (net of tax) relating to the change in fair value of such contracts, respectively. No amounts included in accumulated other comprehensive income are expected to be recognized into earnings within the next 12 months. The Company made immaterial reclassifications out of accumulated other comprehensive income and into earnings during the three and nine months ended September 30, 2014.

As of September 30, 2013, the Company had several outstanding foreign currency exchange forward contracts which were carried at fair value and included in other liabilities in the unaudited condensed consolidated balance sheet. All foreign currency exchange forward contracts designated for hedge accounting were deemed effective at September 30, 2013. As such, changes in the fair value of such contracts were included in accumulated other comprehensive income in the unaudited condensed consolidated balance sheet. During the three and nine months ended September 30, 2013, the Company recorded $0.6 million of net unrealized losses and $0.5 million of net unrealized gains (net of tax) relating to the change in fair value of such contracts, respectively.

Note 9—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, 2014, 75,619,626 shares of Class A common stock and 163,133 shares of Class B common stock were issued and 53,669,223 shares of Class A common stock and 163,133 shares of Class B common stock were outstanding. As of December 31, 2013, 75,424,149 shares of Class A common stock and 238,063 shares of Class B common stock were issued and 53,543,487 shares of Class A common stock and 238,063 shares of Class B common stock were outstanding.

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, 2014 and 2013, no shares of Preferred Stock were issued or outstanding.

Treasury Stock. During the nine months ended September 30, 2014, the Company repurchased 69,741 shares of its Class A common stock at a weighted average price of $73.33 per share for a total of $5.1 million. During the nine months ended September 30, 2013, the Company repurchased a total of 402,563 shares of its Class A common stock at a weighted-average price of $42.39 per share for a total of $17.1 million. The reacquired shares were classified as treasury stock in the unaudited condensed consolidated balance sheets and the unaudited condensed consolidated statement of stockholders' equity.

Note 9—Stockholders' Equity (Continued)

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

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

	Three Months Ended September 30, 2014		**Nine Months Ended September 30, 2014**		**Three Months Ended September 30, 2013**		**Nine Months Ended September 30, 2013**	
	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	**6,381,529**	**$ 41.94**	**7,088,588**	**$ 42.25**	5,913,588	$ 37.90	7,999,647	$ 37.20
Granted	**–**	**–**	**15,000**	**75.50**	1,000,000	63.23	1,200,000	60.55
Exercised	**–**	**–**	**(120,547)**	**41.73**	–	–	(368,171)	31.63
Canceled or expired	**–**	**–**	**(601,512)**	**37.11**	(18,000)	38.48	(1,935,888)	37.16
Options outstanding at end of period	**6,381,529**	**$ 41.94**	**6,381,529**	**$ 41.94**	6,895,588	$ 41.57	6,895,588	$ 41.57
Options exercisable at end of period	**3,569,270**	**$ 39.11**	**3,569,270**	**$ 39.11**	2,396,424	$ 37.77	2,396,424	$ 37.77

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 $3.0 million and $3.2 million during the three months ended September 30, 2014 and 2013, respectively, and $8.8 million and $8.2 million during the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, total stock-based compensation expense related to non-vested awards not yet recognized under the Stock Incentive Plan was $14.2 million, which is expected to be recognized over a weighted-average period of 1.3 years.

Note 10—Income Taxes

The Company recorded an income tax provision of $18.5 million and $19.3 million during the three months ended September 30, 2014 and 2013, respectively, and $71.7 million and $78.7 million during the nine months ended September 30, 2014 and 2013, respectively. 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 months ended September 30, 2014 and 2013 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.

At September 30, 2014, the Company and its subsidiaries had net operating loss carryforwards for United States federal tax purposes of $0.6 billion, which will be available to reduce future taxable income. The net operating loss carryforwards expire between the years ending December 31, 2027 and December 31, 2030, and are subject to limitation on use under Section 382 of the Internal Revenue Code. In addition, the Company has net operating loss

Note 10—Income Taxes (Continued)

carryforwards for California state tax purposes of $0.7 billion, which will expire between the years ending December 31, 2016 and December 31, 2030. As a result of the utilization of such net operating loss carryforwards, cash paid for income taxes was significantly lower than the Company's income tax provision.

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,	
	2014	**2013**	**2014**	**2013**
Federal tax rate on pre-tax book income	**35%**	35%	**35%**	35%
State taxes, net of federal income tax benefit	**1**	2	**1**	2
Changes in uncertain tax positions	**1**	–	–	–
Foreign taxes, net of federal income tax benefit	**4**	15	**3**	5
Loss carryforwards and other tax attributes not benefited	–	(2)	–	(1)
Other permanent differences	**(2)**	4	–	1
Effective tax rate	**39%**	54%	**39%**	42%

Note 11—Retirement Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Interest cost on projected benefit obligation	**$ 290**	$ –	**$ 871**	$ 1,129
Expected return on plan assets	**(401)**	–	**(1,203)**	(1,517)
Net amortization and deferral	–	–	–	372
Net periodic pension income	**$ (111)**	$ –	**$ (331)**	$ (16)

No contributions were made to the Plan during the three or nine months ended September 30, 2014 and 2013. The Company does not expect to make any required or discretionary contributions to the Plan during the year ending December 31, 2014.

Note 12—Other Comprehensive Income

Components of accumulated other comprehensive income for the nine months ended September 30, 2014 were as follows (in thousands):

	Unrealized Gain (Loss) on Securities	Unrealized Gain (Loss) on Derivative Instruments	Retirement Plan Adjustments	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2014	$ 41	$ 73	$ (2)	$ (497)	$ (385)
Current period comprehensive loss	**(43)**	**(867)**	**(332)**	**(843)**	**(2,085)**
Income tax effect	**16**	**312**	**120**	**2,012**	**2,460**
Balance, September 30, 2014	**$ 14**	**$ (482)**	**$ (214)**	**$ 672**	**$ (10)**

The Company made immaterial reclassifications out of accumulated other comprehensive income and into earnings during the three and nine months ended September 30, 2014 and 2013.

Note 13—Commitments and Contingencies

Litigation. Various legal proceedings involving alleged breaches of contract, patent violations, 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, 2014 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 bank debt agreements, creative talent and employment agreements, non-cancelable operating leases, and other contractual obligations under co-production arrangements. Where necessary, the Company has provided an accrual for such amounts as of September 30, 2014.

Note 14—Supplementary Cash Flow Information

The Company paid interest of $5.1 million and $1.2 million during the three months ended September 30, 2014 and 2013, respectively, and $8.1 million and $6.1 million during the nine months ended September 30, 2014 and 2013, respectively.

The Company paid taxes, primarily foreign income and remittance taxes, of $2.7 million and $7.8 million during the three months ended September 30, 2014 and 2013, respectively, and $10.5 million and $18.5 million during the nine months ended September 30, 2014 and 2013, 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

Our principal source of revenue is from the exploitation of our content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets.

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

Our television content is primarily produced for initial broadcast on cable television in the U.S., followed by international territories and, in some cases, worldwide home entertainment. Successful television series, which typically include individual series with four or more seasons, are sold into worldwide syndication markets. Additionally, we distribute our television content on digital platforms, including SVOD. We generally recognize an increase in revenue with respect to television content when (and if) it is initially distributed in each of these windows.

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

Our film and television content is distributed worldwide. Although we receive a significant amount of our revenue through our co-production agreements, we do not view our co-production partners as customers, and therefore we do not have significant customer concentration. For the year ended December 31, 2013, we derived approximately 67% of our revenue from international sources. Revenue from international sources fluctuates year-to-year and is dependent upon several variables including our release schedule, the timing of international theatrical and home entertainment release dates, the timing of television availabilities, the relative performance of individual feature films and television content and foreign exchange rates.

Other sources of revenue include cable subscriber fees and advertising sales associated with our broadcast and cable networks, as well as various ancillary revenue, primarily from licensing intellectual property rights for use in interactive games and consumer products.

Cost Structure

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

Operating Expenses

Operating expenses consist primarily of film and television cost amortization expenses and accruals of talent participations, residuals and co-production share obligations (collectively, "P&R"). Film and television cost amortization expense includes the amortization of content costs and certain fair value adjustments, including step-up amortization expense (which is defined and discussed below). Talent participation costs represent contingent compensation that may be payable to producers, directors, writers and principal cast based on the performance of feature film and television content. Residual costs represent compensation that may be payable to various unions or guilds, such as the Directors Guild of America, Screen Actors Guild-American Federation of Television and Radio Artists, and Writers Guild of America, and are typically based on the performance of feature film and television content in certain markets. Co-production share expenses represent profit sharing costs that may be payable to our co-production partners and other intellectual property rights holders based on the performance of feature film and television content. In addition, we include the cost of duplicating prints, which may be a physical or digital product, and replicating DVDs and Blu-ray discs in operating expenses.

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

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

Step-up Amortization Expense. A significant portion of the carrying value of our film and television inventory consists of non-cash fair value adjustments. These fair value adjustments do not reflect a cash investment to produce or acquire content, but rather, fair value accounting adjustments recorded at the time of various company transactions and events. As such, our film and television inventory carrying value contains (a) unamortized cash investments to produce or acquire content and (b) unamortized non-cash fair value adjustments. We amortize our aggregate film and television inventory costs in accordance with the applicable accounting standards, and our aggregate amortization expense is higher than it otherwise would be had we not recorded non-cash fair value adjustments to "step-up" the carrying value of our film and television inventory costs. Unamortized fair value adjustments were approximately $800 million at September 30, 2014 and are expected to be amortized using the IFF method over the next 12 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.

Distribution and Marketing Expenses

Distribution and marketing expenses generally consist of theatrical advertising costs, marketing costs for other distribution windows, third party distribution services fees for various distribution activities (where applicable), distribution expenses such as delivery costs, and other exploitation costs. Advertising costs associated with a theatrical feature film release are significant and typically involve large scale media campaigns, the cost of developing and producing marketing materials, as well as various publicity activities to promote the film. These costs are largely incurred and expensed prior to and during the initial theatrical release of a feature film. As a result,

we will often recognize a significant amount of expenses with respect to a particular film before we recognize most of the revenue to be produced by that film. In addition, we typically incur fees for distribution services provided by our co-production and distribution partners, which are expensed as incurred and included in distribution and marketing expenses. These fees are generally variable costs that fluctuate depending on the amount of revenue generated by our film and television content and are primarily incurred during the exploitation of our content in the theatrical and home entertainment windows.

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

General and Administrative Expenses

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

Foreign Currency Transactions

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

Library

We classify film and television content as library content at the beginning of the quarter of a title's second anniversary following its initial theatrical release or broadcast date. Library content is primarily exploited through television licensing, including digital SVOD windows, and home entertainment, including both physical and digital distribution. In line with the library disclosures of certain of our industry peers, our definition of library excludes our ancillary businesses, such as our television channels, interactive gaming, consumer products, music performance and other revenue, even though the majority of our ancillary business revenue is generated from the licensing or other exploitation of library content and the underlying intellectual property rights.

Critical Accounting Policies and Estimates

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

Revenue Recognition. We recognize revenue in all markets once all applicable recognition requirements are met. Revenue from theatrical distribution of feature films is recognized on the dates of exhibition. Revenue from direct home entertainment distribution is recognized, net of a reserve for estimated returns, and together with related costs, in the period in which the product is shipped and is available for sale to the public. Revenue from television licensing, together with related costs, is recognized when the feature film or television content is initially

available to the licensee for telecast. Payments received in advance of initial availability are classified as deferred revenue until all revenue recognition requirements have been met. For all of our distribution activities, we estimate an allowance for doubtful accounts receivable. The estimates and assumptions used in our determination of reserves for future product returns from physical home entertainment distribution and allowances for doubtful accounts receivable require us to exercise levels of judgment that have a material impact on our financial condition and results of operations. These are further discussed below.

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

The accounting for our profit share from the distribution rights controlled by our co-production partner and our co-production partner's profit share from our distribution rights may differ from title to title, and also depends on whether the arrangement with each of our partners qualifies as a collaborative arrangement under the applicable accounting guidance (usually, a 50% partnership with equally shared distribution rights qualifies).

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

When we have a majority or minority share of distribution rights and ownership in co-produced film or television content, the related co-production arrangement is generally not considered a collaborative arrangement for accounting purposes. In these instances, we classify our projected co-production partner's ultimate profit share from our distribution rights as P&R expense included within operating expenses and record it over the life of the film or television content using the IFF method. We account for our profit share from the distribution rights controlled by our co-production partner on a net basis in one of two ways: (i) if our projected ultimate profit share is expected to result in amounts due to us from our co-production partner, we classify this amount as revenue (net) and record it as such amounts become due and are reported to us by our co-production partner; or (ii) if our projected ultimate profit share is expected to result in amounts due from us to our co-production partner, we classify this amount as a distribution expense included within distribution and marketing expenses and recognize it as incurred and reported to us by our co-production partner.

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

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

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

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

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

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

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

Allowance for Doubtful Accounts Receivable. For all of our distribution activities, we estimate an allowance for doubtful accounts receivable by monitoring our delinquent accounts and estimating a reserve based on contractual terms and other customer-specific issues. We exercise judgment in our determination of collectability of customer accounts and the related reserves required. Where we rely on third parties for distribution of our content, our allowances are primarily determined based on data from our distribution partners who maintain the direct relationship with the customer. We specifically review all receivables from customers with past due balances greater

than 90 days, as well as any other receivables with collectability concerns. Additionally, we record a general reserve against all customer receivables not specifically reviewed.

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

We calculate compensation expense for awards of restricted stock and stock options using the fair value recognition provisions of the applicable accounting standards and recognize this amount on a straight-line basis over the requisite service period for each separately vesting portion of each award. We estimate the fair value of restricted stock based on the market value of the underlying shares on the grant date. We estimate the fair value of stock options using the Black-Scholes option pricing model, which requires inputs to be estimated as of each stock option grant date, such as the expected term, expected volatility, risk-free interest rate, and expected dividend yield and forfeiture rate. These inputs are subjective and are generally developed using significant 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 9 to the unaudited condensed consolidated financial statements as of September 30, 2014 for further discussion.

Equity Method of Accounting for Investment in United Artists Media Group. In September 2014, we acquired a 55% interest in United Artists Media Group, a joint venture with Mark Burnett, Roma Downey and Hearst Productions that develops, produces and finances premium television and feature film content across all platforms. For financial reporting purposes, we do not consolidate UAMG, but rather account for our investment using the equity method of accounting since control over the activities of UAMG is shared amongst the members. Under the equity method of accounting, the amount by which our investment in UAMG exceeded our proportionate interest in the book value of UAMG's net assets was considered a basis difference for financial reporting purposes (the "basis increase"). The equity method of accounting requires us to amortize the basis increase over the useful life of each underlying asset, except for assets deemed to have indefinite lives. Amortization expense attributable to the basis increase will reduce the amount we record in equity in net earnings of affiliates in our consolidated statement of income, but will not impact our share of UAMG's net cash flow. Refer to Note 5 to the unaudited condensed consolidated financial statements as of September 30, 2014 for additional information.

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.

Results of Operations

The discussion and analysis of our results of operations set forth below are based on our consolidated financial statements. This information should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained elsewhere in this report.

Overview of Financial Results

The following table sets forth our unaudited operating results for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2014	2013	Amount	Percent	2014	2013	Amount	Percent
Revenue	$ 233,472	$ 242,895	$ (9,423)	(4%)	$ 885,587	$1,063,535	$ (177,948)	(17%)
Expenses:								
Operating	132,923	154,333	(21,410)	(14%)	522,804	640,272	(117,468)	(18%)
Distribution and marketing	25,898	25,723	175	1%	105,747	159,673	(53,926)	(34%)
General and administrative	25,019	23,981	1,038	4%	74,232	69,899	4,333	6%
Depreciation and non-film amortization	3,912	3,493	419	12%	11,549	10,423	1,126	11%
Total expenses	187,752	207,530	(19,778)	(10%)	714,332	880,267	(165,935)	(19%)
Operating income	45,720	35,365	10,355	29%	171,255	183,268	(12,013)	(7%)
Equity in net earnings of affiliates	5,049	1,539	3,510	228%	20,727	12,452	8,275	66%
Interest expense	(5,994)	(1,998)	(3,996)	(200%)	(10,289)	(9,819)	(470)	(5%)
Interest income	829	894	(65)	(7%)	2,305	2,553	(248)	(10%)
Other income, net	1,480	105	1,375	NM	1,675	203	1,472	NM
Income before income taxes	47,084	35,905	11,179	31%	185,673	188,657	(2,984)	(2%)
Income tax provision	(18,497)	(19,311)	814	4%	(71,727)	(78,720)	6,993	9%
Net income	$ 28,587	$ 16,594	$ 11,993	72%	$ 113,946	$ 109,937	$ 4,009	4%

NM – Percentage is not meaningful

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Revenue

For the three months ended September 30, 2014, total revenue of $233.5 million was $9.4 million lower than total revenue of $242.9 million for the three months ended September 30, 2013. As expected, revenue was lower due to the significant revenue we generated from our franchise film, *Skyfall*, which began its worldwide pay television and SVOD distribution in the prior year's third quarter. This was largely offset by revenue performance in several areas in the current year's third quarter, including higher revenue from our home entertainment distribution business, led by the worldwide distribution of *RoboCop*, plus higher revenue from our successful new television content and incremental revenue from previously released film content.

Theatrical. Worldwide theatrical revenue was $6.5 million for the three months ended September 30, 2014, an increase of $3.9 million as compared to $2.6 million for the three months ended September 30, 2013. Theatrical revenue for the current year's third quarter primarily included international revenue for *Hercules* from certain territories where we control the distribution rights. However, we did not recognize a substantial portion of the worldwide theatrical revenue for *If I Stay*, *Hercules* and *22 Jump Street*, which are accounted for on a net basis[(2)] after deduction of theatrical advertising and other related distribution costs. Net revenue from co-produced films is classified as other revenue from film and television content (see below). In comparison, theatrical revenue for the prior year's third quarter primarily included the tail-end of the international[(1)] theatrical distribution of *The Hobbit: An Unexpected Journey*.

Home Entertainment. Worldwide home entertainment revenue was $41.7 million for the three months ended September 30, 2014, an increase of $7.3 million as compared to $34.4 million for the three months ended September 30, 2013. Home entertainment revenue increased in the current year's third quarter due to the worldwide home entertainment distribution of *RoboCop*, which commenced in June 2014, plus the continued international[(1)] distribution of *The Hobbit: The Desolation of Smaug*. In comparison, we did not have a significant home entertainment release in the prior year's third quarter, which primarily included revenue from the continued international[(1)] home entertainment distribution *The Hobbit: An Unexpected Journey* and *Skyfall* worldwide. We are also keenly focused on strategies to maximize home entertainment revenue for our library, including targeted promotions such as the MGM 90th anniversary promotion in the current year. In addition, we have a steady pipeline of new film and television content that continues to generate home entertainment revenue, including recently released titles such as *The Hobbit: An Unexpected Journey* internationally[(1)], *Carrie*, *Skyfall* and our two successful television series, *Teen Wolf* and *Vikings*, which have performed well in both physical home entertainment and EST. Note that home entertainment revenue for co-produced films for which we do not control the home entertainment distribution rights is accounted for on a net basis. Net revenue from co-produced films is classified as other revenue from film and television content (see below).

Television Licensing. Worldwide television licensing revenue was $150.6 million for the three months ended September 30, 2014, a decrease of $15.2 million as compared to $165.8 million for the three months ended September 30, 2013. As expected, television licensing revenue was lower in the current year's third quarter primarily due to significant revenue from *Skyfall* in the prior year's third quarter, including its domestic pay television premiere on Epix and its initial pay television and SVOD availabilities in several territories internationally. The prior year's third quarter also included the initial international[(1)] television licensing of *The Hobbit: An Unexpected Journey*. Partially offsetting this decline was higher revenue from new television content in the current year's third quarter, which primarily included our continued international television licensing of three successful current television series, *Teen Wolf*, *Vikings* and *Fargo*. In addition, we generated revenue from several new film releases, including the initial international[(1)] pay television and SVOD availabilities of *The Hobbit: The Desolation of Smaug*, the domestic pay television premiere of *Carrie* on Epix, and VOD revenue for *RoboCop*. Note that television licensing revenue for co-produced films for which we do not control the television distribution rights is accounted for on a net basis. Net revenue from co-produced films is classified as other revenue from film and television content (see below).

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

(2) Based on the applicable accounting guidance and contractual terms of the respective co-production and distribution arrangements, we did not recognize a substantial portion of the worldwide theatrical revenue for *If I Stay*, released in August 2014, *Hercules*, released in July 2014, and *22 Jump Street*, released in June 2014. For distribution rights we do not control, we recognize our share of the distribution profit earned by our co-production partner as net revenue in the first period in which an individual film's cumulative aggregate revenues exceed its cumulative aggregate distribution fees and expenses across all markets and territories controlled by our co-production partner, which may be several quarters after a film's initial release. Refer to the discussion in *Critical Accounting Policies and Estimates* above for additional information.

Other Revenue. Other revenue from film and television content was $13.6 million for the three months ended September 30, 2014, a decrease of $10.7 million as compared to $24.3 million for the three months ended September 30, 2013. Other revenue primarily included net revenue for our share of the distribution proceeds earned by our co-production partners for co-produced films 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 films is impacted by the timing of when a film's cumulative aggregate revenues exceed its cumulative aggregate distribution fees and expenses. The decrease in the current year's third quarter primarily reflected a higher number of titles moving through first-cycle distribution windows for which we record revenue on a gross basis as opposed to a net basis.

Ancillary Businesses. Total revenue from our ancillary businesses, which include MGM branded television channel operations, interactive gaming, consumer products, music performance and other revenue, was $21.1 million for the three months ended September 30, 2014, an increase of $5.3 million as compared to $15.8 million for the three months ended September 30, 2013. This increase was primarily due to the timing of revenue from our MGM branded television channels.

Operating Expenses

For the three months ended September 30, 2014, total operating expenses were $132.9 million, a decrease of $21.4 million as compared to $154.3 million for the three months ended September 30, 2013. The decrease in operating expenses included $29.2 million of lower aggregate film and television cost and P&R amortization expenses. Aggregate amortization expenses for the current year's third quarter primarily included *The Hobbit: The Desolation of Smaug*[3], *RoboCop* and other films, plus new television series, *Fargo*, *Teen Wolf* and *Vikings*. In comparison, aggregate amortization expenses for the prior year's third quarter primarily included expenses for two franchise films, *Skyfall* and *The Hobbit: An Unexpected Journey*. The lower amortization expenses were partially offset by higher physical home entertainment product costs, which are variable in nature and increased as a result of higher home entertainment revenue for the current year's third quarter, as discussed above.

Distribution and Marketing Expenses

For the three months ended September 30, 2014, total distribution and marketing expenses were $25.9 million, an increase of $0.2 million as compared to $25.7 million for the three months ended September 30, 2013. Total distribution and marketing expenses were relatively unchanged from the prior year's third quarter reflecting slightly higher home entertainment expenses due to marketing costs and distribution expenses associated with recent releases, offset by slightly lower theatrical advertising, marketing and distribution expenses.

G&A Expenses

For the three months ended September 30, 2014, total G&A expenses were $25.0 million, an increase of $1.0 million as compared to $24.0 million for the three months ended September 30, 2013. The increase in G&A expenses was primarily due to our targeted investments in additional personnel with a focus on core business operations, including creative development, production and distribution, as well as higher professional fees.

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

Depreciation, Non-Film Amortization and Other Income and Expenses

Depreciation and non-film amortization

For the three months ended September 30, 2014, depreciation and non-film amortization was $3.9 million, an increase of $0.4 million as compared to $3.5 million for the three months ended September 30, 2013. Amortization expense for identifiable non-film intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, amounted to $2.7 million for both the current and prior years' third quarter. Depreciation expense for fixed assets was $1.2 million and $0.8 million for the three months ended September 30, 2014 and 2013, respectively.

Equity in net earnings of affiliates

For the three months ended September 30, 2014, equity in net earnings of affiliates was $5.0 million, an increase of $3.5 million as compared to $1.5 million for the three months ended September 30, 2013. This increase primarily included higher equity income from Studio 3 Partners, LLC. Due to the timing of our 55% equity investment in United Artists Media Group, which occurred late in September 2014, our equity income from UAMG for the current year's third quarter was immaterial.

Interest expense

Interest expense is primarily comprised of contractual interest incurred under our senior secured revolving credit facility, our second lien term loan credit facility 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, 2014, total interest expense was $6.0 million, an increase of $4.0 million as compared to $2.0 million for the three months ended September 30, 2013. For the current year's third quarter, interest expense included $5.2 million of contractual interest and $0.8 million of other interest costs. For the prior year's third quarter, interest expense included $1.4 million of contractual interest and $0.6 million of other interest costs. Cash paid for interest was $5.1 million and $1.2 million for the current and prior years' third quarter, respectively. Our higher contractual interest expense and cash paid for interest primarily reflected a higher average debt balance during the current year's third quarter due to our second lien term loan credit facility that commenced June 26, 2014.

Interest income

Interest income 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 months ended September 30, 2014 and 2013, the amounts recorded as interest income were immaterial.

Other income, net

For the three months ended September 30, 2014 and 2013, the amounts recorded as other income were immaterial.

Income tax provision

For the three months ended September 30, 2014, we recorded an income tax provision of $18.5 million, which represented an effective tax rate of 39%. For the three months ended September 30, 2013, we recorded an income tax provision of $19.3 million, which represented an effective tax rate of 54%. Our income tax provision for these periods primarily included accruals for U.S. federal and state income taxes using statutory income tax rates, as well as foreign remittance taxes attributable to international distribution revenue. However, our cash paid for income taxes was significantly less than our income tax provision due to the benefit we realized from deferred tax assets, primarily net operating loss carryforwards. The lower effective tax rate in the current year's third quarter was primarily due to a one-time item that impacted foreign remittance taxes in the prior year's third quarter.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Revenue

For the nine months ended September 30, 2014, total revenue of $885.6 million was $177.9 million lower than total revenue of $1,063.5 million for the nine months ended September 30, 2013. As expected, revenue was lower than the nine months ended September 30, 2013, which benefited from the significant revenue we generated from our worldwide home entertainment release, television licensing and continued theatrical exploitation of our franchise film, *Skyfall*, plus home entertainment promotions for the *James Bond* library. This was partially offset by revenue performance in several areas during the nine months ended September 30, 2014, including higher revenue from our television licensing business led by successful new television content, as well as incremental revenue from previously released film content, including higher net revenue from co-produced films.

Theatrical. Worldwide theatrical revenue was $120.7 million for the nine months ended September 30, 2014, a decrease of $28.0 million as compared to $148.7 million for the nine months ended September 30, 2013. Theatrical revenue for the nine months ended September 30, 2014 primarily included the strong international[4] theatrical performance of *The Hobbit: The Desolation of Smaug*, which was released in December 2013. In comparison, for the nine months ended September 30, 2013 we generated theatrical revenue from the continued exploitation of two franchise films, *The Hobbit: An Unexpected Journey* internationally[4] and *Skyfall* worldwide. During the nine months ended September 30, 2014, we did not recognize a substantial portion of the worldwide theatrical revenue for *If I Stay*, *Hercules*, *22 Jump Street* and *RoboCop*, which are accounted for on a net basis[5] after deduction of theatrical advertising and other related distribution costs. Net revenue from co-produced films is classified as other revenue from film and television content (see below).

Home Entertainment. Worldwide home entertainment revenue was $226.4 million for the nine months ended September 30, 2014, a decrease of $189.6 million as compared to $416.0 million for the nine months ended September 30, 2013. As expected, home entertainment revenue was lower for the nine months ended September 30, 2014 primarily due to the home entertainment distribution of two franchise films during the nine months ended September 30, 2013, including the release of *Skyfall* worldwide and *The Hobbit: An Unexpected Journey* internationally[4], as well as promotions for the *James Bond* library. The worldwide home entertainment performance of *Skyfall* and the *James Bond* library promotion were highly successful and generated significant home entertainment revenue in 2013. The nine months ended September 30, 2014 primarily included home entertainment revenue from the international[4] release of *The Hobbit: The Desolation of Smaug* and the worldwide home entertainment releases of *RoboCop* and *Carrie*. We are also keenly focused on strategies to maximize home entertainment revenue for our library, including targeted promotions such as the MGM 90th anniversary promotion in the current year. In addition, we have a steady pipeline of new film and television content that continues to generate home entertainment revenue, including recently released titles such as *The Hobbit: An Unexpected Journey* internationally[4], *Skyfall* and our successful television series, *Teen Wolf* and *Vikings*, which have performed well in both physical home entertainment and EST. In addition, we have seen growth in SVOD and other digital revenue streams that are included in television licensing revenue, discussed below. Note that home entertainment revenue for co-produced films for which we do not control the home entertainment distribution rights is accounted for on a net basis. Net revenue from co-produced films is classified as other revenue from film and television content (see below).

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

(5) Based on the applicable accounting guidance and contractual terms of the respective co-production and distribution arrangements, we did not recognize a substantial portion of the worldwide theatrical revenue for *If I Stay*, released in August 2014, *Hercules*, released in July 2014, *22 Jump Street*, released in June 2014, and *RoboCop*, released in February 2014. For distribution rights we do not control, we recognize our share of the distribution profit earned by our co-production partner as net revenue in the first period in which an individual film's cumulative aggregate revenues exceed its cumulative aggregate distribution fees and expenses across all markets and territories controlled by our co-production partner, which may be several quarters after a film's initial release. Refer to the discussion in *Critical Accounting Policies and Estimates* above for additional information.

Television Licensing. Worldwide television licensing revenue was $406.0 million for the nine months ended September 30, 2014, an increase of $9.8 million as compared to $396.2 million for the nine months ended September 30, 2013. Despite significant revenue from *Skyfall* for the nine months ended September 30, 2013, we generated higher television licensing revenue for the nine months ended September 30, 2014 primarily due to higher revenue from new television content, including our three successful current television series, *Teen Wolf*, *Vikings* and *Fargo*. This included revenue from the delivery of the first season of *Fargo* to FX for its initial broadcast in the U.S., revenue from the initial international television licensing of *Fargo*, the partial delivery of the second season of *Vikings* to History for its initial broadcast in the U.S., and revenue from our continued international television licensing of *Teen Wolf*, *Vikings* and *Fargo*. We also generated revenue from several new film releases, including the initial international(1) pay television and SVOD availabilities of *The Hobbit: The Desolation of Smaug*, the domestic pay television premiere of *Carrie* on Epix, and VOD revenue for *RoboCop* and *Carrie*. In addition, we continue to be successful at driving new television licensing revenue for library content. Note that television licensing revenue for co-produced films for which we do not control the television distribution rights is accounted for on a net basis. Net revenue from co-produced films is classified as other revenue from film and television content (see below).

Other Revenue. Other revenue from film and television content was $43.4 million for the nine months ended September 30, 2014, a decrease of $6.9 million as compared to $50.3 million for the nine months ended September 30, 2013. Other revenue primarily included net revenue for our share of the distribution proceeds earned by our co-production partners for co-produced films 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 films is impacted by the timing of when a film's cumulative aggregate revenues exceed its cumulative aggregate distribution fees and expenses. The decrease for the nine months ended September 30, 2014 primarily reflected a higher number of titles moving through first-cycle distribution windows for which we record revenue on a gross basis as opposed to a net basis.

Ancillary Businesses. Total revenue from our ancillary businesses, which include MGM branded television channel operations, interactive gaming, consumer products, music performance and other revenue, was $89.1 million for the nine months ended September 30, 2014, an increase of $36.8 million as compared to $52.3 million for the nine months ended September 30, 2013. This increase primarily included higher interactive gaming revenue related to a non-recurring event in the 2014 first quarter and higher revenue from our MGM branded television channels, which included a one-time revenue item for the MGM HD channel in the U.S. in the 2014 second quarter.

Operating Expenses

For the nine months ended September 30, 2014, total operating expenses were $522.8 million, a decrease of $117.5 million as compared to $640.3 million for the nine months ended September 30, 2013. The decrease in operating expenses included $117.9 million of lower aggregate film and television cost and P&R amortization expenses. Aggregate amortization expenses for the nine months ended September 30, 2014 primarily included *The Hobbit: The Desolation of Smaug*(6), *RoboCop* and other films, plus new television series, *Fargo*, *Vikings* and *Teen Wolf*. In comparison, aggregate amortization expenses for the nine months ended September 30, 2013 primarily included expenses for two franchise films, *Skyfall* and *The Hobbit: An Unexpected Journey*. In addition, we incurred lower physical home entertainment product costs during the nine months ended September 30, 2014 primarily due to higher costs associated with the worldwide home entertainment distribution of *Skyfall* and the *James Bond* library home entertainment promotions during the nine months ended September 30, 2013. These lower expenses were partially offset by higher participation expenses related to the higher revenue from our ancillary businesses.

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

Distribution and Marketing Expenses

For the nine months ended September 30, 2014, total distribution and marketing expenses were $105.7 million, a decrease of $54.0 million as compared to $159.7 million for the nine months ended September 30, 2013. The decrease primarily included lower home entertainment expenses due to marketing costs and distribution expenses associated with the worldwide home entertainment release of *Skyfall* and the home entertainment promotion for the *James Bond* library during the nine months ended September 30, 2013. Theatrical advertising, marketing and distribution expenses, which are recognized as incurred, were largely consistent for both the nine months ended September 30, 2014 and 2013.

G&A Expenses

For the nine months ended September 30, 2014, total G&A expenses were $74.2 million, an increase of $4.3 million as compared to $69.9 million for the nine months ended September 30, 2013. The increase in G&A expenses was due in part to our targeted investments in additional personnel with a focus on core business operations, including creative development, production and distribution, as well as higher professional fees and higher stock-based compensation expense. In addition, G&A expenses for the prior year's nine months ended September 30, 2013 benefitted from a one-time non-cash reduction in certain expenses.

Depreciation, Non-Film Amortization and Other Income and Expenses

Depreciation and non-film amortization

For the nine months ended September 30, 2014, depreciation and non-film amortization was $11.5 million, an increase of $1.1 million as compared to $10.4 million for the nine months ended September 30, 2013. Amortization expense for identifiable non-film intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, amounted to $8.2 million for both the nine months ended September 30, 2014 and 2013. Depreciation expense for fixed assets was $3.3 million and $2.2 million for the nine months ended September 30, 2014 and 2013, respectively.

Equity in net earnings of affiliates

For the nine months ended September 30, 2014, equity in net earnings of affiliates was $20.7 million, an increase of $8.2 million as compared to $12.5 million for the nine months ended September 30, 2013. This increase included higher equity income from Studio 3 Partners, LLC and $1.7 million of higher dividend income from other investments accounted for under the cost method of accounting. Due to the timing of our 55% equity investment in United Artists Media Group, which occurred late in September 2014, our equity income from UAMG for the nine months ended September 30, 2014 was immaterial.

Interest expense

Interest expense is primarily comprised of contractual interest incurred under our senior secured revolving credit facility, our second lien term loan credit facility 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, 2014, total interest expense was $10.3 million, an increase of $0.5 million as compared to $9.8 million for the nine months ended September 30, 2013. For the nine months ended September 30, 2014, interest expense included $8.2 million of contractual interest and $2.1 million of other interest costs. For the nine months ended September 30, 2013, interest expense included $6.6 million of contractual interest and $3.2 million of other interest costs. Cash paid for interest was $8.1 million and $6.1 million for the nine months ended September 30, 2014 and 2013, respectively. Our higher contractual interest expense and cash paid for interest primarily reflected interest costs associated with our second lien term loan credit facility that commenced on June 26, 2014.

Interest income

Interest income 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 months ended September 30, 2014 and 2013, the amounts recorded as interest income were immaterial.

Other income, net

For the nine months ended September 30, 2014 and 2013, the amounts recorded as other income were immaterial.

Income tax provision

For the nine months ended September 30, 2014, we recorded an income tax provision of $71.7 million, which represented an effective tax rate of 39%. For the nine months ended September 30, 2013, we recorded an income tax provision of $78.7 million, which represented an effective tax rate of 42%. Our income tax provision for these periods primarily included accruals for U.S. federal and state income taxes using statutory income tax rates, as well as foreign remittance taxes attributable to international distribution revenue. However, our cash paid for income taxes was significantly less than our income tax provision due to the benefit we realized from deferred tax assets, primarily net operating loss carryforwards. The lower income tax provision for the nine months ended September 30, 2014 reflected the lower operating income discussed above.

Use of Non-GAAP Financial Measures

We utilize adjusted earnings before interest, taxes and depreciation and non-film amortization ("Adjusted EBITDA") to evaluate the operating performance of our business. Adjusted EBITDA reflects net income before interest expense, interest and other income (expense), equity interests, noncontrolling interests, income tax provision, depreciation of fixed assets, amortization of non-film 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) stock-based compensation expense, (iii) non-recurring, external costs and other expenses related to mergers, acquisitions, capital market transactions and restructurings, to the extent that such amounts are expensed, and (iv) impairment of goodwill and other non-film 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 involve judgment as to whether 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.

The following table reconciles Adjusted EBITDA to net income prepared in accordance with GAAP for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2014	2013	Amount	Percent	2014	2013	Amount	Percent
Net income attributable to MGM Holdings Inc.	$ 28,587	$ 16,594	$ 11,993	72%	$ 113,946	$ 109,937	$ 4,009	4%
Interest expense	5,994	1,998	3,996	200%	10,289	9,819	470	5%
Interest income	(829)	(894)	65	7%	(2,305)	(2,553)	248	10%
Other income, net	(1,480)	(105)	(1,375)	NM	(1,675)	(203)	(1,472)	NM
Equity in net earnings of affiliates	(5,049)	(1,539)	(3,510)	(228%)	(20,727)	(12,452)	(8,275)	(66%)
Income tax provision	18,497	19,311	(814)	(4%)	71,727	78,720	(6,993)	(9%)
Depreciation and non-film amortization	3,912	3,493	419	12%	11,549	10,423	1,126	11%
EBITDA	49,632	38,858	10,774	28%	182,804	193,691	(10,887)	(6%)
Step-up Amortization Expense (1)	15,453	22,297	(6,844)	(31%)	57,069	70,005	(12,936)	(18%)
Stock-based compensation expense	3,011	3,236	(225)	(7%)	8,826	8,185	641	8%
Non-recurring costs and expenses (2)	(161)	-	(161)	NM	31	27	4	15%
Adjusted EBITDA	67,935	64,391	3,544	6%	248,730	271,908	(23,178)	(9%)

NM – Percentage is not meaningful

(1) Step-up Amortization Expense reflects the portion of 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 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 $800 million at September 30, 2014 and are expected to be amortized using the IFF Method over the next 12 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. Refer to *Cost Structure –Operating Expenses* above for further discussion.

(2) Non-recurring costs and expenses consist of non-recurring external costs and other expenses related to mergers, acquisitions, capital market transactions and restructurings, to the extent that such amounts are expensed.

For the three months ended September 30, 2014, Adjusted EBITDA of $67.9 million was $3.5 million, or 6%, higher than Adjusted EBITDA of $64.4 million for the three months ended September 30, 2013. We generated higher Adjusted EBITDA on lower revenue primarily due to the strong, broad-based performance of our film and television content. Our home entertainment distribution business posted strong results led by the international[(3)] distribution of *The Hobbit: The Desolation of Smaug* and worldwide distribution of *RoboCop*. In addition, our television licensing business continued to be bolstered by the strong performance of our three successful current television series, *Fargo*, *Teen Wolf* and *Vikings*. Adjusted EBITDA also benefited from the performance of previously released film content, including *22 Jump Street*, *Carrie* and other films. While we did release *If I Stay* and *Hercules* in the current year's third quarter, we primarily account for theatrical revenue for these titles on a net basis, with the exception of certain theatrical distribution costs that are expensed on an as-funded basis. In comparison, Adjusted EBITDA for the prior year's third quarter included significant earnings from two franchise films, including *Skyfall*, which we were distributing in multiple distribution windows including worldwide home entertainment, pay television and SVOD, and *The Hobbit: An Unexpected Journey* internationally[(3)].

For the nine months ended September 30, 2014, Adjusted EBITDA of $248.7 million was $23.2 million lower than Adjusted EBITDA of $271.9 million for the nine months ended September 30, 2013. For the nine months ended September 30, 2014, Adjusted EBITDA included the broad-based performance of our film and television content, including the strong international[(3)] performance of our franchise film, *The Hobbit: The Desolation of Smaug*, which completed its theatrical exhibition and commenced its home entertainment distribution and television licensing. In addition, Adjusted EBITDA margins improved for the nine months ended September 30, 2014 due to a mix of distribution revenue that included a higher proportion of television licensing and digital revenue, which does not require the significant costs of physical home entertainment distribution. Our television licensing business posted strong results led by three successful current television series, *Fargo*, *Teen Wolf* and *Vikings*. Adjusted EBITDA also benefited from the performance of previously released film content, including the continued strong performance of *The Hobbit: An Unexpected Journey*, *22 Jump Street*, *RoboCop*, *Carrie* and other films. While we did release *If I Stay*, *Hercules, 22 Jump Street* and *RoboCop* during the nine months ended September 30, 2014, we primarily account for theatrical revenue for these titles on a net basis, with the exception of certain theatrical distribution costs that are expensed on an as-funded basis. In comparison, Adjusted EBITDA was lower than the nine months ended September 30, 2013, which included significant earnings from two franchise films, *Skyfall*, which we were distributing in multiple markets, including worldwide home entertainment, television licensing and theatrical, and *The Hobbit: An Unexpected Journey* internationally[(3)], as well as the successful home entertainment promotions for the *James Bond* library.

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 2014 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, if necessary, (d) funds available under our revolving credit facility.

Bank Borrowings

We have a senior secured revolving credit facility (the "Revolving Credit Facility") with $665.0 million of total commitments, an interest rate of 2.75% over LIBOR and a maturity date of December 20, 2017. The availability of funds under the Revolving Credit Facility is limited by a borrowing base calculation. At September 30, 2014, there were no borrowings nor any outstanding letters of credit against the Revolving Credit Facility and all remaining funds were entirely available to us.

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

In June 2014, on behalf of our indirect wholly-owned subsidiaries, MGM Holdings II Inc. and MGM, we entered into a six-year $300.0 million second lien term loan with a syndicate of lenders (the “Term Loan”). The Term Loan bears interest at a fixed rate of 5.125% until its maturity date, June 25, 2020.

The Revolving Credit Facility and Term Loan contain various affirmative and negative covenants and financial tests, including limitations on our ability to make certain expenditures, incur indebtedness, grant liens, dispose of property, merge, consolidate or undertake other fundamental changes, pay dividends and make distributions, make certain investments, enter into certain transactions, and pursue new lines of business outside of entertainment and/or media-related business activities. We were in compliance with all applicable covenants and there were no events of default at September 30, 2014.

Cash Provided By Operating Activities

Cash provided by operating activities was $331.8 million and $331.1 million for the nine months ended September 30, 2014 and 2013, respectively. Operating cash flow for the nine months ended September 30, 2014 was substantially in line with the nine months ended September 30, 2013 and included strong cash flow from the broad-based performance of our film and television content, including recently released content and our library. Net cash spending for film and television content costs were lower primarily due to the timing of reimbursements from our co-production partners and tax incentives that we collected during the nine months ended September 30, 2014. In comparison, the nine months ended September 30, 2013 was bolstered by cash flow from our distribution of *Skyfall* in multiple distribution windows and the *James Bond* library home entertainment promotions.

Cash Provided By (Used In) Investing Activities

Cash used in investing activities was $342.0 million for the nine months ended September 30, 2014 and cash provided by investing activities was $7.2 million for the nine months ended September 30, 2013. Cash used in investing activities for the nine months ended September 30, 2014 primarily included our $343.8 million investment in United Artists Media Group plus the related transaction costs, which were partially offset by dividend income from other investments. Cash provided by investing activities for the nine months ended September 30, 2013 primarily included dividend income.

Cash Provided By (Used In) Financing Activities

Cash provided by financing activities was $187.5 million for the nine months ended September 30, 2014 and cash used in financing activities was $392.0 million for the nine months ended September 30, 2013. During the nine months ended September 30, 2014, we collected net proceeds of $295.5 million from the Term Loan, which was partially offset by net repayments of $105.0 million under the Revolving Credit Facility and $5.1 million of repurchases of our Class A common stock. During the nine months ended September 30, 2013, we made net repayments of $371.0 million under the Revolving Credit Facility and repurchased shares of our Class A common stock from stockholders for $17.1 million.

Commitments

Future minimum commitments under bank debt agreements, creative talent and employment agreements, non-cancelable operating leases net of subleasing income, and other contractual obligations at September 30, 2014, were as follows (in thousands):

	Three Months Ended December 31,	Year Ended December 31,					
	2014	2015	2016	2017	2018	Thereafter	Total
Bank debt (1)	$ -	$ -	$ -	$ -	$ -	$ 300,000	$ 300,000
Creative talent and employment agreements (2)	67,777	39,947	9,861	3,073	-	-	120,658
Operating leases	1,920	8,301	8,003	8,962	8,500	34,272	69,958
Other contractual obligations (3)	11,656	6,897	1,658	-	-	-	20,211
	$ 81,353	$ 55,145	$ 19,522	$ 12,035	$ 8,500	$ 334,272	510,827

(1) Does not include interest costs.

(2) 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.

(3) 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 $665.0 million Revolving Credit Facility and a $300.0 million Term Loan. At September 30, 2014, there were no borrowings nor any outstanding letters of credit against the Revolving Credit Facility and all remaining funds were entirely available to us. Our future capital expenditure commitments are not significant.