MGM HOLDINGS INC.

For the year ended December 31, 2013

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

Table of Contents

Company Background and Business Overview 3

Management’s Discussion & Analysis of Financial Condition and Results of Operations 8

Index to Consolidated Financial Statements and Footnotes 23

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 emerging digital distribution platforms. 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, which includes rights to films that have received more than 175 Academy Awards, including 14 Best Picture Awards. Our rights to approximately 4,000 feature films include 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, with approximately 10,500 episodes of programming, 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* and *Vikings*.

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 *Hercules*, *If I Stay*, *Hot Tub Time Machine 2* and *Poltergeist*. In addition, the 24th installment of the *James Bond* franchise is currently in development 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: There and Back Again*, 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, is currently in its third season and was recently renewed for a 12-episode fourth season for a total of 60 episodes across all four seasons. Additionally, we control distribution rights on a worldwide basis (excluding Canada) to the television series *Vikings,* the first, 9-episode season of which was initially broadcast in the U.S. on A&E Television Networks' History channel in March 2013. The second, 10-episode season of *Vikings* began its initial broadcast in the U.S. on History channel in February 2014. In September 2013, our nationally syndicated, 150-episode courtroom show, *Paternity Court*, began airing. We have also completed production on a 10-episode TV adaptation of *Fargo*, which is expected to be initially broadcast in the U.S. on FX in April 2014.

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

The following table summarizes our tentative 2014 release schedule by actual or estimated U.S. theatrical release date for film content and by actual or estimated U.S. initial broadcast date for television content. In addition, we have several projects currently in development and pre-production that we expect to include in our release schedule in 2015 and beyond.

Title	Co-production Partner	Actual or Estimated U.S. Release Date
Feature Films:		
RoboCop	Sony	February 12, 2014
22 Jump Street	Sony	June 13, 2014
Hercules	Paramount	July 25, 2014
If I Stay	Warner Bros.	August 22, 2014
The Hobbit: There and Back Again	New Line (Warner Bros.)	December 17, 2014
Hot Tub Time Machine 2	Paramount	December 25, 2014

Title	Channel	Actual or Estimated Initial Broadcast Date
Television Content:		
Vikings, Season 2	History	February 27, 2014
Fargo	FX	April 15, 2014
Teen Wolf, Season 4	MTV	2014
Paternity Court, Season 2	Syndicated	September 2014

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

Distribution of film and television content

Theatrical Distribution

We participate with third parties in various arrangements to distribute feature films theatrically. These arrangements allow us to distribute new releases by utilizing third parties, generally major studios, to book theaters and execute marketing campaigns and promotions in return for distribution fees. While we outsource these 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 February 2014 and October 2013, we released *RoboCop* and *Carrie*, respectively, through our co-production partner, Sony. During 2012, we also released *Skyfall*, *Hope Springs* and *21 Jump Street* through our co-production partner, Sony. Our co-production partner Warner Bros. provided theatrical distribution for the first two films in *The Hobbit* trilogy, *The Hobbit: An Unexpected Journey* and *The Hobbit: The Desolation of Smaug*, which were released theatrically in December 2012 and December 2013, respectively. In addition, Paramount theatrically distributed *G.I. Joe: Retaliation* and *Hansel & Gretel: Witch Hunters*, which were initially theatrically released in the U.S. in March 2013 and January 2013, respectively.

Home Entertainment Distribution

We sell DVDs and Blu-ray discs to wholesalers and retailers in the U.S. and abroad. Fox Home Entertainment ("Fox") provides sales, marketing and other distribution fulfillment 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* and *RoboCop*, 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 have outsourced physical home entertainment distribution to our co-production partners. For example, Sony provides physical home entertainment sales, marketing and other distribution services for *21 Jump Street* and *Hope Springs*, Warner Bros. is the physical home entertainment distributor for *The Hobbit* trilogy (excluding certain territories for which MGM utilizes the services of other distributors), and Paramount is the physical home entertainment distributor for *G.I. Joe: Retaliation* and *Hansel & Gretel: Witch Hunters*.

As with theatrical distribution, while we outsource these physical distribution services, 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 distribution of DVDs has declined due to changes in consumer preferences and behavior, increased competition and pricing pressure. While the home entertainment industry taken as a whole is currently showing signs of stabilization, future declines in DVD revenue may occur. 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 subscription video-on-demand ("SVOD") and EST as well as from other forms of electronic delivery (see *Television Distribution* below). Digital formats tend to 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 sales and distribution organization. We license our content for video-on-demand ("VOD"), pay-per-view ("PPV"), pay and free television exploitation under various types of licensing agreements with customers worldwide. In the VOD/PPV market, 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, such as HBO, Starz and Epix, that generally require subscribers to pay a premium fee to view the channel. These output agreements typically require the service provider to license a set number of films over a multi-year period with payments based on U.S. or international theatrical box office performance. In the free television market, we typically license both theatrically released films and television content through output agreements and on an individual basis to channels globally, and 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, as well as shifting consumer preferences for on-demand content across multiple platforms and devices will provide growth in this revenue.

MGM Channels and Joint Ventures

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.

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 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 sales to Epix. In addition, during the year ended December 31, 2013 we received a dividend of $8.6 million from our investment in Epix. Refer to Note 5 to the consolidated financial statements as of December 31, 2013 for additional information.

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 consolidated financial statements as of December 31, 2013 for additional information.

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* and *Rocky*.

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, as well as the collection of worldwide performance income earned by our music catalog through July 1, 2014.

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 December 31, 2013, 53,781,550 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 Registrar and Transfer Company, located at 10 Commerce Drive, Cranford, New Jersey 07016, and additional contact information can be found at www.rtco.com.

Facilities

We lease approximately 131,400 square feet of office space, as well as related parking and storage facilities, for our corporate headquarters in Beverly Hills, California under a 15-year 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 December 31, 2013, 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.

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

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

Sources of Revenue

Our principal source of revenue is the worldwide distribution of film and television content across established and emerging platforms.

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 seven 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 30 months after initial theatrical release. 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 $0.9 billion at December 31, 2013 and are expected to be amortized 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 goods 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.

<u>Distribution and Marketing Costs</u>. 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/or 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.

<u>Home Entertainment Sales Returns</u>. 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.

<u>Allowance for Doubtful Accounts Receivable</u>. 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.

<u>Stock-Based Compensation</u>. 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. During the year ended December 31, 2013, we granted restricted stock awards covering 6,965 shares of our Class A common stock, which had an average estimated grant date fair value of $66.58 per share.

For stock options granted during the year ended December 31, 2013, we estimated the fair value of such stock options using the following weighted-average assumptions:

Number of Options Granted	Exercise Price Per Share	Expected Life (in Yrs)	Expected Volatility	Risk-Free Rate	Expected Dividend Rate	Estimated Forfeiture Rate
100,000	$ 40.00	6.5	31%	1.32%	0%	0%
100,000	$ 54.35	7.3	31%	1.58%	0%	0%
550,000	$ 55.25	6.5	33%	1.94%	0%	0%
25,000	$ 56.25	6.5	33%	2.27%	0%	0%
30,000	$ 61.62	6.5	34%	1.98%	0%	0%
350,000	$ 66.00	7.0	33%	2.11%	0%	0%
250,000	$ 79.00	7.4	33%	2.24%	0%	0%
1,405,000						

Refer to Note 10 to the consolidated financial statements as of December 31, 2013 for further discussion.

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

Results of Operations

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

Overview of Financial Results

The following table sets forth our operating results for the years ended December 31, 2013 and 2012 (in thousands):

	Year Ended December 31,		Change	
	2013	2012	Amount	Percent
Revenue	$ 1,527,216	$ 1,379,747	$ 147,469	11%
Expenses:				
Operating	965,156	818,695	146,461	18%
Distribution and marketing	249,495	307,877	(58,382)	(19%)
General and administrative	96,428	106,014	(9,586)	(9%)
Depreciation and non-film amortization	14,236	18,975	(4,739)	(25%)
Total expenses	1,325,315	1,251,561	73,754	6%
Operating income	201,901	128,186	73,715	58%
Equity in net earnings of affiliates	18,117	14,555	3,562	24%
Interest expense	(12,306)	(23,850)	11,544	48%
Interest income	3,401	3,989	(588)	(15%)
Other income, net	754	1,590	(836)	(53%)
Gain on sale of investment	-	55,635	(55,635)	NM
Gain on sale of long-lived assets	-	48,464	(48,464)	NM
Income before income taxes	211,867	228,569	(16,702)	(7%)
Income tax provision	(89,706)	(99,417)	9,711	10%
Net income	122,161	129,152	(6,991)	(5%)
Less: Net income attributable to noncontrolling interests	-	144	(144)	NM
Net income attributable to MGM Holdings Inc.	$ 122,161	$ 129,008	$ (6,847)	(5%)

NM – Percentage is not meaningful

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenue

For the year ended December 31, 2013, total revenue was $1.53 billion, an increase of $147.5 million, or 11%, as compared to $1.38 billion for the year ended December 31, 2012. Revenue increased primarily due to the successful performance of our new film and television content in multiple distribution windows. In the current year, we drove higher revenue from the commencement of our home entertainment distribution and television licensing of two franchise films released in 2012, *Skyfall* worldwide and *The Hobbit: An Unexpected Journey* internationally[(1)]. The current year also included revenue from the initial international theatrical release of *The Hobbit: The Desolation of Smaug*[(1)] in December 2013, the ongoing international theatrical exhibition of *The Hobbit: An Unexpected Journey*, which was released in December 2012, and the tail end of the worldwide theatrical exhibition of *Skyfall*, which was released in October 2012. In comparison, revenue for the prior year included significant worldwide theatrical revenue from *Skyfall* plus revenue from the initial international theatrical release of *The Hobbit: An Unexpected Journey*. In addition, revenue for the current year was bolstered by the strong performances of our current television series, *Vikings* and *Teen Wolf*.

Worldwide theatrical revenue was $343.5 million for the year ended December 31, 2013, a decrease of $321.8 million as compared to $665.3 million for the year ended December 31, 2012. Theatrical revenue for the current year[(2)] primarily included revenue from the initial international theatrical release of *The Hobbit: The Desolation of Smaug* in December 2013, the ongoing international theatrical exhibition of *The Hobbit: An Unexpected Journey*, which was released in December 2012, and the tail end of the worldwide theatrical exhibition of *Skyfall*, which was released in October 2012. In comparison, revenue for the prior year included significant worldwide theatrical revenue from *Skyfall*, which completed a substantial portion of its worldwide theatrical exhibition during 2012 due to its initial October 2012 release, plus revenue from the initial international theatrical release of *The Hobbit: An Unexpected Journey*.

Worldwide home entertainment revenue was $496.8 million for the year ended December 31, 2013, an increase of $302.3 million, or 155%, as compared to $194.5 million for the year ended December 31, 2012. We generated higher home entertainment revenue primarily due to new film and television content, including our worldwide home entertainment release of *Skyfall* and the international[(1)] home entertainment release of *The Hobbit: An Unexpected Journey*. Home entertainment revenue also included EST sales from our strategic early release of these franchise films in a digital high-definition format in advance of their respective physical Blu-ray and DVD release. In comparison, there was no revenue from similar new release film content in the prior year.

Worldwide television licensing revenue was $547.3 million for the year ended December 31, 2013, an increase of $152.2 million, or 39%, as compared to $395.1 million for the year ended December 31, 2012. The increase was primarily attributable to higher television licensing revenue from new film and television content. In the current year, television licensing revenue from recently released film content included the domestic pay television premieres of *Skyfall* and *Red Dawn* on Epix and pay television and SVOD availabilities of *Skyfall* and *The Hobbit: An Unexpected Journey* internationally[(1)]. In comparison, television licensing revenue from recently released film content for the prior year included *Zookeeper, Hot Tub Time Machine*, *21 Jump Street* and *The Girl with the Dragon Tattoo*. Also in the current year, our television licensing revenue from new television series increased 318% due to the success of *Vikings* and *Teen Wolf* versus only *Teen Wolf* in the prior year.

---

(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 theatrical revenue for *Hansel & Gretel: Witch Hunters*, released in January 2013, *G.I. Joe: Retaliation*, released in March 2013 or *Carrie*, released in October 2013. 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 from film and television content was $68.0 million for the year ended December 31, 2013, an increase of $40.5 million, or 147%, as compared to $27.5 million for the year ended December 31, 2012. Other revenue primarily included net revenue for our share of the distribution proceeds earned by our co-production partner for co-produced films. Other revenue increased in the current year primarily due to an increase in the number of recently released co-produced titles, which included our 2013 releases, *Hansel & Gretel: Witch Hunters*, *Carrie* and *G.I. Joe: Retaliation*, and our released titles from prior years, *21 Jump Street*, *Hope Springs* and *The Girl with the Dragon Tattoo*.

Total revenue from our ancillary businesses, which include MGM branded television channel operations, interactive gaming, consumer products, music performance and other revenue, was $71.6 million for the year ended December 31, 2013, a decrease of $25.7 million as compared to $97.3 million for the year ended December 31, 2012. This decline was primarily attributable to lower revenue from our international MGM branded television channel operations following the sale of MGM Networks Inc. in the prior year.

Operating Expenses

For the year ended December 31, 2013, total operating expenses were $965.2 million, an increase of $146.5 million as compared to $818.7 million for the year ended December 31, 2012. The increase in operating expenses was driven by $118.2 million of higher aggregate film and television cost and P&R amortization expenses. Aggregate amortization expenses for the current year primarily included *Skyfall* and *The Hobbit: An Unexpected Journey*[3], which generated significant revenue in multiple distribution windows, as well as our larger 2013 film and television content slate, which included *The Hobbit: The Desolation of Smaug*[3], *Hansel & Gretel: Witch Hunters*, *G.I. Joe: Retaliation*, *Carrie*, *Vikings* and *Teen Wolf*. In comparison, aggregate amortization expenses for the prior year primarily included *Skyfall*, due to the significant worldwide theatrical revenue we generated following its October 2012, and *The Hobbit: An Unexpected Journey*, which we released in the international theatrical market in December 2012.

In addition, we incurred $36.7 million of higher physical home entertainment product costs during the year ended December 31, 2013 primarily due to the worldwide release of *Skyfall* and international release of *The Hobbit: An Unexpected Journey*.

Distribution and Marketing Expenses

For the year ended December 31, 2013, total distribution and marketing expenses were $249.5 million, a decrease of $58.4 million as compared to $307.9 million for the year ended December 31, 2012. The decrease reflected significantly lower theatrical advertising, marketing and distribution expenses, which are recognized as incurred and declined by $122.9 million. In the current year, we incurred such expenses for *The Hobbit: The Desolation of Smaug*[3] and *Carrie*, our 2013 fourth quarter releases, as well as the tail-end of such expenses for the international theatrical distribution of *The Hobbit: An Unexpected Journey*[3] in certain territories due to the December 2012 theatrical release date. In comparison, theatrical expenses for the prior year included costs for our two franchise films released in the 2012 fourth quarter, *Skyfall*, for which we expensed significant worldwide theatrical expenses, and *The Hobbit: An Unexpected Journey*[3].

Partially offsetting our lower theatrical expenses were higher home entertainment expenses, including home entertainment marketing costs and distribution expenses for *Skyfall* and *The Hobbit: An Unexpected Journey*. We began our home entertainment distribution of these franchise films during the current year, which generated significant home entertainment revenue and contributed to a $60.7 million increase in home entertainment distribution and marketing expenses. In comparison, there were no similar new release films in home entertainment distribution during the year ended December 31, 2012.

---

(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.

G&A Expenses

For the year ended December 31, 2013, total G&A expenses were $96.4 million, a reduction of $9.6 million as compared to $106.0 million for the year ended December 31, 2012. The decline in G&A expenses included $4.1 million of lower stock-based compensation expense primarily due to reduced stock option vesting charges. In addition, the prior year included $4.2 million of non-recurring accounting, legal and other expenses related to certain transactions and other restructuring activities. There were no such costs during the current year.

Depreciation, Non-Film Amortization and Other Income and Expenses

Depreciation and non-film amortization

For the year ended December 31, 2013, depreciation and non-film amortization was $14.2 million, a decrease of $4.8 million as compared to $19.0 million for the year ended December 31, 2012. 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 $10.9 million and $16.0 million for the years ended December 31, 2013 and 2012, respectively. The decrease was due to a non-cash fair value adjustment to certain ancillary business intangible assets recorded in the prior year. There were no such adjustments in the current year. Separately, depreciation expense for fixed assets was $3.3 million and $3.0 million for the years ended December 31, 2013 and 2012, respectively.

Equity in net earnings of affiliates

Equity in net earnings of affiliates primarily includes our 19.09% interest in Studio 3 Partners, LLC, a joint venture with Viacom, Paramount and Lions Gate that operates Epix, a domestic premium television channel and SVOD service, as well as dividend income from other investments accounted for under the cost method of accounting. For the year ended December 31, 2013, equity in net earnings of affiliates was $18.1 million, an increase of $3.5 million as compared to $14.6 million for the year ended December 31, 2012. This increase included $1.7 million of higher income from our share of the net earnings of Studio 3 Partners, LLC due to higher net income generated by Epix, as well as $1.0 million of higher dividend income from cost method investments.

Interest expense

Interest expense is primarily comprised of contractual interest incurred under our senior secured credit facility and the amortization of related deferred financing costs (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion).

For the year ended December 31, 2013, total interest expense was $12.3 million, a reduction of $11.6 million as compared to $23.9 million for the year ended December 31, 2012. For the current year, interest expense included $8.5 million of contractual interest and $3.8 million of other interest costs. For the prior year, interest expense included $9.9 million of contractual interest and $14.0 million of other interest costs. Cash paid for interest was $7.7 million for both the current and prior years. The lower contractual interest expense primarily reflects the lower interest rate on our revolving credit facility resulting from the amendment to our credit agreement in the current year's first quarter. The decrease in other interest costs for the year ended December 31, 2013 reflected the write-off of unamortized loan discounts and deferred financing costs in the prior year's first quarter due to an amendment to our senior secured credit facility.

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 years ended December 31, 2013 and 2012, the amounts recorded as interest income were immaterial.

Other income (expense), net

For the years ended December 31, 2013 and 2012, the amounts recorded as other income (expense) were immaterial.

Gain on sale of investment

In May 2012, we sold our interest in one of our television investments, which was accounted for under the cost method of accounting prior to the sale. As a result of the sale, we recorded a non-recurring pre-tax gain of $55.6 million for the year ended December 31, 2012.

Gain on sale of long-lived assets

In July 2012, Metro-Goldwyn-Mayer Studios Inc. sold MGM Networks Inc. to Chello Movieco Holdings Limited and Chellomedia Programming BV (collectively, "Chellomedia"). Prior to the sale, MGM Networks Inc. was a wholly-owned subsidiary of MGM Studios. The sale included substantially all of our MGM-branded television channel operations, and included our equity investment in the MGM channels in Latin America and Central Europe. In addition, we entered into a long-term programming and trademark license agreement with Chellomedia under which we continue to generate television licensing revenue from these channels. As a result of the sale, we recorded a non-recurring pre-tax gain of $48.5 million for the year ended December 31, 2012.

Income tax provision

For the year ended December 31, 2013, we recorded an income tax provision of $89.7 million, which represented an effective tax rate of 42%. For the year ended December 31, 2012, we recorded an income tax provision of $99.4 million, which represented an effective tax rate of 43%. 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 year ended December 31, 2013 was primarily due to the non-recurring gains from asset sales in the prior year, as discussed above.

Net income attributable to MGM Holdings Inc.

For the year ended December 31, 2013, net income attributable to MGM Holdings Inc. was $122.2 million, a decrease of $6.8 million as compared to $129.0 million for the year ended December 31, 2012. However, after excluding the non-recurring gains and related tax provision from net income in the prior year, net income attributable to MGM Holdings Inc. for the current year increased $60.1 million, or 97%, over the prior year, which reflected the improved financial performance 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 years ended December 31, 2013 and 2012 (in thousands):

	Year Ended December 31,		Change	
	2013	2012	Amount	Percent
Net income attributable to MGM Holdings Inc.	$ 122,161	$ 129,008	$ (6,847)	(5%)
Interest expense	12,306	23,850	(11,544)	(48%)
Interest income	(3,401)	(3,989)	588	15%
Other income, net	(754)	(1,590)	836	(53%)
Equity in net earnings of affiliates	(18,117)	(14,555)	(3,562)	(24%)
Net income attributable to noncontrolling interests	-	144	(144)	NM
Income tax provision	89,706	99,417	(9,711)	(10%)
Depreciation and non-film amortization	14,236	18,975	(4,739)	(25%)
Gain on sale of investment	-	(55,635)	55,635	NM
Gain on sale of long-lived assets	-	(48,464)	48,464	NM
EBITDA	216,137	147,161	68,976	47%
Step-up Amortization Expense (1)	99,892	117,459	(17,567)	(15%)
Stock-based compensation expense	12,830	16,916	(4,086)	(24%)
Non-recurring costs and expenses (2)	27	4,191	(4,164)	(99%)
Adjusted EBITDA	$ 328,886	$ 285,727	$ 43,159	15%

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 $0.9 billion at December 31, 2013. 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 year ended December 31, 2013, Adjusted EBITDA was $328.9 million, an increase of $43.2 million, or 15%, as compared to $285.7 million for the year ended December 31, 2012. We generated higher Adjusted EBITDA primarily due to the successful performance of our new film and television content. Adjusted EBITDA included strong results from *Skyfall* and *The Hobbit: An Unexpected Journey*[3], which we distributed in multiple distribution windows during the current year, and *The Hobbit: The Desolation of Smaug*[3], which was released theatrically in December 2013. In the prior year, Adjusted EBITDA from new film content primarily consisted of *Skyfall*, which completed a substantial portion of its worldwide theatrical exhibition during 2012 due to its initial October 2012 release, and *The Hobbit: An Unexpected Journey*, which was released theatrically in December 2012. Adjusted EBITDA also improved as a result of higher television licensing revenue from new television content, including *Vikings* and *Teen Wolf*, and lower theatrical marketing expenses.

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

Bank Borrowings

In December 2010, our indirect wholly-owned subsidiaries, MGM Holdings II Inc. and MGM, entered into a senior secured credit facility with a syndicate of lenders (the “2010 Credit Facility”) aggregating $500.0 million, consisting of a five-year $175.0 million revolving credit facility (the “2010 Revolving Facility”) and a six-year $325.0 million term loan. The 2010 Revolving Facility bore interest at 4.75% over LIBOR (as defined), and the term loan bore interest at 5.00% over LIBOR, with a LIBOR floor of 1.50%.

In February 2012, MGM Holdings II Inc. and MGM amended and restated the 2010 Credit Facility (the “Revolving Credit Facility”). Pursuant to the Revolving Credit Facility, we repaid the outstanding balance of the term loan under the 2010 Credit Facility and increased the commitments under the 2010 Revolving Facility to $500.0 million. The Revolving Credit Facility also lowered our interest rate to 3.25% over LIBOR and modified certain financial and other covenants.

In January 2013, MGM Holdings II Inc. and MGM further amended the Revolving Credit Facility and increased total commitments to $650.0 million, we lowered the interest rate to 2.75% over LIBOR and we modified certain financial and other covenants. In addition, we extended the maturity date from December 20, 2015 to December 20, 2017. In July 2013, we amended the Revolving Credit Facility to permit an aggregate increase of $100.0 million to the commitments thereunder, and in August 2013 we 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 December 31, 2013, borrowings under the Revolving Credit Facility totaled $105.0 million, there were no outstanding letters of credit against the Revolving Credit Facility and all remaining funds were entirely available to us.

The Revolving Credit Facility contains various affirmative and negative covenants and financial tests, including limitations on our ability to make expenditures for overhead in excess of certain limits, incur indebtedness, grant liens, dispose of property, merge, consolidate or undertake other fundamental changes, pay dividends and make distributions, make capital expenditures in excess of certain limits, make certain investments, change our fiscal year, enter into transactions with affiliates, and pursue new lines of business outside of entertainment and/or media-related business activities. We were in compliance with all applicable covenants and there were no events of default at December 31, 2013.

(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.

Cash Provided By (Used In) Operating Activities

Cash provided by operating activities was $276.8 million for the year ended December 31, 2013 and cash used in operating activities was $2.1 million for the year ended December 31, 2012. We generated significantly higher operating cash flow primarily due to the successful performance of our new film and television content. This was partially offset by increased cash investment in film and television content costs, primarily for our 2013 and 2014 film slates.

From time to time, our co-production partners may advance our share of production costs on our behalf and require that distribution proceeds first go to the co-production partner until such advanced amounts, which in some circumstances may include interest, have been recouped, and we repay advanced amounts at a later date to the extent not recouped, and such repayment may occur after other distribution fees and expenses are repaid, as applicable. 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/or funds available under our revolving credit facility. As of December 31, 2013, there were no film and television co-financing obligations.

We record our share of production costs advanced by our co-production partners as an increase in film and television costs and record the corresponding liability in film and television co-financing obligations in our consolidated balance sheets. For the year ended December 31, 2013, we recorded a decrease in film and television co-financing obligations of $17.1 million, whereas for the year ended December 31, 2012, we recorded a decrease in film and television co-financing obligations of $126.3 million. The decrease for the year ended December 31, 2013 reflected our use of cash from operations to pay our share of production costs.

Cash Provided By Investing Activities

Cash provided by investing activities was $5.9 million and $122.9 million for the years ended December 31, 2013 and 2012, respectively. For the year ended December 31, 2013, cash provided by investing activities primarily consisted of dividend income. For the year ended December 31, 2012, cash provided by investing activities primarily included proceeds from the sale of our interest in one of our television investments and the sale of MGM Networks Inc. discussed above under *Overview of Financial Results – Gain on sale of investment* and *Overview of Financial Results – Gain on sale of long-lived assets*, respectively.

Cash Used In Financing Activities

Cash used in financing activities was $345.3 million and $526.5 million for the years ended December 31, 2013 and 2012, respectively. During the year ended December 31, 2013, we had net repayments of $266.0 million under the Revolving Credit Facility and repurchased shares of our Class A common stock from stockholders for $75.9 million. During the year ended December 31, 2012, we repurchased shares of our Class A common stock from stockholders for $632.3 million and fully repaid the term loan under the 2010 Credit Facility totaling $311.8 million. This was partially offset by net borrowings of $371.0 million under our Revolving Credit Facility and proceeds from a private placement of our Class A common stock totaling $50.0 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 December 31, 2013, were as follows (in thousands):

	Year Ended December 31,						
	2014	**2015**	**2016**	**2017**	**2018**	**Thereafter**	**Total**
Bank debt (1)	$ -	$ -	$ -	$ 105,000	$ -	$ -	$ 105,000
Creative talent and employment agreements (2)	58,660	11,925	6,778	2,582	-	-	79,945
Operating leases	6,695	7,632	7,271	8,735	8,522	34,327	73,182
Other contractual obligations (3)	19,202	4,397	958	-	-	-	24,557
	$ 84,557	$ 23,954	$ 15,007	$ 116,317	$ 8,522	$ 34,327	$ 282,684

(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, at December 31, 2013, borrowings totaled $105.0 million, there were no 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.

Index to Consolidated Financial Statements and Footnotes

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

Ernst & Young LLP
Suite 500
725 South Figueroa Street
Los Angeles, CA 90017-5418

Tel: +1 213 977 3200
Fax: +1 213 977 3729
ey.com

Report of Independent Auditors

The Board of Directors and Stockholders of
MGM Holdings Inc.

We have audited the accompanying consolidated financial statements of MGM Holdings Inc., which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MGM Holdings Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 21, 2014

A member firm of Ernst & Young Global Limited

MGM Holdings Inc.

Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	**$ 41,959**	$ 103,545
Accounts and contracts receivable (net of allowance for doubtful accounts of $11,805 and $17,221, respectively)	**499,762**	550,336
Film and television costs, net	**1,685,262**	1,717,294
Investments in affiliates	**69,164**	62,474
Property and equipment, net	**15,640**	15,715
Other intangible assets, net	**202,623**	213,574
Other assets	**32,179**	19,759
Total assets	**$ 2,546,589**	$ 2,682,697
Liabilities and equity		
Liabilities:		
Bank debt	**$ 105,000**	$ 371,000
Accounts payable and accrued liabilities	**65,754**	39,432
Accrued participants' share	**373,337**	371,576
Film and television co-financing obligations	**–**	17,145
Current and deferred income taxes payable	**355,673**	294,945
Advances and deferred revenue	**94,225**	100,382
Other liabilities	**14,978**	16,206
Total liabilities	**1,008,967**	1,210,686
Commitments and contingencies		
Equity:		
Class A common stock, $0.01 par value, 110,000,000 shares authorized, 75,424,149 and 75,017,829 shares issued, respectively, and 53,543,487 and 54,587,929 shares outstanding, respectively	**755**	750
Class B common stock, $0.01 par value, 110,000,000 shares authorized, 238,063 and 270,253 shares issued, respectively, and 238,063 and 270,253 shares outstanding, respectively	**2**	3
Additional paid-in capital	**1,982,976**	1,968,629
Retained earnings	**292,818**	170,657
Accumulated other comprehensive loss	**(385)**	(5,402)
Treasury stock, at cost, 21,880,662 and 20,429,900 shares, respectively	**(738,544)**	(662,626)
Total MGM Holdings Inc. stockholders' equity	**1,537,622**	1,472,011
Total liabilities and equity	**$ 2,546,589**	$ 2,682,697

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

MGM Holdings Inc.

Consolidated Statements of Income

(In thousands)

	Year Ended December 31, 2013	Year Ended December 31, 2012
Revenue	**$ 1,527,216**	$ 1,379,747
Expenses:		
Operating	**965,156**	818,695
Distribution and marketing	**249,495**	307,877
General and administrative	**96,428**	106,014
Depreciation and non-film amortization	**14,236**	18,975
Total expenses	**1,325,315**	1,251,561
Operating income	**201,901**	128,186
Other income (expense):		
Equity in net earnings of affiliates	**18,117**	14,555
Interest expense:		
Contractual interest expense	**(8,521)**	(9,908)
Amortization of discount, deferred financing costs and other interest costs	**(3,785)**	(13,942)
Interest income	**3,401**	3,989
Other income, net	**754**	1,590
Gain on sale of investment	**–**	55,635
Gain on sale of long-lived assets	**–**	48,464
Total other income	**9,966**	100,383
Income before income taxes	**211,867**	228,569
Income tax provision	**(89,706)**	(99,417)
Net income	**122,161**	129,152
Less: Net income attributable to noncontrolling interests	**–**	144
Net income attributable to MGM Holdings Inc.	**$ 122,161**	$ 129,008

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

MGM Holdings Inc.

Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,	
	2013	**2012**
Net income attributable to MGM Holdings Inc.	**$ 122,161**	$ 129,008
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on derivative instruments	**1,136**	(1,063)
Unrealized gain (loss) on securities	**(2)**	27
Retirement plan adjustments	**3,811**	(160)
Foreign currency translation adjustments	**72**	374
Other comprehensive income (loss)	**5,017**	(822)
Comprehensive income	**$ 127,178**	$ 128,186

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

MGM Holdings Inc.

Consolidated Statements of Equity

(In thousands, except share data)

	MGM Holdings Inc. Stockholders										
	Common Stock Class A		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	MGM Holdings Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2012	70,522,403	$ 721	1,554,800	$ 16	$ 1,896,872	$ 41,649	$ (4,580)	$ (30,322)	$ 1,904,356	$ (179)	$ 1,904,177
Purchase of treasury stock	(18,893,694)	–	–	–	–	–	–	(632,304)	(632,304)	–	(632,304)
Issuance of common stock	1,642,537	16	–	–	54,876	–	–	–	54,892	–	54,892
Conversion of Class B to Class A stock	1,284,547	13	(1,284,547)	(13)	–	–	–	–	–	–	–
Issuance of restricted stock	32,136	–	–	–	–	–	–	–	–	–	–
Stock-based compensation expense	–	–	–	–	16,916	–	–	–	16,916	–	16,916
Sale of long-lived assets	–	–	–	–	(35)	–	–	–	(35)	35	–
Net income	–	–	–	–	–	129,008	–	–	129,008	144	129,152
Other comprehensive loss	–	–	–	–	–	–	(822)	–	(822)	–	(822)
Balance, December 31, 2012	54,587,929	750	270,253	3	1,968,629	170,657	(5,402)	(662,626)	1,472,011	–	1,472,011
Purchase of treasury stock	**(1,450,762)**	**–**	**–**	**–**	**–**	**–**	**–**	**(75,918)**	**(75,918)**	**–**	**(75,918)**
Issuance of common stock	**368,171**	**4**	**–**	**–**	**1,517**	**–**	**–**	**–**	**1,521**	**–**	**1,521**
Conversion of Class B to Class A stock	**32,190**	**1**	**(32,190)**	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issuance of restricted stock	**6,965**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Forfeiture of restricted stock	**(1,006)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Stock-based compensation expense	**–**	**–**	**–**	**–**	**12,830**	**–**	**–**	**–**	**12,830**	**–**	**12,830**
Net income	**–**	**–**	**–**	**–**	**–**	**122,161**	**–**	**–**	**122,161**	**–**	**122,161**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**5,017**	**–**	**5,017**	**–**	**5,017**
Balance, December 31, 2013	**53,543,487**	**$ 755**	**238,063**	**$ 2**	**$ 1,982,976**	**$ 292,818**	**$ (385)**	**$ (738,544)**	**$ 1,537,622**	**$ –**	**$ 1,537,622**

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

MGM Holdings Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31, 2013	2012
Operating activities		
Net income	**$ 122,161**	$ 129,152
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to film and television costs, net	**(421,584)**	(349,720)
Amortization of film and television costs	**453,616**	386,138
Depreciation and non-film amortization	**14,236**	18,975
Amortization of discount and deferred financing costs	**3,789**	12,497
Stock-based compensation expense	**12,830**	16,916
Provision for doubtful accounts	**(3,357)**	11,208
Change in fair value of financial instruments	**–**	(1,655)
Equity in net earnings of affiliates	**(18,117)**	(14,555)
Dividend received from equity method investee	**2,349**	–
Gain on sale of investment	**–**	(55,635)
Gain on sale of long-lived assets	**–**	(48,464)
Other non-cash expenses	**30**	22
Changes in operating assets and liabilities:		
Restricted cash	**–**	7,049
Accounts and contracts receivable	**53,382**	(329,055)
Other assets	**(11,209)**	(2,726)
Accounts payable, accrued and other liabilities	**32,741**	(29,726)
Accrued participants' share	**1,761**	227,181
Film and television co-financing obligations	**(17,145)**	(126,320)
Current and deferred income taxes payable	**56,934**	86,729
Advances and deferred revenue	**(6,157)**	59,468
Foreign currency exchange loss	**549**	410
Net cash provided by (used in) operating activities	**276,809**	(2,111)
Investing activities		
Dividends received from investees	**12,077**	4,890
Investments in affiliates	**(3,000)**	(15,000)
Sale of investment	**–**	63,965
Sale of long-lived assets	**–**	71,025
Additions to property and equipment	**(3,210)**	(1,937)
Net cash provided by investing activities	**5,867**	122,943
Financing activities		
Additions to borrowed funds	**370,000**	450,000
Repayments of borrowed funds	**(636,000)**	(390,750)
Issuance of common stock	**1,521**	54,892
Purchase of treasury stock	**(75,918)**	(632,304)
Financing costs and other	**(4,889)**	(8,291)
Net cash used in financing activities	**(345,286)**	(526,453)
Net change in cash and cash equivalents from operating, investing and financing activities	**(62,610)**	(405,621)
Net increase in cash due to foreign currency fluctuations	**1,024**	622
Net change in cash and cash equivalents	**(61,586)**	(404,999)
Cash and cash equivalents at beginning of year	**103,545**	508,544
Cash and cash equivalents at end of year	**$ 41,959**	$ 103,545

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

MGM Holdings Inc.

Notes to Consolidated Financial Statements

December 31, 2013

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

Organization. The accompanying 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 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 networks in the United States and Brazil. The Company also generates revenue from the licensing of content and intellectual property rights for use in consumer products and interactive games, as well as various other licensing activities.

Basis of Presentation and Principles of Consolidation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. As permitted under accounting guidance for producers and distributors of filmed entertainment, unclassified balance sheets have been presented. 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 related companies, 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.

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

Accounts and Contracts Receivable. At December 31, 2013 and 2012, accounts and contracts receivable (before allowance for doubtful accounts) aggregated $511.6 million and $567.6 million, respectively. Concentration of credit and geographic risk with respect to accounts receivable exists, but is limited due to the large number and general dispersion of accounts which constitute the Company's customer base. The Company performs credit evaluations of its customers and in some instances requires collateral. Although the Company receives a significant amount of revenue through its distribution and servicing agreements, the Company does not view its distributors or co-production partners as customers. At December 31, 2013 and 2012, the Company did not have any significant customer concentration.

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

Allowance for Doubtful Accounts. The Company determines its allowance by monitoring its delinquent accounts and estimating a reserve based on contractual terms and other customer-specific issues. Additionally, the Company records a general reserve against all customer receivables not reviewed on a specific basis. The Company charges off its receivables against the allowance when the receivable is deemed uncollectible. At December 31, 2013 and 2012, allowance for doubtful accounts aggregated $11.8 million and $17.2 million, respectively.

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

Revenue from television licensing, together with related costs, is recognized when the feature film or television program is initially available to the licensee for telecast. Long-term, non-interest-bearing receivables arising from licensing agreements are discounted to present value. Payments received in advance of initial availability are classified as deferred revenue until all revenue recognition requirements have been met. At December 31, 2013 and 2012, deferred revenue primarily consisted of advances related to the Company's television licensing contracts under which the related content will be available in future periods.

Advertising revenue is recognized when the advertising spot is broadcast and is recorded net of agency fees, commissions and any under delivery obligation.

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

Certain of the Company's co-production agreements qualify as collaborative arrangements for accounting purposes. A collaborative arrangement typically exists when two parties share equal ownership in a co-produced film or television program and jointly participate in production and distribution activities. When the Company either has a majority or minority share of distribution rights and ownership in a co-produced film or television program, the related co-production arrangement is generally not considered a collaborative arrangement for accounting purposes. In a collaborative arrangement, to the extent that ultimate net profit sharing between the Company and its co-production partner is expected to result in net profit sharing amounts due from the co-production partner, the Company classifies this amount as revenue (net) and records it over the life of the film or television program. Separately, to the extent that ultimate net profit sharing between the Company and its co-production partner is expected to result in net profit sharing amounts due to the co-production partner, the Company classifies this amount as participation expense included within operating expenses and records it over the life of the film or television program. The accounting guidance for

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

collaborative arrangements is only specific to agreements that meet such criteria, whereas the accounting guidance for gross versus net reporting applies to all of the Company's co-production and distribution arrangements including the distribution rights within such agreements that qualify as collaborative arrangements.

During the years ended December 31, 2013 and 2012, the Company recorded participation expense of $132.6 million and $63.1 million, respectively, for net profit sharing amounts due to its co-production partner under collaborative arrangements.

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

Barter Transactions. The Company accounts for advertising time spots received as full or partial consideration from the licensing of feature film and television content product in the domestic syndication market at the estimated fair value of the advertising received. The Company recognized barter revenue of $4.5 million and $6.1 million and related expenses of $1.3 million and $1.8 million during the years ended December 31, 2013 and 2012, respectively.

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

When estimates of future revenue and costs indicate that a film or television program, or a film or television content library, will result in an ultimate loss, additional amortization is recognized to the extent that capitalized costs exceed estimated fair value. During the years ended December 31, 2013 and 2012, the Company recorded $50.6 million and $43.1 million, respectively, of fair value adjustments to certain film and television costs which were included in operating expenses in the consolidated statements of income. The estimated fair values were calculated using Level 3 inputs, as defined in the fair value hierarchy, including long-range projections of revenue, operating and distribution expenses, and a discounted cash flow methodology using discount rates based on a weighted-average cost of capital.

Exploitation costs, including advertising and marketing costs, third-party distribution services fees for various distribution activities (where applicable), distribution expenses and other releasing costs are expensed as incurred and are included in distribution and marketing expenses in the consolidated statements of income. Advertising and marketing costs of approximately $161.1 million and $215.2 million were recorded during the years ended December 31, 2013 and 2012, respectively. Theatrical print costs are amortized over the periods of theatrical release in the respective territories and are included in operating expenses.

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

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

During the years ended December 31, 2013 and 2012, the Company incurred shipping and handling costs of $46.4 million and $51.9 million, respectively, which are included in distribution and marketing expenses in the consolidated statements of income.

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

Other Intangible Assets. The Company has other non-film intangible assets totaling $202.6 million, of which none are expected to be deductible for tax purposes. These other intangible assets include $160.6 million of intangible assets subject to amortization, consisting primarily of certain operating agreements with remaining lives ranging from 5 to 28 years. Additionally, trade name-related assets, valued at $42.0 million, have indefinite lives.

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives, while intangible assets with indefinite lives are not subject to amortization, but instead are tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not the asset is impaired. Impairment of indefinite-lived intangible assets is determined by comparing the estimated fair value of the asset to its carrying amount.

There were no impairment charges to other intangible assets recorded during the year ended December 31, 2013. Based on impairment assessments performed during the year ended December 31, 2012, the Company recorded a non-cash impairment charge of $4.8 million related to its definite-lived intangible assets, which was included in depreciation and non-film amortization in the consolidated statement of income for the year ended December 31, 2012.

Income Taxes. Deferred tax assets and liabilities are recognized with respect to the tax consequences attributable to differences between the financial statement carrying values and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. Further, the financial effect on deferred tax assets and liabilities of changes in tax rates is recognized in the period of enactment. A valuation allowance is established, when necessary, to reduce deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. In addition, the Company recognizes uncertain income tax positions when it is more likely than not to be

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

sustained by the relevant taxing authority. The Company includes interest and penalties related to income tax matters as part of the income tax provision.

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

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

Financial Instruments. The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. The Company records its derivative financial instruments at fair value. Foreign currency exchange forward contracts are measured for effectiveness on a quarterly basis. Changes in the fair value of effective hedges are reflected in other comprehensive income (loss) in the consolidated statements of comprehensive income, while changes in ineffective hedges are reflected in other income in the consolidated statements of income.

Stock-Based Compensation. The Company recognizes compensation expense related to the grant of restricted stock and stock options on a straight-line basis over the requisite service period for each separately vesting portion of each award, taking into consideration grant date estimated fair value and the applicable estimated forfeiture rates. The Company recorded total stock-based compensation expense of $12.8 million and $16.9 million during the years ended December 31, 2013 and 2012, respectively. Stock-based compensation expense is included in general and administrative expenses in the consolidated statements of income.

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

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

Subsequent Events. The Company evaluated, for potential recognition and disclosure, all activity and events that occurred through the date that these consolidated financial statements were available to be issued, March 21, 2014. Such review did not result in the identification of any subsequent events that would require recognition in the consolidated financial statements or disclosure in the notes to these consolidated financial statements.

New Accounting Pronouncements

Other Comprehensive Income. In February 2013, the Financial Accounting Standards Board issued Accounting Standard Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"), which amends the provisions of Accounting Standards Codification Topic 220, *Comprehensive Income*, to require significant reclassifications out of accumulated other comprehensive income to be presented separately for each component of other comprehensive income on the face of the financial statements or in the related notes thereto. The Company adopted the provisions of ASU 2013-02 in January 2013, which resulted in additional financial statement disclosure requirements.

Note 2—Other Intangible Assets

Other Intangible Assets. Other non-film intangible assets and the related accumulated amortization and weighted-average remaining amortization period as of December 31, 2013 were as follows (in thousands):

Intangible Assets	**Gross Fair Value**	**Accumulated Amortization**	**Balance at December 31, 2013**	**Weighted-Average Remaining Amortization Period**
Film production and distribution agreements	**$ 143,389**	**$ (14,025)**	**$ 129,364**	**28 years**
Ancillary business assets	**56,057**	**(24,798)**	**31,259**	**5 years**
Intangible assets subject to amortization	**199,446**	**(38,823)**	**160,623**	**21.7 years**
Trade name-related assets	**42,000**	**–**	**42,000**	**Indefinite**
Total intangible assets	**$ 241,446**	**$ (38,823)**	**$ 202,623**	**N/A**

Other non-film intangible assets and the related accumulated amortization and weighted-average remaining amortization period as of December 31, 2012 were as follows (in thousands):

Intangible Assets	**Gross Fair Value**	**Accumulated Amortization**	**Balance at December 31, 2012**	**Weighted-Average Remaining Amortization Period**
Film production and distribution agreements	$ 143,389	$ (9,400)	$ 133,989	29 years
Ancillary business assets	56,057	(18,472)	37,585	6 years
Intangible assets subject to amortization	199,446	(27,872)	171,574	22.7 years
Trade name-related assets	42,000	–	42,000	Indefinite
Total intangible assets	$ 241,446	$ (27,872)	$ 213,574	N/A

The Company recorded amortization of identifiable other non-film intangible assets of $10.9 million and $11.2 million during the years ended December 31, 2013 and 2012, respectively. Amortization of other intangible assets is included in depreciation and non-film amortization in the consolidated statements of income. The Company expects to record amortization of $11.0 million during each of the years ending December 31, 2014 and 2015, $10.1 million during each of the years ending December 31, 2016 and 2017, and $9.9 million during the year ended December 31, 2018.

In July 2012, Metro-Goldwyn-Mayer Studios Inc. (“MGM Studios”) sold MGM Networks Inc. (including subsidiaries thereof, “MGM Networks”) to Chello Movieco Holdings Limited and Chellomedia Programming BV (collectively, “Chellomedia”), which included certain ancillary business intangible assets. As a result, the net carrying value of such ancillary business intangible assets amounting to $3.9 million was included in the calculation of the gain on sale of long-lived assets in the consolidated statement of income for the year ended December 31, 2012. Refer to Note 17 for further details.

Note 2—Other Intangible Assets (Continued)

Impairment of Other Intangible Assets. During the year ended December 31, 2013, the Company performed a qualitative assessment of its other intangible assets and concluded that it was more likely than not that the fair value of such assets is greater than their respective carrying values at December 31, 2013. As such, no fair value adjustments were recorded during the year ended December 31, 2013.

During the year ended December 31, 2012, the Company revised its forecasted financial performance associated with certain ancillary business intangible assets to account for prevailing industry-wide pricing pressures that are expected to reduce future revenue and cash flows from these non-core business operations. The estimated fair value of these ancillary business intangible assets was calculated using Level 3 inputs, as defined in the fair value hierarchy, including long-range projections of revenue, operating expenses and programming costs, and a discounted cash flow methodology using discount rates based on a weighted-average cost of capital. The revised cash flow estimates resulted in a non-cash fair value adjustment of $4.8 million, which is included in depreciation and non-film amortization expense in the consolidated statement of income for the year ended December 31, 2012. In addition, the remaining useful life was reduced from eight years to three years to more closely align the useful life with the revised timing of expected cash flows related to these intangible assets.

Note 3—Film and Television Costs

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

	December 31,	
	2013	**2012**
Theatrical productions:		
Released	**$ 2,010,638**	$ 1,808,665
Less accumulated amortization	**(834,655)**	(490,112)
	1,175,983	1,318,553
Completed not released	**–**	17,101
In production	**329,801**	208,515
In development	**8,592**	7,519
Total theatrical productions	**1,514,376**	1,551,688
Television programs:		
Released	**249,087**	195,844
Less accumulated amortization	**(106,925)**	(57,547)
	142,162	138,297
In production	**28,314**	26,956
In development	**410**	353
Total television programs	**170,886**	165,606
	$ 1,685,262	$ 1,717,294

Based on the Company's estimates of projected gross revenue as of December 31, 2013, approximately 17% of completed film and television costs are expected to be amortized over the next 12 months, and approximately $93.6 million of accrued participants' share is estimated to be paid in the next 12 months.

Note 3—Film and Television Costs (Continued)

As of December 31, 2013, the Company estimated that approximately 82% of unamortized film and television costs for released titles, excluding costs accounted for as acquired film and television libraries, are expected to be amortized over the next three fiscal years.

As of December 31, 2013 and 2012, unamortized film and television costs accounted for as acquired film and television libraries were $1.1 billion and $1.2 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 December 31, 2013.

Interest costs capitalized to theatrical productions were $0.2 million and $3.7 million for the years ended December 31, 2013 and 2012, respectively. The Company did not capitalize any overhead to theatrical or television productions during the years ended December 31, 2013 and 2012.

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 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**	$ **–**

Note 4—Fair Value Measurements (Continued)

The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at December 31, 2012 (in thousands):

		Fair Value Measurements at December 31, 2012 using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	$ 78,802	$ 78,802	$ –	$ –
Investments	780	780	–	–
Liabilities:				
Deferred compensation plan	(780)	(780)	–	–
Financial instruments	(1,674)	–	(1,674)	–
Total	$ 77,128	$ 78,802	$ (1,674)	$ –

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

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

Financial instruments at December 31, 2013 and 2012 reflect the fair value of outstanding foreign currency exchange forward contracts and are included in other assets and other liabilities in the consolidated balance sheets, respectively. 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):

	December 31,	
	2013	**2012**
Equity method investments:		
Studio 3 Partners, LLC ("Epix")	**$ 47,139**	$ 40,168
Other equity method investments	**25**	306
Cost method investments	**22,000**	22,000
	$ 69,164	$ 62,474

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 percent and voting rights.

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 made no capital contributions to Epix during the years ended December 31, 2013 and 2012.

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 years ended December 31, 2013 and 2012, equity in net earnings of affiliates in the consolidated statements of income included $17.1 million and $14.5 million, respectively, of earnings from the Company's 19.09% interest in Epix, minus $1.5 million and $0.6 million, respectively, of eliminations related to the Company's share of profits on sales to Epix. In addition, during the year ended December 31, 2013, the Company received a dividend of $8.6 million from its investment in Epix. No dividends were received from Epix during the year ended December 31, 2012.

Certain feature films were made available to Epix for exhibition in pay television windows and for which $36.0 million and $5.1 million of revenue was recognized by the Company during the years ended December 31, 2013 and 2012, respectively.

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

Cost Method Investments. Equity in net earnings of affiliates in the consolidated statements of income included $5.8 million and $4.9 million of dividend income during the years ended December 31, 2013 and 2012, respectively.

Other Equity Method Investments. In May 2012, the Company sold its interest in one of its television investments, which prior to the sale was accounted for under the cost method of accounting. As a result of the sale, the Company recorded a non-recurring pre-tax gain of $55.6 million in the consolidated statement of income for the year ended December 31, 2012. In July 2012, MGM Studios sold MGM Networks, a wholly-owned subsidiary of MGM Studios, which prior to the sale had ownership interests in certain television joint ventures in Latin America and Central Europe that were accounted for under the equity method of accounting. Refer to Note 17 for further details.

In September 2012, the Company recorded a $4.6 million non-cash fair value adjustment to a non-core business investment previously accounted for under the equity method of accounting, the recoverability of which was doubtful due to similar industry-wide pricing pressures that led to the fair value adjustment to certain ancillary business intangible assets discussed in Note 2 above. Such amount was included in equity in net earnings of affiliates in the consolidated statement of income for the year ended December 31, 2012. No material non-cash fair value adjustments to investments in affiliates were recorded during the year ended December 31, 2013.

Note 6—Property and Equipment

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

	December 31, 2013	December 31, 2012
Leasehold improvements	**$ 12,407**	$ 12,493
Furniture, fixtures and equipment	**12,137**	8,932
	24,544	21,425
Less accumulated depreciation and amortization	**(8,904)**	(5,710)
	$ 15,640	$ 15,715

Note 7—Bank Debt

Bank debt is summarized as follows (in thousands):

	December 31, 2013	December 31, 2012
Revolving credit facility	$ **105,000**	$ 371,000

Revolving Credit Facility and Term Loan. On December 20, 2010, the Company entered into a senior secured credit facility with a syndicate of lenders (as amended and supplemented, the “2010 Credit Facility”) aggregating $500.0 million, consisting of a five-year $175.0 million revolving credit facility (the “2010 Revolving Facility”) and a six-year $325.0 million term loan (the “2010 Term Loan”). The 2010 Revolving Facility bore interest at 4.75% over LIBOR, as defined, and the 2010 Term Loan bore interest at 5.00% over LIBOR, with a LIBOR floor of 1.50%. In addition, the Company incurred a quarterly commitment fee of 0.75% per annum on the undrawn portion of the 2010 Revolving Facility.

In February 2012, the Company amended and restated the 2010 Credit Facility (the “Revolving Credit Facility”). Pursuant to the Revolving Credit Facility, the Company repaid the outstanding balance of the 2010 Term Loan and increased the commitments under the 2010 Revolving Facility to $500.0 million. The Revolving Credit Facility lowered the interest rate for the 2010 Revolving Facility to 3.25% over LIBOR and modified certain financial and other covenants.

The Revolving Credit Facility repaid the 2010 Term Loan in full, and as such, this was accounted for as debt extinguishment. As a result, the Company recognized $9.6 million of additional interest expense, which included a $5.8 million write-off of deferred financing fees and a $3.8 million write-off of the net carrying amount of the original issue discount associated with the 2010 Term Loan during the year ended December 31, 2012. The Company incurred $8.3 million in fees and other costs associated with the Revolving Credit Facility, which were deferred and included in other assets in the consolidated balance sheets. The deferred financing costs were amortized over the term of the Revolving Credit Facility using the straight-line method.

Note 7—Bank Debt (Continued)

In January 2013, the Company amended the Revolving Credit Facility (the "Amended Revolving Credit Facility") and increased total commitments to $650.0 million, lowered the interest rate to 2.75% over LIBOR (2.92% at December 31, 2013) and modified certain financial and other covenants. In July 2013, the Company entered into the fourth amendment to the Amended 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.

During the years ended December 31, 2013 and 2012, the Company incurred commitment fees of $3.7 million and $2.5 million, respectively, and interest expense of $4.4 million and $3.9 million, respectively, which are included in contractual interest expense in the consolidated statements of income. The maturity date of the Amended Revolving Credit Facility is December 20, 2017, and the face value of the Amended Revolving Credit Facility approximated fair value at December 31, 2013.

The Amended 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 associated with the Revolving Credit Facility during the year ended December 31, 2013. The Company incurred $4.9 million in fees and other costs associated with the Amended Revolving Credit Facility, which were deferred and included in other assets in the consolidated balance sheets. The deferred financing costs are being amortized over the term of the Amended Revolving Credit Facility using the straight-line method. During the years ended December 31, 2013 and 2012, the Company recorded interest expense of $2.5 million and $2.8 million, respectively, for the amortization of deferred financing costs.

The availability of funds under the Amended Revolving Credit Facility is limited by a borrowing base calculation. At December 31, 2013, borrowings under the Amended Revolving Credit Facility totaled $105.0 million, there were no outstanding letters of credit against the Amended Revolving Credit Facility and all remaining funds were available to the Company. Borrowings under the Amended Revolving Credit Facility are secured by substantially all the assets of MGM, with certain exceptions. At December 31, 2013, the Company was in compliance with all applicable covenants under the Amended Revolving Credit Facility, and there were no events of default.

Note 8—Film and Television Co-Financing Obligations

Film and television co-financing obligations include the Company's share of film and television production costs advanced by its various co-production partners. From time to time, the Company's co-production partners may advance such amounts and require that (a) distribution proceeds first go to the co-production partner until such advanced amounts, which in certain circumstances may include interest, have been recouped and (b) the Company repay advanced amounts at a later date to the extent not recouped and such repayment may occur after other distribution fees and expenses are repaid, as applicable. In the event that such advanced amounts are not recouped from distribution proceeds, the Company typically remains contractually liable to its co-production partners and may repay such amounts using cash on hand, cash flow from the exploitation of other film and television content, and/or funds available under the Amended Revolving Credit Facility. As of December 31, 2013, there were no film and television co-financing obligations.

The Company records its share of production costs advanced by its co-production partners as an increase to film and television costs and records the corresponding liability in film and television co-financing obligations in the consolidated balance sheets. During the years ended December 31, 2013 and 2012, the Company recorded a net decrease in film and television co-financing obligations of $17.1 million and $126.3 million, respectively.

Note 9—Financial Instruments

The Company transacts business globally and is subject to market risks resulting from fluctuations in foreign currency exchange rates. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. Such contracts generally have maturities between one and 16 months. As of December 31, 2013, the Company had several outstanding foreign currency exchange forward contracts primarily relating to anticipated production-related cash flows for in-process feature films that qualified for hedge accounting. Such contracts were carried at fair value and included in other assets in the consolidated balance sheets. All foreign currency exchange forward contracts designated for hedge accounting were deemed effective at December 31, 2013. As such, changes in the fair value of such contracts were included in accumulated other comprehensive loss in the consolidated balance sheet. During the year ended December 31, 2013, the Company recorded $0.1 million of net unrealized gains (net of tax) relating to the change in fair value of such contracts. No amounts included in accumulated other comprehensive loss 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 year ended December 31, 2013.

As of December 31, 2012, the Company had several outstanding foreign currency exchange forward contracts which were carried at fair value and included in other liabilities in the consolidated balance sheets. All foreign currency exchange forward contracts designated for hedge accounting were deemed effective at December 31, 2012 and, as such, changes in the fair value of such contracts were included in accumulated other comprehensive loss in the consolidated balance sheet. During the year ended December 31, 2012, the Company recorded $1.1 million of net unrealized losses (net of tax) relating to the change in fair value of such contracts.

Note 10—MGM Holdings Inc. Stockholders' Equity

Common Stock. The Company is authorized to issue 110,000,000 shares of Class A common stock, $0.01 par value, and 110,000,000 shares of Class B common stock, $0.01 par value. As of December 31, 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. As of December 31, 2012, 75,017,829 shares of Class A common stock and 270,253 shares of Class B common stock were issued and 54,587,929 shares of Class A common stock and 270,253 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 December 31, 2013, no shares of Preferred Stock were issued or outstanding.

Treasury Stock. During the year ended December 31, 2013, the Company repurchased a total of 1,450,762 shares of its Class A common stock at a weighted-average price of $52.33 per share for a total of $75.9 million. During the year ended December 31, 2012, the Company repurchased a total of 18,893,694 shares of its Class A common stock at a weighted-average price of $33.47 per share for a total of $632.3 million. The reacquired shares were classified as treasury stock in the consolidated balance sheets and consolidated statements of equity.

Private Placement. During the year ended December 31, 2012, the Company issued in a private placement a total of 1,492,537 shares of Class A common stock at a price per share of $33.50 for a total of $50.0 million.

Stockholder Rights Plan. In September 2013, the Company entered into a stockholder rights plan (the "Rights Plan"). Pursuant to the Rights Plan, the Board of Directors declared a dividend distribution of one preferred share purchase right (a "Right") for each outstanding share of the Company's Class A common stock and Class B common stock (together, the "Common Stock"), $0.01 par value, to stockholders of record at the close of business on September 13, 2013 (the "Record Date"). Additionally, the Company issued one Right for each share of common stock issued (including shares distributed from Treasury) after the Record Date and prior to the Distribution Date, as described below. Each Right entitles the registered holder, subject to the terms of the Rights Plan, to purchase one one-thousandth of a share of the Company's newly created Series A Junior Participating Preferred Stock, $0.01 par value (the "Series A Preferred Stock"), at an initial exercise price of $110, subject to adjustment.

Initially, no separate rights certificates were distributed and instead the Rights attached to all certificates representing shares of outstanding common stock. The Rights will separate from the common stock on the distribution date (the "Distribution Date"), which would occur, if ever, on the earlier of (i) ten Business Days following the date a person or group of affiliated or associated persons has become an "Acquiring Person," as defined, or (ii) ten Business Days following the commencement of a tender offer or exchange offer that would result in a person or group of affiliated and associated persons beneficially owning 10% or more of the shares of common stock then outstanding.

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.

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

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

	Year Ended December 31,			
	2013		2012	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	**7,999,647**	**$ 37.20**	9,501,058	$ 37.02
Granted	**1,405,000**	**61.16**	150,000	38.48
Exercised	**(368,171)**	**31.63**	(150,000)	32.61
Canceled or expired	**(1,947,888)**	**37.00**	(1,501,411)	36.63
Options outstanding at end of year	**7,088,588**	**$ 42.25**	7,999,647	$ 37.20
Options exercisable at end of year	**2,749,777**	**$ 37.61**	3,860,330	$ 36.91

The weighted-average remaining contractual life of all outstanding options as of December 31, 2013 was 7.6 years. As of December 31, 2013, total compensation cost related to non-vested awards not yet recognized under the Stock Incentive Plan was $26.9 million, which is expected to be recognized over a weighted-average period of 1.4 years.

The fair value of stock options was estimated using the Black-Scholes option pricing model. The weighted-average fair value of stock options granted during the years ended December 31, 2013 and 2012 was $17.68 and $8.24, respectively. Fair value was determined using the following assumptions: a dividend yield of 0%, an expected volatility ranging from 31% to 45%, a weighted-average expected life ranging from 6.5 years to 7.9 years, and a weighted-average assumed risk-free interest rate ranging from 1.32% to 3.12%. Expected volatility was determined based on the average of historical and implied volatilities for comparable peer companies.

Note 11—Income Taxes

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

	December 31,	
	2013	2012
Current	**$ 25,693**	$ 21,620
Deferred	**329,980**	273,325
	$ 355,673	$ 294,945

Note 11—Income Taxes (Continued)

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

	December 31, 2013	December 31, 2012
Deferred tax assets:		
Contract termination	**$ 873**	$ 1,583
Property and equipment	**1,157**	990
Accrued participants' share	**4,630**	15,264
Reserves	**18,944**	19,500
Real estate leases	**7,065**	7,000
Other tax assets	**4,213**	5,632
Operating loss carryforwards	**314,175**	338,874
Stock options	**13,367**	13,452
Unrealized losses on derivative instruments and investments	**–**	3,047
	364,424	405,342
Valuation allowance	**(59,256)**	(60,360)
Total deferred tax assets	**305,168**	344,982
Deferred tax liabilities:		
Investments in affiliates	**(91)**	(99)
Film and television costs	**(192,066)**	(184,031)
Other intangible assets	**(72,944)**	(77,955)
Film revenue	**(51,891)**	(34,136)
Bank and other debt	**(318,006)**	(322,086)
Unrealized gains on derivative instruments and investments	**(150)**	–
Total deferred tax liabilities	**(635,148)**	(618,307)
Net deferred tax liability	**$ (329,980)**	$ (273,325)

At December 31, 2013, the Company and its subsidiaries had net operating loss carryforwards for United States federal tax purposes of $0.7 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. Net operating loss carryforwards in the amount of $0.7 billion as of December 31, 2013 are subject to limitation on use under Section 382 of the Internal Revenue Code. In addition, the Company has net operating loss carryforwards for California state tax purposes of $0.7 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.

As of December 31, 2013 and 2012, deferred tax assets in the amount of $59.3 million and $60.4 million, respectively, do not satisfy the criteria for realization. Accordingly, valuation allowances have been provided for these amounts.

Note 11—Income Taxes (Continued)

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

	Year Ended December 31, 2013	2012
Current taxes:		
Federal and state taxes	**$ 829**	$ 4,152
Foreign taxes	**33,685**	6,988
Deferred taxes:		
Federal taxes	**60,354**	77,897
State taxes	**(4,058)**	(12,063)
Change in valuation allowance	**(1,104)**	22,443
Total income tax provision	**$ 89,706**	$ 99,417

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

	Year Ended December 31, 2013	2012
Federal tax rate on pre-tax book income	**35%**	35%
State taxes, net of federal income tax benefit	**1**	2
Tax rate changes	**(4)**	(7)
Changes in uncertain tax positions	**1**	2
Foreign taxes, net of federal income tax benefit	**9**	3
Loss carryforwards and other tax attributes not benefited	**(1)**	10
Other permanent differences	**1**	(2)
Effective tax rate	**42%**	43%

Note 11—Income Taxes (Continued)

In November 2012, California approved Proposition 39, *Income Tax Increase for Multistate Businesses*, which requires the single sales factor method of apportioning state income. The method is mandatory for tax years beginning on or after January 1, 2013, but optional in the year ended December 31, 2012. The Company elected this provision for the year ended December 31, 2012 and as a result, the Company's aggregate effective state tax rate decreased by 1.5%. Due to the effect of such decrease, the Company recorded a net increase of approximately $7.0 million to its income tax provision, which included an increase to its valuation allowance for California net operating loss carryforwards that do not satisfy the criteria for realization, which was partially offset by decreases to its net deferred tax liability for the year ended December 31, 2012.

As of December 31, 2013 and 2012, the Company had $14.7 million and $13.9 million of unrecognized tax benefits, respectively. The Company has accrued interest and penalties associated with these unrecognized tax benefits of $10.0 million and $8.0 million as of December 31, 2013 and 2012, respectively, of which $1.8 million and $3.6 million were recognized as a component of the income tax provision during the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, the Company had cumulative unrecognized tax benefits, including interest and penalties, of $24.7 million, of which $15.0 million, if recognized, would impact the effective tax rate. The Company believes that approximately $15.0 million of additional unrecognized tax benefits, including interest and penalties, at December 31, 2013 are reasonably possible to reverse within the following year due to settlement of certain tax matters with tax authorities. The following is a summary reconciliation of the beginning and ending amount of unrecognized tax benefits (in thousands):

	December 31,	
	2013	**2012**
Unrecognized tax benefits at January 1	**$ 13,914**	$ 18,558
Increases based on tax positions taken during a prior period	**4,482**	4,539
Decreases based on tax positions taken during a prior period	**(4,110)**	(9,420)
Increases due to foreign currency translation	**396**	237
Unrecognized tax benefits at December 31	**$ 14,682**	$ 13,914

The Company or one of its subsidiaries files income tax returns with federal, state, local and foreign jurisdictions. As of December 31, 2013, the tax years that remain subject to examination by significant jurisdiction are as follows:

U.S. federal	March 31, 2010 through the current period
New York State	March 31, 2009 through the current period
New York City	March 31, 2009 through the current period
California	March 31, 2008 through the current period

Note 12—Retirement Plans

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

	Year Ended December 31,	
	2013	**2012**
Change in benefit obligation:		
Projected benefit obligation, beginning of year	**$ 29,324**	$ 27,671
Interest cost	**1,118**	1,160
Actuarial loss (gain)	**(3,996)**	2,038
Settlement loss	**152**	24
Net benefits paid	**(2,229)**	(1,569)
Projected benefit obligation, end of year	**$ 24,369**	$ 29,324
Accumulated benefit obligation, end of year	**$ 24,369**	$ 29,324
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	**$ 22,332**	$ 21,140
Actual return on plan assets	**3,274**	2,761
Net benefits paid	**(2,229)**	(1,569)
Fair value of plan assets, end of year	**$ 23,377**	$ 22,332
Funded status:		
Fair value of plan assets	**$ 23,377**	$ 22,332
Projected benefit obligation	**24,369**	29,324
Funded status, and net balance sheet liability	**$ (992)**	$ (6,992)

Note 12—Retirement Plans (Continued)

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

	Year Ended December 31,	
	2013	**2012**
Net actuarial loss	**$ 4**	$ 6,005
	$ 4	$ 6,005

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

	Year Ended December 31,	
	2013	**2012**
Interest cost on projected benefit obligation	**$ 1,119**	$ 1,160
Expected return on plan assets	**(1,492)**	(1,415)
Net actuarial loss	**375**	349
Settlement loss	**–**	253
Net periodic pension expense	**$ 2**	$ 347

During the year ended December 31, 2012, the Company incurred a $0.3 million settlement loss due to increased lump-sum amounts paid out of the Plan during the year.

The unrecognized net liability is being amortized over the estimated remaining service life of 8.4 years and 8.8 years as of December 31, 2013 and 2012, respectively. Domestic pension benefits and expense were determined under the entry age actuarial cost method.

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

Note 12—Retirement Plans (Continued)

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

	Year Ended December 31,	
	2013	**2012**
Assumptions – benefit obligations		
Discount rate	**4.86%**	3.94%
Rate of increase in future compensation levels	**N/A**	N/A
Assumptions – net periodic pension cost		
Discount rate	**3.94%**	4.35%
Long-term rate of return on assets	**7.00%**	7.00%
Rate of increase in future compensation levels	**N/A**	N/A

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

As of December 31, 2013, benefits expected to be paid under the Plan are as follows (in thousands):

Calendar Year	Amount
2014	$ 965
2015	1,090
2016	1,732
2017	1,834
2018	1,102
2019-2023	10,849
	$ 17,572

Note 12—Retirement Plans (Continued)

The following table sets forth by level, within the fair value hierarchy described in Note 4, the Plan's assets required to be carried at fair value on a recurring basis as of December 31, 2013 (in thousands):

		Fair Value Measurements at December 31, 2013 using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Pooled separate accounts	**$ 19,021**	**$ –**	**$ 19,021**	**$ –**
Guaranteed deposit account	**4,356**	**–**	**4,356**	**–**
Total	**$ 23,377**	**$ –**	**$ 23,377**	**$ –**

The following table sets forth the Plan's assets required to be carried at fair value on a recurring basis as of December 31, 2012 (in thousands):

		Fair Value Measurements at December 31, 2012 using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Pooled separate accounts	$ 17,880	$ –	$ 17,880	$ –
Guaranteed deposit account	4,452	–	4,452	–
Total	$ 22,332	$ –	$ 22,332	$ –

Pooled separate accounts primarily consist of investments in mutual funds that include both equity and fixed income securities and are designed to provide a diversified portfolio. Investments in pooled separate accounts are valued by Prudential, the trustee of the Plan's assets, based on the Plan's share of the fair value of the assets held in the pooled separate accounts.

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

Plan assets by category were as follows:

	Year Ended December 31,	
	2013	**2012**
Equity securities	**57%**	55%
Debt securities and other	**43**	45
	100%	100%

The Plan's pension investments are allocated in a manner designed to provide a long-term investment return greater than the actuarial assumption, maximize investment return commensurate with appropriate levels of risk and comply with the Employee Retirement Income Security Act of 1974 ("ERISA") by investing the funds in a manner consistent with ERISA fiduciary standards. Assets are allocated to provide adequate liquidity for the Plan's disbursements, such as benefit payments and ongoing expenses. The Plan's assets are managed such that all retirement benefit payments are met as they become due. The Plan's investment strategy focuses on long-term asset value to take into account the long-term nature of the Plan's liabilities. The asset allocation strategy is implemented with due regard for the Plan's long-

Note 12—Retirement Plans (Continued)

term needs and in a manner designed to control volatility and with regard for the Company's risk tolerance. The risk tolerance is comprised of financial and other relevant characteristics of the Company, as well as the Company's risk philosophy for pension assets. Certain business characteristics may reduce the Company's tolerance for volatility of investment returns and potential swings in contribution levels.

The Company's portfolio manager's asset/liability analyses indicate that approximately 30% of projected Plan assets are needed for upcoming disbursements and reserves. Accordingly, approximately 70% of the Plan's assets are available to invest in long-term securities, such as equities. However, the Plan is concerned about the level of volatility implicit in an asset mix of approximately 70% equity and 30% fixed income, and the attendant concern that the Company continues to be able to meet contributions during years when the investment markets are down and/or its business environment is depressed. In summary, the quantitative analyses of the Plan's assets and liabilities show approximately 55% is available to invest in equities (approximately 70% is available to invest in equities less 15% for risk tolerance and philosophy).

The Plan currently targets the following as part of its long-term asset allocation strategy: approximately 45% in fixed income securities (20% for general account, 20% for fixed income (intermediate maturities) and 5% for high-yield bonds) and approximately 55% in equity securities (27% for large capitalization United States equity securities, 4% for mid-capitalization equity securities, 10% for small capitalization United States equity securities and 14% for international equity securities). Equity securities do not include any of the Company's common stock. No contributions were made to the Plan during the years ended December 31, 2013 and 2012. The Company does not expect to make any required or discretionary contributions to the Plan during the year ending December 31, 2014.

MGM Savings Plan. The Company also provides each of its employees, including its officers, the opportunity to participate in the MGM Savings Plan (the "Savings Plan"), a defined contribution plan. The Company makes matching contributions, on a monthly basis, up to 100% of the first 4% of the participant's basic earnings on a pre- and after-tax basis up to a maximum of $3,000 per participant per plan year. Contributions to the Savings Plan totaled $0.5 million during the year ended December 31, 2013. Contributions made to the Savings Plan were immaterial during the year ended December 31, 2012.

Multi-Employer Pension Plans. The Company contributes to various multi-employer defined benefit pension plans under the terms of collective-bargaining agreements that cover certain of its union-represented production employees. The risks of participating in these multi-employer pension plans are different from single-employer pension plans such that (a) contributions made by the Company to the multi-employer pension plans may be used to provide benefits to employees of other participating employers; (b) if the Company chooses to stop participating in certain of these multi-employer pension plans, it may be required to pay those plans an amount based on the underfunded status of the plan, which is referred to as its withdrawal liability; and (c) actions taken by a participating employer that lead to a deterioration of the financial health of a multi-employer pension plan may result in the unfunded obligations of the multi-employer pension plan to be borne by its remaining participating employers. None of the multi-employer pension plans contributed to by the Company are individually significant to the Company, nor was the Company listed in the Form 5500 of any plan as providing more than 5% of total contributions based on the current information available. As of the most recent available funded status, all of the plans in which the Company contributes are at least 80% funded, except one that is less than 65% funded. Aggregate contributions to these plans totaled $8.3 million and $7.1 million during the years ended December 31, 2013 and 2012, respectively.

Note 13—Other Comprehensive Income (Loss)

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

	Unrealized Gain (Loss) on Securities	Unrealized Gain (Loss) on Derivative Instruments	Retirement Plan Adjustments	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2012	$ 16	$ –	$ (3,653)	$ (943)	$ (4,580)
Current period comprehensive income	43	(1,674)	(114)	622	(1,123)
Income tax effect	(16)	611	(46)	(248)	301
Balance, December 31, 2012	43	(1,063)	(3,813)	(569)	(5,402)
Current period comprehensive income	**(3)**	**1,788**	**6,001**	**1,024**	**8,810**
Income tax effect	**1**	**(652)**	**(2,190)**	**(952)**	**(3,793)**
Balance, December 31, 2013	**$ 41**	**$ 73**	**$ (2)**	**$ (497)**	**$ (385)**

The Company made immaterial reclassifications out of accumulated other comprehensive loss and into earnings during the years ended December 31, 2013 and 2012.

Note 14—Related-Party Transactions

The Company has equity interests in certain television ventures located in the United States and various international territories to which the Company licenses feature films and television content produced or distributed by the Company. Aggregate license fees under these agreements of $73.3 million and $52.0 million were recognized as revenue during the years ended December 31, 2013 and 2012, respectively.

During the year ended December 31, 2012, the Company entered into an agreement with a stockholder, Spyglass Entertainment Holdings LLC, for certain foreign television distribution rights to *The Vow* for a period of 15 years. As part of the distribution agreement, the Company retains a distribution fee and has the right to recoup any distribution costs incurred. Such agreement did not have a material impact on the Company's consolidated balance sheets and statements of income during the years ended December 31, 2013 and 2012.

In October 2012, the Company entered into a production transition agreement with Roger Birnbaum, pursuant to which, among other things, Mr. Birnbaum resigned as Co-Chief Executive Officer of MGM Holdings and as Co-Chairman and Chief Executive Officer of MGM. Concurrently therewith, the Company entered into a producer agreement with Mr. Birnbaum pursuant to which he will render exclusive development and production services to the Company, subject to certain exceptions, through December 31, 2014. Such agreements did not have a material impact on the Company's consolidated balance sheets and statements of income during the years ended December 31, 2013 and 2012.

Note 15—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 December 31, 2013, for which an outcome is probable and reasonably estimable. Management believes that the outcome of any pending claim or legal proceeding in which the Company is currently involved will not materially affect the Company's consolidated financial statements.

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

Leases. The Company has operating leases for offices and equipment through 2026. Certain property leases include provisions for increases over base year rents as well as for escalation clauses for maintenance and other building operations. Rent expense was approximately $6.3 million and $6.7 million during the years ended December 31, 2013 and 2012, respectively.

Other Commitments. The Company has various other commitments entered into in the ordinary course of business relating to operating leases for equipment and contractual obligations under co-production arrangements. Where necessary, the Company has provided an accrual for such amounts as of December 31, 2013.

Future minimum cash commitments under bank debt agreements, creative talent and employment agreements, non-cancelable operating leases net of subleasing income and other contractual obligations at December 31, 2013 were as follows (in thousands):

	Year Ended December 31						
	2014	2015	2016	2017	2018	Thereafter	Total
Bank debt[1]	$ –	$ –	$ –	$ 105,000	$ –	$ –	$ 105,000
Creative talent and employment agreements[2]	58,660	11,925	6,778	2,582	–	–	79,945
Operating leases	6,695	7,632	7,271	8,735	8,522	34,327	73,182
Other contractual obligations[3]	19,202	4,397	958	–	–	–	24,557
	$ 84,557	$ 23,954	$ 15,007	$ 116,317	$ 8,522	$ 34,327	$ 282,684

(1) Excludes 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 the Company's acquisition of film and distribution rights. Future payments under these commitments are based on anticipated delivery or availability dates of the related film or contractual due dates of the commitment.

Note 15—Commitments and Contingencies (Continued)

The Company has a $665.0 million Revolving Credit Facility, and, at December 31, 2013, borrowings totaled $105.0 million, there were no outstanding letters of credit against the Revolving Credit Facility and all remaining funds were entirely available to the Company (see Note 7).

Note 16—Supplementary Cash Flow Information

The Company paid interest of $7.7 million during each of the years ended December 31, 2013 and 2012. The Company paid taxes, primarily foreign remittance taxes, of $31.7 million and $12.7 million during the years ended December 31, 2013 and 2012, respectively.

Note 17—Sale of Long-Lived Assets

In July 2012, MGM Studios sold MGM Networks to Chellomedia. Prior to the sale, MGM Networks was a wholly-owned subsidiary of MGM Studios. The sale included substantially all of the Company's MGM-branded television channel operations and included its equity investments in the MGM channel in Latin America and Central Europe. In addition, the Company entered into a long-term programming and trademark license agreement with Chellomedia for these channels and, therefore the Company will continue to generate revenue from these channels.

The Company accounted for the sale of MGM Networks as a disposal of long-lived assets as opposed to discontinued operations as a result of the continuing revenue that the Company receives from the long-term programming and trademark licensing agreement. The Company recorded a non-recurring pre-tax gain of $48.5 million on the sale, which is included in other income in the consolidated statement of income for the year ended December 31, 2012. Separately, content and trademark license fees received from Chellomedia are recognized as revenue when earned.