MGM HOLDINGS INC.

For the quarter ended September 30, 2017

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

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Forward-Looking Statements

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

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

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

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

Company Background and Business Overview

Overview

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

We have historically generated revenue from the exploitation of our content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets. We also generate revenue from the licensing of our content and intellectual property rights for use in consumer products and interactive games, as well as various other licensing activities. Our operations include the development, production and financing of feature films and television content and the worldwide distribution of entertainment content primarily through television and digital distribution. In addition, we currently own or hold interests in MGM-branded channels in the United States (“U.S.”), as well as interests in pay television networks in the U.S. and Brazil. In May 2017, we acquired Epix Entertainment LLC (formerly Studio 3 Partners, LLC), which owns and operates Epix, a premium pay television network delivering the latest movie releases, classic film franchises, original series, documentaries, comedy specials and music events on television, through on-demand services and via multiple devices. Epix is available through cable, satellite and telecommunications multichannel television providers and digital distributors as a linear television, video-on-demand and “TV Everywhere” service, and is currently available in the U.S., Puerto Rico and Bermuda. Epix also licenses content to subscription video-on-demand (“SVOD”) operators.

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

Business

Business segment structure

On May 11, 2017, we acquired Epix Entertainment LLC (formerly Studio 3 Partners, LLC), which owns and operates Epix, a premium pay television network. Following the acquisition, we reorganized our business segment structure to report our operating results in three business segments: (1) Film Content, (2) Television Content and (3) Media Networks. The Film Content segment is similar to the previously reported segment, and now also includes certain of our ancillary businesses (discussed below) that were historically reported as part of the prior Ancillary Businesses segment. The Television Content segment is unchanged from the previously reported segment. The Media Networks segment is new and consists of Epix and our wholly-owned and joint venture broadcast and cable networks, which currently include an MGM-branded channel in the U.S., MGM HD, an action-oriented VOD service, Impact, and several multicast networks including ThisTV, Comet TV, LightTV and Charge!.

Production of film and television content

<u>*Film Content*</u>. We are involved in the development and production of film content, and for certain films, we participate with third parties through co-production arrangements to produce, co-finance and distribute our content, as well as content developed by our partners. We have several feature films in various stages of development, production and post-production, including, but not limited to, the 25th installment of the *James Bond* franchise, *Bad Trip*, *Creed 2*, *Death Wish*, *Deeper*, *Every Day*, *Fighting with My Family*, *I Am Pilgrim*, *Nasty Women*, *Operation Finale*, *Overboard*, *Sherlock Gnomes*, *Tomb Raider* and *Valley Girl*.

<u>*Television Content*</u>. We have several successful scripted television series and unscripted television shows that we are producing and/or distributing.

Scripted series. We control distribution rights on a worldwide basis (excluding Canada) to the television series *Vikings*. Season 4 of *Vikings* received three Emmy nominations in 2017, and the upcoming 20-episode fifth season of *Vikings* is expected to premiere on History on November 29, 2017. History has already renewed the series for a 20-episode sixth season, which is currently in production. *Fargo* completed its third season on FX in June 2017 and subsequently earned 16 Emmy nominations and won an Emmy award. The first two seasons of *Fargo* aired in 2014 and 2015, respectively, and received numerous awards, including the Emmy award for Outstanding Miniseries and the Golden Globe award for Best Mini-Series for the first season. *The Handmaid's Tale* completed its first season on Hulu in June 2017 and received 13 Emmy nominations, winning an incredible eight Emmy awards, including Outstanding Drama Series. Hulu renewed *The Handmaid's Tale* for a second season that is currently in production. *Teen Wolf*, which we co-produced with an affiliate of MTV Networks, completed its sixth and final season in September 2017. In addition, *Get Shorty* completed its first season on Epix in October 2017 and was renewed for a second season. We are also in production on *The Truth About the Harry Quebert Affair*, a 10-episode limited series that will air in the U.S. on Epix, and we are in post-production on *Condor* for AT&T's Audience Network. We also have several other internally-developed scripted television series in advanced stages of development and production that we expect to deliver in future periods, including, but not limited to, a musical bio-series based on the life of Mexican superstar Luis Miguel, which will air in the U.S. on Telemundo and on Netflix in Latin America and Spain.

Unscripted shows. We have numerous successful and enduring unscripted television shows that we are currently producing. *The Voice* completed its 12th season on NBC in the second quarter of 2017 and received the Emmy award for Outstanding Reality-Competition Program. NBC renewed the show for a 13th season, which premiered on September 25, 2017 and the 14th season has already been announced. *Survivor* aired its 500th episode with the premiere of its 34th season in March 2017, recently premiered its 35th season on September 27, 2017 and is in post-production on its 36th season. *Shark Tank* was renewed for a 9th season that premiered on October 1, 2017. *Lucha Underground* completed its third season on October 18, 2017. Our new shows, *Steve Harvey's Funderdome,* which is a business competition show for ABC, and *Beat Shazam*, an interactive music game show for Fox hosted by Jamie Foxx, began airing in the second quarter of 2017. Based on its strong viewership, Fox renewed *Beat Shazam* for a second season. We also delivered our new hip-hop music competition show, *Signed*, to VH1 during the second quarter of 2017, and VH1 began airing the show on July 26, 2017. In September, we also premiered season 5 of *Lauren Lake's Paternity Court* and debuted season 1 of *Couples Court with The Cutlers*, a nationally syndicated courtroom show focused on couples in crisis. In addition, we have a robust slate of unscripted television content in various stages of development and production that we expect to deliver in future periods.

Following our acquisition of the assets of Evolution Film & Tape, Inc. ("Evolution") in July 2017, we have further expanded our television production with the addition of successful unscripted shows, including, but not limited to, *The Real Housewives of Orange County* (currently airing its 12th season), *The Real Housewives of Beverly Hills* (currently filming its 8th season) and *Vanderpump Rules* (renewed for a 6th season) for Bravo, as well as *Botched*, which recently completed its 4th season on the E! network. Evolution's new show, *Jax & Brittany Take Kentucky*, debuted on Bravo on August 23, 2017. Evolution has several additional projects in various stages of development that we expect to deliver in future periods.

<u>*Digital Content*</u>. We are involved in the development and production of short-form, mid-form and long-form content, and have several projects in various stages of development and production. This includes, but is not limited to, a mid-form original series entitled *Stargate Origins*, which we are producing with New Form Digital and expect to premiere on our Stargate Command platform launching later in 2017.

Distribution of film and television content

Theatrical Distribution

In October 2017, together with Annapurna Releasing, LLC ("Annapurna"), we formed a joint venture that will control and finance the U.S. theatrical marketing and distribution of certain MGM and Annapurna films. Each partner's qualifying films will be distributed by the joint venture under their respective banners, while third party films will be distributed under the banner "Mirror Releasing." Refer to *Joint Ventures* below for further discussion.

In addition, in September 2017, we announced the re-launch of Orion Pictures as our in-house theatrical marketing and distribution company that will control and finance the U.S theatrical marketing and distribution of a slate of modestly budgeted MGM-produced and acquired films. The next film to be released under the Orion Pictures label will be *Every Day* on April 27, 2018.

For films that are theatrically distributed in the U.S. by our new joint venture or Orion Pictures, we will utilize the services of other distributors to theatrically release our films outside of the U.S.

We also participate with third parties in various arrangements to distribute feature films theatrically. These arrangements allow us to distribute new releases by utilizing third parties to book theaters and execute marketing campaigns and promotions in return for distribution fees. While third parties provide theatrical distribution services on a film-by-film basis, we often have significant involvement in the decision process regarding key elements of distribution, such as the creation of marketing campaigns and the timing of the film release schedule, allowing our experienced management team to provide key input in the critical marketing and distribution strategies while avoiding the high fixed-cost infrastructure required for physical distribution. Generally, our co-production partner provides worldwide theatrical distribution services and for certain films in certain territories we utilize the services of other distributors.

Television Distribution

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

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

Home Entertainment Distribution

Home entertainment distribution includes the sales, marketing and promotion of content for physical distribution (DVD and Blu-ray discs) and electronic sell-through ("EST"). Fox Home Entertainment ("Fox") provides our physical home entertainment distribution on a worldwide basis (excluding certain territories) for a substantial number of our feature films and television content, including *Spectre*, *Skyfall*, *The Belko Experiment*, *Carrie*, *RoboCop*, *If I Stay*, *Vikings*, *Teen Wolf* and *A.D. The Bible Continues*, as well as certain of our EST distribution rights for our feature film and television content. Our agreement with Fox expires on June 30, 2020. In addition, for certain of our films, our co-production partners control physical home entertainment distribution rights. For example, Sony Pictures Entertainment, Inc. ("Sony") is the physical home entertainment distributor for films in the *21 Jump Street* franchise and *The Magnificent Seven*; Warner Bros. Entertainment Inc. is the physical home entertainment distributor for *The Hobbit* trilogy, *Creed*, *Max*, *Max 2*, *Me Before You* and *Everything, Everything*; 20th Century Fox is the physical home entertainment distributor for *Poltergeist*; and Paramount Pictures Corporation ("Paramount") is the physical home entertainment distributor for *Ben-Hur* and *Hot Tub Time Machine 2*. EST distribution rights for these and other co-financed films may be controlled by us or our partners depending on the terms of the applicable co-financing and distribution agreement.

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

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

Ancillary Businesses

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

We also control music publishing rights to various compositions featured in our film and television content, as well as the soundtrack, master use and synchronization licensing rights to many properties. We exploit these rights through third-party licensing of publishing, soundtrack, master use and synchronization rights, and have an agreement with Sony/ATV under which Sony/ATV administers much of this licensing.

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

Media Networks

We distribute feature films and television content to audiences in the U.S. and certain international territories through our wholly-owned and joint venture television channels. Currently, we own and operate Epix, a premium pay television network delivering the latest movie releases, classic film franchises, original series, documentaries, comedy specials and music events on television, through on-demand services and via multiple devices. Epix is available through cable, satellite and telecommunications multichannel television providers and digital distributors as a linear television, video-on-demand and "TV Everywhere" service, and is currently available in the U.S., Puerto Rico and Bermuda. Epix also licenses content to subscription video-on-demand ("SVOD") operators.

We also own and operate an MGM-branded channel in the U.S., MGM HD, and an action-oriented VOD service, Impact, which has approximately 13 million subscribers in the U.S. and was recently launched domestically on PlayStation Vue. We also own and/or operate several multicast networks including ThisTV, Comet TV, LightTV and Charge!. ThisTV is a top performing free multicast movie network cleared in 80% of the U.S. and reaching approximately 92 million households. Comet TV is a sci-fi-oriented domestic multicast network that we launched in October 2015, together with Sinclair Broadcasting, and that features MGM content. Comet TV is cleared in 81% of the country and reaches approximately 93 million households. In December 2016, together with Fox Television Stations Group, we launched LightTV, a multicast network focused on faith and family-oriented content. LightTV is cleared in 52% of the country and reaches approximately 60 million households. In March 2017, together with Sinclair Broadcasting, we launched Charge!, a free action/adventure-oriented multicast network, which is cleared in 63% of the country and reaches approximately 72 million households. We continue to seek and evaluate additional opportunities to create new channels or expand our existing channels.

Joint Ventures

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

Epix Entertainment LLC (Epix). In May 2017, we acquired Epix Entertainment LLC (formerly Studio 3 Partners, LLC), which was previously a joint venture with Viacom Inc. ("Viacom"), Paramount and Lions Gate Entertainment Corp ("Lionsgate"). Prior to May 2017, we had a 19.09% equity investment in Epix Entertainment LLC. Epix Entertainment LLC operates Epix, a premium pay television channel that licenses first-run films, select library features and television content from these studios as well as other content providers, and began airing original scripted series in the fourth quarter of 2016. As part of the acquisition transaction, Paramount and Lionsgate will continue to provide their first-run theatrical releases to Epix under multi-year agreements.

For financial reporting purposes, beginning May 11, 2017 we have consolidated 100% of the revenue, expenses and net assets of Epix. Through May 10, 2017 we continued to record our 19.09% share of the net income of Epix using the equity method of accounting. Dividends received from Epix through May 10, 2017 were recorded against investments in affiliates in the consolidated balance sheet and included in undistributed earnings of affiliates in cash flow from operating activities in the consolidated statement of cash flow.

The following table summarizes (i) MGM's share of the net income of Epix and (ii) the adjustment related to MGM profits recorded on content licenses to Epix for the period from January 1 to May 10, 2017 and the nine months ended September 30, 2016 (in thousands).

	Period from January 1 to May 10, 2017	Nine Months Ended September 30, 2016	Change Amount	Change Percent
MGM share of Epix net income	$ 7,733	$ 23,786	$ (16,053)	-67%
Adjustment for profits on content licenses to Epix	(585)	(488)	(97)	-20%
MGM equity income	$ 7,148	$ 23,298	$ (16,150)	-69%
Cash dividends received from Epix	$ 14,318	$ -	$ 14,318	NA

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

Cost Method Investments. Equity in net earnings of affiliates in our consolidated statements of income for the nine month periods ended September 30, 2017 and 2016 included $3.2 million and $1.9 million, respectively, of dividend income from cost method investments.

Corporate Information

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

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

At September 30, 2017, 46,004,816 shares of Class A common stock, par value $0.01 per share were outstanding. The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust. Contact and additional information regarding Continental Stock Transfer & Trust can be found at www.continentalstock.com.

Facilities

We lease approximately 151,000 square feet of office space, plus related parking and storage facilities, for our corporate headquarters in Beverly Hills, California under a lease that expires in 2026. We also lease approximately 50,000 square feet of office space in New York, New York that is primarily used for Epix and our TV syndication group, 26,000 square feet of office space in Burbank, California that is used for Evolution, and approximately 17,000 square feet of office space in Culver City, California that is primarily used for our MGM channels related business activities. In addition, we have television distribution offices in London, Sydney and Toronto. On occasion, we may lease studio facilities, stages and other space from unaffiliated parties. Such leases are generally on an as-needed basis in connection with the production of various film, television and other projects.

Chief Executive Officer and the Board of Directors

Gary Barber is the Chairman and Chief Executive Officer of MGM Inc. and a member of the Board of Directors of MGM Holdings (the "Board"). The other members of the Board are Kevin Ulrich (Chairman), Ann Mather (Lead Director), James Dondero, David Krane, Fredric Reynolds and Nancy Tellem. As of September 30, 2017, Anchorage Capital Partners, Highland Capital Partners and Solus Alternative Asset Management each individually, or together with their respective affiliated entities, owned more than 10% of the issued and outstanding shares of common stock of MGM Holdings. Anchorage Capital Partners and Highland Capital Partners each have a designee on the Board, Kevin Ulrich and James Dondero, respectively.

Affiliation with a Broker-Dealer

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

MGM Holdings Inc.

Consolidated Balance Sheets

(Unaudited, in thousands, except share data)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 149,246**	$ 120,353
Accounts receivable, net	**313,266**	337,015
Prepaid program rights	**1,101**	–
Program rights, net	**212,934**	–
Other current assets	**21,782**	22,450
Total current assets	**698,329**	479,818
Noncurrent assets:		
Accounts receivable, net	**135,179**	136,456
Prepaid program rights	**1,459**	–
Film and television costs and program rights, net	**1,618,289**	1,303,615
Investments in affiliates	**28,874**	150,781
Property and equipment, net	**18,189**	12,146
Goodwill	**838,654**	441,604
Other non-content intangible assets, net	**548,701**	240,044
Other assets	**15,705**	15,036
Total noncurrent assets	**3,205,050**	2,299,682
Total assets	**$ 3,903,379**	$ 2,779,500
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 126,052**	$ 95,421
Accrued participants' share	**62,277**	66,379
Current income taxes payable	**74,274**	19
Program obligations	**87,773**	–
Corporate debt	**21,250**	–
Advances and deferred revenue	**103,614**	135,340
Other current liabilities	**1,697**	1,694
Total current liabilities	**476,937**	298,853
Noncurrent liabilities:		
Accrued liabilities	**32,123**	8,658
Accrued participants' share	**216,233**	245,569
Deferred income taxes payable	**375,545**	486,219
Program obligations	**2,653**	–
Corporate debt	**946,450**	200,000
Advances and deferred revenue	**13,432**	16,434
Other liabilities	**30,110**	29,825
Total noncurrent liabilities	**1,616,546**	986,705
Total liabilities	**2,093,483**	1,285,558
Commitments and contingencies		
Equity:		
Class A common stock, $0.01 par value, 110,000,000 shares authorized, 76,411,783 and 76,365,783 shares issued, respectively, and 46,004,816 and 45,958,816 shares outstanding, respectively	**764**	764
Additional paid-in capital	**2,102,153**	2,093,841
Retained earnings	**1,161,967**	856,922
Accumulated other comprehensive loss	**(1,813)**	(3,522)
Treasury stock, at cost, 30,406,967 shares	**(1,453,294)**	(1,453,294)
Total MGM Holdings Inc. stockholders' equity	**1,809,777**	1,494,711
Noncontrolling interests	**119**	(769)
Total equity	**1,809,896**	1,493,942
Total liabilities and equity	**$ 3,903,379**	$ 2,779,500

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

MGM Holdings Inc.

Consolidated Statements of Income

(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenue	**$ 267,742**	$ 298,743	**$ 856,842**	$ 881,677
Expenses:				
Operating	**135,164**	229,348	**501,607**	562,936
Distribution and marketing	**23,881**	11,749	**49,607**	58,269
General and administrative	**48,819**	32,159	**122,617**	93,013
Depreciation and non-content amortization	**13,183**	8,793	**32,755**	26,498
Total expenses	**221,047**	282,049	**706,586**	740,716
Operating income	**46,695**	16,694	**150,256**	140,961
Other income:				
Equity in net earnings of affiliates	**33**	4,048	**17,639**	26,160
Gain on acquisition	**–**	–	**123,587**	7,306
Loss on extinguishment of debt	**–**	–	**–**	(6,017)
Interest expense:				
Contractual interest expense	**(9,012)**	(2,267)	**(17,169)**	(12,552)
Amortization of deferred financing costs and other interest costs	**(992)**	(708)	**(2,683)**	(2,367)
Interest income	**938**	919	**3,206**	2,923
Other income, net	**435**	412	**452**	351
Total other income (loss)	**(8,598)**	2,404	**125,032**	15,804
Income before income taxes	**38,097**	19,098	**275,288**	156,765
Income tax benefit (provision)	**76,086**	(7,015)	**30,224**	(54,664)
Net income	**114,183**	12,083	**305,512**	102,101
Add: Net (income) loss attributable to noncontrolling interests	**(1,426)**	323	**(467)**	323
Net income attributable to MGM Holdings Inc.	**$ 112,757**	$ 12,406	**$ 305,045**	$ 102,424

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

MGM Holdings Inc.

Consolidated Statements of Comprehensive Income

(Unaudited, in thousands)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net income	**$ 114,183**	$ 12,083	**$ 305,512**	$ 102,101
Other comprehensive income, net of tax:				
Unrealized gain (loss) on derivative instruments	**1,705**	(360)	**1,864**	267
Retirement plan adjustments	**16**	25	**47**	77
Foreign currency translation adjustments	**159**	207	**(202)**	(177)
Other comprehensive income (loss)	**1,880**	(128)	**1,709**	167
Add: Comprehensive (income) loss attributable to noncontrolling interests	**(1,426)**	323	**(467)**	323
Comprehensive income attributable to MGM Holdings Inc.	**$ 114,637**	$ 12,278	**$ 306,754**	$ 102,591

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

MGM Holdings Inc.

Consolidated Statement of Equity

(Unaudited, in thousands, except share data)

	MGM Holdings Inc. Stockholders'								
	Common Stock Class A Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	MGM Holdings Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2017	45,958,816	$ 764	$ 2,093,841	$ 856,922	$ (3,522)	$ (1,453,294)	$ 1,494,711	$ (769)	$ 1,493,942
Issuance of common stock	**46,000**	**–**	**2,100**	**–**	**–**	**–**	**2,100**	**–**	**2,100**
Stock-based compensation expense	**–**	**–**	**7,454**	**–**	**–**	**–**	**7,454**	**–**	**7,454**
Acquisition of noncontrolling interests	**–**	**–**	**(1,242)**	**–**	**–**	**–**	**(1,242)**	**421**	**(821)**
Net income	**–**	**–**	**–**	**305,045**	**–**	**–**	**305,045**	**467**	**305,512**
Other comprehensive income	**–**	**–**	**–**	**–**	**1,709**	**–**	**1,709**	**–**	**1,709**
Balance, September 30, 2017	**46,004,816**	**$ 764**	**$ 2,102,153**	**$ 1,161,967**	**$ (1,813)**	**$ (1,453,294)**	**$ 1,809,777**	**$ 119**	**$ 1,809,896**

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

MGM Holdings Inc.

Consolidated Statements of Cash Flows

(Unaudited, in thousands)

	Nine Months Ended September 30, 2017	2016
Operating activities		
Net income	**$ 305,512**	$ 102,101
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to film and television costs and program rights, net	**(397,633)**	(139,024)
Amortization of film and television costs and program rights	**323,545**	315,738
Depreciation and non-content amortization	**32,755**	26,498
Amortization of deferred financing costs	**2,680**	2,367
Stock-based compensation expense	**7,454**	10,120
Provision for doubtful accounts	**7,145**	(2,922)
Change in fair value of financial instruments	**(388)**	(578)
Undistributed earnings of affiliates	**(54)**	(23,568)
Gain on acquisition	**(123,587)**	(7,306)
Loss on extinguishment of debt	**–**	6,017
Other non-cash expenses	**74**	119
Changes in operating assets and liabilities:		
Accounts receivable, net	**39,191**	180,674
Prepaid program rights	**10,104**	–
Other assets	**(743)**	(368)
Accounts payable, accrued and other liabilities	**(10,091)**	(17,066)
Accrued participants' share	**(33,438)**	(39,024)
Current and deferred income taxes payable	**(47,890)**	29,092
Advances and deferred revenue	**7,564**	44,596
Net cash provided by operating activities	**122,200**	487,466
Investing activities		
Acquisition of Epix (net of $116.2 million of cash acquired)	**(854,761)**	–
Acquisition of Evolution (net of $6.1 million of cash acquired)	**(17,886)**	–
Acquisition of UAMG (net of $39.8 million of cash acquired)	**–**	(73,705)
Investments in affiliates	**(4,000)**	(15,400)
Sale of investment	**20,468**	1,144
Additions to property and equipment	**(4,539)**	(1,236)
Net cash used in investing activities	**(860,718)**	(89,197)
Financing activities		
Term Loan borrowings	**850,000**	–
Repayment of Term Loan, including $3.0 million call premium	**–**	(303,000)
Additions to Revolving Credit Facility	**245,000**	210,000
Repayments of Revolving Credit Facility	**(322,000)**	(50,000)
Issuance of common stock	**2,100**	2,080
Purchase of treasury stock	**–**	(445,798)
Deferred financing costs	**(7,543)**	(10,314)
Acquisition of noncontrolling interests	**(821)**	–
Net cash provided by (used in) financing activities	**766,736**	(597,032)
Net change in cash and cash equivalents from operating, investing and financing activities	**28,218**	(198,763)
Net change in cash due to foreign currency fluctuations	**675**	375
Net change in cash and cash equivalents	**28,893**	(198,388)
Cash and cash equivalents at beginning of period	**120,353**	319,283
Cash and cash equivalents at end of period	**$ 149,246**	$ 120,895

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

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Nine Months Ended September 30, 2017 and 2016

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

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

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

In May 2017, the Company acquired Epix Entertainment LLC (formerly Studio 3 Partners, LLC), which owns and operates Epix, a premium pay television network delivering the latest movie releases, classic film franchises, original series, documentaries, comedy specials and music events on television, through on demand services and via multiple devices (see Note 2). Epix is available through cable, satellite and telecommunications multichannel television providers and digital distributors as a linear television, video-on-demand and "TV Everywhere" service, and is currently available in the U.S., Puerto Rico and Bermuda. Epix also licenses content to subscription video-on-demand ("SVOD") operators. The Company also owns or holds interests in MGM-branded channels in the United States ("U.S."), as well as interests in pay television channels in the United States and Brazil.

Basis of Presentation and Principles of Consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial statements. Accordingly, these financial statements do not include certain information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments necessary for a fair presentation of these financial statements. The balance sheet at December 31, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2016.

Certain amounts presented in prior periods have been reclassified to conform to current period presentation. Historically, the Company has presented unclassified balance sheets as permitted by the accounting guidance for producers and distributors of filmed entertainment. As a result of its acquisition of Epix (see Note 2), the Company is now presenting a classified balance sheet for the combined businesses, and accordingly certain reclassification adjustments have been made to present an unaudited condensed consolidated classified balance sheet at December 31, 2016. Furthermore, certain additional reclassifications have been made to amounts reported in operating and general and administrative expenses in the unaudited condensed consolidated statements of income to conform to current presentation following the acquisition of Epix.

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

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

In the ordinary course of business, the Company enters into various types of intercompany transactions including, but not limited to, the licensing of the Company's film and/or television content to the Company's media networks, including Epix. Intercompany licensing revenue, programming cost amortization expense and the corresponding assets and liabilities recognized by the counterparties to these transactions are eliminated in consolidation and, therefore, do not affect the Company's unaudited condensed consolidated financial statements. The Company's investments in affiliates, over which the Company has significant influence but not control, are accounted for using the equity method (see Note 7).

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

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

Allowance for Doubtful Accounts. The Company determines its allowance by monitoring its delinquent accounts and estimating a reserve based on contractual terms and other customer-specific issues. Additionally, the Company records a general reserve against all customer receivables not reviewed on a specific basis. The Company charges off its receivables against the allowance when the receivable is deemed uncollectible. At September 30, 2017 and December 31, 2016, allowance for doubtful accounts aggregated $14.8 million and $9.8 million, respectively.

Noncontrolling Interests. Net income attributable to noncontrolling interests during the three and nine months ended September 30, 2017 primarily reflects the reversal of amounts previously recorded for the noncontrolling interests' 35% share of LightWorkers Media OTT, LLC.

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

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

Subsequent Events. The Company evaluated, for potential recognition and disclosure, all activity and events that occurred through the date of issuance, November 13, 2017. Such review did not result in the identification of any subsequent events that would require recognition in the unaudited condensed consolidated financial statements or disclosure in the notes to these unaudited condensed consolidated financial statements.

New Accounting Pronouncements

Revenue Recognition. In May 2014, the Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board (“IASB”) issued Accounting Standard Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, which supersedes the provisions of Accounting Standards Codification (“ASC”) Topic 650, *Revenue Recognition*, and most industry specific guidance throughout the Industry Topics of the Codification. The underlying principal of ASU 2014-09 is that companies will recognize revenue to depict the transfer of goods or services to customers at an amount that the company expects to be entitled to in exchange for those goods or services. Companies can choose to apply the provisions of ASU 2014-09 using the full retrospective approach or a modified approach, where financial statements will be prepared for the year of adoption using the new standard but prior periods will not be adjusted. Under the modified approach, companies will recognize the cumulative effect of applying the new standard at the date of initial application. ASU 2014-09 will be effective for the Company for the annual period ended December 31, 2019 and for interim and annual periods thereafter, with early adoption permitted no earlier than the period beginning January 1, 2017. The Company expects that the new standard will impact the timing of recognition for revenue associated with renewals or extensions of existing content licensing agreements, which upon adoption will be recognized as revenue when the licensed content becomes available under the renewal or extension instead of when the agreement is renewed or extended. The Company is in the process of determining the method of adoption, as well as quantifying the impact that the new standard will have on its consolidated financial statements.

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

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

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

Stock Compensation. In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify various aspects of how share-based payments are accounted for and presented in the financial statements. ASU 2016-09 will require companies to record all excess tax benefits and shortfalls through the statements of income instead of recording an adjustment to stockholders' equity. This change is required to be applied prospectively to all tax effects resulting from tax settlements after the date of adoption. ASU 2016-09 also requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Separately, ASU 2016-09 increases the current statutory tax withholding requirements that qualify for the exception of liability classification for shares used to satisfy an employer's statutory income tax obligation, among other things. ASU 2016-09 will be effective for the Company for the annual period ended December 31, 2018 and for interim and annual periods thereafter, with early adoption permitted. During the year ended December 31, 2016, the Company elected to early adopt ASU 2016-09 as of January 1, 2016, which resulted in the reclassification of \$3.9 million of excess tax benefits from stockholders' equity to income tax provision during the three months ended March 31, 2016. During the three months ended September 30, 2016, \$2.2 million of excess tax benefits were recorded to income tax provision.

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

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

Intangibles–Goodwill and Other. In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Under the current guidance, companies perform a two-step impairment test for goodwill: if the fair value of a reporting unit is less than the carrying amount (Step 1), the impairment charge is calculated by comparing the implied fair value of goodwill with the carrying amount (Step 2). The implied fair value of goodwill is calculated by deducting the fair value of all assets and liabilities of the reporting unit from the reporting unit's fair value as determined in Step 1. The new guidance eliminates Step 2 from the goodwill impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. Companies are still able to perform the optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. ASU 2017-04 will be effective for the Company on January 1, 2022, with early adoption permitted. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

Compensation–Retirement Benefits. In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which will change how employers that sponsor defined benefit pension plans present the net periodic benefit cost in the income statement. Under the new guidance, employers will present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during that period. Employers will present the other components of net periodic benefit cost separately from the line item that includes the service cost. ASU 2017-07 will be effective for the Company for the annual period ended December 31, 2019 and for interim and annual periods thereafter, with early adoption permitted. The Company does not expect the new standard to have a material impact on its consolidated financial statements.

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

Note 2—Acquisition of Epix

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

Beginning May 11, 2017, the Company has consolidated 100% of the revenue, expenses and net assets of Epix. In accordance with ASC Topic 805, the acquisition was accounted for as a "business combination achieved in stages." Accordingly, the Company was required to remeasure the carrying amount of its investment in Epix and adjust it to fair value. Based on the fair value of $1.2 billion for 100% of the membership interests of Epix as of the acquisition date, the Company recognized a nontaxable accounting remeasurement gain of $123.6 million. This gain represented the amount by which the fair value of the Company's 19.09% interest in Epix of $229.1 million exceeded the carrying amount of the Company's investment of $105.5 million immediately prior to the acquisition date. The Company recorded this gain in other income in the unaudited condensed consolidated statement of income for the nine months ended September 30, 2017.

Preliminary estimates of the fair values of the net assets of Epix were determined using a combination of methodologies, as appropriate, depending on the type of asset acquired or liability assumed. Cash and cash equivalents, other assets and accounts payable and accrued liabilities were valued at book value since their respective carrying value approximated fair value. Content-specific net assets were valued primarily using Level 3 inputs, as defined in the fair value hierarchy, using a market-based approach to estimate the fair value of similar content. As a result, the Company recognized $373.1 million of goodwill, $287.1 million of which is expected to be deductible for income tax purposes, and $333.7 million of other identifiable intangible assets, of which $315.4 million will be amortized over an estimated useful life of 19 years, and $18.3 million of trade name related intangible assets were determined to have indefinite lives. Goodwill primarily reflects estimated future cash flows from the long-term growth of Epix, including expanded distribution across cable, satellite and digital platforms, direct-to-consumer opportunities, growth in original content and estimated revenue and cost synergies.

Note 2—Acquisition of Epix (Continued)

Transaction costs associated with the acquisition were immaterial and were expensed as incurred. The accounting purchase price of $1.2 billion was preliminarily allocated to the assets acquired and liabilities assumed in the acquisition as follows (in thousands):

	Amount
Cash and cash equivalents	$ 116,159
Accounts receivable	47,428
Program rights, net	446,344
Prepaid program rights	12,664
Prepaid expenses and other assets	1,819
Property and equipment, net	1,261
Goodwill and other non-content intangible assets	724,362
Total assets	1,350,037
Accounts payable and accrued expenses	51,029
Program rights	69,477
Deferred income taxes payable	9,517
Deferred revenue	20,014
Total liabilities	150,037
Equity value	$ 1,200,000

Note 3—Acquisition of Evolution

On July 15, 2017, the Company acquired substantially all of the assets of Evolution Film & Tape, Inc. (“Evolution”). Evolution has produced over 50 unscripted series, including *The Real Housewives of Orange County*, *The Real Housewives of Beverly Hills*, *Vanderpump Rules*, and *Botched*. As part of the acquisition, the Company paid $24.0 million in cash (or $17.9 million net after $6.1 million of cash acquired) and provided an earnout that is payable to the sellers at future measurement dates based on predefined performance targets. The Company recorded a contingent liability equal to the fair value of the earnout as of the acquisition date and will remeasure the carrying value of the contingent liability each reporting date. Any changes in the fair value of the contingent liability are classified within operating income in the unaudited condensed consolidated statements of income. Changes in the fair value of the contingent liability during the period from the acquisition date to September 30, 2017 were immaterial.

Note 3—Acquisition of Evolution (Continued)

For financial reporting purposes, beginning July 15, 2017, the Company has consolidated 100% of the revenue, expenses, and assets of Evolution. The Company did not assume any liabilities of Evolution that existed prior to the acquisition and, thus, did not record any historical liabilities at the acquisition date.

Preliminary estimates of the fair value of the net assets of Evolution were determined using a combination of methodologies, as appropriate, depending on the type of asset acquired. Such preliminary estimates of fair value are subject to revision as a more detailed analysis is completed. Cash and cash equivalents and other assets were valued at book value since their respective carrying value approximated fair value. Content-specific assets, including produced programming, were valued primarily using Level 3 inputs, as defined in the fair value hierarchy, including long-range cash flow projections and a discounted cash flow methodology using a discount rate based on a weighted-average cost of capital. As a result, the Company recorded purchase accounting adjustments to increase the carrying value of content-related assets to fair value, which were included in film and television costs on the unaudited condensed consolidated balance sheet at September 30, 2017. In addition, the Company recognized $24.0 million of goodwill, $14.4 million of which is expected to be deductible for income tax purposes, and $3.2 million of other identifiable intangible assets, all of which will be amortized over an estimated useful life of 3 years. Goodwill primarily reflects estimated future cash flows from the long-term growth of Evolution, the production of new unscripted television series, and estimated revenue and cost synergies.

Transaction costs associated with the acquisition were immaterial and were expensed as incurred. The accounting purchase price of $33.5 million was preliminarily allocated to the assets acquired in the acquisition as follows (in thousands):

	Amount
Cash and cash equivalents	$ 6,114
Property and equipment, net	4,721
Prepaid expenses and other assets	77
Film and television costs	1,537
Goodwill	23,960
Other non-content intangible assets	3,235
Total assets	39,644
Production obligations	3,778
Deferred revenue	2,336
Total liabilities	6,114
Equity value	$ 33,530

Note 4—Goodwill and Other Non-Content Intangible Assets

As of September 30, 2017, the Company had goodwill of $838.7 million and other non-content intangible assets totaling $548.7 million, net of accumulated amortization. Other non-content intangible assets of $488.4 million are subject to amortization, and consist primarily of certain carriage, licensing and production agreements with remaining useful lives ranging from 1 to 24 years. Additionally, aggregate trade name-related assets, valued at $60.3 million, were identified and determined to have indefinite lives. For the three month periods ended September 30, 2017 and 2016, the Company recorded amortization of identifiable intangible assets of $11.4 million and $7.2 million, respectively, and during the nine month periods ended September 30, 2017 and 2016, the Company recorded amortization of identifiable intangible assets of $28.3 million and $21.5 million, respectively. Amortization expense for other intangible assets is included in depreciation and non-content amortization in the unaudited condensed consolidated statements of income.

Note 5—Film and Television Costs and Program Rights

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

	September 30, 2017	December 31, 2016
Theatrical productions:		
Released	**$ 840,077**	$ 921,283
Completed not released	**1,502**	–
In production	**146,945**	77,470
In development	**20,405**	9,607
Total theatrical productions	**1,008,929**	1,008,360
Television programs:		
Released	**211,095**	137,763
In production	**82,593**	156,050
In development	**21,655**	1,442
Total television programs	**315,343**	295,255
Media networks:		
Licensed program rights	**506,951**	–
Film and television costs and program rights, net	**$ 1,831,223**	$ 1,303,615
Less: Current portion of licensed program rights	**(212,934)**	–
Noncurrent portion	**$ 1,618,289**	$ 1,303,615

Based on the Company's estimates of projected gross revenue as of September 30, 2017, approximately 19% of completed film and television costs, excluding licensed program rights, are expected to be amortized over the next 12 months. Approximately 81% of unamortized film and television costs for released titles, excluding costs accounted for as acquired film and television libraries and excluding licensed program rights, are expected to be amortized over the next three fiscal years.

As of September 30, 2017 and December 31, 2016, unamortized film and television costs accounted for as acquired film and television libraries were $0.8 billion. The Company's film and television costs accounted for as acquired film and television libraries are being amortized under the individual-film-forecast method in order to properly match the expected future revenue streams and have an average remaining life of approximately 8 years as of September 30, 2017.

Note 5—Film and Television Costs and Program Rights (Continued)

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

During the nine months ended September 30, 2016, the Company recorded $60.6 million of fair value adjustments to certain titles included in film and television costs. These fair value adjustments were included in operating expenses in the unaudited condensed consolidated statements of income. The estimated fair values were calculated using Level 3 inputs, as defined in the fair value hierarchy, including long-range projections of revenue, operating and distribution expenses, and a discounted cash flow methodology using discount rates based on a weighted-average cost of capital. No such fair value adjustments were recorded during the nine months ended September 30, 2017.

Note 6—Fair Value Measurements

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on: (i) observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), (ii) inputs other than quoted prices for similar assets or liabilities in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at September 30, 2017 (in thousands):

		Fair Value Measurements at September 30, 2017 Using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	**$ 138**	**$ 138**	**$ –**	**$ –**
Investments	**2,366**	**2,366**	–	–
Financial instruments	**3,055**	–	**3,055**	–
Liabilities:				
Financial instruments	**(136)**	–	**(136)**	–
Deferred compensation plans	**(2,241)**	**(2,241)**	–	–
Total	**$ 3,182**	**$ 263**	**$ 2,919**	**$ –**

The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at December 31, 2016 (in thousands):

		Fair Value Measurements at December 31, 2016 using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	$ 138	$ 138	$ –	$ –
Investments	500	500	–	–
Financial instruments	881	–	881	–
Liabilities:				
Deferred compensation plan	(500)	(500)	–	–
Total	$ 1,019	$ 138	$ 881	$ –

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.

Note 6—Fair Value Measurements (Continued)

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

Financial instruments at September 30, 2017 primarily reflect the fair value of outstanding interest rate swaps or similar arrangements with certain counterparties entered into by the Company to reduce its exposure to variable interest rates. The fair value of such interest rate swaps were included in other assets in the unaudited condensed consolidated balance sheet at September 30, 2017 and was determined using a market-based approach. The Company had no outstanding interest rate swap contracts at December 31, 2016.

The Company also had certain outstanding foreign currency exchange forward contracts, which were included in other liabilities and other assets at September 30, 2017 and December 31, 2016, respectively, in the unaudited condensed consolidated balance sheets. The fair value of these instruments was determined using a market-based approach.

Note 7—Investments in Affiliates

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

	September 30, 2017	December 31, 2016
Cost method investments	**$ 28,874**	$ 38,119
Equity method investments:		
Epix Entertainment LLC (“Epix”)	**–**	112,662
	$ 28,874	$ 150,781

Epix Entertainment LLC (Epix). In May 2017, the Company acquired Epix Entertainment LLC (formerly Studio 3 Partners, LLC), which was previously a joint venture with Viacom, Paramount and Lionsgate (see Note 2). Prior to May 2017, the Company had a 19.09% interest in Epix Entertainment LLC. The Company made no capital contributions to Epix during the nine month periods ended September 30, 2017 and 2016.

The Company did not record equity in net earnings of affiliates for Epix during the three months ended September 30, 2017 due to the acquisition in May 2017. Prior to May 2017, the Company did not consolidate Epix, but rather accounted for its investment in Epix under the equity method of accounting due to the significance of its voting rights. During the three months ended September 30, 2016, equity in net earnings of affiliates in the unaudited condensed consolidated statements of income included $4.0 million of earnings from the Company’s 19.09% interest in Epix. No significant amounts related to the Company’s share of profits on content licenses to Epix were eliminated during the three months ended September 30, 2016.

Note 7—Investments in Affiliates (Continued)

During the nine months ended September 30, 2017, equity in net earnings of affiliates in the unaudited condensed consolidated statements of income included $7.7 million of earnings from the Company's 19.09% interest in Epix, minus $0.6 million of eliminations related to the Company's share of profits on sales to Epix. During the nine months ended September 30, 2016, equity in net earnings of affiliates in the unaudited condensed consolidated statements of income included $23.8 million of earnings from the Company's 19.09% interest in Epix, minus $0.5 million of eliminations related to the Company's share of profits on sales to Epix. During the nine months ended September 30, 2017, the Company received $14.3 million in dividends from its investment in Epix. The Company did not receive any dividends from its investment in Epix during the nine months ended September 30, 2016.

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

Cost Method Investments. No dividend income was received from the Company's cost method investments during the three month periods ended September 30, 2017 and 2016. During the nine month periods ended September 30, 2017 and 2016, the Company received $3.2 million and $1.9 million, respectively, of dividend income from cost method investments. Such amounts were included in equity in net earnings of affiliates in the unaudited condensed consolidated statements of income.

Note 8—Property and Equipment

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

	September 30, 2017	**December 31, 2016**
Furniture, fixtures and equipment	**$ 34,968**	$ 24,974
Leasehold improvements	**14,473**	14,086
	49,441	39,060
Less accumulated depreciation and non-content amortization	**(31,252)**	(26,914)
	$ 18,189	$ 12,146

Note 9—Corporate Debt

Corporate debt is summarized as follows (in thousands):

	September 30, 2017	December 31, 2016
Term loan	**$ 850,000**	$ –
Revolving credit facility	**123,000**	200,000
Deferred financing costs	**(5,300)**	–
	$ 967,700	$ 200,000
Less: Current portion	**(21,250)**	–
Noncurrent portion	**$ 946,450**	$ 200,000

Amended Credit Facility. In May 2017, and in connection with the Company's acquisition of Epix (see Note 2), the Company amended its $1.0 billion senior secured revolving credit facility (the "Revolving Credit Facility") to, among other things, add a senior secured term loan (the "Term Loan") (as amended, the "Credit Facility"). The Credit Facility has $1.0 billion of total revolving commitments (plus an incremental $250.0 million accordion feature) plus $850.0 million of Term Loan commitments. The Credit Facility has an interest rate of London Interbank Offered Rate ("LIBOR") plus 2.00% (all-in rate was 3.23% at September 30, 2017) and matures on May 11, 2022. Approximately 50% of the Term Loan bears interest at LIBOR plus 2.00%, while the remaining 50% bears interest at a fixed blended rate of 3.68% due to interest rate swap contracts outstanding at September 30, 2017 (see Note 9).

The Company incurred $1.7 million in fees and other costs related to the Revolving Credit Facility, which were deferred and included in other assets in the unaudited condensed consolidated balance sheets. Aggregate deferred financing costs of $13.3 million are being amortized over the term of the Revolving Credit Facility using the straight-line method. During each of the three month periods ended September 30, 2017 and 2016, the Company recorded interest expense for the amortization of deferred financing costs of $0.7 million, and during the nine month periods ended September 30, 2017 and 2016, the Company recorded interest expense of $2.1 million and $2.0 million, respectively. Separately, the Company incurred $5.8 million in fees and other costs related to the Term Loan, which were deferred and presented as a direct deduction from the debt liability in the unaudited condensed consolidated balance sheets. Deferred financing fees are being amortized over the term of the Term Loan using the effective-interest method. During the three and nine month periods ended September 30, 2017, the Company recorded interest expense for the amortization of Term Loan deferred financing costs of $0.3 million and $0.5 million, respectively.

The availability of funds under the Credit Facility is limited by a borrowing base calculation and reduced by outstanding letters of credit, if any. At September 30, 2017, there was $123.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The $877.0 million of remaining funds were entirely available to the Company. Lenders under the Credit Facility have a senior security interest in substantially all the assets of MGM, with certain exceptions. At September 30, 2017, the Company was in compliance with all applicable covenants, and there were no events of default.

Note 9—Corporate Debt (Continued)

The Company incurs an annual commitment fee equal to either 0.375% or 0.5% per annum, depending on the percentage of total commitments undrawn each day on the Revolving Credit Facility. Payments are made quarterly based on the average daily amount undrawn during the period. During the three month periods ended September 30, 2017 and 2016, the Company incurred commitment fees of $1.2 million and $1.1 million, respectively, and during the nine month periods ended September 30, 2017 and 2016, the Company incurred commitment fees of $3.3 million and $3.6 million, respectively. Separately, during the three and nine month periods ended September 30, 2017, the Company recorded $0.8 million and $3.0 million, respectively, of interest expense for borrowings under the Revolving Credit Facility. During each of the three and nine month periods ended September 30, 2016, the Company recorded $1.2 million of interest expense for borrowings under the Revolving Credit Facility. In addition, during the three and nine month periods ended September 30, 2017, the Company recorded $7.0 million and $10.7 million, respectively, of interest expense for the Term Loan. Commitment fees and interest expense are included in contractual interest expense in the unaudited condensed consolidated statements of income.

Term Loan. In June 2014, the Company entered into a six-year $300.0 million second lien term loan with a syndicate of lenders (the "Term Loan B"). The Term Loan B had a fixed interest rate of 5.125% per annum and a maturity date of June 25, 2020. In June 2016, the Company prepaid the Term Loan B in full resulting in a $6.0 million loss on extinguishment of debt representing a $3.0 million call premium and a $3.0 million write-off of unamortized deferred financing costs. During the nine months ended September 30, 2016, the Company recorded $0.4 million of interest expense for the amortization of deferred financing costs. Separately, for the nine months ended September 30, 2016, the Company recorded interest expense of $7.6 million. No interest expense was recorded during the three months ended September 30, 2016 due to the prepayment in June 2016. Interest expense is included in contractual interest expense in the unaudited condensed consolidated statements of income.

Note 10—Financial Instruments

The Company transacts business globally and is subject to market risks resulting from fluctuations in foreign currency exchange rates. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. Such contracts generally have maturities between one and 16 months. As of September 30, 2017, the Company had three outstanding foreign currency exchange forward contracts primarily relating to anticipated production and distribution-related cash flows that qualified for hedge accounting. Such contracts were carried at fair value and included in other liabilities in the unaudited condensed consolidated balance sheet. Separately, the Company may enter into interest rate swaps or similar arrangements with certain counterparties to reduce its exposure to variable interest rates. Such contracts generally have maturities between two and five years. As of September 30, 2017, the Company had several interest rate swap contracts outstanding, which were carried at fair value and included in other assets in the unaudited condensed consolidated balance sheet. All foreign currency exchange forward contracts and interest rate swap contracts designated for hedge accounting were deemed effective at September 30, 2017. As such, changes in the fair value of such contracts were included in accumulated other comprehensive loss in the unaudited condensed consolidated balance sheet.

During the three and nine month periods ended September 30, 2017, the Company recorded $1.5 million and $1.1 million, respectively, of net unrealized gains (net of tax) relating to the change in fair value of such contracts in accumulated other comprehensive loss. At September 30, 2017, $0.7 million of net unrealized losses included in accumulated other comprehensive loss are expected to be recognized into earnings within the next 12 months. The Company made $1.5 million of net reclassifications out of accumulated other comprehensive loss and into earnings during the nine months ended September 30, 2017. No significant reclassifications were made out of accumulated other comprehensive loss and into earnings during the three months ended September 30, 2017. Such amounts were included in distribution and marketing expenses or operating expenses, depending on the nature of the hedge, with the related tax effect recorded in the income tax provision in the unaudited condensed consolidated statements of income.

Note 10—Financial Instruments (Continued)

As of September 30, 2016, the Company had several outstanding foreign currency exchange forward contracts which were carried at fair value and included in other assets in the unaudited condensed consolidated balance sheet. At September 30, 2016, one foreign currency exchange forward contract was deemed ineffective. As such, the Company recorded $0.7 million of net unrealized gains to other income during the three and nine month periods ended September 30, 2016. All other foreign currency exchange forward contracts designated for hedge accounting were deemed effective at September 30, 2016. As such, changes in the fair value of all other contracts were included in accumulated other comprehensive loss in the unaudited condensed consolidated balance sheet. During the three and nine month periods ended September 30, 2016, the Company recorded $0.5 million and $1.0 million, respectively, of net unrealized losses (net of tax) relating to the change in fair value of effective contracts in accumulated other comprehensive income.

Note 11—MGM Holdings Inc. Stockholders' Equity

Common Stock. The Company is authorized to issue 110,000,000 shares of Class A common stock, $0.01 par value, and 110,000,000 shares of Class B common stock, $0.01 par value. As of September 30, 2017 and December 31, 2016, 76,411,783 aggregate shares of common stock were issued and 46,004,816 aggregate shares of common stock were outstanding. All outstanding shares of common stock were Class A common stock.

Preferred Stock. The Company is authorized to issue up to 10,000,000 shares of Preferred Stock, $0.01 par value. As of September 30, 2017, no shares of Preferred Stock were issued or outstanding.

Treasury Stock. The Company did not repurchase any shares during the nine months ended September 30, 2017. During the nine months ended September 30, 2016, the Company completed repurchases of 5,739,949 shares of its Class A common stock at a weighted-average price of $77.67 per share for a total of $445.8 million. The reacquired shares were classified as treasury stock in the unaudited condensed consolidated balance sheet and the unaudited condensed consolidated statement of stockholders' equity.

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

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017		Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Shares	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Options outstanding at beginning of period	**6,318,874**	**$ 52.16**	**6,294,874**	**$ 51.55**	6,212,623	$ 49.51	6,546,102	$ 42.04
Granted	**52,500**	**100.00**	**142,500**	**100.00**	250,000	92.00	550,000	90.91
Exercised	**-**	**-**	**(46,000)**	**45.65**	(90,606)	35.19	(356,154)	40.40
Canceled or expired	**(20,000)**	**90.00**	**(40,000)**	**90.00**	(77,143)	37.60	(445,074)	38.73
Options outstanding at end of period	**6,351,374**	**$ 52.44**	**6,351,374**	**$ 52.44**	6,294,874	$ 51.55	6,294,874	$ 51.55
Options exercisable at end of period	**5,164,874**	**$ 45.15**	**5,164,874**	**$ 45.15**	4,700,874	$ 42.12	4,700,874	$ 42.12

Note 11—MGM Holdings Inc. Stockholders' Equity (Continued)

The fair value of option grants was estimated using the Black-Scholes option pricing model. Total stock-based compensation expense recorded under the Stock Incentive Plan was $1.8 million and $3.4 million during the three month periods ended September 30, 2017 and 2016, respectively, and $7.5 million and $10.1 million during the nine month periods ended September 30, 2017 and 2016, respectively. As of September 30, 2017, total stock-based compensation expense related to non-vested awards not yet recognized under the Stock Incentive Plan was $13.7 million, which is expected to be recognized over a weighted-average period of 1.6 years.

Note 12—Income Taxes

During the three and nine month periods ended September 30, 2017, the Company recorded an income tax benefit of $76.1 million and $30.2 million, respectively, primarily due to an election to claim foreign tax credits against federal income taxes instead of recognizing a deduction for foreign taxes (see further discussion below). During the three and nine month periods ended September 30, 2016, the Company recorded an income tax provision of $7.0 million and $54.7 million, respectively. At the end of each interim period, the Company computes the year-to-date tax provision by applying the estimated annual effective tax rate to year-to-date pretax book income.

The income tax provision recorded during the nine month periods ended September 30, 2017 and 2016 included a provision for federal and state income taxes that reflected standard United States statutory income tax rates, as well as foreign remittance taxes attributable to international distribution revenues.

At September 30, 2017, the Company and its subsidiaries had net operating loss carryforwards for United States federal tax purposes of $0.4 billion, which will be available to reduce future taxable income. The net operating loss carryforwards expire between the years ending December 31, 2028 and December 31, 2030, and are subject to limitation on use under Section 382 of the Internal Revenue Code. In addition, the Company has net operating loss carryforwards for California state tax purposes of $0.6 billion, which will expire between the years ending December 31, 2017 and December 31, 2030. As a result of the utilization of such net operating loss carryforwards, cash paid for income taxes was significantly lower than the Company's income tax provision before one-time adjustments for the conversion of foreign taxes to credits.

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2017	**2016**	**2017**	**2016**
Federal tax rate on pre-tax book income	**35%**	35%	**35%**	35%
State taxes, net of federal income tax benefit	**1**	1	**1**	1
Changes in uncertain tax positions	–	–	–	–
Foreign taxes, net of federal income tax benefit	**(188)**	11	**(22)**	4
Gain on acquisition	–	–	**(16)**	–
Change in valuation allowance	**(4)**	(1)	**(1)**	–
Net income attributable to noncontrolling interests	**7**	–	–	–
Other permanent differences	**(51)**	(10)	**(8)**	(5)
Effective tax rate	**(200)%**	36%	**(11)%**	35%

Note 12—Income Taxes (Continued)

Foreign Taxes, Net of Federal Income Tax Benefit. The Company recognized an income tax benefit for the three and nine month periods ended September 30, 2017 resulting from filing an election for tax years beginning in 2011 to claim foreign tax credits against federal income taxes instead of recognizing a deduction for foreign taxes.

Gain on Acquisition. Gain on acquisition during the nine months ended September 30, 2017 in the federal tax rate reconciliation table above primarily included an accounting remeasurement gain on the Company's 19.09% equity investment in Epix Entertainment LLC (see Note 2), which is not taxable for federal or state income tax purposes.

Other Permanent Differences. Other permanent differences for the three and nine month periods ended September 30, 2017 in the federal tax rate reconciliation above primarily included one-time adjustments associated with the Company's federal tax filing for 2016. These adjustments reflected additional benefits for extra-territorial income (ETI) exclusions for years dating back to 2001.

Other permanent differences for the three and nine month periods ended September 30, 2016 in the federal tax rate reconciliation table above primarily include the recording of excess tax benefits from share-based payments, deferred tax liabilities resulting from purchase accounting adjustments on the UAMG acquisition, and a non-taxable accounting remeasurement gain on the Company's 55% equity interest in UAMG. In addition, the early adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, resulted in the reclassification of $3.9 million of excess tax benefits from stockholders' equity to income tax provision during the three months ended March 31, 2016. During the three months ended September 30, 2016, $2.2 million of excess tax benefits were recorded to income tax provision (see Note 1).

Note 13—Retirement Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
Interest cost on projected benefit obligation	**$ 158**	$ 165	**$ 475**	$ 509
Expected return on plan assets	**(143)**	(142)	**(429)**	(440)
Net actuarial loss	**10**	15	**28**	51
Net periodic pension expense	**$ 25**	$ 38	**$ 74**	$ 120

No contributions were made to the Plan during the three or nine month periods ended September 30, 2017 and 2016. The Company does not expect to make any required or discretionary contributions to the Plan during the year ending December 31, 2017.

Note 14—Other Comprehensive Income (Loss)

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

	Unrealized Loss on Securities	Unrealized Gain (Loss) on Derivative Instruments	Retirement Plan Adjustments	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance, January 1, 2017	$ (60)	$ (734)	$ (1,218)	$ (1,510)	$ (3,522)
Current period comprehensive income	**–**	**2,912**	**74**	**675**	**3,661**
Income tax effect	**–**	**(1,048)**	**(27)**	**(877)**	**(1,952)**
Balance, September 30, 2017	**$ (60)**	**$ 1,130**	**$ (1,171)**	**$ (1,712)**	**$ (1,813)**

Note 15—Commitments and Contingencies

Litigation. Various legal proceedings involving alleged breaches of contract, copyright infringement and other claims are now pending, which the Company considers routine to its business activities. The Company has provided an accrual for pending litigation as of September 30, 2017, for which an outcome is probable and reasonably estimable. Management believes that the outcome of any pending claim or legal proceeding in which the Company is currently involved will not materially affect the Company's unaudited condensed consolidated financial statements.

Other Commitments. The Company has various other commitments entered into in the ordinary course of business relating to corporate debt agreements, creative talent and employment agreements, non-cancelable operating leases and other contractual obligations under co-production arrangements. Following its full acquisition of Epix (see Note 2), the Company has commitments related to program rights, which represent contractual commitments under programming license agreements related to film and television content that is not available for exhibition until a future date. Where necessary, the Company has provided an accrual for such amounts as of September 30, 2017.

Note 16—Supplementary Cash Flow Information

The Company paid interest of $8.3 million and $1.3 million during the three month periods ended September 30, 2017 and 2016, respectively, and $16.7 million and $12.6 million during the nine month periods ended September 30, 2017 and 2016, respectively.

The Company paid taxes of $6.4 million and $5.2 million during the three month periods ended September 30, 2017 and 2016, respectively, and $16.3 million and $25.4 million during the nine month periods ended September 30, 2017 and 2016, respectively.

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

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

Sources of Revenue

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

Film and Television Content

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

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

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

Our film and television content is distributed worldwide. Although we receive a significant amount of our revenue through our co-production agreements, we do not view our co-production partners as customers, and therefore we do not have significant customer concentration. For the year ended December 31, 2016, we derived approximately 61% of our revenue from international sources. Revenue from international sources fluctuates year-to-year and is dependent upon several variables including our release schedule, the timing of international theatrical and home entertainment release dates, the timing of television availabilities, the relative performance of individual feature films and television content and foreign exchange rates.

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

Media Networks

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

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

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

Cost Structure

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

Operating Expenses

Operating expenses primarily consist of film and television cost amortization expenses, accruals of talent participations, residuals and co-production share obligations (collectively, "P&R") for film and television content, and, following our acquisition and consolidation of Epix in May 2017, programming cost amortization expenses for our Media Networks.

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

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

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

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

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

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

Step-up Amortization Expense. A significant portion of the carrying value of our film and television inventory consists of non-cash fair value adjustments. These fair value adjustments do not reflect a cash investment to produce or acquire content, but rather, fair value accounting adjustments recorded at the time of various company transactions and events. As such, our film and television inventory carrying value contains (a) unamortized cash investments to produce or acquire content and (b) unamortized non-cash fair value adjustments. We amortize our aggregate film and television inventory costs in accordance with the applicable accounting standards, and our aggregate amortization expense is higher than it otherwise would be had we not recorded non-cash fair value adjustments to "step-up" the carrying value of our film and television inventory costs. Unamortized fair value adjustments were approximately $600 million at September 30, 2017 and are expected to be amortized using the IFF method over the next 8 years. We refer to the amortization of these fair value adjustments as "Step-up Amortization Expense" and disclose it separately to help the users of our financial statements better understand the components of our operating expenses.

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

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

Distribution and Marketing Expenses

Distribution and marketing expenses generally consist of theatrical advertising costs, marketing costs for other distribution windows including our Media Networks, third party distribution services fees for various distribution activities (where applicable), distribution expenses such as delivery costs, and other exploitation costs. Advertising costs associated with a theatrical feature film release are significant and typically involve large scale media campaigns, the cost of developing and producing marketing materials, as well as various publicity activities to promote the film. These costs are largely incurred and expensed prior to and during the initial theatrical release of a feature film. As a result, we will often recognize a significant amount of expenses with respect to a particular film before we recognize most of the revenue to be produced by that film.

Marketing expenses for our Media Networks substantially consist of advertising costs for original series on Epix and marketing spend to promote Epix on various platforms. Marketing expenses may fluctuate from period to period based on the timing and number of original series premiering on Epix, and typically increase during periods in which new original series initially premiere.

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

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

General and Administrative Expenses

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

Foreign Currency Transactions

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

Library

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

Film and Television Content

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

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

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

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

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

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

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

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

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

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

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

Media Networks

Revenue for Media Networks is primarily comprised of the following:

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

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

Intercompany Eliminations

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

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

Amortization of Film and Television Costs

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

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

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

Amortization of Programming Costs

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

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

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

Distribution and Marketing Costs

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

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

Stock-Based Compensation

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

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

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

Refer to Note 9 to the unaudited condensed consolidated financial statements as of September 30, 2017 for further discussion.

Income Taxes

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

Use of Non-GAAP Financial Measures

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

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

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

Results of Operations

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

Overview of Financial Results

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Change Amount	Change Percent	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change Amount	Change Percent
Revenue:								
Film content	117,015	192,319	(75,304)	(39%)	408,339	639,617	(231,278)	(36%)
Television content	36,730	95,763	(59,033)	(62%)	252,131	207,412	44,719	22%
Media Networks	113,997	10,661	103,336	969%	196,372	34,648	161,724	467%
Total revenue	267,742	298,743	(31,001)	(10%)	856,842	881,677	(24,835)	(3%)
Contribution:								
Film content	57,873	22,459	35,414	158%	166,119	166,403	(284)	(0%)
Television content	12,662	28,336	(15,674)	(55%)	68,478	71,635	(3,157)	(4%)
Media Networks	38,162	6,851	31,311	457%	71,031	22,434	48,597	217%
Total contribution	108,697	57,646	51,051	89%	305,628	260,472	45,156	17%
General and administrative	48,819	32,159	16,660	52%	122,617	93,013	29,604	32%
Depreciation and non-content amortization	13,183	8,793	4,390	50%	32,755	26,498	6,257	24%
Operating income	46,695	16,694	30,001	180%	150,256	140,961	9,295	7%
Equity in net earnings of affiliates	33	4,048	(4,015)	(99%)	17,639	26,160	(8,521)	(33%)
Gain on acquisition	-	-	-	NA	123,587	7,306	116,281	NM
Loss on extinguishment of debt	-	-	-	NA	-	(6,017)	6,017	100%
Interest expense	(10,004)	(2,975)	(7,029)	(236%)	(19,852)	(14,919)	(4,933)	(33%)
Interest and other income, net	1,373	1,331	42	3%	3,658	3,274	384	12%
Income before income taxes	38,097	19,098	18,999	99%	275,288	156,765	118,523	76%
Income tax benefit (provision)	76,085	(7,015)	83,100	1,185%	30,223	(54,664)	84,887	155%
Net income	114,182	12,083	102,099	845%	305,511	102,101	203,410	199%
Add: Net loss attributable to noncontrolling interests	(1,425)	323	(1,748)	NA	(466)	323	(789)	NA
Net income attributable to MGM Holdings Inc.	$ 112,757	$ 12,406	$ 100,351	809%	$ 305,045	$ 102,424	$ 202,621	198%

Adjusted EBITDA

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Change Amount	Change Percent	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change Amount	Change Percent
Net income attributable to MGM Holdings Inc.	$ 112,757	$ 12,406	$ 100,351	809%	$ 305,045	$ 102,424	$ 202,621	198%
Interest expense	10,004	2,975	7,029	236%	19,852	14,919	4,933	33%
Interest income	(938)	(919)	(19)	(2%)	(3,206)	(2,923)	(283)	(10%)
Other income, net	(435)	(412)	(23)	(6%)	(452)	(351)	(101)	(29%)
Gain on acquisition	-	-	-	NA	(123,587)	(7,306)	(116,281)	NM
Loss on extinguishment of debt	-	-	-	NA	-	6,017	(6,017)	(100%)
Income tax provision	(76,085)	7,015	(83,100)	(1,185%)	(30,223)	54,664	(84,887)	(155%)
Depreciation and non-content amortization	13,183	8,793	4,390	50%	32,755	26,498	6,257	24%
EBITDA	58,486	29,858	28,628	96%	200,184	193,942	6,242	3%
Step-up Amortization Expense (1)	15,670	14,885	785	5%	40,174	48,966	(8,792)	(18%)
Purchase Accounting Adjustments (2)	639	5,004	(4,365)	(87%)	1,981	15,746	(13,765)	(87%)
Intercompany Programming Cost Amortization (3)	7,648	-	7,648	NA	13,373	-	13,373	NA
Stock-based compensation expense	1,797	3,356	(1,559)	(46%)	7,454	10,120	(2,666)	(26%)
Non-recurring costs and expenses (4)	6,523	-	6,523	NA	9,468	-	9,468	NA
Adjusted EBITDA	$ 90,763	$ 53,103	$ 37,660	71%	$ 272,634	$ 268,774	$ 3,860	1%

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

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

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

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

(4) Non-recurring costs and expenses consist of non-recurring external costs and other expenses related to strategic M&A opportunities, primarily our acquisition of Epix in May 2017.

Adjusted EBITDA versus the Three and Nine Months Ended September 30, 2016

For the three months ended September 30, 2017, Adjusted EBITDA of $90.8 million was $37.7 million, or 71%, higher than Adjusted EBITDA of $53.1 million for the three months ended September 30, 2016. This increase was primarily driven by our acquisition of Epix on May 11, 2017. Our results for the current year's third quarter reflect the consolidation of Epix, which generated $41.5 million of pre-G&A Adjusted EBITDA for our Media Networks segment. In addition, Adjusted EBITDA for the current year's third quarter reflected deliveries of new television content, including *Vikings* (season 5), plus new episodes of television shows from Evolution, including *The Real Housewives of Orange County* (season 12), *Botched* (season 4) and *Growing Up Supermodel* (season 1). In comparison, the prior year's third quarter included stronger contributions from the first-cycle distribution of our franchise films, *Spectre* and *Creed*, as well as deliveries of new seasons of *Vikings*, *Celebrity Apprentice*, *The Voice*, *Survivor* and several other shows, plus significant international SVOD revenue for our successful scripted television series *Vikings*, *Teen Wolf* and *Fargo*. Adjusted EBITDA for the prior year's third quarter was partially offset by higher film impairment charges, primarily due to *Ben-Hur*.

For the nine months ended September 30, 2017, Adjusted EBITDA of $272.6 million was $3.8 million, or 1%, higher than Adjusted EBITDA of $268.8 million for the nine months ended September 30, 2016. This increase was primarily driven by our acquisition of Epix on May 11, 2017. Our results for the current year period reflect the consolidation of Epix, which generated $64.5 million of pre-G&A Adjusted EBITDA for our Media Networks segment. This was partially offset by intercompany eliminations related to content licensed to Epix, which reduced the Adjusted EBITDA from our Film Content and Television Content segments. In addition, our Adjusted EBITDA for the nine months ended September 30, 2017 reflected robust deliveries of new television content, including *Vikings* (season 5), *Fargo* (season 3), *The Handmaid's Tale* (season 1), *The Voice* (season 12), *Survivor* (season 34), *Steve Harvey's Funderdome* and *Signed*, among other shows. In comparison, Adjusted EBITDA for the nine months ended September 30, 2016 included strong contributions from the first-cycle distribution of our franchise films, *Spectre* and *Creed*, plus significant library performance from the tail-end of our worldwide promotion of the *James Bond* franchise and international SVOD revenue for our successful scripted television series *Vikings*, *Teen Wolf* and *Fargo*. Adjusted EBITDA for the prior year period was partially offset by higher film impairment charges, primarily due to *Ben-Hur*.

Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016

Film Content

	Three Months Ended September 30,		Change	
	2017	**2016**	**Amount**	**Percent**
Revenue:				
Theatrical	2,909	1,948	961	49%
Television licensing	86,923	143,641	(56,718)	(39%)
Home entertainment	16,853	17,916	(1,063)	(6%)
Other revenue	3,035	22,302	(19,267)	(86%)
Ancillary	7,295	6,512	783	12%
Total revenue	117,015	192,319	(76,087)	(40%)
Expenses:				
Operating (5)	55,305	161,612	(106,307)	(66%)
Distribution and marketing	3,837	8,248	(4,411)	(53%)
Total expenses	59,142	169,860	(110,718)	(65%)
Contribution	$ 57,873	$ 22,459	$ 34,631	154%
Step-up Amortization Expense (5)	13,929	13,746	183	1%
Adjusted EBITDA (pre-G&A)	**$ 71,802**	**$ 36,205**	**$ 35,597**	**98%**

(5) Operating expenses for film content for the three month periods ended September 30, 2017 and 2016 included $13.9 million and $13.7 million, respectively, of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

Film Content – Revenue

Theatrical. Worldwide theatrical revenue for film content was $2.9 million for the three months ended September 30, 2017, an increase of $1.0 million as compared to $1.9 million for the three months ended September 30, 2016. We did not recognize a substantial portion of the theatrical revenue for films we released in the current and prior year quarters, which were primarily accounted for on a net basis after deduction of theatrical advertising and other related distribution costs. Net revenue from co-produced films is classified as other revenue from film content (see below).

Television Licensing. Worldwide television licensing revenue for film content was $86.9 million for the three months ended September 30, 2017, a decrease of $56.7 million as compared to $143.6 million for the three months ended September 30, 2016. This decrease was primarily due to significant first-cycle television licensing revenue for *Spectre* and *Creed* in the prior year's third quarter, which included the U.S. pay television premieres and initial international pay television availabilities for both of these franchise films. In comparison, television licensing revenue for the current year's third quarter primarily included our continued licensing of several recently released films including *Me Before You*, *The Magnificent Seven*, *Max* and other films, as well as ongoing revenue from our library content. Television licensing revenue for the current year's third quarter was also negatively impacted by intercompany eliminations related to content licensed to Epix after our acquisition of Epix on May 11, 2017.

Home Entertainment. Worldwide home entertainment revenue for film content was $16.9 million for the three months ended September 30, 2017, a decrease of $1.0 million as compared to $17.9 million for the three months ended September 30, 2016. Home entertainment revenue for the prior year's third quarter primarily included our continued worldwide distribution of *Spectre*, which began in the prior year's first quarter, incremental electronic sell-through revenue for *Barbershop: The Next Cut* and *Creed*, plus ongoing revenue from our library. In comparison, the current year's third quarter primarily included home entertainment revenue from *The Belko Experiment, The Magnificent Seven* and library content.

Other Revenue. Other revenue for film content was $3.0 million for the three months ended September 30, 2017, a decrease of $19.3 million as compared to $22.3 million for the three months ended September 30, 2016. We recognized significant net revenue from co-produced films in the prior year's third quarter due to the highly successful theatrical performance of *Me Before You*, which was released in June 2016, plus incremental net revenue from *22 Jump Street, Hot Pursuit, Creed* and *Max*.

Ancillary. Ancillary revenue for film content, which includes consumer products, interactive gaming, music performance and other revenue, was $7.3 million for the three months ended September 30, 2017, an increase of $0.8 million as compared to $6.5 million for the three months ended September 30, 2016. This increase reflected higher music performance revenue in the current year's third quarter.

Film Content – Expenses

Operating Expenses. Operating expenses for film content were $55.3 million for the three months ended September 30, 2017, a decrease of $106.3 million as compared to $161.6 million for the three months ended September 30, 2016. The decrease in operating expenses included $102.3 million of lower aggregate film cost and P&R amortization expenses. Aggregate amortization expenses for the current year's third quarter primarily included *The Magnificent Seven*, *Me Before You* and library amortization expenses. In comparison, aggregate amortization expenses for the prior year's third quarter primarily included *Spectre*, *Creed, Me Before You* and library amortization expenses, plus $47.8 million of film impairment charges primarily related to *Ben-Hur*.

Distribution and Marketing Expenses. Distribution and marketing expenses for film content were $3.8 million for the three months ended September 30, 2017, a decrease of $4.4 million as compared to $8.2 million for the three months ended September 30, 2016. The decrease primarily reflected lower theatrical marketing expenses in the current year's third quarter.

Television Content

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Change Amount	Change Percent
Revenue:				
Television licensing	28,725	88,409	(59,684)	(68%)
Home entertainment and other	8,005	7,354	651	9%
Total revenue	36,730	95,763	(59,033)	(62%)
Expenses:				
Operating (6)	21,520	64,544	(43,024)	(67%)
Distribution and marketing	2,548	2,883	(335)	(12%)
Total expenses	24,068	67,427	(43,359)	(64%)
Contribution	$ 12,662	$ 28,336	$ (15,674)	(55%)
Purchase Accounting Adjustments (6)	639	5,004	(4,365)	(87%)
Step-up Amortization Expense (6)	1,741	1,139	602	53%
Net loss attributable to noncontrolling interests	6	-	6	NA
Adjusted EBITDA (pre-G&A)	**$ 15,048**	**$ 34,479**	**$ (19,431)**	**(56%)**

(6) Operating expenses for television content for the three months ended September 30, 2017 included $0.6 million of Purchase Accounting Adjustments and $1.7 million of Step-up Amortization Expense. Operating expenses for television content for the three months ended September 30, 2016 included $5.0 million of Purchase Accounting Adjustments and $1.1 million of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

Television Content – Revenue

Television Licensing. Television licensing revenue for television content was $28.7 million for the three months ended September 30, 2017, a decrease of $59.7 million as compared to $88.4 million for the three months ended September 30, 2016. This decrease primarily reflected the timing of deliveries of new episodes of our television content. The current year's third quarter primarily included deliveries of new episodes of *Vikings* (season 5), plus new episodes of television shows from Evolution, including *The Real Housewives of Orange County* (season 12), *Botched* (season 4) and *Growing Up Supermodel* (season 1). In comparison, the prior year's third quarter included the deliveries of more new episodes of *Vikings* (season 4), plus *Celebrity Apprentice* (season 8), *The Voice* (season 11), *Survivor* (season 33) and *Shark Tank* (season 8), among other shows.

Home Entertainment and Other. Home entertainment and other revenue for television content was $8.0 million for the three months ended September 30, 2017, an increase of $0.6 million as compared to $7.4 million for the three months ended September 30, 2016.

Television Content – Expenses

Operating Expenses. Operating expenses for television content were $21.5 million for the three months ended September 30, 2017, a decrease of $43.0 million as compared to $64.5 million for the three months ended September 30, 2016. The decrease in operating expenses included $42.3 million of lower aggregate television content cost and P&R amortization expenses primarily due to fewer deliveries of new episodes of *Vikings* in the current year's third quarter plus the delivery of the *Celebrity Apprentice* (season 8) in the prior year's third quarter. For unscripted shows that we record on a net basis, we do not generally recognize significant operating expenses.

Distribution and Marketing Expenses. Distribution and marketing expenses for television content were $2.5 million and $2.9 million for the three month periods ended September 30, 2017 and 2016, respectively.

Media Networks

	Three Months Ended September 30,		Change	
	2017	2016	Amount	Percent
Revenue				
Epix	103,042	-	103,042	NA
Other Channels	10,955	10,661	294	3%
Total revenue	113,997	10,661	103,336	969%
Expenses:				
Operating (7)	58,339	3,192	55,147	1,728%
Distribution and marketing	17,496	618	16,878	2,731%
Total expenses	75,835	3,810	72,025	1,890%
Contribution	$ 38,162	$ 6,851	$ 31,311	457%
Intercompany Programming Cost Amortization (7)	7,648	-	7,648	NA
Net loss attributable to noncontrolling interests	(1,431)	323	(1,754)	(543%)
Adjusted EBITDA (pre-G&A)	**$ 44,379**	**$ 7,174**	**$ 37,205**	**519%**

(7) Operating expenses for Media Networks for the three months ended September 30, 2017 included $7.6 million of Intercompany Programming Cost Amortization. There was no Intercompany Programming Cost Amortization for the three months ended September 30, 2016. Refer to *Cost Structure –Operating Expenses* for additional information.

Media Networks – Revenue

Total revenue from our Media Networks segment, which includes Epix and our wholly-owned and joint venture broadcast and cable networks, was $114.0 million for the three months ended September 30, 2017, an increase of $103.3 million as compared to $10.7 million for the three months ended September 30, 2016. This increase reflected $103.0 million of revenue for Epix in the current year's third quarter due to our acquisition and consolidation of Epix beginning May 11, 2017.

Media Networks – Expenses

Operating Expenses. Operating expenses for our Media Networks were $58.3 million for the three months ended September 30, 2017, an increase of $55.1 million as compared to $3.2 million for the three months ended September 30, 2016. This increase primarily reflected operating expenses for Epix following our acquisition and consolidation of Epix beginning May 11, 2017. Operating expenses for Epix were substantially comprised of programming cost amortization expenses for three original series, *Get Shorty*, *Berlin Station* and *Graves*, first-run theatrical films from Paramount and Lionsgate, including *Star Trek Beyond*, *Teenage Mutant Ninja Turtles: Out of the Shadows*, *Mission: Impossible - Rogue Nation* and *The Hunger Games: Mockingjay Part 2*, plus $7.6 million of Intercompany Programming Cost Amortization related to MGM content, including *Spectre*, *Creed*, *Barbershop: The Next Cut* and *Me Before You*.

Distribution and Marketing Expenses. Distribution and marketing expenses for our Media Networks were $17.5 million for the three months ended September 30, 2017, an increase of $16.9 million as compared to $0.6 million for the three months ended September 30, 2016. This increase reflected distribution and marketing expenses for Epix, which primarily included affiliate marketing costs to promote and support the Epix channels, plus the creative and marketing costs for our new original series, *Get Shorty*, which premiered on Epix in August 2017, and the upcoming original series, *Berlin Station* and *Graves*, each of which premiered their second seasons in October 2017.

General and Administrative Expenses

For the three months ended September 30, 2017, total G&A expenses were $48.8 million, an increase of $16.6 million as compared to $32.2 million for the three months ended September 30, 2016. The increase in G&A expenses primarily reflected the addition of Epix following our acquisition on May 11, 2017, targeted investments in additional personnel focused on areas of business growth, including, but not limited to, expanding our existing content creation and distribution capabilities, plus the addition of Evolution personnel for the period from July 14 to September 30, 2017. In addition, G&A expenses also included $6.5 million of non-recurring expenses related to strategic M&A opportunities, primarily our acquisition of Epix, our acquisition of substantially all the assets of Evolution and the formation of our U.S. theatrical distribution joint venture with Annapurna.

Depreciation and non-content amortization

For the three months ended September 30, 2017, depreciation and non-content amortization was $13.2 million, an increase of $4.4 million as compared to $8.8 million for the three months ended September 30, 2016. Amortization expense for identifiable non-content intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, totaled $11.4 million and $7.2 million for the three month periods ended September 30, 2017 and 2016, respectively. The increase primarily reflected our recognition of new, amortizable non-content intangible assets resulting from our acquisition and consolidation of Epix in May 2017. Depreciation expense for fixed assets was $1.8 million and $1.6 million for the three month periods ended September 30, 2017 and 2016, respectively.

Equity in net earnings of affiliates

For the three months ended September 30, 2017, equity in net earnings of affiliates was immaterial. In comparison, we recorded $4.0 million of equity in net earnings of affiliates for the three months ended September 30, 2016. The prior year's third quarter was entirely comprised of equity income from Epix. As a result of our acquisition of Epix on May 11, 2017, we began consolidating Epix and include the financial results of Epix in our Media Networks segment.

Interest expense

Interest expense is primarily comprised of contractual interest incurred under our senior secured term loan and revolving credit facility, our prior second lien term loan credit facility (repaid in June 2016) and the amortization of related deferred financing costs (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion).

For the three months ended September 30, 2017, total interest expense was $10.0 million, an increase of $7.0 million as compared to $3.0 million for the three months ended September 30, 2016. For the current year's third quarter, interest expense included $9.0 million of contractual interest and $1.0 million of other interest costs. For the prior year's third quarter, interest expense included $2.3 million of contractual interest and $0.7 million of other interest costs. Cash paid for interest was $8.3 million and $1.3 million for the three month periods ended September 30, 2017 and 2016, respectively. Our higher interest expense and cash paid for interest for the current year's third quarter reflected our new senior secured term loan borrowed in connection with our acquisition of Epix in May 2017 (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion).

Interest income

Interest income primarily includes the amortization of discounts recorded on long-term accounts and contracts receivable, as well as interest earned on short-term investments. For the three month periods ended September 30, 2017 and 2016, the amounts recorded as interest income were immaterial.

Other income, net

For the three month periods ended September 30, 2017 and 2016, the amounts recorded as other income were immaterial.

Income tax benefit (provision)

For the three months ended September 30, 2017, we recorded an income tax benefit of $76.1 million. This benefit primarily included one-time adjustments related to foreign remittance taxes, which were historically treated as deductions in our calculation of taxable income but were converted into foreign tax credits for all recent tax years beginning in 2011. Excluding one-time adjustments, our income tax provision for the current year's third quarter would have been $11.2 million, reflecting an effective tax rate of 31%. For the three months ended September 30, 2016, we recorded an income tax provision of $7.0 million, which represented an effective tax rate of 37%. Excluding one-time adjustments, our income tax provision for these periods primarily included accruals for U.S. federal and state income taxes using statutory income tax rates, and, for the prior year's third quarter only, 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.

Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

Film Content

	Nine Months Ended September 30,		Change	
	2017	**2016**	**Amount**	**Percent**
Revenue:				
Theatrical	10,181	30,126	(19,945)	(66%)
Television licensing	287,073	359,639	(72,566)	(20%)
Home entertainment	67,587	171,024	(103,437)	(60%)
Other revenue	23,904	61,276	(37,372)	(61%)
Ancillary	19,594	17,552	2,042	12%
Total revenue	408,339	639,617	(231,278)	(36%)
Expenses:				
Operating (8)	224,524	423,389	(198,865)	(47%)
Distribution and marketing	17,696	49,825	(32,129)	(64%)
Total expenses	242,220	473,214	(230,994)	(49%)
Contribution	$ 166,119	$ 166,403	$ (284)	(0%)
Step-up Amortization Expense (8)	36,498	44,961	(8,463)	(19%)
Adjusted EBITDA (pre-G&A)	**$ 202,617**	**$ 211,364**	**$ (8,747)**	**(4%)**

(8) Operating expenses for film content for the nine month periods ended September 30, 2017 and 2016 included $36.5 million and $45.0 million, respectively, of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

Film Content – Revenue

Theatrical. Worldwide theatrical revenue for film content was $10.2 million for the nine months ended September 30, 2017, a decrease of $19.9 million as compared to $30.1 million for the nine months ended September 30, 2016. Theatrical revenue for the nine months ended September 30, 2017 primarily included the U.S. release of *The Belko Experiment*. We did not recognize a substantial portion of the theatrical revenue for *Everything, Everything*, which was primarily accounted for on a net basis after deduction of theatrical advertising and other related distribution costs. In comparison, theatrical revenue for the nine months ended September 30, 2016 primarily included the tail-end of our worldwide theatrical distribution of *Spectre* and international theatrical revenue from certain territories for *Me Before You*, which was also accounted for on a net basis. Net revenue from co-produced films is classified as other revenue from film content (see below).

Television Licensing. Worldwide television licensing revenue for film content was $287.1 million for the nine months ended September 30, 2017, a decrease of $72.5 million as compared to $359.6 million for the nine months ended September 30, 2016. This decrease was primarily due to significant first-cycle television licensing revenue for *Spectre* and *Creed* in the prior year's third quarter, which included the U.S. pay television premieres, worldwide VOD revenue and initial international pay television availabilities for both of these franchise films. In addition, the prior year period included revenue from the international free television availabilities of *The Hobbit: The Desolation of Smaug*, the U.S. pay television premiere of *Hot Pursuit* and our ongoing television licensing of other recent film releases, including *22 Jump Street*, *RoboCop* and *Poltergeist*. In comparison, television licensing revenue for the nine months ended September 30, 2017 included robust revenue from recent film releases, including the U.S. pay television premieres of *Me Before You* and *Barbershop: The Next Cut* on Epix (prior to our acquisition of Epix), our initial international pay television licensing of *The Magnificent Seven*, *Ben-Hur* and *Me Before You*, free television availabilities for *The Hobbit: The Battle of the Five Armies* in several territories internationally, and worldwide VOD revenue for *The Magnificent Seven* and *Ben-Hur*. Television licensing revenue for the current year period was also negatively impacted by intercompany eliminations related to content licensed to Epix after our acquisition of Epix on May 11, 2017.

Home Entertainment. Worldwide home entertainment revenue for film content was $67.6 million for the nine months ended September 30, 2017, a decrease of $103.4 million as compared to $171.0 million for the nine months ended September 30, 2016. This decrease reflected our worldwide release of *Spectre* during the prior year period, as well as the strong EST performance for *Spectre* and *Creed*, ongoing revenue from other recently released films, and the tail-end of our worldwide home entertainment promotion for the *James Bond* franchise. In comparison, the nine months ended September 30, 2017 included revenue from recent film releases, primarily worldwide EST revenue for *The Magnificent Seven* and *Ben-Hur*, home entertainment revenue for *The Belko Experiment*, plus ongoing revenue from *Spectre*, *The Hobbit* trilogy and additional library content.

Other Revenue. Other revenue for film content was $23.9 million for the nine months ended September 30, 2017, a decrease of $37.4 million as compared to $61.3 million for the nine months ended September 30, 2016. We recognized significant net revenue from co-produced films in the prior year period due to the strong performance of *Me Before You, Creed* and *Max*. In comparison, the nine months ended September 30, 2017 primarily included net revenue for *The Magnificent Seven,* as well as ongoing net revenue for *Me Before You*, *Creed* and *Max.*

Ancillary. Ancillary revenue for film content, which includes consumer products, interactive gaming, music performance and other revenue, was $19.6 million for the nine months ended September 30, 2017, an increase of $2.0 million as compared to $17.6 million for the nine months ended September 30, 2016. The increase reflected higher music performance and interactive gaming licensing revenue.

Film Content – Expenses

Operating Expenses. Operating expenses for film content were $224.5 million for the nine months ended September 30, 2017, a decrease of $198.9 million as compared to $423.4 million for the nine months ended September 30, 2016. The decrease in operating expenses included $187.7 million of lower aggregate film cost and P&R amortization expenses. Aggregate amortization expenses for the nine months ended September 30, 2017 primarily included *The Magnificent Seven*, *Me Before You*, *Ben-Hur*, *Barbershop: The Next Cut* and *The Hobbit: The Battle of the Five Armies*. In comparison, aggregate amortization expenses for the nine months ended September 30, 2016 primarily included *Spectre*, *Creed*, the *James Bond* library, *The Hobbit* trilogy, *Hot Pursuit*, *Me Before You* and library amortization expenses, plus $60.6 million of film impairment charges primarily related to *Ben-Hur*. In addition, we incurred lower home entertainment product costs during the current year period as compared to the prior year period that included the worldwide home entertainment release of *Spectre* and the tail-end of our worldwide home entertainment promotion for the *James Bond* franchise.

Distribution and Marketing Expenses. Distribution and marketing expenses for film content were $17.7 million for the nine months ended September 30, 2017, a decrease of $32.1 million as compared to $49.8 million for the nine months ended September 30, 2016. The decrease primarily reflected lower home entertainment expenses during the current year period mainly due to marketing costs and distribution expenses associated with the worldwide home entertainment distribution of *Spectre* during the prior year period. In addition, we incurred lower theatrical marketing expenses in the current year period.

Television Content

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change Amount	Change Percent
Revenue:				
Television licensing	230,863	185,208	45,655	25%
Home entertainment and other	21,268	22,204	(936)	(4%)
Total revenue	252,131	207,412	44,719	22%
Expenses:				
Operating (9)	175,274	128,645	46,629	36%
Distribution and marketing	8,379	7,133	1,246	17%
Total expenses	183,653	135,778	47,875	35%
Contribution	$ 68,478	$ 71,634	$ (3,156)	(4%)
Purchase Accounting Adjustments (9)	1,981	15,746	(13,765)	(87%)
Step-up Amortization Expense (9)	3,676	4,005	(329)	(8%)
Net loss attributable to noncontrolling interests	26	-	26	NA
Adjusted EBITDA (pre-G&A)	**$ 74,161**	**$ 91,385**	**$ (17,224)**	**(19%)**

(9) Operating expenses for television content for the nine months ended September 30, 2017 included $2.0 million of Purchase Accounting Adjustments and $3.7 million of Step-up Amortization Expense. Operating expenses for television content for the nine months ended September 30, 2016 included $15.7 million of Purchase Accounting Adjustments and $4.0 million of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

Television Content – Revenue

Television Licensing. Television licensing revenue for television content was $230.9 million for the nine months ended September 30, 2017, an increase of $45.7 million, or 25%, as compared to $185.2 million for the nine months ended September 30, 2016. We generated higher revenue with deliveries of new television content, including *Vikings* (season 5), *Fargo* (season 3), *The Handmaid's Tale* (season 1), *Steve Harvey's Funderdome* (season 1) and our new hip-hop music competition show, *Signed*. In addition, during the current year period we also delivered new episodes of our franchise properties, *The Voice* (season 12) and *Survivor* (season 34), and continued to generate incremental licensing revenue from prior seasons of our successful scripted series, *Vikings*, *Fargo* and *Teen Wolf*. In comparison, the prior year period primarily included significant international SVOD revenue from new license agreements for prior seasons of our successful scripted series *Vikings*, *Teen Wolf* and *Fargo*. In addition, the prior year period included revenue from the deliveries of new episodes of *Vikings* (season 4), *The Voice* (seasons 10 and 11), *Survivor* (seasons 32 and 33), *Shark Tank* (seasons 7 and 8), and *Celebrity Apprentice* (season 8), among other shows.

Home Entertainment and Other. Home entertainment and other revenue for television content was $21.3 million for the nine months ended September 30, 2017, a decrease of $0.9 million as compared to $22.2 million for the nine months ended September 30, 2016.

Television Content – Expenses

Operating Expenses. Operating expenses for television content were $175.3 million for the nine months ended September 30, 2017, an increase of $46.7 million as compared to $128.6 million for the nine months ended September 30, 2016. The increase in operating expenses was entirely due to higher aggregate television content cost and P&R amortization expenses, which primarily included amortization expenses associated with deliveries of new television content during the nine months ended September 30, 2017, including *The Handmaid's Tale* (season 1), *Fargo* (season 3) and *Steve Harvey's Funderdome* (season 1). For unscripted shows that we record on a net basis, we do not recognize significant operating expenses.

Distribution and Marketing Expenses. Distribution and marketing expenses for television content were $8.4 million and $7.1 million for the nine month periods ended September 30, 2017 and 2016, respectively.

Media Networks

	Nine Months Ended September 30, 2017	2016	Change Amount	Percent
Revenue				
Epix	160,003	-	160,003	NA
Other Channels	36,369	34,647	1,722	5%
Total revenue	196,372	34,647	161,725	467%
Expenses:				
Operating (10)	101,809	10,903	90,906	834%
Distribution and marketing	23,532	1,311	22,221	1,695%
Total expenses	125,341	12,214	113,127	926%
Contribution	$ 71,031	$ 22,433	$ 48,598	217%
Intercompany Programming Cost Amortization (10).	13,373	-	13,373	NA
Net loss attributable to noncontrolling interests	(492)	323	(815)	(252%)
Adjusted EBITDA (pre-G&A)	**$ 83,912**	**$ 22,756**	**$ 61,156**	**269%**

(10) Operating expenses for Media Networks for the nine months ended September 30, 2017 included $13.4 million of Intercompany Programming Cost Amortization. There was no Intercompany Programming Cost Amortization for the nine months ended September 30, 2016. Refer to *Cost Structure –Operating Expenses* for additional information.

Media Networks – Revenue

Total revenue from our Media Networks segment, which includes Epix and our wholly-owned and joint venture broadcast and cable networks, was $196.4 million for the nine months ended September 30, 2017, an increase of $161.8 million as compared to $34.6 million for the nine months ended September 30, 2016. This increase reflected $160.0 million of revenue for Epix for the period from May 11 to September 30, 2017 due to our acquisition and consolidation of Epix beginning May 11, 2017.

Media Networks – Expenses

Operating Expenses. Operating expenses for our Media Networks were $101.8 million for the nine months ended September 30, 2017, an increase of $90.9 million as compared to $10.9 million for the nine months ended September 30, 2016. This increase primarily reflected operating expenses for Epix for the period from May 11 to September 30, 2017. Operating expenses for Epix were substantially comprised of programming cost amortization expenses for three original series, *Get Shorty*, *Berlin Station* and *Graves*, first-run theatrical films from Paramount and Lionsgate, including *Star Trek Beyond*, *Teenage Mutant Ninja Turtles: Out of the Shadows*, *Mission: Impossible - Rogue Nation* and *The Hunger Games: Mockingjay Part 2*, plus $13.4 million of Intercompany Programming Cost Amortization related to MGM content, including *Spectre*, *Creed*, *Me Before You* and *Barbershop: The Next Cut*.

Distribution and Marketing Expenses. Distribution and marketing expenses for our Media Networks were $23.5 million for the nine months ended September 30, 2017, an increase of $22.2 million as compared to $1.3 million for the nine months ended September 30, 2016. This increase reflected distribution and marketing expenses for Epix, which primarily included affiliate marketing costs to promote and support the Epix channels, plus creative and marketing costs for our new original series, *Get Shorty*, which premiered on Epix in August 2017, and the upcoming original series, *Berlin Station* and *Graves*, each of which premiered their second seasons in October 2017.

General and Administrative Expenses

For the nine months ended September 30, 2017, total G&A expenses were $122.6 million, an increase of $29.6 million as compared to $93.0 million for the nine months ended September 30, 2016. The increase in G&A expenses primarily reflected the addition of Epix following our acquisition on May 11, 2017, targeted investments in additional personnel focused on areas of business growth, including, but not limited to, expanding our existing content creation and distribution capabilities, plus the addition of Evolution personnel for the period from July 14 to September 30, 2017. In addition, G&A expenses also included $9.5 million of non-recurring expenses related to strategic M&A opportunities, primarily our acquisition of Epix, our acquisition of substantially all the assets of Evolution and the formation of our U.S. theatrical distribution joint venture with Annapurna.

Depreciation and non-content amortization

For the nine months ended September 30, 2017, depreciation and non-content amortization was $32.8 million, an increase of $6.3 million as compared to $26.5 million for the nine months ended September 30, 2016. Amortization expense for identifiable non-content intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, totaled $28.3 million and $21.5 million for the nine month periods ended September 30, 2017 and 2016, respectively. The increase primarily reflected our recognition of new, amortizable non-content intangible assets resulting from our acquisition and consolidation of Epix in May 2017. Depreciation expense for fixed assets was $4.5 million and $5.0 million for the nine month periods ended September 30, 2017 and 2016, respectively.

Equity in net earnings of affiliates

For the nine months ended September 30, 2017, equity in net earnings of affiliates was $17.6 million, a decrease of $8.6 million as compared to $26.2 million for the nine months ended September 30, 2016. The decrease reflected lower equity income from Epix primarily due to the partial period recognition of equity income resulting from our acquisition and consolidation of Epix on May 11, 2017. This was partially offset by our monetization of a non-core cost method investment in the first half of 2017.

Gain on acquisition

In May 2017, we acquired the remaining 80.91% interests of Epix Entertainment LLC (formerly Studio 3 Partners, LLC). As a result, the accounting for business combinations required us to remeasure the carrying amount of our previously held 19.09% investment in Epix and adjust it to fair value. Based on the accounting fair value of $1.2 billion for 100% of the membership interests of Epix as of May 2017, we recognized a nontaxable accounting remeasurement gain of $123.6 million. This gain represented the amount by which the fair value of our 19.09% interest in Epix of $229.1 million exceeded the carrying amount of our investment of $105.5 million immediately prior to our acquisition of the remaining 80.91% interests. Refer to Note 2 to the unaudited condensed consolidated financial statements as of September 30, 2017 for further discussion.

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

Loss on extinguishment of debt

In connection with the prepayment of our $300.0 million second lien term loan in June 2016, we recorded a $6.0 million loss on extinguishment of debt during the nine months ended September 30, 2016 representing a $3.0 million call premium and a $3.0 million write-off of unamortized deferred financing costs.

Interest expense

Interest expense is primarily comprised of contractual interest incurred under our senior secured term loan and revolving credit facility, our prior second lien term loan credit facility (repaid in June 2016) and the amortization of related deferred financing costs (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion).

For the nine months ended September 30, 2017, total interest expense was $19.9 million, an increase of $5.0 million as compared to $14.9 million for the nine months ended September 30, 2016. For the nine months ended September 30, 2017, interest expense included $17.2 million of contractual interest and $2.7 million of other interest costs. For the nine months ended September 30, 2016, interest expense included $12.5 million of contractual interest and $2.4 million of other interest costs. Cash paid for interest was $16.7 million and $12.6 million for the nine month periods ended September 30, 2017 and 2016, respectively. Our higher interest expense and cash paid for interest for the nine months ended September 30, 2017 reflected our new senior secured term loan borrowed in connection with our acquisition of Epix in May 2017 (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion).

Interest income

Interest income primarily includes the amortization of discounts recorded on long-term accounts and contracts receivable, as well as interest earned on short-term investments. For the nine month periods ended September 30, 2017 and 2016, the amounts recorded as interest income were immaterial.

Other income, net

For the nine month periods ended September 30, 2017 and 2016, the amounts recorded as other income were immaterial.

Income tax benefit (provision)

For the nine months ended September 30, 2017, we recorded an income tax benefit of $30.2 million. This benefit primarily included one-time adjustments related to foreign remittance taxes, which were historically treated as deductions in our calculation of taxable income but were converted into foreign tax credits for all recent tax years beginning in 2011. Excluding one-time adjustments, our income tax provision for the current year period would have been $51.8 million, reflecting an effective tax rate of 34%. For the nine months ended September 30, 2016, we recorded an income tax provision of $54.7 million, which represented an effective tax rate of 35% (which excludes the nontaxable accounting gain on our acquisition of UAMG, discussed above). Excluding one-item adjustments, our income tax provision for these periods primarily included accruals for U.S. federal and state income taxes using statutory income tax rates, and, for the prior year period only, foreign remittance taxes attributable to international distribution revenue. However, our cash paid for income taxes was significantly less than our income tax provision due to the benefit we realized from deferred tax assets, primarily net operating loss carryforwards.

Liquidity and Capital Resources

General

Our operations are capital intensive. In recent years we have funded our operations primarily with cash flow from operating activities, bank borrowings, and through co-production arrangements. In 2017 and beyond, we expect to fund our operations with (a) cash flow from the exploitation of our film and television content, (b) cash on hand, (c) co-production arrangements, and (d) funds available under our revolving credit facility.

Bank Borrowings

In May 2017, and in connection with our acquisition of Epix, we amended our senior secured revolving credit facility (the "Revolving Credit Facility") to, among other things, add a senior secured term loan (the "Term Loan") (as amended, the "Credit Facility"). Our Credit Facility has $1.0 billion of total revolving commitments (plus an incremental $250.0 million accordion feature) and $850.0 million of Term Loan commitments. The Credit Facility bears interest at 2.00% over LIBOR and matures on May 11, 2022. The availability of funds under the Credit Facility is limited by a borrowing base calculation. At September 30, 2017, we had $123.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The $877.0 million of 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 certain expenditures, incur indebtedness, grant liens, dispose of property, merge, consolidate or undertake other fundamental changes, pay dividends and make distributions, make certain investments, enter into certain transactions, and pursue new lines of business outside of entertainment and/or media-related business activities. We were in compliance with all applicable covenants and there were no events of default at September 30, 2017.

In June 2016, we previously refinanced, upsized and extended our Revolving Credit Facility, and commensurately prepaid in full our prior $300.0 million second lien term loan including a $3.0 million call premium.

Cash Provided By Operating Activities

Cash provided by operating activities was $122.2 million and $487.5 million for the nine month periods ended September 30, 2017 and 2016, respectively. Operating cash flow for the nine months ended September 30, 2017 reflected our planned ramp in content investments. Our net cash spending for film and television content increased $290.5 million in the nine months ended September 30, 2017 and primarily included *Get Shorty* (season 1), *Fargo* (season 3), *Condor* (season 1), *The Handmaid's Tale* (seasons 1 and 2) and *Vikings* (season 5), as well as *Tomb Raider* and other film content expected to be released in 2018, plus programming for EPIX including first-run theatrical films from Paramount and Lionsgate. In comparison, operating cash flow for the nine months ended September 30, 2016 primarily reflected lower production activity and significant cash generation from the distribution of our franchise films, *Spectre* and *Creed*.

Cash Used In Investing Activities

Cash used in investing activities was $860.7 million for the nine months ended September 30, 2017 and primarily included $854.8 million of net cash paid for our acquisition of Epix ($970.9 million of cash paid net of $116.2 million of cash acquired), which was partially offset by cash received from our monetization of a non-core cost method investment. For the nine months ended September 30, 2016, cash used in investing activities was $89.2 million and primarily included our acquisition of the remaining 45% minority interests of United Artists Media Group (net of cash acquired).

Cash Provided By (Used In) Financing Activities

Cash provided by financing activities was $766.7 million for the nine months ended September 30, 2017 and primarily included $850.0 million of borrowings under our Term Loan, which was partially offset by $77.0 million of net repayments under our Revolving Credit Facility and $7.5 million of closing costs associated with the amendment to our credit facility in connection with our acquisition of Epix. For the nine months ended September 30, 2016 cash used in financing activities was $597.0 million and primarily included the prepayment of our $300.0 million second lien term loan plus $10.3 million of financing costs related to our Revolving Credit Facility. In addition, we completed $445.8 million of aggregate repurchases of our Class A common stock, which was partially offset by $160.0 million of net borrowing under our Revolving Credit Facility.

Commitments

Future minimum commitments under corporate debt agreements, creative talent and employment agreements, non-cancelable operating leases net of subleasing income, and other contractual obligations at September 30, 2017, were as follows (in thousands):

	Three Months Ended December 31,	Year Ended December 31,					
	2017	2018	2019	2020	2021	Thereafter	Total
Corporate debt (1)	$ -	$ 31,875	$ 42,500	$ 58,438	$ 63,750	$ 776,437	$ 973,000
Program rights (2)	54,300	170,700	35,800	2,500	1,200	10,200	274,700
Creative talent and employment agreements (3)	131,553	31,703	14,640	4,431	1,108	606	184,041
Operating leases	3,236	15,544	13,992	15,715	20,266	7,113	75,866
Other contractual obligations (4)	13,197	5,816	810	-	-	-	19,823
	$ 202,286	$ 255,638	$ 107,742	$ 81,084	$ 86,324	$ 794,356	$ 1,527,430

(1) Does not include interest costs.

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

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

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

As discussed above under *Liquidity and Capital Resources –Bank Borrowings*, we have a $1.0 billion Revolving Credit Facility. At September 30, 2017, we had $123.0 million drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The $877.0 million of remaining funds were entirely available to us. Our future capital expenditure commitments are not significant.