SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-30** | Period of Report: **1998-12-31**
SEC Accession No. 0000898430-99-001265

(HTML Version on secdatabase.com)

FILER

METRO-GOLDWYN-MAYER INC

CIK:**1026816**| IRS No.: **954605850** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-13481** | Film No.: **99578646**
SIC: **7812** Motion picture & video tape production

Mailing Address
2500 BROADWAY ST
SANTA MONICA CA 90404

Business Address
2500 BROADWAY ST
SANTA MONICA CA 90404
3104493000

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

Commission File No. 1-13481

METRO-GOLDWYN-MAYER INC.
(Exact name of registrant as specified in its charter)

<TABLE>
<S> <C>

Delaware	95-4605850
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

</TABLE>

<TABLE>
<S> <C>

2500 Broadway Street, Santa Monica, CA	90404
(Address of principal executive offices)	(Zip Code)

</TABLE>

Registrant's telephone number, including area code: (310) 449-3000

Securities registered pursuant to Section 12(b) of the Act:

<TABLE>
<S> <C>

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01	New York Stock Exchange

</TABLE>

Securities registered pursuant to Section 12(g) of the Act: None

----

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the Registrant's best knowledge, in definitive proxy or information statements incorporated by reference in Part II of this Form 10-K or any amendment to this Form 10-K. [_]

The aggregate market value of the voting stock (based on the last sale price of such stock as reported by the Dow Jones News Retrieval) held by non-affiliates of the Registrant as of March 19, 1999 was $172,604,534.

The number of shares of the Registrant's common stock outstanding as of March 19, 1999 was 150,873,728.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Registrant's proxy statement for the annual meeting to be held on May 11, 1999 (the "Proxy Statement"), to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the Registrant's fiscal year, are incorporated by

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

reference under Part III of this Form 10-K.

PART I

Item 1. Business

General

Metro-Goldwyn-Mayer Inc., a Delaware corporation (together, unless the context indicates otherwise, with its direct and indirect subsidiaries, "MGM" or the "Company"), is an entertainment company that is engaged primarily in the development, production and worldwide distribution of theatrical motion pictures and television programs. The Company, including Metro-Goldwyn-Mayer Studios Inc. ("MGM Studios"), United Artists Corporation ("UA"), Orion Pictures Corporation ("Orion"), G2 Films Inc. (formerly known as Goldwyn Films Inc.) ("G2 Films") and its other subsidiaries, is one of only seven major film and television studios worldwide. With over 5,000 film titles and over 8,900 episodes of television programming, the Company's library (the "Library") constitutes the largest collection of feature films in the world. Motion pictures in the Library have won over 215 Academy Awards, including Best Picture Awards for Annie Hall, The Apartment, The Best Years of Our Lives, Dances With Wolves, Hamlet, In the Heat of the Night, Marty, Midnight Cowboy, Platoon, Rain Man, Rocky, Silence of the Lambs, Tom Jones and West Side Story. The Library also includes 20 titles in the James Bond film franchise, five titles in the Rocky film franchise and nine titles in the Pink Panther film franchise. The Company is currently celebrating its 75th anniversary.

MGM's executive offices are located at 2500 Broadway Street, Santa Monica, California 90404. The Company's telephone number is (310) 449-3000.

Background of the Company

Metro-Goldwyn-Mayer ("Old MGM") was established in 1924 through the merger of Metro Pictures, Goldwyn Pictures and Louis B. Mayer Productions. A corporation wholly owned by Kirk Kerkorian became Old MGM's controlling shareholder in 1969. In 1981 Old MGM acquired UA, which had been formed in 1919 when Mary Pickford, Douglas Fairbanks, D.W. Griffith and Charlie Chaplin joined forces to release their own motion pictures, as well as motion pictures made by independent producers. In 1986 Turner Broadcasting System, Inc. ("Turner") acquired the businesses of Old MGM, and as part of that transaction, Tracinda Corporation ("Tracinda") and certain of the former stockholders of Old MGM concurrently acquired UA, including the UA library, from Old MGM. Shortly thereafter, UA reacquired the Metro-Goldwyn-Mayer name and logo and certain other assets from Turner. UA was then renamed MGM/UA Communications Co. ("MGM/UA"). Turner retained the film library created through the pre-1986 operations of Old MGM (the "Old MGM Library").

In November 1990 MGM/UA was acquired by Pathe Communications Corporation ("Pathe") and was renamed MGM-Pathe Communications Co. ("MGM-Pathe"), the predecessor to MGM Studios. In May 1992 Credit Lyonnais Bank Nederland N.V. ("CLBN"), Pathe's principal lender, foreclosed on substantially all of the stock of MGM-Pathe, following default by Pathe, and such stock was ultimately transferred to Consortium de Realisation ("CDR"), a wholly owned subsidiary of Credit Lyonnais S. A. ("CL").

In July 1993 Frank G. Mancuso was appointed as Chairman and Chief Executive Officer of MGM Studios. In January 1996 CDR announced its intention to sell MGM Studios.

Tracinda, senior management of MGM Studios and Seven Network Limited, a company formed under the laws of Australia ("Seven"), formed the Company to acquire all of the outstanding capital stock of MGM Studios and its subsidiaries, including UA, in October 1996 for an aggregate consideration of $1.3 billion (the "MGM Acquisition"). Tracinda is wholly-owned by Mr. Kerkorian.

In July 1997 the Company acquired all of the outstanding capital stock of Orion and its subsidiaries (the "Orion Companies"), including the entity formerly known as The Samuel Goldwyn Company ("Goldwyn") and now known as G2 Films, from Metromedia International Group, Inc. (the "Orion Acquisition"). In connection with the Orion Acquisition, the Company obtained the film and television libraries of the Orion

Companies consisting of approximately 1,900 film titles and 3,000 television

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

episodes. The Landmark Theatres owned by the Orion Companies were excluded from the Orion Acquisition.

In November 1997 the Company completed an initial public offering, whereby it issued and sold 9,000,000 new shares of common stock, $.01 par value per share (the "Common Stock") at a price per share of $20, less an underwriting discount, for net proceeds (after expenses of the initial public offering) to the Company of $165 million (the "IPO"). Concurrent with the consummation of the IPO, Tracinda purchased directly from the Company, at a purchase price of $18.85 per share (equal to the per share price to the public in the IPO, less the underwriting discount), 3,978,780 shares of the Common Stock for an aggregate purchase price of $75 million (the "Tracinda Purchase").

On September 1, 1998, Tracinda and a Delaware corporation that is principally owned by Tracinda (collectively, the "Tracinda Group") purchased 16,208,463 shares of the Common Stock from Seven, representing all of the capital stock of the Company held by Seven, for a price per share of $24 and an aggregate purchase price of $389 million.

In November 1998 the Company completed a rights offering (the "Rights Offering"), whereby it issued and sold 84,848,485 new shares of the Common Stock at a subscription price of $8.25 per share for net proceeds (after expenses of the Rights Offering) to the Company of $696.5 million. After giving effect to the completion of the Rights Offering and the exercise of the subscription rights distributed in connection therewith, the Tracinda Group continued to beneficially own approximately 89.5 percent of the outstanding Common Stock. In connection with the Rights Offering, the Company amended its Amended and Restated Certificate of Incorporation to increase the number of shares of the Common Stock authorized thereunder from 125,000,000 to 250,000,000. See "Item 4. Submission of Matters to a Vote of Securityholders."

In January 1999 the Company acquired from PolyGram N.V. and its subsidiaries ("PolyGram") certain film libraries and film-related rights (the "PFE Libraries") for consideration of $235 million (the "PFE Library Acquisition"). The PFE Libraries contain over 1,300 feature films and are comprised of (i) the Epic library, which consists of approximately 1,000 film titles acquired between 1992 and 1997 by CLBN and CDR from various filmed entertainment companies, (ii) the library of films released by PolyGram before March 31, 1996 and (iii) the Island/Atlantic and Vision/Palace libraries, which were acquired by PolyGram. After giving effect to the PFE Library Acquisition, the Library currently contains over 5,000 film titles and over 8,900 episodes of television programming.

On March 12, 1999, the Company and Warner Home Video ("WHV") entered into an agreement that terminates WHV's distribution of the Company's product in the home video markets on January 31, 2000. In connection with such agreement, the Company agreed to pay WHV $225 million, $112.5 million of which was paid on March 12, 1999 and the remaining $112.5 million (plus interest at a rate of eight percent per annum from March 1999) of which is payable in September 1999. For a further discussion, see "--Distribution--Home Video Distribution."

The Motion Picture and Television Industry

Motion Pictures--General. The motion picture industry consists of two principal activities: production and distribution. Production involves the development, financing and production of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures throughout the world in a variety of media, including theatrical exhibition, home video, television and other ancillary markets. The U.S. motion picture industry can be divided into major studios and independent companies, with the major studios dominating the industry in the number of theatrical releases. In addition to the Company (including Metro-Goldwyn-Mayer-Pictures Inc. ("MGM Pictures"), United Artists Pictures Inc. ("UA Pictures"), Orion and G2 Films), the major studios as defined by the Motion Picture Association of America ("MPAA") are The Walt Disney Company (including Buena Vista, Touchstone and Miramax) ("Walt Disney"), Paramount Pictures Corporation ("Paramount"), Sony Pictures Entertainment, Inc. (including Columbia (as defined below)) ("Sony Pictures"),

Twentieth Century Fox Film Corp. ("Fox"), Universal Studios, Inc. ("Universal"), and Warner Bros. (including Turner, New Line Cinema and Castle Rock Entertainment) ("Warner"). The major studios are typically large diversified corporations that have strong relationships with creative talent, exhibitors and others involved in the entertainment industry and have global film production and distribution capabilities.

Historically, the major studios have produced and distributed the majority of high grossing theatrical motion pictures released annually in the United

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

States. Over the past decade, the number of feature-length motion pictures released by the major studios has increased dramatically from 157 in 1989 (34.3 percent of the total) to 221 in 1998 (45.1 percent of the total). In addition, most of the studios have created or accumulated substantial and valuable motion picture libraries that generate significant revenues. These revenues can provide the major studios with a stable source of earnings that offsets the variations in the financial performance of their motion picture releases and other aspects of their motion picture operations.

The independent companies generally have more limited production and distribution capabilities than do the major studios. While certain independent companies may produce as many films as a major studio in any year, independent motion pictures typically have lower negative costs and are not as widely released as motion pictures produced and distributed by the major studios. Additionally, the independent companies may have limited or no internal distribution organizations and may rely on the major studios for distribution and financing.

Motion Picture Production. The production of a motion picture begins with the screenplay adaptation of a popular novel or other literary work acquired by the producer of the motion picture or the development of an original screenplay based upon a story line or scenario conceived or acquired by the producer. In the development phase, the producer may seek production financing and tentative commitments from a director, the principal cast members and other creative personnel. A proposed production schedule and budget are prepared. At the end of this phase, the decision is made whether or not to "greenlight," or approve for production, the motion picture.

After greenlighting, pre-production of the motion picture begins. In this phase, the producer engages creative personnel to the extent not previously committed, finalizes the filming schedule and production budget, obtains insurance and secures completion guaranties, if necessary. Moreover, the producer establishes filming locations, secures any necessary studio facilities and stages and prepares for the start of actual filming.

Principal photography, or the actual filming of the screenplay, generally extends from seven to 16 weeks, depending upon such factors as budget, location, weather and complications inherent in the screenplay. Following completion of principal photography, the motion picture enters what is typically referred to as post-production. In this phase, the motion picture is edited, opticals, dialogue, music and any special effects are added, and voice, effects and music soundtracks and pictures are synchronized. This results in the production of the negative from which release prints of the motion picture are made. Major studios and independent film companies hire editors, composers and special effects technicians on the basis of their suitability for a particular picture.

The production and marketing of theatrical motion pictures requires substantial capital. The costs of producing and marketing motion pictures have increased substantially in recent years. These costs may continue to increase in the future, thereby increasing the costs to the Company of its motion pictures. Production costs and marketing costs are rising at a faster rate than increases in either domestic admissions to movie theaters or admission ticket prices, leaving the Company and all producers of motion pictures more dependent on other media, such as home video and television, and foreign markets.

Motion Picture Distribution. The distribution of a motion picture involves the licensing of the picture for distribution or exploitation in various markets, both domestically and internationally, pursuant to a release pattern. These markets include theatrical exhibition, non-theatrical exhibition (which includes airlines, hotels and armed forces facilities), home video (including rental and sell-through), presentation on television (including pay-per-view, pay, network, syndication or basic cable) and marketing of the other rights in the picture and

underlying literary property, which may include publishing, merchandising and soundtracks. The domestic and international markets generally follow the same release pattern, with the starting date of the release in the international market varying from being concurrent with the domestic theatrical release to being as long as nine months afterwards. A motion picture typically is distributed by a major studio or one or more distributors that acquire rights from a studio or other producer in one or more markets or media or a combination of the foregoing.

Both major studios and independent film companies often acquire pictures for distribution through a customary industry arrangement known as a "negative pickup," under which the studio or independent film company agrees to acquire

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

from a production company all rights to a film upon completion of production, and also acquire completed films, as well as all associated obligations.

Television Production. The production of television series programming involves the development of a format based on a creative concept or literary property into a television script, the hiring of talent, the filming or taping of the program and the technical and post-production work necessary to produce a finished program. Television producers may originate projects internally or acquire them from others. If a concept is deemed suitable for development, the studio or other producer or network typically commissions and pays for a script. Once a script is ordered, one or more license agreements are negotiated with the potential broadcasters of such program. A pilot episode usually is ordered or commissioned prior to the determination of whether a series will be produced.

Television production can generally be divided into two distinct businesses: network production (i.e., television shows for ABC, CBS, NBC, Fox, UPN and WB) and non-network production (i.e., made-for-cable and first-run syndication). The economics of the two types of television production are different. In network production, a network generally orders approximately six to 13 initial episodes of each new series for a license fee equal to a percentage of the program's cost. The balance of the production cost can only be recouped through international sales and syndication if a series is successful and generally remains unrecouped for at least four years. In the non-network production or first-run syndication business, a producer seeking to launch a new series commits to produce a minimum number of episodes if the producer can "clear" the series by selling to individual television stations in sufficient markets throughout the country (generally comprising 70 percent of U.S. television households). Once produced, the episodes are immediately available for licensing to international broadcasters as well. This approach generally involves a lower production cost risk and earlier return on investment ("ROI") than the network production business; however, non-network programming also generally provides a lower ROI than successful network production. See "--Production--Television Production."

Television Distribution. The U.S. television market is served by network affiliated stations, independent stations and cable systems, although the number of independent stations has decreased as many formerly independent stations have become affiliated with new networks in recent years. During "prime time" hours, network affiliates primarily broadcast programming produced for the network. In non-prime time, network affiliates telecast network programming, off-network programming, first-run programming (programming produced for distribution on a syndicated basis) and programming produced by the local stations themselves. Independent television stations and cable networks, during both prime and non-prime time, produce their own programs and telecast off-network programs or first-run programs acquired from independent producers or syndicators. Syndicators generally are companies that sell to independent television stations and network affiliates programming produced or acquired by the syndicator for distribution.

Business Strategy

The Company is a premier global entertainment content company. The Company's goal is to become a fully integrated global entertainment company and thereby maximize the value of its assets, including the Library and its film and television production units. To achieve this goal, the Company seeks to:

Build and Leverage the Library. The Company believes that the Library is its most powerful asset and that the Library will continue to generate relatively stable cash flows through the worldwide distribution of its

titles. Management seeks to maximize the value of the Library by (i) producing new motion pictures and television programs that will not only be successful on their own, but will also increase the depth and breadth of the Library, (ii) aggressively marketing and repackaging the Library's titles, (iii) developing new distribution channels for delivering MGM branded programming, (iv) capitalizing on developments in technology and (v) further penetrating international markets as they grow. As opportunities arise, the Company may acquire or form partnerships for new distribution channels for the Library. Although the Company does not currently contemplate pursuing any library acquisitions following its acquisition of the Orion library and the PFE Libraries, the Company may elect to evaluate such opportunities as they arise. Finally, the Company expects to the benefit from the early termination of WHV's distribution of the Company's product in the home video markets, as well as the reversion over time of certain rights to its Library that have been previously licensed to others revert to the Company over time. See "--Distribution."

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Develop, Produce and Distribute Theatrical Motion Pictures. Through MGM Pictures and UA Pictures, the Company plans to produce or co-produce and distribute six to ten motion pictures annually across a variety of genres. The Company intends to (i) actively manage its production and release schedules to maximize overall performance of those motion pictures, (ii) tightly control development and production expenditures while maintaining the artistic integrity required to develop and produce successful feature films and (iii) utilize the Library as an inexpensive source for sequels and remakes and the expansion of certain well-tested, familiar film franchises. Additionally, the Company plans to produce, acquire or distribute approximately two to four specialty motion pictures annually through G2 Films. The Company may also distribute motion pictures produced by others.

Develop, Produce and Distribute Television Programming. The Company intends to focus primarily on the development and production of series for pay television and the first-run syndication business and intends to use its extensive Library as a source of ideas. Under its non-network television programming strategy, the Company generally has been able to enter into contracts during or shortly after completion of production of a series that provide for the recovery over time of substantially all production costs for the series. In addition to non-network television programming, the Company also develops programs such as two-hour television movies and mini-series and recently produced a series for network television, The Magnificent Seven. The Company may also consider joint ventures, co-productions and other partnering arrangements for certain of its series. See "--Production--Television Production."

Leverage the MGM Brand Name. The Company believes that the MGM name and its lion logo are among the most recognized in the world. The Company intends to capitalize on the value inherent in its name and logo through the distribution of branded programming and the selective development of high quality consumer products.

The Company intends to continue to pursue its goal of becoming an integrated global entertainment company. In connection with its pursuit of this goal, the Company may consider various strategic alternatives, such as business combinations with companies with strengths complementary to those of the Company and other acquisitions, as such opportunities arise. The Company may need to seek additional financing in order to complete any acquisitions. Acquisitions involve numerous risks, including diversion of management's attention away from the Company's operating activities. There can be no assurance that the Company will not encounter unanticipated problems or liabilities with respect to any acquisitions that have been or may be completed by the Company or with the integration of an acquired company's operations with those of the Company, and there can be no assurance that the anticipated benefits of any acquisitions that have been or will be completed by the Company will be achieved.

Film and Television Library

With the completion of the PFE Library Acquisition in January 1999, the Library became the largest motion picture library in the world. The Company currently owns or holds certain distribution rights to over 5,000 theatrical motion pictures. The Library also contains over half of all Hollywood studio feature films produced

since 1948. In 1948, certain major studios negotiated consent decrees requiring that the studios separate their exhibition businesses from their production and distribution businesses and mandating the divestiture of certain theater holdings. This is generally believed to have triggered greater competition among the studios and an increased emphasis on the potential for commercial success in the development and production stages, resulting in a greater focus on the content and quality of the motion pictures produced and distributed by the studios. The Company believes that films produced and developed after 1948 generally are more valuable than films that were previously produced and developed.

In addition to being the largest motion picture library in the world, the Library is also one of the most critically acclaimed libraries in the motion picture industry, representing one of the largest collections of Academy Award-winning films. The motion pictures in the Company's Library have won over 215 Academy Awards. Fourteen motion pictures in the Library have won the Academy Award for Best Picture, including Annie Hall, The Apartment, The Best Years of Our Lives, Dances With Wolves, Hamlet, In the Heat of the Night, Marty, Midnight Cowboy, Platoon, Rain Man, Rocky, Silence of the Lambs, Tom Jones and West Side Story.

The Library also includes over 8,900 episodes from television series

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

previously broadcast on prime-time network television or in first-run syndication, including episodes of The Addams Family, American Gladiators, Bat Masterson, Cagney & Lacey, Fame, Green Acres, Highway Patrol, In the Heat of the Night, Mr. Ed, The Patty Duke Show, Pink Panther, Sea Hunt and thirtysomething. The television series in the Library have won, among others, 59 Emmy awards and nine Golden Globe awards.

The Library includes titles from a wide range of genres, including dramas, comedies, action-adventure movies, westerns and suspense thrillers. Management believes that the Library's diversity, quality and extensive size provides the Company with substantial competitive advantages. The Company seeks to continue to build upon these advantages by producing and acquiring new motion pictures across a variety of genres and budget ranges to update and enhance the Library. See "--Production--Motion Picture Production."

The Company will continue to implement its strategy of developing new projects from existing Library assets. The Library represents a readily-available, "market tested" source of development ideas. For example, the Company had success with the film The Birdcage, a remake of La Cage aux Folles, and plans to release a remake of another of its Library titles, The Thomas Crown Affair, in June 1999. Furthermore, the Company has successfully expanded the valuable film franchises within its Library, most notably the James Bond franchise, with the commercial success of GoldenEye in 1995 and the release of the latest James Bond film, Tomorrow Never Dies, in December 1997. Tomorrow Never Dies has earned greater domestic box office receipts than any other film in the James Bond film franchise. Additionally, the Company has successfully developed television series based on Library motion pictures such as: The Magnificent Seven based on the movie of the same name; Poltergeist: The Legacy based on Poltergeist; Stargate SG-1 based on Stargate; and All Dogs Go to Heaven, based on the movie of the same name. The Company also produced a remake of Twelve Angry Men as a made-for-television movie for Showtime Networks Inc. ("Showtime").

The Company, together with Danjaq LLC (collectively with its predecessors, "Danjaq"), is the sole owner of all of the James Bond motion pictures. Eighteen James Bond motion pictures in the Library, in addition to the upcoming release The World Is Not Enough, are produced and distributed pursuant to a series of agreements with Danjaq. The motion pictures are produced by Danjaq, and the Company has the right to approve all key elements of the pictures, such as the selection of the director and the leading actors. The copyright in each of the motion pictures is owned jointly by the Company and Danjaq. Generally, the Company has the right to distribute each of the pictures in all media worldwide in perpetuity or for a term of 15 years. Where the Company's distribution rights are not perpetual, the rights revert to joint control by the Company and Danjaq after expiration of the distribution term. Danjaq owns any television series created that is based on the James Bond motion pictures, and the Company has the distribution rights to such series. Danjaq controls the merchandising rights with respect to the pictures, with the Company being entitled to receive a portion of the revenues from all merchandising licenses. Additionally, the Company controls all the marketing rights and the music from The Living Daylights (1987) and all subsequent pictures. All other rights relating to the pictures are controlled jointly by the Company and Danjaq. The agreements contain certain restrictions on the sale or licensing by the Company of any of its rights in the pictures.

Additionally, two James Bond motion pictures had previously been produced by other parties. In 1967 Columbia Pictures Industries, Inc. ("Columbia") and Famous Artists Productions Ltd. (a subsidiary of the Company) produced Casino Royale pursuant to an earlier license from Ian Fleming and in 1983, Warner and Taliafilm, Inc. produced Never Say Never Again. In 1998 the Company acquired the rights to Never Say Never Again and, as more fully set forth below, the Company and Danjaq recently acquired the rights to Casino Royale. With these two acquisitions the Library now contains every James Bond motion picture ever made and the Company is the only studio to hold such rights.

On October 13, 1997, Sony Pictures issued a press release announcing plans by its Columbia Pictures division to produce a series of new James Bond feature films based on works created by Ian Fleming, Kevin McClory and John Whittingham. On November 17, 1997, the Company and Danjaq filed an action in federal court in Los Angeles against Sony Corporation, Sony Pictures, Columbia, John Calley, Kevin McClory and Spectre Associates, Inc. ("Spectre") seeking declaratory and injunctive relief and/or damages for copyright infringement, trademark dilution, slander of title, unfair competition, inducing breach of contract and breach of fiduciary duties, and misappropriation of trade secrets. On January 23, 1998, the Company and Danjaq filed an amended complaint adding claims for trademark infringement, federal unfair competition and California trademark dilution. Among other things, the Company and Danjaq contend not only that Mr. McClory's rights were limited to

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

remaking Thunderball but that even those rights have expired under U.S. law pursuant to the doctrine of Stewart v. Abend, 495 U.S. 207 (1990), and that the rights during the current term of the copyright to make films using the James Bond character and other aspects of Ian Fleming's James Bond novels were acquired by Danjaq. The Company and Danjaq now co-own most of these rights. On May 19, 1998, the Company and Danjaq filed a motion for preliminary injunction on the copyright and trademark issues to preclude Sony Pictures from preparation, production, distribution, advertising or other exploitation of a James Bond motion picture. On July 29, 1998, that motion was granted and Sony Pictures, Columbia and the other defendants were preliminarily enjoined from the production, preparation, distribution, advertising or other exploitation in the United States of a James Bond motion picture in any medium and from using the "James Bond" and the "James Bond 007" trademarks in the United States. The defendants appealed the District Court's order granting the preliminary injunction to the United States Court of Appeals for the Ninth Circuit. On December 2, 1998, the Ninth Circuit affirmed the District Court's order granting the preliminary injunction. Thereafter, defendants filed a petition for rehearing en banc, which was denied by a three-judge panel of the Ninth Circuit on December 28, 1998. On March 29, 1999, the Company and Danjaq entered into a settlement agreement with Sony Pictures, Columbia and Mr. Calley (the "Sony Parties") that provided for a payment by the Sony Parties and pursuant to which the Sony Parties entered into an agreement which effectively makes permanent the court's July 1998 preliminary injunction. Specifically, the Sony Parties agreed (i) not to make or distribute any James Bond motion pictures in the United States based on Thunderball or any other purported rights deriving from Mr. McClory, and (ii) not to utilize the "James Bond" and the "James Bond 007" trademarks in the United States. Mr. McClory and Spectre did not participate in this settlement agreement. The Sony Parties have reassigned their counterclaims for copyright infringement to Mr. McClory, and the court has set a status conference for May 3, 1999 to allow Mr. McClory time to inform the court whether or not he wishes to pursue that claim. See "Item 3. Legal Proceedings."

Under the terms of a separate agreement entered into on March 29, 1999, the Company and Danjaq acquired from Columbia all of Columbia's rights to the 1967 James Bond film entitled Casino Royale and the Sony Parties agreed to broaden the contractual prohibition regarding making or distributing James Bond films and the James Bond trademarks, as described in the prior paragraph, throughout the world.

The Company seeks aggressively to market and distribute titles in the Library in existing pay and free television, home video and other markets worldwide. The Company believes that the size of the Library allows the Company to minimize the over-exploitation of any title and therefore better preserve the ongoing value of the Library by actively managing the rotation of titles through such markets. During the most recent three-year period, the Company exploited approximately 80 percent of the theatrical motion picture titles and approximately 45 percent of the television title episodes in the Library (excluding the titles in the PFE Libraries, which could

not yet be reflected in such calculation because of the recent nature of their acquisition by the Company). Rather than selling its titles on a single or multi-picture basis, the Company strives to strategically pool its motion picture and television titles into cohesive programming packages directed at specific markets, including purchasers of large quantity programming and services in emerging markets which may not have their own programming capabilities.

The Company also seeks aggressively to market and distribute its titles through developing technology. The Company believes that the development and growth of direct broadcast satellite ("DBS") and other new distribution systems may generate significant incremental profits for the industry as the number of channels requiring content grows. The Company believes that, with its extensive Library, including the recent addition of the PFE Libraries, and its branded programming strategy, the Company is well positioned to benefit from such growth and development.

The Company has differing types of rights to the various titles in the Library. In some cases, the Company owns the title outright, with the right to exploit the title in all media and territories for an unlimited time. In other cases, the title may be owned by a third party and the Company may have obtained the right to distribute the title in certain media and territories for a limited term. Even if a title is owned by the Company, the Company may have granted rights to exploit the title in certain media and territories to others. As of December 31, 1998, the Company owned outright, or had been granted rights in perpetuity to, approximately 60 percent of the titles in the Library (excluding the titles in the PFE Libraries, which could not yet be reflected in such calculation because of the recent nature of their

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

acquisition by the Company). The Company's rights in the other Library titles (excluding the titles in the PFE Libraries) are limited in time and, pursuant to the terms of the existing arrangements, the rights granted to the Company expire with respect to approximately six percent of the Library over the next two years (i.e. through the end of 2000), with respect to another approximately 13 percent over the six years thereafter (from 2001 to 2007), and with respect to another approximately 18 percent thereafter (from 2008 on). The Company has generally been able to renew such rights on acceptable terms; however no assurances can be made that it will continue to be able to do so in the future. In accordance with industry practice, for purposes of calculating the size of the Library, the Company includes any title that the Company has the right to distribute in any territory in any media for any term.

Due to certain long-term pre-paid licenses entered into by prior management, the Company does not expect to receive significant revenue with respect to substantial portions of its Library from domestic free and certain major international television markets for the next several years. As of December 31, 1998, the titles included in these licenses represent a cross-section of the titles in the Library, including approximately 50 percent of the pre-1990 MGM and UA titles, which have been licensed in one or more of the U.S., France, Spain and Germany, and approximately 25 percent of the Orion titles, which have been licensed in one or more of France, Spain, Germany and the United Kingdom. See "--Distribution--Pay and Free Television Distribution." The Company expects to benefit as certain rights to the Library that have been previously licensed to others revert to the Company over time. See "--Distribution."

In recent years the Company has derived approximately 40 percent of its revenues from non-U.S. sources due to its distribution of motion picture and television productions in foreign countries. As a result, the Company's business is subject to certain risks inherent in international trade, many of which are beyond its control, such as changes in laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes), differing degrees of protection for intellectual property and the instability of foreign economies and governments. In addition, fluctuations in foreign exchange rates can adversely affect the Company's business, results of operations and cash flows. See "--Regulation," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 7A. Quantitative and Qualitative Disclosures about Market Risk."

Production

Motion Picture Production

The Company currently develops and produces theatrical motion picture projects through two separate production entities, MGM Pictures and UA Pictures. The Company operates these production units independently with separate management teams and allows them to pursue independently the best new projects on the creative side of the business. At the same time, the Company supports the units with the benefits of centralized marketing, sales, legal, physical production and distribution functions. Direct access to senior management also expedites major decision-making. By utilizing its two separate production units, management believes that the Company benefits from the distinct creative talents and perspectives of each of its chief production executives, resulting in greater diversity within its overall release slate.

Through these production units, the Company intends under its current business plan to produce or co-produce and distribute six to ten motion pictures annually across a variety of genres and budget ranges and may also release additional pictures each year that are produced by other producers. Both production units employ a development staff of creative executives who work to refine concepts and scripts so that projects are developed to the point that production decisions can be made. The creative staffs of both MGM Pictures and UA Pictures currently have approximately 108 ongoing projects in the aggregate, which are in various phases of development and pre-production. The Company's current strategy is to have fewer projects in development at any one time than the other major studios in order to concentrate its efforts and assets on the projects that management believes could be the most commercially successful. The Company believes that this strategy results in lower development related write-offs and abandonment costs. Historically, the Company's development related write-offs and abandonment costs amounted to $24.1 million, $21.2 million, and $11.6 million in the years ended December 31, 1998, 1997 and 1996, respectively.

Additionally, the Company plans to release approximately two to four specialty motion pictures each year through G2 Films. These motion pictures

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

will be produced or co-produced by G2 Films or acquired through negative pickups or other distribution arrangements and will include motion pictures in a variety of genres generally involving producers and directors, writers or other talent who typically work outside of the studio system. The Company's investment in such pictures is expected to be significantly less than the Company's investment for pictures produced through MGM Pictures or UA Pictures. The Company believes that this strategy of releasing independent motion pictures will add greater diversity to the Company's release slate and enhance the Library both through the addition of new film product and the building of relationships with up-and-coming producers and directors, writers and other talent.

In order to manage the financial risks inherent in motion picture production, management has developed a rigorous budgeting and approval process and strictly controls the cost of each motion picture through active management involvement in all phases of the production process. When a project is considered to have commercial potential, budgets are developed independently by the physical production department to determine the below-the-line cost of a motion picture. At a point early in this process, a preliminary below-the-line estimate is combined with potential above-the-line costs, such as talent costs and participations, to form a model of the total cost of the motion picture. The Company then performs sensitivity analyses to determine the motion picture's potential ROI. The ROI range is developed using a preliminary cost model together with a revenue model based on the picture's budget, genre, cast, international appeal and other factors. The Company believes that, as a result of its focus on budgeting and controlling production expenditures, it is able to avoid unnecessary cost-overruns and excess expenditures.

The Company believes that it pursues fewer producer or talent "overhead" arrangements, in which a studio pays a portion of the overhead of creative talent (i.e., producer, director or actor) for the right to receive a "first look" at that party's projects, than other major studios. In general, the Company believes that its capital resources are better allocated to acquire literary properties or the services of talent for a specific project than to fund overhead. The Company's current business plan also calls for the Company's annual release slates to be comprised of proportionately fewer large budget "event" motion pictures than the current release slates of the other major studios.

The Company does not own any studio facilities or stages but rather leases facilities and sound stages on an "as needed" basis in connection with the production of specific motion picture and television projects. The Company has not experienced any difficulties in leasing appropriate facilities and sound stages when needed.

Motion picture production and distribution is highly speculative and inherently risky. There can be no assurance of the economic success of any motion picture since the revenues derived from the production and distribution of a motion picture (which do not necessarily bear a direct correlation to the production or distribution costs incurred) depend primarily upon its acceptance by the public, which cannot be predicted. The commercial success of a motion picture also depends upon the quality and acceptance of competing films released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, all of which can change and cannot be predicted with certainty. Further, the theatrical success of a motion picture is generally a key factor in generating revenues from other distribution channels. There is a substantial risk that some or all of the Company's motion pictures will not be commercially successful, resulting in costs not being recouped or anticipated profits not being realized. In that connection, although Tomorrow Never Dies and The Man In The Iron Mask performed better than anticipated, the Company's other major theatrical releases in 1998 performed below expectations. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following table details the Company's current 1999 release schedule.

Release Schedule

<TABLE>
<CAPTION>

Title	Approximate Release Date	Summary	Principal Actors
At First Sight(2).......	Released	Based on the true story	Val Kilmer, Mira

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

		by Oliver Sacks (Awakenings) of a blind man whose sight is restored and the effects it has on him, his sister and the woman he loves.	Sorvino, Kelly McGillis, Nathan Lane, Steven Weber
Just the Ticket.........	Released	A story of love, redemption and faith centering on a ticket scalper who must confront his past in order to hold onto the girl he loves.	Andy Garcia, Andie MacDowell
The Rage: Carrie 2(1)...	Released	A sequel to the 1976 horror thriller, The Rage: Carrie 2 is a supernatural thriller about a teenage loner whose telekinetic powers awaken when she becomes the focus of a cruel high school joke.	Amy Irving, Emily Bergl, Jason London
The Mod Squad(2)........	Released	A trio of juvenile delinquents become undercover cops to infiltrate a drug ring in the ultra-hip LA club scene.	Claire Danes, Giovanni Ribisi, Omar Epps, Josh Brolin
Molly(2)................	April 1999	A mentally challenged young woman's genius is unleashed after experimental surgery, while her brother's carefree lifestyle is turned on its side when he must care for her.	Elizabeth Shue, Aaron Eckhart
Tea With Mussolini......	May 1999	A coming-of-age tale about an illegitimate child who struggles to assert his independence and find his way into a life of art, taken from the autobiography of Franco Zeffirelli.	Cher, Judi Dench, Joan Plowright, Maggie Smith, Lily Tomlin

</TABLE>

<TABLE>
<CAPTION>

Title	Approximate Release Date	Summary	Principal Actors
One Man's Hero...........	May 1999	An adventure about the legendary Saint Patrick Battalion, who fought for Mexico alongside Pancho Villa in the Mexican-American War.	Tom Berenger
The Thomas Crown Affair(1)...............	June 1999	An adventure of a millionaire playboy who steals a priceless work of art and then strikes up a fiery romance with the brilliant female insurance investigator who is on to his game.	Pierce Brosnan, Rene Russo
Stigmata(2)..............	July 1999	When a young woman becomes the focus of	Patricia Arquette, Gabriel Byrne

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

		brutal assaults by an unseen attacker, a priest becomes more concerned with saving her life than denouncing her claims.	
Mr. Accident(3)..........	August 1999	The janitor of a free-range chicken farm meets the woman of his dreams and joins her in trying to thwart the tobacco industry's nefarious plans to addict new customers through nicotine-injected eggs.	Yahoo Serious, Helen Dallimore
Supernova(1).............	October 1999	Science-fiction thriller about a medical spaceship that responds to a distress signal and takes on a mysterious passenger.	James Spader, Angela Bassett, Lou Diamond Phillips, Robert Forster
The World Is Not Enough(1)...............	November 1999	Michael Apted directs the Company's 19th installment of the James Bond series.	Pierce Brosnan, Denise Richards, Sophie Marceau
Flawless(2)..............	December 1999	A tough, conservative security guard suffers a stroke and is assigned a rehabilitative program that includes singing lessons with the drag queen next door.	Robert De Niro, Philip Seymour Hoffman

</TABLE>

----

(1) Developed and produced by UA Pictures.
(2) Developed and produced by MGM Pictures.
(3) Developed and produced by G2 Films.

The Company may revise the release date of a motion picture as the production schedule changes or in such a manner as the Company believes is likely to maximize revenues. Additionally, there can be no assurance that any of the motion pictures scheduled for release will be completed, that completion will occur in accordance with the anticipated schedule or budget, or that the motion pictures will necessarily involve all of the creative talent listed above. See the discussion above.

Television Production

The Company is engaged in the development and production of episodic television series, mini-series and movies for distribution on domestic and international television networks, local independent and network-affiliated television stations, pay television networks, basic cable networks and home video. Since the re-establishment of its television series production operations in 1994, the Company has obtained commitments for approximately 1,030 hours of television programming, of which approximately 40 percent remained to be aired as of December 31, 1998. Historically, the Company's television activities were focused on the traditional network production business and made-for-television movies, and many of the television programs in the Library were produced as network series. However, since the networks have substantially lowered the license fees as a

percentage of the budget for network television programming in recent years, resulting in significantly larger production investment risks for the producers of such programming, the Company altered its television strategy in 1994 when the Company's management re-established the Company's television series production operations. See "--The Motion Picture and Television Industry."

Since 1994 the Company has focused primarily on the development and production of series for the first-run syndication business, which involves a lower production investment risk for the Company, and movies and mini-series for both network and off-network broadcasters. The Company's strategy is designed to (i) minimize up-front capital investment through the production of series for the first-run syndication business and through co-production arrangements, (ii) minimize risks associated with large deficit financing by

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

developing product such as two-hour movies or mini-series that generally offer stable, predictable cash flows, (iii) use valuable Library assets such as The Magnificent Seven, The Outer Limits, Poltergeist, Stargate and All Dogs Go to Heaven to develop recognizable products with enhanced marketability at a reduced cost and (iv) develop alternative types of programming, such as animated cartoon strips, talk shows, variety/magazine shows such as National Enquirer and reality-based programming such as LAPD--Life on the Beat.

As part of its strategy, the Company has entered into a programming arrangement with Showtime whereby the Company provides television series and movies for premiere on Showtime. Showtime has agreed to license from the Company exclusive U.S. pay television rights to the following television series: (i) 122 hours (six seasons) of The Outer Limits (winner of the Cable Ace award for Best Dramatic Series in 1995 and 1996) of which 32 hours remained to be aired as of December 31, 1998; (ii) 66 episodes (three seasons) of Poltergeist: The Legacy of which no episodes remained to be aired as of December 31, 1998; (iii) 88 episodes (four seasons) of Stargate SG-1 of which 52 episodes remained to be aired as of December 31 1998; and (iv) two new series (for a minimum commitment of 21 and 43 episodes each, respectively, including a two-hour episode) to be produced by the Company for Showtime, with one new series to commence broadcast in 2000 and one to commence in 2001. Showtime has also committed to a two-hour pilot for Species, a possible television series based on the theatrical motion picture of the same name. The Company has also acquired worldwide (excluding Canada) distribution rights to the Showtime series Dead Man's Gun (a Cable Ace nominee for Best Dramatic Series in 1997). Twenty-two new episodes of such series will be produced, giving the Company a minimum of 44 episodes that have not previously been distributed outside North America. Following their initial exhibition cycle on Showtime, the Company intends to exploit these programs further in other markets. In this respect, the Company has recently entered into a license agreement with Sci-Fi Channel for the exclusive domestic basic cable exhibition rights of The Outer Limits, Poltergeist: The Legacy and Stargate SG-I.

The programming agreement with Showtime also includes a commitment by Showtime to license seven made-for-television movies from the Company, five of which remained to be produced and all of which remained to be aired as of December 31, 1998.

Additionally, the Company has obtained a commitment from Paxson Communications ("Paxson") to license 88 episodes of Flipper, a one-hour series, which commitment includes a production order for 44 episodes. The series began airing in fall 1998 on Paxson's PAX NET network, comprised principally of owned and operated stations which cover in excess of 65 percent of U.S. television households.

The Company also has obtained a commitment from Fox Family Worldwide to license 40 episodes (of which 14 episodes are newly commissioned) of All Dogs Go to Heaven, a half-hour animated series that began airing in fall 1998. The Company has also entered into agreements to produce for U.S. broadcast syndication (i.e. licenses to individual television stations) 40 half-hour episodes of Robocop: Alpha Commando, an animated series based on the feature motion picture Robocop, and 13 half-hour episodes of The Lionhearts, an animated series based on Leo, the familiar MGM lion, and his cartoon "family."

In addition to National Enquirer, which will premiere in first-run syndication in fall 1999, the Company intends to develop additional series for first-run syndication for which production, if the Company elects to produce such series, would begin no earlier than 2000.

From time to time, the Company may produce series for network television on a selective basis, which typically require deficit financing but generally offer the potential for greater financial return. In its first sale of a series to network television since 1994, the Company produced a two-hour pilot and 21 episodes of The Magnificent Seven for CBS during the 1997/98 and 1998/99 broadcast seasons.

The Company may consider joint ventures, co-productions and other partnering arrangements for certain of its existing or future series in order to minimize the up-front capital investment and limit the financial risk to the Company with respect to the production of such series.

Since the Company's ability to recover production costs and realize profits on its television programs depends on various factors, including but not limited to the programs' acceptance by the public, fluctuation in prevailing advertising rates, and the ability to distribute the programs into licenses subsequent to their first-run license, there can be no assurance that the Company can recover the production costs or realize profits on any television

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

series. Thus, there is a substantial risk that some or all of the Company's television projects will not be commercially successful, resulting in costs not being recouped or anticipated profits not being realized. See "--Distribution" and "--Competition."

Distribution

Theatrical Distribution

General. The initial step in the release of a motion picture is the booking of engagements with theatrical exhibitors. The exhibitors retain a portion of the admissions paid at the box office, which generally includes a fixed amount per week, as well as a percentage of the admissions that escalates over time. A studio's or other producer's (or third party distributor's) share is approximately 50 percent of gross box office admissions, although such percentage, which has generally decreased in recent years, varies depending upon factors such as the number and box office performance of such studio's or other producer's recent releases.

The Company intends to release a slate of films appealing to a wide variety of audiences. By strategically timing the release of its motion pictures throughout the year, the Company intends to avoid some of the risks posed when a motion picture is inappropriately released during the most crowded and competitive box office seasons. The Company believes that this strategy is unlikely to have a negative impact on its ability to generate home video rentals.

All motion pictures that are released theatrically by the Company in the U.S. and Canada, whether produced by MGM Pictures, UA Pictures, G2 Films or third parties, are marketed and distributed by Metro-Goldwyn-Mayer Distribution Co. Additionally, the Company generally distributes its motion pictures in theatrical markets outside of the U.S. and Canada through United International Pictures B.V. ("UIP"), a partnership owned equally by the Company, Paramount and Universal. UIP is the world's largest theatrical motion picture distribution company outside the U.S., with distribution activities in over 50 countries. UIP has a cost sharing arrangement that requires each partner to be responsible for one-third of UIP's annual operating overhead. UIP charges each partner a distribution fee of 35 percent of gross theatrical receipts until the fee equals one-third of the annual operating costs of the partnership, and thereafter a negotiated percentage of any additional gross receipts as a fee for incremental use of the organization. Each partner bears all of its own releasing costs and retains all cash flow from its pictures after payment of fees.

The Company can elect to withdraw from UIP on November 1 of any year with at least one year's prior notice (although the Company has no current intention to withdraw). If the Company, or either other partner, withdraws, that partner is entitled to one-third of the book value of UIP less one-third of the estimated winding down costs of the partnership. Both Universal and Paramount have agreed not to withdraw from the partnership until after 2001; however, the Company believes that either party's exit from UIP would not have a material adverse effect on the Company's financial condition or results of operations, as the Company would expect to distribute its motion pictures in these territories by either modifying and downsizing the UIP structure or finding or developing satisfactory alternative methods for international distribution. There can be no assurance, however,

that such alternatives would not result in decreased revenues or profitability. The partners are prohibited from transferring their respective partnership interests. UIP received a "Statement of Objections" from the Competition Directorate of the Commission of European Communities in January 1998. A hearing was held before the European Commission in September 1998. See "--Regulation."

Co-Production and Distribution Agreements. In addition to producing feature motion pictures independently, the Company occasionally enters into co-production agreements, split rights deals and similar arrangements under which the Company retains certain distribution rights with respect to a picture and shares the cost of production with a partner that obtains other rights (generally outside of the U.S. and Canada). While such agreements limit the Company's risk relating to a motion picture's performance as they reduce the Company's production costs, such agreements also limit profitability. The Company also acquires rights to distribute films through negative pickup arrangements under which the Company acquires a completed motion picture, or certain rights therein, from a third party. Under co-production agreements, split rights deals or negative pickup arrangements, the Company may be committed to spend specified amounts for prints and advertising. Additionally, the Company occasionally enters into "rent-a-system" arrangements under which

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

the Company provides distribution services to an independent film company for a percentage distribution fee. Under rent-a-system arrangements the independent film company generally is responsible for all print and advertising costs. These types of arrangements may be entered into before, during or after production of a particular motion picture.

Theatrical Marketing. The Company's theatrical marketing department consists of five functional groups: research, media planning, advertising, promotion and publicity. The objective of the marketing department is to maximize each motion picture's commercial potential by designing and implementing a marketing campaign tailored to appeal to the picture's most receptive audience. The marketing process begins with research before a motion picture is completed. The research department determines, through audience screenings and focus groups, a motion picture's appeal to its most likely target audience. The marketing group begins to develop media plans and marketing materials well in advance of a motion picture's scheduled theatrical release. The media campaign generally begins six months before release with the circulation of teaser trailers, posters and exhibitor advertising materials. The campaign becomes more aggressive two to three months before release as full-length trailers are released in theaters and more significant materials are sent to exhibitors. Finally, a national campaign is launched four to five weeks before opening day. This media campaign generally involves advertising a picture's release on national television, including network prime time and syndication markets, national cable and radio and in magazines, newspapers and specific target markets, such as colleges. In addition, public appearances, such as television talk shows, are arranged for a picture's stars in order to promote the film. The entire process is managed by the Company's in-house staff, although outside agencies are frequently retained to provide creative input.

Home Video Distribution

The Company's marketing and distribution strategy in the home video market domestically and internationally is to (i) market its motion picture and television titles in cohesive packages, (ii) create branded product lines, (iii) adapt to a maturing home video market and (iv) release new motion pictures into the home entertainment market at the time of the year that it believes will generate the most sales without diminishing revenues from other markets. Under current management, the Company has repackaged and repriced a number of Library titles through the creation of various branded lines. Examples of these branded lines include MGM's Movie Time, Contemporary Classics, Screen Epics, Vintage Classics and Musicals. The Company believes this strategy has resulted in increased shelf space in video retail stores and that this increased visibility has led to increased sales of Library titles. This strategy has also been used to expand the sales and distribution of the Orion catalog titles. The addition of the PFE Libraries in January 1999 is expected to enhance the longevity and sales potential of the existing branded lines and to contribute to the creation of new branded lines. Additionally, in connection with new films which it releases into the market, the Company often releases related Library films, or groups of Library films in order to increase sales of both the Library films and new releases. An example is the upcoming worldwide re-release of the James Bond video catalog in connection with the fall 1999 theatrical

release of the Company's nineteenth installment of the James Bond series, The World Is Not Enough. The Company intends to continue this strategy of packaging groups of films or film franchises and releasing them in connection with the releases of its most highly visible new films.

MGM Home Entertainment Inc. ("Home Entertainment") manages the marketing and distribution of both current feature motion pictures and Library product of MGM Studios and its subsidiaries in the home video and other home entertainment markets.

In 1990, as part of the acquisition of MGM/UA by Pathe, MGM-Pathe (the predecessor in interest to MGM Studios), MGM/UA and UA Pictures (collectively, the "Parties") entered into an agreement (as amended, the "WHV Agreement") with the predecessor to WHV. Under the WHV Agreement, the Parties granted to WHV certain home video distribution rights with respect to new motion pictures and the motion picture library of MGM/UA, UA Pictures and their respective affiliates, subject to certain limited exceptions, throughout the world for a distribution fee expressed as a percentage of worldwide home video revenues (as determined under the WHV Agreement) and reimbursement of certain distribution expenses. The WHV Agreement was originally scheduled to expire in May 2003, with the home video rights of each of the films still covered by the WHV Agreement at that time reverting to MGM Studios or its affiliates five years after the film's initial availability in the U.S. home video market. On March 12, 1999 the Company, WHV and Turner entered into an agreement to

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

accelerate the expiration of the WHV Agreement. The Parties restructured the terms of the WHV Agreement, which will function as an interim distribution agreement (the "Transitional Video Agreement"), under which WHV will distribute certain of the Company's product in the home video marketplace while the Company establishes its own home video distribution network. The Transitional Video Agreement expires on January 31, 2000. In addition to accelerating the expiration of the WHV Agreement, (i) the Company agreed to pay WHV $225 million, $112.5 million of which was paid on March 12, 1999 and the additional $112.5 million (plus interest at a rate of eight percent per annum from March 1999) of which is payable in September 1999, (ii) the Company reconveyed as of January 1, 1999 to WHV the right that the Company had to distribute in the home video markets worldwide until June 2001, approximately 2,950 titles from the Old MGM Library, the Turner library and all pre-1949 Warner titles, which titles had been serviced under the WHV Agreement, and (iii) the Company, WHV and Turner released any claims against each other arising out of the WHV Agreement and the Turner video distribution agreements including claims previously advanced by WHV with respect to the Orion library. Under the Transitional Video Agreement, all security interests in favor of WHV over the assets of the Company have been released and the restrictive provisions previously contained in the WHV Agreement have been terminated, including restrictions on the acquisition and disposition of film rights and the requirement that the product of future affiliates of the Company be distributed under the WHV Agreement. WHV will distribute on home video the motion pictures that the Company elects to make available in the home video market throughout the world for a distribution fee determined under the Transitional Video Agreement and reimbursement of certain distribution expenses. In general, the percentage varies from 10 percent to 15 percent based upon the amount of worldwide home video revenues during the term and other factors. MGM Studios and its affiliates maintain direct control of all significant elements of distribution such as the determination of release dates, marketing, return policies and pricing for these home video releases. Laser disc and digital video disc ("DVD") distribution rights are also covered by the Transitional Video Agreement.

Even with the WHV Agreement in effect, the Company's home video sales have increased since 1993. From 1993 to 1998, the Company increased its annual worldwide home video gross revenue from feature films by 102 percent, from $243.0 million to $491.2 million. The Company believes that this increase is a result of more effective and efficient marketing by the Company, the distribution of more current product, the distribution of more titles due to the Orion Acquisition, the renegotiation by the Company of key vendor relationships and a reorganization of the Company's distribution infrastructure. Management believes that the agreement reached with WHV to accelerate the expiration of the WHV Agreement is an important step in enabling the Company to manage home video distribution in a more cost-effective manner and further increase sales and profitability.

The Company has recently begun entering into revenue sharing agreements for certain of its rental titles, pursuant to which the Company leases titles to rental establishments and receives a percentage of the consumer rental revenues generated from such titles. The Company anticipates that it will continue to enter into more of

such agreements in the future. Although no assurance can be given, in part because of the recent introduction of these arrangements in the industry, the Company believes that such arrangements may increase its revenues from the home video rental market, by allowing the Company to participate in increased revenues from successful titles, although such revenues will be received over a longer period.

The Company had licensed to Hallmark Entertainment Distribution Company, Inc. ("Hallmark") the right to distribute in the U.S. home video market substantially all of the library of G2 Films and Goldwyn. In February 1999, Hallmark's rights under such license reverted to the Company.

During 1998, the Company has released 15 Orion films to the rental market, including features Ulee's Gold, Fall, The Locusts and Retroactive, as well as the Company's television productions, Twelve Angry Men and the two-hour pilot of Stargate SG-1. The Company has also released under the Orion banner certain titles produced by Playboy Entertainment, the distribution rights to which were obtained as part of the Orion Acquisition.

The Company intends to capitalize on developing technologies such as DVD, a high-quality mass-produced delivery system for video and audio data. The Company believes that DVD is a promising technology that could generate significant incremental profits for the industry because, among other things, the format may be more attractive to retail purchasers than videocassettes. The Company was among the first major studios to make titles available on DVD

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

and, as of December 31, 1998, ranked fourth in total DVD market share behind Warner, Sony Pictures and Universal. Tomorrow Never Dies has become the largest selling DVD title yet released. The Company believes that it is well positioned to benefit if DVD is successful, since the high quality of DVD is expected to create additional demand for the many classic or familiar "collectible" titles in the Library. As DVD is a developing technology, it is uncertain when and if DVD will become a substantial revenue source; however the Company was encouraged by the progress of the format in 1998 and believes that DVD may increasingly provide incremental profits to the Company in the future.

Pay and Free Television Distribution

General. The Company generally licenses its current theatrical motion pictures for pay television through output agreements pursuant to which films not yet produced are pre-licensed for a specified fee paid on delivery. The Company believes that output agreements with international distributors with recognized expertise are beneficial as they assure that a significant advance will be received for a given territory and that a prominent distributor with recognized distribution and marketing capabilities will distribute the picture in such territory.

The Company intends to enter into relatively short-term licenses of its Library motion pictures for pay and free television in packages that are strategically designed for the relevant marketplace. The Company has created a proprietary database for use by its salesforce which contains detailed information on each of the Company's films, including dates of availability, media controlled by the Company, sales history, genre, format, length, stars, soundtrack, etc. This information can be utilized by the sales force in order to create strategically designed packages of motion pictures based on one or more various criteria. The Company believes that this system is one of the most advanced in the entertainment business and provides its sales force with an advantage in a competitive marketplace that requires large amounts of diverse content and is becoming more receptive to packaged programming.

Domestic Pay Television. The Company and Showtime have entered into a theatrical motion picture output agreement requiring the Company's future theatrical motion pictures to air on Showtime's pay television network. The first output period expires upon the first to occur of August 31, 2001 or the delivery of 150 pictures (other than specialty pictures) under the agreement. As of December, 1998, the Company had delivered 36 pictures to Showtime. The second output period commences on September 1, 2001 and expires upon the first to occur of December 31, 2003 or the delivery of 65 additional pictures (other than specialty pictures). Additionally, the agreement requires the Company's future specialty motion pictures (i.e., pictures released under the G2 Films logo) to air on Showtime's pay television network. The output period for specialty motion pictures expires upon the first to occur of December 31, 2003 or the delivery of 50 specialty motion pictures. The license fees for each picture are determined according to a formula based on U.S. theatrical rentals of such picture, with special provisions applicable to the specialty motion pictures.

Orion and Home Box Office ("HBO") have entered into a theatrical motion picture output agreement requiring future theatrical motion pictures produced and distributed by Orion (excluding pictures produced by G2 Films and distributed under both the prior and current G2 Films and Goldwyn logo) to air on HBO's pay television network. The license fees for each picture are determined according to a formula based on U.S. theatrical rentals of such picture. The agreement expires on December 31, 2001, but HBO has the right to extend the agreement through December 31, 2006.

Domestic Free Television. The Company distributes its feature motion pictures to U.S. and Canadian networks, local television stations in the U.S. and Canada and basic cable networks. The Company also generates revenue by granting syndication licenses on a barter basis. Barter syndication allows the television stations to license the Company's product in exchange for a portion of the local commercial air time. The Company, in turn, sells the inventory of commercial air time to advertisers on a national basis, while the television stations retain a portion of the commercial air time for local advertisers. The Company has used outside barter companies to sell television spots to advertisers in the past, but the Company commenced its own barter sales business in 1996.

In connection with the acquisition of MGM/UA by Pathe in November 1990, MGM-Pathe licensed the domestic free television rights to a substantial portion of its library (the UA library and the post-1986 MGM/UA titles in theatrical release at the time) and selected television programs to Turner for a period of ten years beginning from the availability of each such product in that

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

market. The license excludes motion pictures released theatrically after 1987. With respect to most of the motion pictures and television programming covered by the license, the domestic free television rights revert to the Company between 2000 and 2003. The Company expects to receive relatively little revenue from the licensing of the product covered by the agreement with Turner in the domestic free television market until such product reverts to the Company. The Company believes that, due to the significant increases in licensing fees for domestic television since 1990, the expiration of the Turner license and the subsequent ability of the Company to freely license the Library in this market will generate incremental revenue for the Company. See "--Film and Television Library."

International Pay and Free Television. The Company currently distributes its motion pictures and television product through pay television licenses in over 90 territories. The Company has output agreements with licensees in major territories, including Germany, France, the United Kingdom, Spain, Italy, Japan and Brazil. In 1998, the Company received $52.1 million in revenue from international pay television distribution, accounting for four percent of the Company's total revenue for the year.

The Company currently distributes its motion pictures and television product through free television licenses in over 100 territories. In 1998 the Company received $147.4 in revenues under these agreements, accounting for 12 percent of the Company's total revenues for the year. These license arrangements typically provide licensees with the right to exhibit the licensed motion pictures on television for a specific number of airings over a period of three to seven years.

However, in connection with the acquisition of MGM/UA by Pathe in November 1990, MGM-Pathe entered into long-term licenses of pay and free television rights for theatrical and television movies and, in some cases, television series in its Library at that time with United Communications (France) and F.O.R.T.A. (Spain). A similar agreement had been entered into in 1984 with Degeto Film (Germany). Substantially all of the license fees under these long-term licenses have already been paid to the Company, and therefore, the Company does not expect to receive significant revenue from these licenses in future periods. With respect to most of the motion pictures licensed to United Communications, the rights granted revert to the Company between 2000 and 2003. The James Bond features were excluded from such license. With respect to most of the motion pictures licensed to F.O.R.T.A., the free television rights revert to the Company between 1997 and 2000. With respect to most of the motion pictures and television series licensed to Degeto Film, the distribution rights granted revert to the Company between 1999 and 2010. See "--Film and Television Library."

Additionally, Orion has entered into certain long-term licenses covering a significant number of its library motion pictures in the international free and pay television markets. Orion has already received substantially all

of the license fees under these licenses, and therefore, the Company does not expect significant revenue from these licenses in future periods. Orion has licensed titles to Capitol Film and TV International (Germany), Compagnie Luxembourgeoise de Telediffusion (France), British Sky Broadcasting (the United Kingdom), Film Finance Group, Inc. and Principal Network Limited (Italy) and Televisio de Catalunya, S.A. (Spain). The distribution rights granted to Capitol Film and TV International revert to Orion in 2025. The distribution rights granted to Compagnie Luxembourgeoise de Telediffusion revert to Orion between 2003 and 2013. The distribution rights granted to British Sky Broadcasting currently are reverting to Orion, with such reversion being complete in 2002. The distribution rights granted to Film Finance Group, Inc. and Principal Network Limited revert to Orion between 1999 and 2012. The distribution rights granted to Televisio de Catalunya, S.A. currently are reverting to Orion, with such reversion being complete in 2010. The Company believes that, due to the importance of France, Spain, Germany, the United Kingdom and Italy and the significant increases in licensing fees for television in these markets since 1990, the expiration of these licenses and subsequent ability of the Company to freely license its Library in these markets could create substantial incremental revenue for the Company.

The MGM/UA and Orion licenses discussed above (in "--Domestic Free Television" and "--International Pay and Free Television") cover a cross-section of the motion pictures in the Library. Although the Company exploits the remaining titles in the Library in these markets, they do not generate significant revenues.

In addition to licensing packages of films, the Company holds equity positions ranging from approximately five percent to 25 percent in joint ventures such as LAPTV, Telecine, Star Channel and MovieVision, which are

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

emerging international premium film satellite television networks broadcasting in different territories around the world. The Company has entered into license agreements with respect to each of LAPTV, Telecine, Star Channel and MovieVision, licensing theatrical and television motion pictures and, in some cases, television series to each of the ventures.

The Company believes its strategy of providing strategically pooled, branded MGM programming through the licensing of programming packages to cable networks and television broadcasters, as well as through the development of new channels of distribution that deliver the Company's programming, will provide opportunities in the international marketplace as foreign countries continue to develop cable television infrastructures and satellite television becomes more available.

In April 1998, the Company and its 50 percent equity partner, an indirect subsidiary of Tele-Communications, Inc., decided to terminate their joint venture in MGM Gold (Asia). MGM Gold (Asia) was a 24-hour satellite and cable delivered service based and distributed in Asia that featured programming from the Library. The recent economic deterioration in Southeast Asia, which has resulted in diminished growth in multi-channel television households, and slower than anticipated penetration in India and China were the primary factors influencing the decision to cease the operations of the joint venture. As of December 31, 1998, the Company had invested $13.2 million in the venture. The Company anticipates that the formal dissolution of the venture will be concluded shortly and that the Company will not incur any additional costs with respect to the venture.

In May 1998 the Company and an indirect subsidiary of United International Holdings ("UIH") combined their Latin American cable programming businesses into a joint venture to form MGM Networks Latin America. Under the terms of the joint venture, the Company acquired a 50 percent equity interest in the venture by contributing its branded Brazilian channel MGM Gold Brazil, which began operations in December 1997. In turn, UIH contributed its 100 percent interest in United Family Communications, which produces and distributes The Family Channel Latin America and Casa Club TV to satellite and cable television distributors throughout Latin America and Brazil, for a 50 percent interest in the joint venture. The Company shares equally in the profits of the venture and is obligated to fund 50 percent of the joint venture's expenses up to a maximum of approximately $24.0 million, of which the Company had funded approximately $12.4 million as of December 31, 1998. The Company has entered into license agreements with MGM Networks Latin America, licensing certain motion pictures and trademarks to the venture. The joint venture is based in Coral Gables, Florida.

Over the next 12 months, The Family Channel Latin America will be re-branded and reintroduced as MGM Latin America and MGM Brazil. MGM Latin America and MGM Brazil are general entertainment channels programmed primarily with MGM theatrical and television product. Casa Club TV is a women's and children's channel offering home and garden, cooking and children's programming. As of December 31, 1998, MGM Networks Latin America distributed its signal to approximately 3.4 million homes in 15 countries throughout Latin America.

Trademarks and Consumer Products

The Company owns the registered trademarks Metro-Goldwyn-Mayer, MGM, United Artists, UA, Orion and variations thereof, as well as trademarks, logos and other representations of characters, such as The Pink Panther, from motion pictures and television series produced or distributed by the Company. In 1998 the Company received $10.7 million in revenue from the licensing of these trademarks, logos and other representations.

The Company believes that the MGM name and its lion logo are among the most recognized in the world, evoking images of classic Hollywood. The Company believes that the name and logo represent assets the value of which has been substantially unrealized in the past. The Company plans to pursue a focused branded strategy that will capitalize upon the Company's name and logo and seek licensing opportunities for such name and logo, as well as other trademarks of the Company, in a range of high quality product categories (including gifts and apparel), distribution channels and venues.

In February 1980 Old MGM granted to a predecessor-in-interest to MGM Grand, Inc. an exclusive open-ended royalty-free license, which was amended in 1992 and further amended in 1998. Pursuant to the license, as amended, MGM Grand, Inc. has the right to use certain trademarks that include the letters "MGM," as well as logos and names consisting of or related to stylized depictions of a lion, in its resort hotel and/or gaming businesses and other businesses that are not related to filmed entertainment. In 1986 MGM/UA granted MGM Grand Air, Inc. ("Grand Air") an exclusive open-ended royalty-free license to use one of

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

its logos consisting of a stylized depiction of a lion in Grand Air's airline business. See "Item 13. Certain Relationships and Related Transactions."

In June 1985 Old MGM granted to Walt Disney Productions ("Disney Productions") an exclusive long-term worldwide license (the "Disney License") to use all trademarks, trade names and logos and names of or related to MGM Studios that do not include "United Artists" or "UA" and materials from certain MGM and UA motion pictures and television programming in movie theme parks of Disney Productions that include a working movie production studio, as long as Disney Productions makes the annual license payments. The Disney License becomes non-exclusive with respect to the licensed trademarks, trade names and logos on May 1, 2004 and is subject to early termination under certain circumstances. Additionally, if Disney Productions did not develop a movie theme park in any given territory by June 27, 1994, the Disney License requires that Disney Productions reconvey all the licensed rights in that territory to MGM Studios. MGM Studios requested the reconveyance of the licensed rights in all territories except the U.S., and Disney Productions reconveyed those rights in 1995 for all territories except the U.S. and Western European territories in 1995. The Company filed a lawsuit against Disney Enterprises, Inc. ("Disney") to compel the reconveyance of the licensed rights in Western Europe and for termination of the Disney License and received a jury verdict in its favor with respect to the rights in Western Europe in November 1997. The court granted summary adjudication in favor of Disney denying the Company the right to terminate Disney's U.S. rights under the Disney License. The Company appealed this aspect of the decision. In an unpublished opinion filed February 16, 1999, the Court of Appeal affirmed the trial court's summary adjudication in favor of Disney on this issue. The Company filed a petition for rehearing on March 3, 1999, which was denied on March 11, 1999. On March 26, 1999, the Company filed a Petition for Review of the Appellate Court's decision with the Supreme Court of the State of California.

For additional information regarding the Company's operating segments, see the Company's Consolidated Financial Statements and the Notes thereto.

Competition

Motion picture production and distribution are highly competitive businesses. The Company faces competition from companies within the entertainment business, as well as alternative forms of leisure entertainment. The Company competes with the other major studios, numerous independent motion picture and television production companies, television networks and pay television systems for the acquisition of literary properties, the services of performing artists, directors, producers and other creative and technical personnel and production financing. Numerous organizations with which the Company competes in the motion picture industry have significantly greater financial and other resources than does the Company, while the independent production companies may have less overhead than the Company. Most of the other major studios are part of large diversified corporate groups with a variety of other operations, including television networks and cable channels, which can provide both means of distributing their products and stable sources of earnings that offset the fluctuations in the financial performance of their motion picture and television operations. See "--Distribution--Pay and Free Television Distribution."

In addition, the Company's motion pictures compete for audience acceptance and exhibition outlets with motion pictures produced and distributed by other companies. As a result, the success of any of the Company's motion pictures is dependent not only on the quality and acceptance of a particular picture, but also on the quality and acceptance of other competing motion pictures released into the marketplace at or near the same time. The number of films released by the Company's competitors, particularly the other major film studios, in any given period may create an oversupply of product in the market, thereby potentially reducing the Company's share of gross box office admissions and may make it more difficult for the Company's films to succeed.

Competition is also intense within the television industry. There are numerous suppliers of television programming, including the networks, the television production divisions of the major studios and independent producers, all of which compete actively for the limited number of available broadcast hours. The Company's programming competes with first-run programming, network reruns and programs produced by local television stations. Competition is also intense in supplying motion pictures and other programming for the pay television and home video markets. Numerous organizations with which the Company competes in the television industry have significantly greater financial and other resources than does the Company.

The entertainment industry in general, and the motion picture and television

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

industry in particular, are continuing to undergo significant changes, primarily due to technological developments. Due to this rapid growth of technology, shifting consumer tastes and the popularity and availability of other forms of entertainment, it is impossible to predict the overall effect these factors will have on the potential revenue from and profitability of feature-length motion pictures and television programming.

Employees

As of December 31, 1998, the Company had approximately 870 full-time and part-time regular employees in its worldwide operations. Of that total, approximately 130 were primarily engaged in production and development, approximately 310 were primarily engaged in sales, marketing and distribution and approximately 430 were primarily engaged in management and administration. Approximately 160 of the Company's employees are currently covered by employment contracts. The Company also hires additional employees on a picture-by-picture basis in connection with the production of the Company's motion pictures and television programming. The salaries of these additional employees, as well as portions of the salaries of certain full-time employees of the Company who provide direct production services, are typically allocated to the capitalized cost of the related motion pictures or television programming. The Company believes that its employee and labor relations are good.

Approximately 30 of the Company's current employees (and many of the employees that the Company hires on a project-by-project basis) are represented under industry-wide collective bargaining agreements with various unions, including the Writers Guild of America (the "WGA"), the Directors Guild of America (the "DGA")

the Screen Actors Guild ("SAG"), and the International Alliance of Theatrical Stage Employees. A strike, job action or labor disturbance by the members of any of these organizations may have a material adverse effect on the production of a motion picture or television program within the United States.

Regulation

In 1994 the U.S. was unable to reach agreement with its major international trading partners to include audiovisual works, such as television programs and motion pictures, under the terms of the General Agreement on Trade and Tariffs Treaty ("GATT"). The failure to include audiovisual works under GATT allows many countries (including members of the European Union, which consists of Austria, Belgium, Denmark, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden and the United Kingdom) to continue enforcing quotas that restrict the amount of U.S. produced television programming which may be aired on television in such countries. The European Union Council of Ministers has adopted a directive requiring all member states of the European Union to enact laws specifying that broadcasters must reserve, where practicable, a majority of their transmission time (exclusive of news, sports, game shows and advertising) for European works. The directive must be implemented by appropriate legislation in each member country. Under the directive, member states remain free to require broadcasters under their jurisdiction to comply with stricter rules. For example, France requires that original French programming constitute a required portion of all programming aired on French television. These quotas generally apply only to television programming and not to theatrical exhibition of motion pictures, but quotas on the theatrical exhibition of motion pictures could also be enacted in the future. There can be no assurance that additional or more restrictive theatrical or television quotas will not be enacted or that countries with existing quotas will not more strictly enforce such quotas. Additional or more restrictive quotas or more stringent enforcement of existing quotas could materially and adversely affect the business of the Company by limiting the ability of the Company to exploit fully its motion pictures internationally.

Distribution rights to motion pictures are granted legal protection under the copyright laws of the U.S. and most foreign countries, which laws provide substantial civil and criminal sanctions for unauthorized duplication and exhibition of motion pictures. The Company seeks to take appropriate and reasonable measures to secure, protect and maintain or obtain agreements to secure, protect and maintain copyright protection for all of its motion pictures or television programming under the laws of applicable jurisdictions. Motion picture piracy is an international as well as a domestic problem. Motion picture piracy is extensive in many parts of the world, including South America, Asia (including Korea, China and Taiwan), the countries of the former Soviet Union and other former Eastern bloc countries. In addition to the MPAA, the Motion Picture Association, the American Film Marketing Association and the American Film Export Association monitor the progress and efforts made by

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

various countries to limit or prevent piracy. In the past, these various trade associations have enacted voluntary embargoes of motion picture exports to certain countries in order to pressure the governments of those countries to become more aggressive in preventing motion picture piracy. In addition, the U.S. government has publicly considered trade sanctions against specific countries which do not take steps to prevent copyright infringement of U.S. produced motion pictures. There can be no assurance that voluntary industry embargoes or U.S. government trade sanctions will be enacted. If enacted, such actions could impact the amount of revenue that the Company realizes from the international exploitation of its motion pictures depending upon the countries subject to such action and the duration of such action. If not enacted or if other measures are not taken, the motion picture industry (including the Company) may continue to lose an indeterminate amount of revenues as a result of motion picture piracy.

Article 85(1) of the Treaty of Rome prohibits certain agreements and concerted practices which prevent, restrict or distort trade within the European Union. In 1989 after several years of proceedings before the European Commission, UIP received an exemption from Article 85(1) with respect to its theatrical distribution activities in the European Union. In connection with this exemption, UIP gave certain undertakings to the European Commission. The 1989 exemption expired in 1993, and although UIP has filed an application seeking renewal of such exemption, such renewal has not yet been granted. In July 1996 the European Commission conducted unannounced visits of four of UIP's offices in Europe, interviewing officers and copying documents.

These visits were based on complaints submitted to the European Commission by third parties, to the effect that UIP was acting in an anti-competitive manner and was not complying with certain of the undertakings given by it in connection with receiving the 1989 exemption. In addition, on January 16, 1998, the Competition Directorate of the Commission of the European Communities issued a Statement of Objections in response to UIP's renewal application. The Statement of Objections indicates that, although a final decision has not been taken, the Commission is of the opinion that the exemption granted to UIP in 1989 should not be extended and that UIP should be required to cease operations in the European Union. UIP responded to the Statement of Objections on May 15, 1998 and a hearing was held before the European Commission in late September 1998. There can be no assurances that the 1989 exemption will be renewed or renewed on terms acceptable to UIP. If the 1989 exemption is not renewed at all or not renewed on terms satisfactory to UIP and UIP ceases or reduces operations, the Company believes that it will be able to find or develop satisfactory alternative methods for international distribution, although such alternatives may result in decreased revenues and profitability from such distribution.

On February 2, 1999, the United States Department of Justice (Antitrust Division), in the course of an antitrust investigation, issued a Civil Investigative Demand ("CID") to the Company, requiring it to produce certain documents and answer certain interrogatories concerning conduct, activities or proposed action in the motion picture exhibition industry. The Company believes that similar demands were issued to other major studios. The Company is in the process of complying with the CID. While the Company has communicated with the Department of Justice regarding the investigation, the Company believes it is too early to determine the Department of Justice's intentions and whether the Company is a target of the investigation.

The Code and Ratings Administration of the MPAA assigns ratings indicating age-group suitability for theatrical distribution of motion pictures. The Company has followed and will continue to follow the practice of submitting its pictures for such ratings. As a substantial number of the Company's films are rated "R," under rules enforced by theatrical exhibitors, children under certain ages may attend the applicable motion picture only if accompanied by an adult.

United States television stations and networks as well as foreign governments impose content restrictions on motion pictures which may restrict in whole or in part exhibition on television or in a particular territory. There can be no assurance that such restrictions will not limit or alter the Company's ability to exhibit certain motion pictures in such media or markets.

Item 2. Properties

The Company leases approximately 375,000 square feet of office space, as well as related parking facilities, for its corporate headquarters in Santa Monica, California under several leases which generally expire in May 2003. The Company also leases approximately 27,000 square feet in New York City for its East Coast publicity, marketing and theatrical and television distribution offices under a lease that expires in June 2004. Additionally, the Company

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

leases approximately 40,000 square feet of office space in Los Angeles, California, which has been used by Orion, under a lease that expires in January 2004. The current monthly rent for the above properties is approximately $1.1 million in the aggregate (in addition to taxes, insurance and certain expenses paid by the Company). The Company has subleased the office space used by Orion prior to its acquisition by the Company. In addition, the Company maintains relatively small domestic theatrical and television distribution branches in Boca Raton, Chicago, Montreal, San Juan and Toronto and has small international television distribution offices in London and Sydney. In 1998 the Company closed its Paris office and consolidated its European distribution operations to its London office. The Company also leases studio facilities and stages from unaffiliated parties on an as-needed basis in connection with the production of specific motion picture and television projects.

The Company believes that its current facilities are adequate to conduct its business operations for the foreseeable future.

Item 3. Legal Proceedings

In the matter entitled Estate of Jim Garrison, et al. v. Warner Bros., Inc., et al., which was filed as a putative class action in Los Angeles County Superior Court in November 1995 against, among others, MGM Pictures and UA Pictures and the other major studios, the court denied class certification in August 1996 with respect to the plaintiffs' claims for breach of contract, breach of implied covenant, unjust enrichment, imposition of constructive trust and declaratory relief and, initially, granted class certification with respect to plaintiffs' claims for price fixing under the Sherman Antitrust Act, price fixing under state law, boycott/concerted refusal to deal under the Sherman Antitrust Act and boycott/concerted refusal to deal under state law. The court subsequently announced that its grant of the plaintiffs' class certification motion might have been "inadvertent" and issued an order on its own motion requesting briefing on the issue whether the class should be decertified. After such briefing and by Order dated May 26, 1998, the court decertified the plaintiff class with respect to plaintiffs' remaining claims for price fixing under the Sherman Antitrust Act, price fixing under state law, boycott/concerted refusal to deal under the Sherman Antitrust Act and boycott/concerted refusal to deal under state law. The plaintiffs have announced their intention to proceed against all defendants, including MGM Pictures and UA Pictures, on their legal theories but solely as to the Warner Bros. motion picture "JFK." Trial has been set for October 18, 1999. The defendants filed motions for summary judgment. By Order entered January 28, 1999, the court denied defendants' motions in part and continued defendants' motions in part, reopening discovery limited to certain issues related to one motion and ordering supplemental briefing regarding those issues. In March 1999, the parties lodged with the court a stipulation and proposed order dismissing the case with prejudice. The Company anticipates that the court will order the case dismissed shortly.

In May 1996 MGM Studios initiated an action in Los Angeles County Superior Court against Disney to compel the reconveyance of rights granted to Disney Productions with respect to Western European territories under the Disney License. See "Item 1. Business--Trademarks and Consumer Products." MGM Studios also claims that Disney Productions' breach of the reconveyance obligation entitles MGM Studios under the terms of the Disney License to terminate the Disney License altogether. The Company believes that if the Disney License is terminated, the loss of revenue to the Company will be minimal, and the Company may be able to relicense or otherwise exploit these rights on more favorable terms. Trial proceedings with respect to such action began in October 1997, and the Company has received a jury verdict in its favor with respect to the Western European rights on November 5, 1997. The court granted summary adjudication in favor of Disney denying the Company the right to terminate Disney's U.S. rights under the Disney License. The Company appealed this aspect of the decision. In an unpublished opinion filed February 16, 1999, the Court of Appeal affirmed the trial court's summary adjudication in favor of Disney. The Company filed a petition for rehearing on March 3, 1999, which was denied on March 11, 1999. On March 26, 1999, the Company filed a Petition for Review of the Appellate Court's decision with the Supreme Court of the State of California.

In the two consolidated litigations entitled Turner Broadcasting System, Inc. et al. vs. Tracinda Corporation and Turner Broadcasting System, Inc., et al. vs. Metro-Goldwyn-Mayer Inc., (Base File CV-S-97-415), in April 1998 the Company moved to dismiss the Amended Complaint against it on jurisdictional grounds. In such litigation, MGM Studios, as successor-in-interest to UA, and Tracinda are defendants in consolidated actions in the United States District Court for the District of Nevada. Turner alleges that, as a result of Turner's 1986 acquisition of a predecessor-in-interest to MGM Studios and related

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

transactions, there was a $260 million tax loss and that the defendants are contractually obligated to pay over to Turner any resulting tax benefits attributable to that loss that Tracinda has received or will be allowed. The Company has not claimed and will not receive any such tax benefits. The Internal Revenue Service has disallowed both Turner's and Tracinda's tax claims, which are now subject to appeal from the United States Tax Court. Based upon information to date, the Company's management believes that it is unlikely that the Turner litigation will have a material adverse effect on the Company's financial condition or results of operations. The Nevada court has stayed the action against MGM Studios pending a final decision in the tax court proceedings.

Orion is a defendant in a matter entitled Sidney Sapsowitz et al. v. John W. Kluge, Metromedia International Group, Inc., and Orion Pictures Corp., et al., which was filed in June 1997. The plaintiffs claim a "finder's

fee" of $28.5 million in connection with the Orion Acquisition. Pursuant to the terms of agreements executed in connection with the Orion Acquisition, the Company has indemnification from Metromedia International Group, Inc. with respect to the payment of any finder's fee. As a result, management believes that the Sapsowitz litigation will not have any material adverse effect on the Company's financial condition or results of operations.

In December 1998, the action entitled Samuel Goldwyn, Jr., et al. v. Metro-Goldwyn-Mayer Studios Inc., et al., which had been pending in the Los Angeles County Superior Court and in which the Company had been a defendant, was dismissed by agreement between the parties. The plaintiff's complaint, originally served in October 1997, had alleged, among other things, fraud and deceit, breach of various agreements, breach of fiduciary duty, trademark infringement and unfair competition. The complaint had sought, among other relief, damages in excess of $5 million, an injunction against the defendants' use of the trademarks covered by the trademark license, injunctive relief preventing the Company from using the "Goldwyn" name in connection with the licensing or exhibition of any new film that had not been acquired by G2 Films, termination of a distribution agreement and unspecified punitive damages.

On November 17, 1997, the Company and Danjaq filed an action in federal court in Los Angeles against Sony, Sony Pictures, Columbia, John Calley, Kevin McClory and Spectre seeking declaratory and injunctive relief and/or damages for copyright infringement, trademark dilution, slander of title, unfair competition, inducing breach of contract and breach of fiduciary duties, and misappropriation of trade secrets, based on Sony Pictures' publicized assertion on October 13, 1997 that it had the right (together with Mr. McClory) to create its own James Bond film franchise.

Prior to 1959, Ian Fleming authored a number of novels depicting the adventures of James Bond, and commencing in 1959, Mr. Fleming and Kevin McClory collaborated on the development of certain plot lines and treatments and a script entitled Thunderball, featuring the James Bond character. In that connection, Mr. McClory ultimately acquired from Mr. Fleming certain rights to make a feature film using the James Bond character in these plot lines. Mr. Fleming thereafter wrote a novel of the same name. In 1961, Mr. McClory commenced litigation against Mr. Fleming with regard to the script, the novel and certain related rights.

In 1962, prior to the settlement of the Fleming-McClory litigation, Mr. Fleming effectively granted to a predecessor-in-interest of Danjaq the exclusive worldwide rights to, among other things, make films based on Mr. Fleming's existing or future James Bond novels (other than Thunderball or Casino Royale) and to create original screenplays about the adventures of James Bond not based on Mr. Flemings's James Bond novels. This agreement further provides that the film rights to the Thunderball novel that were the subject of the Fleming-McClory litigation would also be transferred to Danjaq's predecessor to the extent Mr. Fleming was permitted to transfer such rights following completion of the litigation.

The Fleming-McClory litigation was resolved in 1963 by a settlement among Mr. Fleming, Mr. McClory and the other parties to the litigation in which Mr. McClory acknowledged that Mr. Fleming was the creator and proprietor of the James Bond character. Pursuant to that settlement, Mr. McClory was, in effect, given the film rights in the Thunderball documents and scripts attached to the settlement agreement, the rights to reproduce any part of Mr. Flemings's Thunderball novel in a film and to exhibit any such film in any manner whatsoever and the rights to use the James Bond character in the film Thunderball. The Company believes these rights, at most, give Mr. McClory the right to make films of the story in the novel Thunderball (i.e. a "remake" of Thunderball). Mr. McClory produced the film Thunderball (with UA and Danjaq)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

in 1965. Mr. McClory has at various times since 1963 taken the position that he has broader rights to use the James Bond character than simply remake Thunderball, but since 1965 he has only made the 1983 film Never Say Never Again, which Mr. McClory claimed was a remake of the film Thunderball.

The complaint filed in November 1997 by the Company and Danjaq seeks various forms of legal relief based on the Company's position that the defendants do not have any legal right to produce or distribute a franchise of James Bond films, or any James Bond films, in the United States. On January 23, 1998, the Company and Danjaq filed an amended complaint adding claims for trademark infringement, federal unfair competition

and California trademark dilution. The Company and Danjaq contend not only that Mr. McClory's rights were limited to remaking Thunderball but that even those rights have expired under U.S. law pursuant to the doctrine of Stewart v. Abend, 495 U.S. 207 (1990), and that the rights during the current term of the copyright to make films using the James Bond character and other aspects of Ian Fleming's James Bond novels were acquired by Danjaq. The Company and Danjaq now co-own most of these rights. They also contend that Mr. Calley misappropriated trade secret information about the James Bond franchise when he left UA Pictures for Sony Pictures. On February 12, 1998, Sony Pictures and Columbia filed an answer and counterclaim asserting, among other things, that Mr. McClory owns the rights to materials he claims were the genesis of the cinematic James Bond, and that Sony Pictures is the assignee of those rights and that they are therefore owed an accounting of profits on all James Bond films Danjaq and the Company have produced and marketed in the United States. Mr. McClory answered the complaint on March 19, 1998, asserting contentions similar to Sony Pictures'. On April 10, 1998, the Company and Danjaq filed a motion to dismiss a portion of one of Sony Pictures' claims for relief, the Third Claim For Relief seeking an accounting of the Company's and Danjaq's profits in exploiting the James Bond franchise. While that motion was pending, but before it was heard, Sony Pictures and Columbia on May 1, 1998 filed a First Amended Counterclaim making certain modifications to their claims, including a modification to the Third Claim For Relief so that it no longer seeks an accounting but instead seeks damages for copyright infringement. On May 19, 1998, the Company and Danjaq filed a motion for preliminary injunction on the copyright and trademark issues to preclude Sony Pictures from preparation, production, distribution, advertising or other exploitation of a James Bond motion picture. On July 29, 1998, that motion was granted and Sony Pictures, Columbia and the other defendants were preliminarily enjoined from the production, preparation, distribution, advertising or other exploitation in the United States of a James Bond motion picture in any medium and from using the "James Bond" and the "James Bond 007" trademarks in the United States. The defendants appealed the District Court's order granting the preliminary injunction to the United States Court of Appeals for the Ninth Circuit. On December 2, 1998, the Ninth Circuit affirmed the District Court's order granting the preliminary injunction. Thereafter, defendants filed a petition for rehearing en banc, which was denied by a three-judge panel of the Ninth Circuit on December 28, 1998. On March 29, 1999, the Company and Danjaq entered into a settlement agreement with the Sony Parties that provided for a payment by the Sony Parties and pursuant to which the Sony Parties entered into an agreement which effectively makes permanent the court's July 1998 preliminary injunction. Specifically, the Sony Parties agreed (i) not to make or distribute any James Bond motion pictures in the United States based on Thunderball or any other purported rights deriving from Mr. McClory, and (ii) not to utilize the "James Bond" and the "James Bond 007" trademarks in the United States. Mr. McClory and Spectre did not participate in this settlement agreement. The Sony Parties have reassigned their counterclaims for copyright infringement to Mr. McClory, and the court has set a status conference for May 3, 1999 to allow Mr. McClory time to inform the court whether or not he wishes to pursue that claim.

Under the terms of a separate agreement entered into on March 29, 1999, the Company and Danjaq acquired from Columbia all of Columbia's rights to the 1967 James Bond film entitled Casino Royale and the Sony Parties agreed to broaden the contractual prohibition regarding making or distributing James Bond films and the James Bond trademarks, as described in the prior paragraph, throughout the world. See "Item 1. Business--Film and Television Library."

The Company believes that a remake of Thunderball by Mr. McClory would not have a material adverse effect on the Company's business or results of operations. However, a determination that Mr. McClory has broader rights to produce or exploit other films, television programs or other similar programs that are based, in whole or in part, on the James Bond character or that he has a right to any of the profits from the James Bond films that Danjaq and the Company have produced could have a material adverse effect on the Company's business and results of operations.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

On December 10, 1997, plaintiffs Nova Entertainment, GmbH and HAT International, GmbH filed suit in the United States District Court for the Central District of California, against the Company, for claims arising out of the Company's decision in 1997 not to enter into a financing, production and distribution arrangement with the plaintiffs. The complaint seeks damages in excess of $90 million in fees the plaintiffs claim they would have received from an alleged production of nine motion pictures over three years, along with punitive damages

in an unstated amount. In response to the plaintiffs' complaint, the Company has denied all of plaintiffs' allegations, including their claims for breach of both oral and written contract. On December 31, 1997 and March 2, 1998, the Company filed consecutive motions to dismiss. The motions were granted in part, leaving only plaintiffs' claims for breach of oral contract, fraud, negligent misrepresentation and interference with prospective economic advantage. Discovery is ongoing. Based upon information to date, the Company's management believes that it is unlikely that the plaintiffs' claims will have a material adverse effect on the Company's financial condition or results of operations. The Company plans vigorously to defend itself against such claims.

On February 2, 1999, the United States Department of Justice (Antitrust Division), in the course of an antitrust investigation, issued a CID to the Company, requiring it to produce certain documents and answer certain interrogatories concerning conduct, activities or proposed action in the motion picture exhibition industry. The Company believes that similar demands were issued to other major studios. The Company is in the process of complying with the CID. While the Company has communicated with the Department of Justice regarding the investigation, the Company believes it is too early to determine the Department of Justice's intentions and whether the Company is a target of the investigation.

In addition, from time to time the Company becomes involved in other litigation arising in the normal course of business, and the Company believes that none of such other litigation as is currently pending will have a material adverse effect on the Company's financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Securityholders

In connection with the Rights Offering, the Company amended its Amended and Restated Certificate of Incorporation (the "Amendment") in order to increase the number of shares of the Common Stock authorized thereunder from 125,000,000 to 250,000,000. The Amendment ensured that the Company had enough authorized shares to effect the Rights Offering and to allow for other future issuances by the Company. The Amendment was approved by the Board of Directors of the Company and the Tracinda Group, which represents a majority of the outstanding Common Stock. Pursuant to Section 228 of the Delaware General Corporation Law, the Company notified all holders of Common Stock of this action by way of the prospectus issued in connection with the Rights Offering (which also served as an Information Statement pursuant to Rule 14c-2 under the Exchange Act). The approval by the Tracinda Group (in the form of a written consent) was sufficient to satisfy the applicable requirements under Delaware law that the Amendment be approved by the stockholders of the Company. No further approval by or meeting of holders of the Common Stock was required in connection with the Amendment. Thus, the Company did not solicit any proxies or consents in connection with the Amendment. The Amendment took effect upon the completion of the Rights Offering.

Item 4(a). Executive Officers of the Company

Frank G. Mancuso, age 65, has been the Chairman of the Board and Chief Executive Officer of the Company since October 1996 and has been the Chairman of the Board and Chief Executive Officer of MGM Studios since July 1993. Prior to joining MGM Studios, Mr. Mancuso was the Chairman and Chief Executive Officer of Paramount from September 1984 to March 1991, having served Paramount in numerous other capacities beginning in 1963, and was an entertainment industry consultant and private investor from March 1991 to July 1993.

A. Robert Pisano, age 56, was appointed as a director and Vice Chairman of the Board of Directors of the Company immediately following the IPO. Mr. Pisano has served as Vice Chairman of the Company and MGM Studios since March 1997 and, prior thereto, served as Executive Vice President of MGM Studios from August 1993 to March 1997. Prior to joining MGM Studios, Mr. Pisano was Executive Vice President of Paramount from June 1985 to May 1991, where he served as General Counsel and a member of the Office of the Chairman. Prior to 1985 and from February 1992 to August 1993, Mr. Pisano was a partner with the law firm of O'Melveny & Myers LLP.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

William A. Jones, age 57, has been Senior Executive Vice President and Secretary of the Company and MGM Studios since June 1997 and, prior thereto, served as Executive Vice President-Corporate Affairs and Secretary of MGM Studios since January 1995. Mr. Jones served as Executive Vice President, General Counsel and Secretary of MGM-Pathe and MGM Studios from May 1991 to January 1995 and as General Counsel and Secretary of predecessors to the Company since 1983. Mr. Jones was a director of MGM-Pathe from June 1991 to January 1992.

Daniel J. Taylor, age 42, has been Senior Executive Vice President and Chief Financial Officer of the Company and MGM Studios since June 1998 and, prior thereto, was Executive Vice President--Corporate Finance since August 1997. From May 1991 to July 1997, Mr. Taylor served as an executive of Tracinda. Prior thereto, Mr. Taylor served as Vice President--Taxes and in various other capacities at the predecessor of the Company, from 1985 to May 1991.

Robert Brada, age 33, has been Executive Vice President and General Counsel of the Company and MGM Studios since August 1998 and, prior thereto, served as Executive Vice President of the Company and MGM Studios from June 1998 through August 1998 and was Senior Vice President and Deputy General Counsel since June 1995. Prior to joining MGM Studios, Mr. Brada was with the law firm of White & Case LLP in its Los Angeles and Paris offices from 1990 to June 1995.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Common Stock

The Company's Common Stock is listed with, and trades on, the New York Stock Exchange ("NYSE") under the symbol "MGM." On March 19, 1999 the closing sale price per share of the Common Stock on the NYSE, as reported by the Dow Jones News Retrieval, was $11.31. The following table sets forth the high and low closing sale prices of the Common Stock on the NYSE, as reported by the Dow Jones News Retrieval, for the period from the date of commencement of trading of the Company's Common Stock on the NYSE, November 13, 1997 through December 31, 1998.

<TABLE>
<CAPTION>

<S>	High <C>	Low <C>
1997		
Fourth Quarter (November 13-December 31, 1997)	$21 7/8	$19 3/8
1998		
First Quarter	24 1/2	17 1/2
Second Quarter	27	21 1/2
Third Quarter	22 3/16	13 7/8
Fourth Quarter	13 3/16	7 1/8

</TABLE>

As of March 19, 1999, there were 150,873,728 shares issued and outstanding and in excess of 2000 beneficial holders of the Company's Common Stock, including individual participants in security position listings.

The Company has not paid any dividends to date on the Common Stock and currently intends to retain any earnings to provide funds for the operation and expansion of its business and for the servicing and repayment of indebtedness. Therefore, the Company does not intend to pay cash dividends on its Common Stock for the foreseeable future. Furthermore, as a holding company with no independent operations, the ability of the Company to pay cash dividends will be dependent upon the receipt of dividends or other payments from its subsidiaries. In addition, the Company's principal credit facility contains certain covenants which, among other things, restrict the payment of dividends by the Company. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Any determination to pay cash dividends on the Common Stock in the future will be at the sole discretion of the Company's Board of Directors.

Recent Sales of Unregistered Securities

Pursuant to Mr. Mancuso's employment agreement, Mr. Mancuso receives an annual stock purchase payment of $3 million (payable annually in advance in

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

November of each year), out of the after tax proceeds of which he is required to purchase shares of the Common Stock. For the year ended December 31, 1998, Mr. Mancuso purchased 159,082 shares of the Common Stock for aggregate consideration of approximately $3.0 million. Registration was not required because the transactions did not involve a public offering under Section 4(2) under the Securities Act of 1933, as amended (the "Securities Act"). See "Item 11. Executive Compensation--Employment Agreements--Frank G. Mancuso."

For the year ended December 31, 1998, the Company contributed an aggregate of 42,116 shares of unregistered Common Stock valued at approximately $891,000 as its matching contribution to the MGM Savings Plan (the "Savings Plan"). In addition, in connection with the Rights Offering and as required by the Savings Plan, the trustee of the Savings Plan purchased 8,189 shares of unregistered Common Stock from the Company for an aggregate of $91,107, representing the proceeds from the sale of the subscription rights received by the Savings Plan in the Rights Offering. Registration for such shares was not required because the transactions did not constitute "sales" under Section 2(3) of the Securities Act. On August 7, 1998, the Company filed a registration statement on Form S-8 with the Commission with respect to up to one million shares of Common Stock authorized to be issued pursuant to the Savings Plan.

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data of the Company (including its predecessor) presented below as of December 31 of each of the years 1994 and 1995, the period from January 1 to October 10, 1996, the period from October 11 to December 31, 1996 and the years ended December 31, 1997 and 1998 and each of the years or periods then ending have been derived from the audited Consolidated Financial Statements of the Company. The audited Consolidated Financial Statements of the Company for the years ended December 31, 1997 and 1998, and the period from October 11 to December 31, 1996, and the audited Consolidated Financial Statements of MGM Studios for the period from January 1 to October 10, 1996 were audited by Arthur Andersen LLP, independent public accountants. The audited Consolidated Financial Statements of MGM Studios for the years ended December 31, 1995 and 1994 were audited by PricewaterhouseCoopers LLP, independent public accountants.

The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and the related Notes thereto included elsewhere in this Form 10-K.

<TABLE>
<CAPTION>

	Predecessor			Successor		
	Year Ended December 31,		January 1 to October 10,	October 11 to December 31,	Year Ended December 31,	
	1994	1995	1996	1996(2)	1997(2)(4)	1998(2)(4)
	(in thousands, except share data)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Statements of Operations Data						
Revenues................	$ 597,121	$ 860,971	$ 912,706	$ 228,686	$ 831,302	$1,240,723
Expenses:						
Films and television production and distribution..........	668,516	894,280	953,820	195,076	799,539	1,191,848
General and administration expenses.............	49,314	64,175	60,056	18,319	87,644	92,244
Severance and related costs................	--	--	--	--	--	13,182
Goodwill amortization..	14,876	14,876	11,570	1,717	11,230	14,289
Provision for impairment...........	--	--	563,829(3)	--	--	--
	732,706	973,331	1,589,275	215,112	898,413	1,311,563
Operating income (loss).	(135,585)	(112,360)	(676,569)	13,574	(67,111)	(70,840)
Interest expense, net of amounts capitalized....	(33,860)	(66,386)	(71,375)	(9,875)	(53,105)	(80,611)
Interest and other income, net...........	2,070	10,372	3,179	813	2,447	3,984

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income (loss) before provision for income taxes..................	(167,375)	(168,374)	(744,765)	4,512	(117,769)	(147,467)
Income tax provision ...	(3,877)	(935)	(273)	(4,346)	(10,345)	(10,181)
Net income (loss).......	$ (171,252)	$ (169,309)	$(745,038)	$ 166	$ (128,114)	$ (157,648)
Earnings (loss) per share:						
Basic..................				$ 0.01	$ (4.47)	$ (2.08)
Diluted................				$ 0.00	$ (4.47)	$ (2.08)
Weighted average number of common shares outstanding						
Basic..................				16,692,217	28,634,362	75,816,326
Diluted................				37,796,672	28,634,362	75,816,326
Other Operating Data (unaudited)						
Cash flow from operating activities............	$ 216,289	$ 371,657	$ 343,137	$ 61,328	$ 245,318	$ 433,543
Cash flow from investing activities............	(464,031)	(710,812)	(380,142)	(1,390,861)	(1,285,674)	(903,922)
Cash flow from financing activities............	239,965	328,029	44,852	1,345,394	1,028,784	521,566
EBITDA(1)..............	(103,499)	(81,588)	(87,289)	16,709	(49,098)	(47,987)
Capital expenditures....	9,099	9,376	6,901	2,079	9,555	14,005
Depreciation expense....	5,335	4,021	4,645	1,418	6,783	8,564
Balance Sheet Data						
Cash and cash equivalents............	$ 28,797	$ 17,128	$ 24,717	$ 16,381	$ 3,978	$ 54,839
Film and television costs, net............	1,412,607	1,565,438	1,006,402	1,099,201	1,867,126	2,076,663
Total assets...........	2,235,622	2,440,254	1,744,234	1,774,668	2,822,654	3,158,978
Bank and other debt.....	876,866	1,217,316	1,229,499	444,427	890,508	715,574
Stockholders' equity....	829,059	659,499	--	903,122	1,378,555	1,919,657
Cash dividends..........	--	15,448	3,995	--	--	--

</TABLE>

----

(1) "EBITDA" is defined as earnings before interest, taxes, depreciation and non-film amortization. While many in the financial community consider EBITDA to be an important measure of comparative operating performance, it should not be construed as an alternative to operating income or cash flows from operating activities (as determined in accordance with generally accepted accounting principles ("GAAP"); EBITDA does not reflect cash necessary or available to fund cash requirements, and the items excluded from EBITDA, such as depreciation and non-film amortization, are significant components in assessing the Company's financial performance. Other significant uses of cash flows are required before cash will be available to the Company, including debt service, taxes and cash expenditures for various long-term assets. The Company's calculation of EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

(2) Financial data presented for periods subsequent to October 10, 1996 reflect the consolidated balance sheet and results of operations of the combined entity resulting from the MGM Acquisition.

(3) The proceeds from the sale of MGM Studios were insufficient to recover the net asset value of MGM Studios on the date of the disposition by CDR. Accordingly, the Company recorded a provision for impairment of intangible assets of $563.8 million.

(4) Financial data presented for periods subsequent to July 10, 1997 reflect the consolidated balance sheet and results of operations of the combined entity resulting from the Orion Acquisition.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report includes forward-looking statements. Generally, the words "believes," "anticipates," "may," "will," "should," "expect," "intend,"

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

"estimate," "continue," and similar expressions or the negative thereof or comparable terminology are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, including the matters set forth in this report or other reports or documents the Company files with the Securities and Exchange Commission from time to time, which could cause actual results or outcomes to differ materially from those projected. Undue reliance should not be placed on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to update these forward-looking statements.

The following discussion and analysis should be read in conjunction with the "Item 6. Selected Consolidated Financial Data" and the Company's Consolidated Financial Statements and the related Notes thereto and other financial information contained elsewhere in this Form 10-K.

General

The Company is engaged primarily in the development, production and worldwide distribution of theatrical motion pictures and television programming. See "Item 1. Business."

Sources of Revenue

The principal sources of motion picture industry revenue are the domestic and international distribution of motion pictures, including theatrical exhibition, home video and television (network, syndication, basic cable, pay and pay-per-view). Over the last decade, the relative contributions of these components of revenues have changed dramatically. Although revenues from domestic theatrical distribution have increased, growth in total motion picture industry revenues has resulted predominantly from increased revenues derived from the distribution of motion pictures internationally as well as from other media and distribution channels.

The Company's feature films are exploited through a series of sequential domestic and international distribution channels, typically beginning with theatrical exhibition. Thereafter, feature films are first made available for home video generally six months after theatrical release; for pay television, one year after theatrical release; and for syndication, approximately three to five years after theatrical release. The Company's television programming is produced for initial broadcast on either pay, syndicated or network television in the United States, followed by international territories and, in some cases, worldwide video markets.

The Company distributes its motion picture and television productions in foreign countries and, in recent years, has derived approximately 40 percent of its revenues from foreign sources. Approximately 25 percent of the Company's revenues are denominated in foreign currencies. In addition, the Company incurs certain operating and production costs in foreign currencies. As a result, fluctuations in foreign currency exchange rates can adversely affect the Company's business, results of operations and cash flows. The Company, in certain instances, enters into foreign currency exchange contracts in order to reduce exposure to changes in foreign currency exchange rates that affect the value of its firm commitments and certain anticipated foreign currency cash flows. These contracts generally mature within one year. The Company does not enter into foreign currency contracts for speculative purposes. Realized gains and losses on contracts that hedge anticipated future cash flows were not material in any of the periods presented herein. Deferred gains and losses on foreign exchange contracts as of December 31, 1998 were not material. See "Item 7A. Quantitative and Qualitative Disclosures about Market Risk."

Cost Structure

General. In the motion picture industry, the largest component of the cost of producing a motion picture generally is the negative cost, which includes the "above-the-line" and "below-the-line" costs of producing the film. Above-the-line costs are costs related to the acquisition of picture rights and the costs associated with the

producer, the director, the writer and the principal cast. Below-the-line costs are the remaining costs involved in producing the picture, such as film studio rental, principal photography, sound and editing.

Distribution expenses consist primarily of the costs of advertising and preparing release prints. The costs of advertising associated with a major domestic theatrical motion picture release are significant and typically involve national and target market media campaigns, as well as public appearances of a film's stars. These advertising costs are separate from the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

advertising costs associated with other domestic distribution channels and the international market.

The major studios generally fund production costs from cash flow generated by motion picture and related distribution activities or bank and other financing methods. Over the past decade, expenses in the motion picture industry have increased rapidly as a result of increased production costs and distribution expenses. Additionally, each of the major studios must fund substantial overhead costs, consisting primarily of salaries and related costs of the production, distribution and administrative staffs, as well as facilities costs and other recurring overhead.

Participations and Residuals. In connection with the production and distribution of a motion picture, major studios generally grant contractual rights to actors, directors, screenwriters, producers and other creative and financial contributors to share in the gross receipts or contractually defined net profits from a particular motion picture. Except for the most sought-after talent, these third-party participations are generally payable after all distribution fees, marketing expenses, direct production costs and financing costs are recouped in full.

Major studios also typically incur obligations to pay residuals to various guilds and unions including the WGA, the DGA and the SAG. The residual payments are made on a picture-by-picture basis with respect to the exploitation of a motion picture in markets other than the primary intended markets for such picture and are calculated as a percentage of the gross revenues derived from the exploitation of the picture in these ancillary markets.

The Company's cost structure for motion pictures generally follows the industry structure described above. For a discussion of television programming cost structure, see "Item 1. Business--The Motion Picture and Television Industry."

In recent years the Company has experienced significant fluctuations in the level of its production activities. In July 1993 a new management team was brought into MGM Studios with a mandate to increase its production and distribution activities in anticipation of the eventual sale of MGM Studios. As a result, production and distribution expenditures increased substantially in 1994 and 1995. Starting in January 1996 (when CDR announced its intention to sell MGM Studios) through the sale of MGM Studios on October 10, 1996, no new production was approved, and accordingly, production expenditures on new films decreased significantly during 1996. Following the MGM Acquisition in October 1996, production activity increased as the Company resumed a normalized production and distribution level. These fluctuations in production and distribution expenditures had a material impact on operating results and cash flows during the related periods and will continue to do so at least through the end of 1999.

Industry Accounting Practices

Revenue Recognition. Revenues from theatrical distribution of feature motion pictures are recognized on the dates of exhibition. Revenues from home video distribution, together with related costs, are recognized in the period in which the product is available (assuming it has been shipped) for sale at the retail level. Revenues from television distribution are recognized when the motion picture or television program is available to the licensee for broadcast.

Accounting for Motion Picture and Television Costs. In accordance with GAAP and industry practice, the Company amortizes film and television programming costs using the individual-film-forecast method under which such costs are amortized for each film or television program in the ratio that revenue earned in the current period for such title bears to management's estimate of the total revenues to be realized from all media and

markets for such title. Management regularly reviews, and revises when necessary, its total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film or television asset to net realizable value. A typical film or television program recognizes a substantial portion of its ultimate revenues within the first two years of release. By then, a film has been exploited in the domestic and international theatrical markets and the domestic and international home video markets, as well as the domestic and international pay television and pay-per-view markets, and a television program has been exploited on network television or in first-run syndication. A similar portion of the film's or television program's capitalized costs should be expected to be amortized accordingly, assuming the film or television program is profitable.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The commercial potential of individual motion pictures and television programming varies dramatically, and is not directly correlated with production or acquisition costs. Therefore, it is difficult to predict or project a trend of the Company's income or loss. However, the likelihood of the Company reporting losses, particularly in the year of a motion picture's release, is increased by the industry's method of accounting which requires the immediate recognition of the entire loss (through increased amortization) in instances where it is estimated the ultimate revenues of a motion picture or television program will not recover the Company's costs. On the other hand, the profit of a profitable motion picture or television program must be deferred and recognized over the entire revenue stream generated by that motion picture or television program. This method of accounting may also result in significant fluctuations in reported income or loss, particularly on a quarterly basis, depending on the Company's release schedule and the relative performance of individual motion pictures or television programs. For films released by the Company since January 1994 which resulted in feature film write-downs in the period of initial release, subsequent performance as it relates to this group of films has not resulted in additional material write-downs. As a result of the lack of movie production and distribution during the Sale Period, the Company expects to experience lower revenues at least through the end of 1999, and thus the fluctuations caused by this accounting method may have a greater impact, than otherwise might be the case.

In October 1998, the Financial Accounting Standards Board issued an Exposure Draft on a proposed Statement of Position (the "Proposed SOP") for "Accounting By Producers and Distributors of Films." If adopted, the Proposed SOP would establish new accounting and reporting standards for all producers and distributors that own or hold the rights to distribute or exploit films. The Proposed SOP provides that the cumulative effect of changes in accounting principles caused by adoption of the provisions of the SOP should be included in the determination of net income in conformity with Accounting Principles Board Opinion No. 20, "Accounting Changes." If adopted, the Proposed SOP, as currently drafted, would be effective for financial statements for fiscal years beginning after December 15, 1999, with earlier adoption encouraged.

Results of Operations

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

The following table sets forth the Company's operating results for the year ended December 31, 1998 and 1997. The 1997 results are not comparable to results in 1998 due to the acquisition of Orion on July 10, 1997.

<TABLE>
<CAPTION>

	Year Ended December 31,	
	1998	1997
	(in thousands)	
<S>	<C>	<C>
Revenues:		
Feature films	$1,005,747	$ 699,219
Television programs	197,759	114,200
Other	37,217	17,883
Total revenues	$1,240,723	$ 831,302
Operating income (loss):		
Feature films	$ 39,748	$ 65,509
Television programs	12,885	(7,201)
Other	(3,758)	(26,545)
General and administration expenses	(92,244)	(87,644)
Severance and related costs	(13,182)	--
Goodwill amortization	(14,289)	(11,230)
Operating loss	(70,840)	(67,111)
Interest expense, net of amounts capitalized	(80,611)	(53,105)
Interest and other income (expense), net	3,984	2,447
Loss before provision for income taxes	(147,467)	(117,769)
Income tax provision	(10,181)	(10,345)
Net loss	$ (157,648)	$(128,114)

</TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Feature Films. Feature film revenues increased by $306.5 million, or 44 percent, to $1,005.7 million in the year ended December 31, 1998 compared to the year ended December 31, 1997. Explanations for the changes in revenues are discussed in the following paragraphs.

Worldwide theatrical revenues increased by $139.3 million, or 135 percent, to $242.2 million in 1998 due to significant worldwide theatrical revenues earned by Tomorrow Never Dies, The Man In The Iron Mask and Ronin, as well as the release in the domestic theatrical marketplace of Disturbing Behavior and Dirty Work, among others. In 1997 the Company initially released Tomorrow Never Dies in worldwide theatrical markets (in December 1997), and in the domestic theatrical marketplace released Hoodlum and Red Corner, among others. Overall, in 1998 the Company released 12 new feature films domestically and four new films internationally, as compared to 15 films released domestically and two new films internationally in 1997. Of the films released in 1997, seven films were produced by Orion and six of these were released in limited distribution only, as compared to three films produced by Orion and released in limited distribution only in 1998.

Worldwide home video revenues increased by $140.8 million, or 40 percent, to $491.2 million in 1998, which included the release in the domestic rental market of Tomorrow Never Dies, The Man In The Iron Mask, Red Corner, Species 2 and Hoodlum, among others, as compared to the release of Kingpin and Fled in the domestic rental market in 1997. In 1998 the Company also re-released in the sell-through market Gone With The Wind, as compared to the sell-through releases of Larger Than Life, The Birdcage and Warriors of Virtue in 1997. Significant international home video releases in 1998 included Tomorrow Never Dies and The Man In The Iron Mask, as compared to GoldenEye, Get Shorty, The Birdcage and Fled, in 1997. Additionally, in 1998 the Company distributed the Orion library for the entire year as compared to a shorter period in 1997 (from the acquisition date of July 10, 1997).

Worldwide pay television revenues from feature films decreased by $11.1 million, or 10 percent, to $96.5 million in 1998, primarily due to a lack of significant new releases in international pay television markets in 1998 as compared to 1997, which included GoldenEye, Get Shorty, Species and The Birdcage. In the domestic pay television market, in 1998 the Company released Tomorrow Never Dies, Red Corner and Hoodlum, as compared to The Birdcage and Kingpin, among others, in 1997. Network television revenues from feature films increased by $30.6 million, or 208 percent, to $45.3 million in 1998, principally due to the delivery of eight new films to network television in 1998, including The Birdcage and GoldenEye, as compared to seven new films delivered in 1997. Worldwide syndicated television revenues from feature films decreased by $2.4 million, or two percent, to $121.2 million in 1998 principally due to lower international sales from library films, partially offset by the distribution of the Orion film library for the entire year in 1998 as compared to the shorter period from acquisition in 1997.

Other feature film revenues increased $9.3 million in 1998 due to certain audit recoveries, miscellaneous rebates and other income collected in the period.

Operating income from feature films decreased by $25.8 million, or 39 percent, to $39.7 million in 1998 as compared to 1997. The decrease in operating results in 1998 reflects increased amortization expense, in addition to feature film write-downs which aggregated $80.0 million on certain releases, partially offset by profit realized from the films Tomorrow Never Dies and The Man In The Iron Mask. Feature film write-downs were $38.1 million in 1997.

Television Programming. Television programming revenues increased by $83.6 million, or 73 percent, to $197.8 million in 1998 as compared to 1997. Network television revenues were $31.3 million in 1998, consisting of the deliveries of the new series The Magnificent Seven, the television miniseries Creature and one made-for-television movie. There were no series, mini-series or television movies on network television in 1997. Worldwide pay television revenues decreased by $2.0 million, or six percent, to $30.3 million in 1998. Pay television revenues in both years included three series in broadcast on domestic pay television, The Outer Limits, Poltergeist and Stargate SG-1, and three made-for-television movies delivered in each year. The decrease in worldwide pay television revenues in 1998 was due to lower international library sales. Worldwide syndicated television revenues increased by $41.1 million, or 67 percent, to $101.9 million in 1998, primarily due to the addition of the new series Stargate SG-1 and Fame LA in worldwide syndication, as well as additional years of the ongoing series The Outer Limits and Poltergeist, the delivery of the new series Flipper in domestic syndication, and the licensing of the international rights to the television mini-series Creature. Worldwide home video revenues with respect to television programming

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

increased by $5.7 million, or 34 percent, to $22.7 million in 1998 due to the domestic home video releases of An All Dogs Christmas Carol, Secret of NIMH 2, Garth Brooks Live In Concert and the television movie Twelve Angry Men, as compared to the home video release of Babes In Toyland in 1997. The remaining television programming revenue increase of $7.5 million was principally related to a payment received from a third party for the rights to create new episodes of Hollywood Squares.

Operating income from television programming increased by $20.1 million to $12.9 million in 1998 as compared to a loss of $7.2 million in 1997. The increase in operating results in 1998 was principally a result of the aforementioned increase in revenues and the receipt of the Hollywood Squares remake rights payment.

Other. Other revenues include distribution of consumer products, interactive media and branded programming services, all of which constitute emerging businesses for MGM Studios with relatively limited current operations, as well as music soundtrack and royalty income. The Company recognized an operating loss from other businesses of $3.8 million in 1998 as compared to an operating loss of $26.5 million in 1997. Operating results in 1998 include interactive revenue of $7.6 million, consumer products revenue of $10.3 million and music soundtrack and royalty revenue of $6.6 million, as compared to interactive revenue of $3.0 million, consumer products revenue of $8.7 million and music soundtrack and royalty revenue of $4.1 million in 1997. Interactive revenues in 1998 were principally derived from the release of the interactive game Wargames. There were no significant new interactive games released in 1997. Additionally, operating

results in 1998 include the receipt of a $10.0 million payment associated with the Company's sale of a portion of its investment in a Japanese pay television channel to a new partner. Expenses for other businesses in 1998 include interactive product and development costs of $16.5 million, as compared to similar costs of $16.8 million in 1997. In addition, operating results for other businesses in 1998 include aggregate losses of $12.5 million on the Company's equity investments, including its interest in MGM Gold (Asia), a satellite and cable delivered channel based in Asia whose operations were terminated in April 1998, and the Company's newly launched cable programming joint venture, MGM Networks Latin America, as compared to $14.2 million for such start-up losses in 1997.

General and Administration Expenses. General and administration expenses increased by $4.6 million, or five percent, to $92.2 million in 1998 as compared to 1997, primarily due to increased legal and professional fees of $2.4 million, executive severance charges (incurred prior to implementation of the restructuring program noted below) of $2.6 million, and increased rent and depreciation expense of $4.3 million. Additionally, in 1997 the Company benefited from certain insurance recoveries of $5.7 million. There were no such recoveries in 1998. In 1997, long-term incentive and other bonuses were $15.5 million as compared to $3.2 million in 1998. The Company also achieved certain cost savings in 1998 from a restructuring program initiated in the period (see "--Severance and Related Costs").

Severance and Related Costs. The Company incurred severance and related costs of $13.2 million in 1998, due to an overhead restructuring program initiated by management in the third quarter of 1998. The Company expects to receive certain cost savings in future periods due to the implementation of this program.

Goodwill Amortization. Goodwill amortization increased by $3.1 million, or 27 percent, to $14.3 million in 1998 as compared to 1997 as a result of higher goodwill due to the Orion Acquisition.

Interest Expense, Net of Amounts Capitalized. Net interest expense increased by $27.5 million, or 52 percent, to $80.6 million in 1998 as compared to 1997, primarily due to higher debt levels associated with the financing of the Orion Acquisition, as well as borrowings for increased operating and production activities.

Income Tax Provision. The income tax provision of $10.2 million in 1998 and $10.3 million in 1997 primarily reflect foreign remittance taxes attributable to international distribution revenues.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

In connection with the MGM Acquisition, all of the assets and liabilities of MGM Studios, including the Library as it then existed, were revalued as of October 10, 1996 under purchase accounting. The revaluation of the Library was based upon projected future discounted net cash flows from the underlying assets, in accordance with GAAP. In addition, the ultimate revenue projections

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

for the Library were revised accordingly, resulting in an amortization period not to exceed 20 years. The combined effect of the Library revaluation and the revision of the ultimate revenue projections resulted in a reduction in the amortization rate in the periods following the MGM Acquisition. Furthermore, the Company completed the Orion Acquisition and has consolidated its results of operations from the July 10, 1997 acquisition date. Consequently, operating results for the year ended December 31, 1997 are not comparable to the corresponding 1996 period. For purposes of presentation and management's discussion and analysis of the changes in financial condition and results of operations for the above periods, the following table combines the January 1, 1996 to October 10, 1996 pre-MGM Acquisition period with the October 11, 1996 to December 31, 1996 post-MGM Acquisition period for comparison to the year-ended December 31, 1997.

The following table sets forth the Company's operating results for the year ended December 31, 1997 and the periods from January 1, 1996 to October 10, 1996 and from October 11, 1996 to December 31, 1996.

	Successor	Successor	Predecessor	Combined
	Year Ended December 31, 1997	October 11 to December 31, 1996	January 1 to October 10, 1996	Year Ended December 31, 1996
		(in thousands)		(unaudited)
Revenues:				
Feature films	$ 699,219	$209,354	$ 815,460	$1,024,814
Television programs	114,200	14,413	82,315	96,728
Other	17,883	4,919	14,931	19,850
Total revenues	$ 831,302	$228,686	$ 912,706	$1,141,392
Operating income (loss):				
Feature films	$ 65,509	$ 37,140	$ (54,268)	$ (17,128)
Television programs	(7,201)	(4,062)	11,412	7,350
Other	(26,545)	532	1,742	2,274
General and administration expenses	(87,644)	(18,319)	(60,056)	(78,375)
Goodwill amortization	(11,230)	(1,717)	(11,570)	(13,287)
Provision for impairment	--	--	(563,829)	(563,829)
Operating income (loss)	(67,111)	13,574	(676,569)	(662,995)
Interest expense, net of amounts capitalized	(53,105)	(9,875)	(71,375)	(81,250)
Interest and other income, net	2,447	813	3,179	3,992
Income (loss) before provision for income taxes	(117,769)	4,512	(744,765)	(740,253)
Income tax provision	(10,345)	(4,346)	(273)	(4,619)
Net income (loss)	$(128,114)	$ 166	$(745,038)	$ (744,872)

Feature Films. Feature film revenues decreased by $325.6 million, or 32 percent, to $699.2 million in the year ended December 31, 1997 compared to the year ended December 31, 1996. Explanations for the decrease in revenues are discussed in the following paragraphs.

Worldwide theatrical revenues decreased by $149.5 million, or 59 percent, to $102.9 million in 1997 due to relatively limited worldwide theatrical distribution activity following the sale of the Company on October 10, 1996. In 1997, the Company released 15 new feature films domestically and two films internationally, as compared to 13 films released domestically and eight films internationally in 1996. In 1997 the Company released Hoodlum, Red Corner and Tomorrow Never Dies. Tomorrow Never Dies was initially released in December 1997 and earned a significant portion of its theatrical revenues in 1998. Of the remaining 1997 releases, seven films were produced by Orion and six of these were released in limited distribution only. In 1996, the Company earned significantly higher worldwide theatrical revenues from GoldenEye, The Birdcage, Leaving Las Vegas and Get Shorty.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Worldwide home video revenues decreased by $244.6 million, or 41 percent, to $350.4 million in 1997, which included the domestic releases of Kingpin and Fled in the rental market, as well as the releases of Larger Than Life, The Birdcage and Warriers of Virtue in the sell-through markets. In 1996 significant home video revenues were realized from the releases of GoldenEye, The Birdcage, Get Shorty, Leaving Las Vegas and Showgirls in the rental market, as well as the release of All Dogs Go To Heaven 2 and promotions of the James Bond and Rocky film series in the sell-through market.

Worldwide pay television revenues increased by $13.5 million, or 14 percent, to $107.6 million in 1997, primarily due to the availability of The Birdcage, Kingpin and Fled, among other films, in the domestic pay television market as well as significant international pay television license fees recognized for GoldenEye,

The Birdcage and Species. In 1996, the Company realized domestic pay television revenues for GoldenEye, Get Shorty and Species, among others, but earned significantly less in international pay television markets than in 1997. Network television revenues increased $13.2 million to $14.7 million in 1997, which included license fees recognized on the films Stargate, Blown Away, Getting Even With Dad and Speechless. Worldwide syndicated television revenues increased $41.8 million, or 51 percent, to $123.6 million in 1997 principally due to the acquisition of the Orion film library on July 10, 1997, which contributed syndication revenues of $22.7 million in the period, as well as international syndication license fees recognized for Blown Away, Getting Even With Dad and Rob Roy, among others.

Operating income from feature films was $65.5 million in 1997 as compared to a loss of $17.1 million in 1996. The 1997 results reflect a higher operating margin on the Library, which was revalued pursuant to purchase accounting in connection with the MGM Acquisition and yielded lower amortization rates than in 1996. Additionally, there were feature film write-downs of $38.1 million in 1997 with respect to certain theatrical releases in that period as compared to $82.5 million in write-downs on certain theatrical releases in 1996.

Television Programming. Television programming revenues increased by $17.5 million, or 18 percent, to $114.2 million in 1997 as compared to 1996. Worldwide pay television revenues increased by $6.4 million, or 25 percent, to $32.3 million in 1997 due to the delivery of the new series Stargate SG-1 and the television movie Twelve Angry Men. Worldwide syndicated television revenues increased by $4.0 million, or 7 percent, to $60.9 million in 1997 due to additional episodes of The Outer Limits and Poltergeist: The Legacy in domestic syndication, and the release of the new series Fame LA. Worldwide home video revenues with respect to television programming increased in 1997 by $4.9 million, or 40 percent, to $16.9 million due to the release of Babes in Toyland in the domestic home video marketplace, partially offset by generally reduced video revenues from other television movies in the period. The remaining revenue increase in 1997 of $2.2 million principally related to higher network and licensing income.

The Company recognized an operating loss from television programming of $7.2 million in 1997 as compared to operating income of $7.4 million in 1996. Amortization expense on current series increased in 1997 due to loss reserves recognized on The Bradshaw Difference, which has been canceled, and on the new series Fame LA.

Other. Other revenues include distribution of consumer products, interactive media and branded programming services, all of which constitute emerging businesses for MGM Studios with relatively limited current operations, as well as music soundtrack and royalty income. The Company recognized an operating loss from other businesses of $26.5 million in 1997 as compared to operating income of $2.3 million in 1996. Operating results in 1997 include interactive revenues of $3.0 million, consumer products revenue of $8.7 million and music soundtrack and royalty revenue of $4.1 million, as compared to interactive revenue of $1.8 million, consumer products revenue of $8.3 million and music soundtrack and royalty revenue of $5.6 million in 1996. The 1997 results included interactive product and development costs of $16.8 million, as compared to interactive costs of only $9.1 million in 1996. In addition, the 1997 results include start-up losses of $11.8 million on the Company's investment in MGM Gold (Asia), a satellite and cable delivered channel based in Asia whose operations were terminated in April 1998, and $2.4 million of start-up costs associated with the Company's newly launched cable programming joint venture, MGM Networks Latin America. There were no such start-up losses or costs in 1996.

General and Administration Expenses. General and administration expenses increased by $9.3 million, or 12 percent, to $87.6 million in 1997 as compared

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

to 1996, primarily as a result of the Orion Acquisition, which added overhead charges of $6.7 million (including non-recurring overhead of approximately $4.0 million) from the July 10, 1997 acquisition date, and the accrual of long-term management incentive and other bonuses of $15.5 million. In 1996 the Company accrued long-term management incentive bonuses of $12.6 million.

Goodwill Amortization. Goodwill amortization decreased by $2.1 million, or 15 percent, to $11.2 million in 1997 compared to 1996 due to the revaluation of the Company's assets and liabilities pursuant to purchase

accounting in connection with the MGM Acquisition on October 10, 1996, which resulted in lower goodwill than previously carried in the balance sheet.

Provision for Impairment. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the predecessor company (i.e. MGM Studios) recorded a charge of $563.8 million during 1996 to write-off certain intangible assets in connection with CDR's disposition of its ownership interest, including $404.4 million to write-off its remaining investment in the film distribution organization and a charge of $159.4 million to reduce its investment in goodwill to net realizable value.

Interest Expense, Net of Amounts Capitalized. Net interest expense was $53.1 million in 1997 as compared to $81.3 million in 1996. Net interest expense decreased in 1997 due to the substantial equity investments received by the Company in connection with the MGM Acquisition, the IPO and the Tracinda Purchase, and correspondingly lower debt levels, as well as increased capitalization associated with increased film production in the period.

Income Tax Provision. The income tax provision of $10.3 million in 1997 reflects primarily foreign remittance taxes attributable to international distribution revenues. The income tax provision of $4.6 million in 1996 reflects foreign remittance taxes attributable to international distribution revenues, net of the reversal of certain tax reserves of approximately $14.0 million no longer required, and tax expense on net profits in the post-MGM Acquisition period. The Company does not anticipate any further substantial reversals of tax reserves.

EBITDA

While many in the financial community consider EBITDA to be an important measure of comparative operating performance, it should be considered in addition to, but not as a substitute for or superior to, operating income, net earnings, cash flow and other measures of financial performance prepared in accordance with generally accepted accounting principles. EBITDA does not reflect cash available to fund cash requirements, and the items excluded from EBITDA, such as depreciation and non-film amortization, are significant components in assessing the Company's financial performance. Other significant uses of cash flows are required before cash will be available to the Company, including debt service, taxes and cash expenditures for various long-term assets. The Company's calculation of EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited.

The following table sets forth EBITDA for the years ended December 31, 1998 and 1997, the period from October 11, 1996 to December 31, 1996, and the period from January 1, 1996 to October 10, 1996:

<TABLE>
<CAPTION>

	Successor			Predecessor
	Year Ended December 31,		October 11 to December 31,	January 1 to October 10,
	1998	1997	1996	1996
	(in thousands)			
<S>	<C>	<C>	<C>	<C>
Revenues:				
Feature films	$1,005,747	$ 699,219	$209,354	$ 815,460
Television programs	197,759	114,200	14,413	82,315
Other	37,217	17,883	4,919	14,931
Total revenues	$1,240,723	$ 831,302	$228,686	$ 912,706

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EBITDA:				
Feature films	$ 39,748	$ 65,509	$ 37,140	$ (45,032)
Television programs	12,885	(7,201)	(4,062)	11,412
Other	(3,758)	(26,545)	532	1,742
General and administration expenses	(83,680)	(80,861)	(16,901)	(55,411)
Severance and related costs	(13,182)	--	--	--
EBITDA	(47,987)	(49,098)	16,709	(87,289)
Depreciation and non-film amortization	(22,853)	(18,013)	(3,135)	(25,451)
Provision for impairment	--	--	--	(563,829)
Operating income (loss)	(70,840)	(67,111)	13,574	(676,569)
Interest expense, net of amounts capitalized	(80,611)	(53,105)	(9,875)	(71,375)
Interest and other income (expense), net	3,984	2,447	813	3,179
Income (loss) before provision for income taxes	(147,467)	(117,769)	4,512	(744,765)
Income tax provision	(10,181)	(10,345)	(4,346)	(273)
Net income (loss)	$ (157,648)	$(128,114)	$ 166	$(745,038)

</TABLE>

Liquidity and Capital Resources

General. The Company's operations are capital intensive. In recent years the Company has funded its operations primarily from proceeds from (i) the sale of equity securities, (ii) bank borrowings and (iii) internally generated funds. Sales of equity securities include proceeds from the IPO and the Tracinda Purchase, which were completed in November 1997, and the 1998 Rights Offering, which was completed in November 1998. During the year ended December 31, 1998, the net cash provided by operating activities was $433.5 million, the net cash used in investing activities (primarily additions to film and television costs) was $903.9 million, and the net cash provided by financing activities (equity proceeds reduced by net bank repayments) was $521.6 million.

Amended Credit Facility. The Company anticipates substantial continued borrowing under its principal credit facility (the "Amended Credit Facility"). This $1.3 billion syndicated facility consists of (i) a six year $600 million revolving credit facility (the "Revolving Facility"), (ii) a $400 million seven and one-half year term loan ("Tranche A Loan") and (iii) a $300 million eight and one-half year term loan ("Tranche B Loan" and, collectively with the Tranche A Loan, the "Term Loans"). As of March 15, 1999, $203 million was available under the Amended Credit Facility. The Amended Credit Facility also contains provisions allowing, under certain circumstances, for an additional $200 million tranche ("Tranche C Loan").

Currently, the Revolving Facility and Tranche A Loan bear interest at 2.50 percent over the Adjusted LIBOR rate, as defined therein, and the Tranche B Loan bears interest at 2.75 percent over the Adjusted LIBOR rate. As of December 31, 1998, Adjusted LIBOR was approximately 5.44 percent. The Company has entered into three-year fixed interest rate swap contracts in relation to a portion of the Amended Credit Facility for a

notional value of $800 million at an average rate of approximately 7.5 percent, which expire at various times no later than December 2001. Scheduled amortization of the Term Loans under the Amended Credit Facility commences with $33 million in 2001, $73 million in 2002, $103 million in 2003, $103 million in 2004, and $103 million in 2005, with the remaining balance at maturity. The Revolving Facility was entered into in October 1997 and matures in October 2003, subject to extension under certain conditions.

The Amended Credit Facility contains various covenants, including limitations on indebtedness, dividends and capital expenditures and maintenance of certain financial ratios. The Amended Credit Facility was amended, effective March 30, 1998 and September 9, 1998, to modify certain of these financial covenants. The Company is currently in compliance with all such covenants. However, no assurances can be given that the Company will remain in compliance with such covenants or other conditions under the Amended Credit Facility in the future.

Factors Affecting Cash Flow in 1998; The 1998 Rights Offering. The Company's cash flow in 1998 was adversely affected by, and the Company determined to undertake the 1998 Rights Offering as a result of, several factors. First, during 1998 the Company made and committed to make substantial investments that are more extensive than previously anticipated in connection with commitments entered into for new television programming. This new television production includes an aggregate of approximately 100 additional episodes for

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

the Company's non-network programs. Such production also included 13 new episodes of The Magnificent Seven (which was a network program and thus produced at a greater deficit than the Company's non-network programs) for the 1998/99 television season. See "Item 1. Business--Production--Television Production."

Second, although Tomorrow Never Dies and The Man In The Iron Mask performed better than anticipated, the Company's other major theatrical releases in 1998 performed below expectations. The Company's short-term cash flow has been and will continue to be negatively affected by the unsuccessful releases, particularly during the ten to 15 months after the release of such films. Although the Company anticipates that the reduction in receipts due to the performance of such underperforming films will ultimately be offset in part by the increased ancillary cash receipts from the two successful releases, such ancillary cash receipts will be realized over several years.

Third, the Company's 1998 sales experience in the television syndication and home video markets has indicated that the cash that the Company will collect from these sources will be realized over a longer period than originally anticipated. Fourth, during the first half of 1998, the Company accelerated certain theatrical motion picture production in order to avoid the impact of an industry strike that had been threatened in the second quarter of 1998. Other factors include increases in marketing and distribution expenses that were higher than anticipated.

The Company consummated the 1998 Rights Offering in November 1998, issuing a total of 84,848,485 shares of the Common Stock for $8.25 per share. The total net proceeds to the Company were approximately $696.5 million (gross proceeds of $700.0 million less applicable fees and expenses of approximately $3.5 million). A portion of the net proceeds from the 1998 Rights Offering was used to repay in full the amounts outstanding under a $100 million bridge loan, which had been accessed by the Company in September 1998 in order to enhance the Company's liquidity prior to the completion of the 1998 Rights Offering. The remainder of the net proceeds was used to reduce borrowings then outstanding under the Revolving Facility.

Current Capital Requirements. The Company's current strategy and business plan call for substantial on-going investments, at levels comparable to 1998, in the production of new feature films and television programs. Furthermore, the Company may wish to continue to make investments in new distribution channels to further exploit the Library. The Company plans to continue to evaluate the level of such investments in the context of the capital available to the Company and changing market conditions.

In January 1999, the Company acquired the PFE Libraries, containing over 1,300 feature films that were previously owned by PolyGram, for $235 million. The purchase was funded by borrowings under the Revolving Facility and utilization of cash on hand.

In March 1999, in consideration for the early expiration of the WHV Agreement, the Company agreed to pay WHV $225 million, of which $112.5 million was paid in March 1999 and the remaining $112.5 million installment is payable in September 1999. Additionally, the Company reconveyed to WHV the rights that the Company had to distribute in the home video markets worldwide until June 1, 2001, approximately 2,950 titles in the Turner library that had been serviced under the WHV Agreement. This reconveyance to WHV was made effective as of January 1, 1999. The Company intends to record a one-time pre-tax contract termination charge in the first quarter of 1999 of approximately $225 million for costs in connection with terminating the WHV Agreement. The Company anticipates that the reconveyance of the Turner rights will result in decreased cash flow to the Company of approximately $10 million per year through June 2001.

The remaining $112.5 million installment (plus interest at the rate of eight percent per year from March 1999) payable to WHV in September 1999 is secured by a standby letter of credit issued by one of the Company's principal lenders (the "Letter of Credit"). If the Letter of Credit is drawn upon, the Company will be deemed to have accessed a seven and one-half year term loan from such lender with a principal amount equal to the amount drawn. Such term loan would bear interest at 3.5 percent over Adjusted LIBOR rate. Interest would be payable quarterly in arrears and principal of such loan would be due on the earlier of maturity or upon any equity or debt issuance by the Company.

The Company is obligated to fund 50 percent of the expenses of MGM Networks Latin America up to a maximum of approximately $24 million. The Company has funded approximately $12.4 million under such obligation as of December 31, 1998. See "Item 1. Business--Distribution--International Pay and Free Television."

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The Company expects to incur approximately $10 million of additional costs in 1999 in connection with the integration of the PFE library and the Company's transition to home video self-distribution. The Company's obligation to pay other capital requirements, including the purchase of certain computer systems and equipment and other improvements, are currently not expected to exceed $15.0 million per year.

In addition, the slate of films released by the Company in 1999 to date have performed below expectations. As a result of these various factors (including, in particular, the short-term costs associated with the accelerated termination of the WHV Agreement), cash flow from operations and the amounts available under the existing tranches of the Amended Credit Facility are not expected to be adequate to meet the Company's obligations and commitments and to enable the Company to continue to conduct is operations in accordance with its current business plan through the end of 1999. Therefore, the Company is currently considering various alternatives to increase the Company's capital resources.

The Company believes that several different sources of increased liquidity may be available. The Company is currently considering various film financing alternatives. Additionally, the Company may seek to access the $200 million Tranche C Loan. Accessing the Tranche C Loan would require the consent of lenders holding at least two-thirds of the amounts outstanding or available under the Amended Credit Facility and the commitment by such (or other) lenders of the requisite funds. The Company may also seek additional equity financing, including through another rights offering. While management of the Company believes that it will be able to obtain the requisite funds, no assurance can be given that the Company will be able to obtain any such debt or equity financing, or otherwise obtain the requisite funds, or that it will be able to do so on a timely basis and on terms acceptable to the Company.

If necessary in order to manage its cash needs, the Company may also seek to reduce or delay its production or release schedules and to further increase its use of co-production, split-rights or other partnering arrangements. There can be no assurance that any such steps by the Company to reduce its cash needs would be adequate or timely, or that acceptable arrangements could be reached with third parties if necessary. In addition, although changes in the Company's production or release schedule or the increased use of partnering would diminish the Company's short-term cash needs and (in the case of partnering) reduce the Company's risk relating to the performance of the relevant films, such steps could adversely affect long term cash flow and results of operations in subsequent periods.

The Company intends to continue to pursue its goal of becoming an integrated global entertainment company. In connection with its pursuit of this goal, the Company may consider various strategic alternatives, such as business combinations with companies with strengths complementary to those of the Company and other acquisitions, as opportunities arise. The nature, size and structure of any such acquisition could require the Company to seek additional financing.

Year 2000 Data Conversion

Impact of the Year 2000 Issue Introduction. The term "Year 2000 issue" is a general term used to describe the various problems that may result from the improper processing of dates and date-sensitive calculations by computers and other machinery as the Year 2000 is approached and reached. These problems generally arise from the fact that most of the world's computer hardware and software have historically used only two digits to identify the year in a date, often meaning that the computer will fail to distinguish dates in the "2000's" from dates in the "1900's." These problems may also arise from other sources as well, such as the use of special codes and conventions in software that make use of the date field.

State of Readiness. The Company's primary focus has been on its own internal systems. To date, the Company has completed the Year 2000 conversion with respect to all of its most critical computer systems and applications, which constitute approximately 70 percent of the Company's Year 2000 sensitive systems (together with those systems containing embedded microprocessors or other technology, "Systems"). The Company is in the testing or remediation phase with respect to the remainder of its Systems, which include most of the Company's computer hardware and other equipment containing embedded microprocessors or other technology. The Company expects to complete its Year 2000 conversion by June 30, 1999.

Because of the substantial progress made by the Company towards its Year 2000 conversion, the Company does not anticipate that any additional

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

significant changes will be required or that the Year 2000 issue will pose significant operational problems for the Company. However, if any necessary changes are not made or completed in a timely fashion or unanticipated problems arise, the Year 2000 issue may take longer for the Company to address and may have a material impact on the Company's financial condition and results of operations.

In addition, the Company has had communications with certain of its significant suppliers, distributors, financial institutions, lessors and others with which it does business to evaluate their Year 2000 compliance plans and state of readiness and to determine the extent to which the Company's Systems may be affected by the failure of others to remediate their own Year 2000 issues. The Company is also distributing a Year 2000 assessment form to other parties, in order to provide the Company with further information as to their Year 2000 conversion progress. To date, the Company has received feedback from certain but not all of such parties, and has not independently confirmed any information received with respect to the Year 2000 issues. As such, there can be no assurance that parties will complete their Year 2000 conversion in a timely fashion or will not suffer a Year 2000 business disruption that may adversely affect the Company's financial condition and results of operations.

Costs to Address the Year 2000 Issue. To date, the Company estimates that it has spent approximately $0.4 million to address the Year 2000 issue, with the majority of the work being performed by Company employees. The aggregate cost to achieve Year 2000 conversion is estimated to be approximately $1.3 million. The Company intends to fund such costs from its operations and funds borrowed under the Amended Credit Facility. The Company believes such costs will not have a material adverse effect on its liquidity or financial condition. However, as the Company progresses with its Year 2000 conversion and implements any necessary changes to its Systems, certain additional costs may be identified. There can be no assurance that such additional costs will not have a material adverse effect on the Company's financial condition and results of operations.

Risks of Year 2000 Issues. To date, the Company has not identified any System which presents a material risk of not being Year 2000 ready in a timely fashion or for which a suitable alternative cannot be implemented. However, as the Company progresses with its Year 2000 conversion, the Company may identify Systems which

do present a material risk of Year 2000 disruption. Such disruption may include, among other things, the inability to process transactions or information, record and access data relating to the availability of titles in the Company's library for licensing and distribution, send invoices or engage in similar normal business activities. The failure of the Company to identify Systems which require Year 2000 conversion that are critical to the Company's operations or the failure of the Company or others with which the Company does business to become Year 2000 ready in a timely manner could have a material adverse effect on the Company's financial condition and results of operations.

Contingency Plans. While the Company's Year 2000 conversion is expected to be completed prior to any potential disruption to the Company's business, the Company acknowledges the uncertainties involved in preparing its Systems for the Year 2000. As such, the Company is developing a comprehensive Year 2000 specific contingency plan. As part of its Year 2000 contingency effort, information received from external sources is examined for date integrity before being brought into the Company's internal systems. If the Company determines that its business or a segment thereof is at material risk of disruption due to the Year 2000 issue or anticipates that its Year 2000 conversion will not be completed in a timely fashion, the Company will work to further enhance its contingency plan.

The discussion above contains certain forward-looking statements. The costs of the Year 2000 conversion, the date which the Company has set to complete such conversion and possible risks associated with the Year 2000 issue are based on the Company's current estimates and are subject to various uncertainties that could cause the actual results to differ materially from the Company's expectations. Such uncertainties include, among others, the success of the Company in identifying Systems that are not Year 2000 compliant, the nature and amount of programming required to upgrade or replace each of the affected Systems, the availability of qualified personnel, consultants and other resources, and the success of the Year 2000 conversion efforts of others.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Impact of Interest Rate Changes

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The Company has only limited involvement in derivative financial instruments and does not use them for trading purposes. Certain amounts borrowed under the Company's Amended Credit Facility are at variable interest rates and the Company is thus subject to market risk resulting from interest rate fluctuations. The Company enters into interest rate swaps in part to alter interest rate exposures. Interest rate swaps allow the Company to raise long-term borrowings at floating rates and effectively swap them into fixed rates that are lower than those available to the Company if fixed-rate borrowings were made directly. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount.

The following table provides information about the Company's interest rate swaps and foreign currency forward exchange contracts at December 31, 1998:

	Amounts scheduled for maturity for the year ending December 31,			Estimated fair value at December 31, 1998
	1999	2000	2001	
	(in thousands)			
Interest rate swaps				
Variable to fixed:				
Notional value............	$150,000	$225,000	$575,000	$(6,978)
Average pay rate..........	6.164%	6.127%	5.237%	
Average receive rate.......	5.407%	5.404%	5.244%	

Impact of Foreign Currency Rate Changes

Because approximately 25 percent of the Company's revenues are denominated and the Company incurs certain operating and production costs in foreign currencies, the Company is subject to market risks resulting from fluctuations in foreign currency exchange rates. In certain instances, the Company enters into foreign currency exchange contracts in order to reduce exposure to changes in foreign currency exchange rates that affect the value of its firm commitments and certain anticipated foreign currency cash flows.

The following table provides information about the Company's sensitivity to foreign currency exchange contracts into which the Company enters. The contracts generally mature within one year. The Company currently intends to continue to enter into such contracts to hedge against future material foreign currency exchange rate risks.

	Amounts scheduled for maturity for the year ending December 31, 1999	Estimated fair value at December 31, 1998
	(in thousands)	
$US Functional Currency		
Forward exchange agreements (receive $US / pay CAD).....................		
Contract amount....................	$5,000	$205
Average contractual exchange rate...	0.693481	

Item 8. Financial Statements and Supplementary Data

The Report of Independent Public Accountants, the Company's Consolidated Financial Statements and Notes thereto appear in a separate section of this Form 10-K (beginning on page 51) following Part IV. The index to Consolidated Financial Statements of the Company is included in Item 14.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

PART III

Item 10. Directors and Executive Officers of Registrant

The information required by Item 10 is set forth in the Proxy Statement under the caption "Election of Directors" and incorporated herein by reference except that the information regarding the Company's executive officers is included in Part I under the heading "Executive Officers of the Company".

Item 11. Executive Compensation

The information required by Item 11 is set forth in the Proxy Statement under the caption "Executive Compensation" and is incorporated herein by this reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is set forth in the Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by this reference.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is set forth in the Proxy Statement under the caption "Certain Relationships and Related Transactions" and is incorporated herein by this reference.

PART IV

Item 14. Exhibits, Financial Statements, Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements

The financial statements listed in the accompanying Index to Financial Statements are filed as part of this Form 10-K at pages 51 to 85.

2. Financial Statement Schedules

The financial statement schedules listed in the accompanying Index to Financial Statements are filed as part of this Form 10-K at pages 86 to 93.

3. Exhibits.

The exhibits listed in the accompanying Exhibit Index on pages 94 to 95 are filed as part of this Form 10-K.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter ended December 31, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 30, 1999

METRO-GOLDWYN-MAYER INC.

/s/ Frank G. Mancuso

By: ________________________________

Frank G. Mancuso
Chairman of the Board of
Directors and
Chief Executive Officer

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Frank G. Mancuso Frank G. Mancuso	Chairman of the Board of Directors, Chief Executive Officer and Director	March 30, 1999
/s/ A. Robert Pisano A. Robert Pisano	Vice Chairman and Director	March 30, 1999
/s/ James Aljian James Aljian	Director	March 30, 1999
/s/ Francis Ford Coppola Francis Ford Coppola	Director	March 30, 1999
/s/ Willie D. Davis Willie D. Davis	Director	March 30, 1999
/s/ Alexander M. Haig, Jr. Alexander M. Haig, Jr.	Director	March 30, 1999
/s/ Kirk Kerkorian Kirk Kerkorian	Director	March 30, 1999
/s/ Alex Yemenidjian Alex Yemenidjian	Director	March 30, 1999
/s/ Jerome B. York Jerome B. York	Director	March 30, 1999
/s/ Daniel J. Taylor Daniel J. Taylor	Senior Executive Vice President and Chief Financial Officer	March 30, 1999

INDEX TO FINANCIAL STATEMENTS

	Page
Metro-Goldwyn-Mayer Inc.	
Successor Consolidated Financial Statements:	
Report of Independent Public Accountants	51
Consolidated Balance Sheets as of December 31, 1998 and 1997	52
Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 1998, 1997 and the Period from October 11, 1996 to December 31, 1996	53
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1998, 1997 and the Period from October 11, 1996 to December 31, 1996	54
Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and the Period from October 11, 1996 to December 31, 1996	55
Notes to Consolidated Financial Statements	56
Metro-Goldwyn-Mayer Studios Inc.	
Predecessor Consolidated Financial Statements:	
Report of Independent Public Accountants	76
Consolidated Statement of Operations and Comprehensive Income (Loss) for	

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

the Period from January 1, 1996 to October 10, 1996	77
Consolidated Statement of Stockholder's Equity for the Period from January 1, 1996 to October 10, 1996	78
Consolidated Statement of Cash Flows for the Period from January 1, 1996 to October 10, 1996	79
Notes to Consolidated Financial Statements	80

Financial Statement Schedules

Report of Independent Public Accountants	86
Schedule I: Condensed Financial Information of Registrant	87
Report of Independent Public Accountants	92
Schedule II: Valuation and Qualifying Accounts	93

</TABLE>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Metro-Goldwyn-Mayer Inc.:

We have audited the accompanying consolidated balance sheets of Metro-Goldwyn-Mayer Inc. (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for the years then ended and the period from October 11, 1996 (date of commencement of principal operations) to December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metro-Goldwyn-Mayer Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended and the period from October 11, 1996 (date of commencement of principal operations) to December 31, 1996 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Los Angeles, California
February 23, 1999 (except with respect to
the matter discussed in Note 15,
as to which date is March 12, 1999)

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

<TABLE>
<CAPTION>

<S>	December 31, 1998 <C>	December 31, 1997 <C>
ASSETS		
Cash and cash equivalents	$ 54,839	$ 3,978
Accounts and contracts receivable (net of allowance for doubtful accounts of $23,220 and $27,603, respectively)	365,067	285,283
Film and television costs, net	2,076,663	1,867,126
Investments and advances to affiliates	17,674	9,917
Property and equipment, net	38,636	32,785
Excess of cost over net assets of acquired businesses, net	561,026	574,795
Other assets	45,073	48,770

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	$3,158,978	$2,822,654
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Bank and other debt	$ 715,574	$ 890,508
Accounts payable and accrued liabilities	100,377	147,476
Accrued participants' share	232,515	216,530
Income taxes payable	34,869	31,579
Advances and deferred revenues	130,664	130,329
Other liabilities	25,322	27,677
Total liabilities	1,239,321	1,444,099
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value, 250,000,000 shares authorized, 150,856,424 and 65,765,655 shares issued and outstanding	1,509	658
Additional paid-in capital	2,203,490	1,504,850
Deficit	(285,596)	(127,948)
Accumulated other comprehensive income	254	995
Stockholders' equity	1,919,657	1,378,555
	$3,158,978	$2,822,654

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except share data)

<TABLE>
<CAPTION>

	Year Ended December 31,		October 11 to December 31,
	1998	1997	1996
<S>	<C>	<C>	<C>
Revenues	$1,240,723	$ 831,302	$ 228,686
Expenses:			
Film and television production and distribution	1,191,848	799,539	195,076
General and administrative expenses	92,244	87,644	18,319
Severance and related costs	13,182	--	--
Goodwill amortization	14,289	11,230	1,717
Total expenses	1,311,563	898,413	215,112
Operating income (loss)	(70,840)	(67,111)	13,574
Other income (expense):			
Interest expense, net of amounts capitalized	(80,611)	(53,105)	(9,875)
Interest and other income, net	3,984	2,447	813
Total other expense	(76,627)	(50,658)	(9,062)
Income (loss) from operations before provision for income taxes	(147,467)	(117,769)	4,512
Income tax provision	(10,181)	(10,345)	(4,346)
Net income (loss)	(157,648)	(128,114)	166
Foreign currency translation adjustment	(741)	(150)	1,145
Comprehensive income (loss)	$ (158,389)	$ (128,264)	$ 1,311
Earnings (loss) per share:			
Basic	$ (2.08)	$ (4.47)	$ 0.01

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Diluted	$ (2.08)	$ (4.47)	$ 0.00
Weighted average number of common shares outstanding:			
Basic	75,816,326	28,634,362	16,692,217
Diluted	75,816,326	28,634,362	37,796,672

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock					
	No. of Shares	Par Value	No. of Shares	Par Value	Add'l Paid-in Capital	Retained Earnings (Deficit)	Accum. Other Comprehensive Income	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Beginning Balance	--	$ --	--	$ --	$ --	$ --	$ --	$ --
Issuance of preferred and common stock	501,006	5	16,700,342	167	901,639	--	--	901,811
Foreign currency translation adjustment	--	--	--	--	--	--	1,145	1,145
Net income	--	--	--	--	--	166	--	166
Balance December 31, 1996	501,006	5	16,700,342	167	901,639	166	1,145	903,122
Issuance of preferred and common stock	1,914	--	28,110,145	281	603,416	--	--	603,697
Conversion of preferred stock into common stock	(502,920)	(5)	20,955,168	210	(205)	--	--	--
Foreign currency translation adjustment	--	--	--	--	--	--	(150)	(150)
Net loss	--	--	--	--	--	(128,114)	--	(128,114)
Balance December 31, 1997	--	--	65,765,655	658	1,504,850	(127,948)	995	1,378,555
Issuance of common stock	--	--	85,090,769	851	697,084	--	--	697,935
Amortization of deferred stock compensation	--	--	--	--	1,556	--	--	1,556
Foreign currency translation adjustment	--	--	--	--	--	--	(741)	(741)
Net loss	--	--	--	--	--	(157,648)	--	(157,648)
Balance December 31, 1998	--	$ --	150,856,424	$1,509	$2,203,490	$(285,596)	$ 254	$1,919,657

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

<TABLE>
<CAPTION>

	Year Ended December 31,	October 11 to December 31,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

<S>	1998 <C>	1997 <C>	1996 <C>
Operating activities:			
Net income (loss)....................	$ (157,648)	$ (128,114)	$ 166
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of film and television costs and participants' share......	751,807	429,003	83,508
Depreciation and amortization of property and equipment.............	8,564	6,783	1,418
Amortization of goodwill and deferred financing costs...........	19,985	16,323	2,761
Reduction in goodwill due to realization of tax benefits........	--	--	1,206
Amortization of deferred executive compensation......................	1,556	--	--
Stock contributions to employee savings plan......................	1,435	--	--
Increase in bad debt and other reserves..........................	467	6,382	--
Losses (gains) on equity investments, net..................	10,887	17,620	(2,592)
(Increase) decrease in accounts and contracts receivable and other assets............................	(81,436)	35,054	12,895
Decrease in accounts payable, accrued and other liabilities, accrued participants' share and domestic and foreign taxes.........	(121,264)	(99,455)	(31,542)
Increase (decrease) in advances and deferred revenues.................	335	(40,468)	(6,258)
Foreign currency exchange (gain) loss..............................	(1,145)	2,190	(234)
Net cash provided by operating activities........................	433,543	245,318	61,328
Investing activities:			
Acquisition of Metro-Goldwyn-Mayer Studios Inc.........................	--	--	(1,331,430)
Acquisition of Orion Pictures Corporation.........................	--	(561,617)	--
Additions to film costs, net.........	(871,271)	(703,222)	(55,814)
Additions to property and equipment..	(14,005)	(9,555)	(2,079)
Other investing activities...........	(18,646)	(11,280)	(1,538)
Net cash used in investing activities.........................	(903,922)	(1,285,674)	(1,390,861)
Financing activities:			
Proceeds from issuance of equity securities to outside parties.......	73,185	165,000	--
Proceeds from issuance of equity securities to related parties.......	623,315	438,697	901,811
Proceeds from debt issuance..........	--	200,000	475,000
Additions to borrowed funds..........	472,478	452,600	4,036
Repayments of borrowed funds.........	(647,412)	(217,473)	(35,453)
Financing costs and other............	--	(10,040)	--
Net cash provided by financing activities.........................	521,566	1,028,784	1,345,394
Net change in cash and cash equivalents from operating, investing and financing activities.................	51,187	(11,572)	15,861
Net increase (decrease) in cash due to foreign currency fluctuations.........	(326)	(831)	520
Net change in cash and cash equivalents..........................	50,861	(12,403)	16,381
Cash and cash equivalents at beginning of period............................	3,978	16,381	--
Cash and cash equivalents at end of the period...............................	$ 54,839	$ 3,978	$ 16,381

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

part of these statements.

Note 1--Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation. The accompanying consolidated financial statements include the accounts of Metro-Goldwyn-Mayer Inc. (formerly known as P&F Acquisition Corp.) ("MGM"), Metro-Goldwyn-Mayer Studios Inc. and its majority owned subsidiaries ("MGM Studios") and Orion Pictures Corporation and its majority owned subsidiaries ("Orion") (collectively, the "Company"). MGM is a Delaware corporation formed on July 10, 1996 specifically to acquire MGM Studios, and is majority owned by an investor group comprised of Tracinda Corporation and a corporation that is principally owned by Tracinda (collectively, "Tracinda") and certain executive officers of the Company. Until September 1, 1998 the investor group included Seven Network Limited ("Seven"), whose interest was wholly acquired by Tracinda pursuant to the Seven Sale (as defined in Note 7). The acquisition of MGM Studios by MGM was completed on October 10, 1996, at which time MGM commenced principal operations (see Note 2). The acquisition of Orion was completed on July 10, 1997 (see Notes 2 and 7). Prior to its acquisition by MGM, MGM Studios was wholly owned by MGM Group Holdings Corporation, an indirect wholly owned subsidiary of Consortium de Realisation ("CDR"). CDR is a wholly owned subsidiary of Credit Lyonnais S.A. and is controlled by the French State.

As permitted by Statement of Financial Accounting Standards ("SFAS") No. 53, "Financial Reporting by Producers and Distributors of Motion Pictures", the Company has presented an unclassified consolidated balance sheet. Certain reclassifications have been made to amounts reported in prior periods to conform with the current presentation.

Business. The Company is engaged primarily in the development, production and worldwide distribution of theatrical motion pictures and television programs. The Company also distributes films produced or financed, in whole or in part, by third parties. The Company's business units have been aggregated into three reportable operating segments: feature films, television programming and other operating activities (see Note 11). Operating units included in the other operating segment include licensing and merchandising, interactive media and music, as well as the Company's equity investments (see Note 4).

Motion picture and television production and distribution is highly speculative and inherently risky. There can be no assurance of the economic success of such motion pictures and television programming since the revenues derived from the production and distribution (which do not necessarily bear a direct correlation to the production or distribution costs incurred) depend primarily upon their acceptance by the public, which cannot be predicted. The commercial success of a motion picture also depends upon the quality and acceptance of other competing films released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, all of which can change and cannot be predicted with certainty. The theatrical success of a motion picture is a very important factor in generating revenues from such motion picture in other media.

The success of the Company's television programming also may be impacted by prevailing advertising rates, which are subject to fluctuation. Therefore, there is a substantial risk that some or all of the Company's motion picture and television projects will not be commercially successful, resulting in costs not being recouped or anticipated profits not being realized.

Principles of Consolidation. The consolidated financial statements include the accounts of MGM, MGM Studios, Orion and all of their majority-owned and controlled subsidiaries. The Company's investments in related companies which represent a 20% to 50% ownership interest over which the Company has significant influence but not control are accounted for using the equity method (see Note 4). All significant intercompany balances have been eliminated.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Cash and Cash Equivalents. The Company considers all highly liquid debt instruments, purchased with an initial maturity of three months or less, to be cash equivalents. Included in other assets at December 31, 1998 and 1997 is approximately $4,333,000 and $4,905,000, respectively, of cash restricted by various escrow agreements. The carrying value of the Company's cash equivalents approximated cost at each balance sheet date.

Revenue Recognition. Revenues from theatrical distribution of feature films are recognized on the dates of exhibition. Revenues from direct home video distribution are recognized, net of an allowance for estimated returns, together with related costs, in the period in which the product is available for sale by the Company's customers. Revenues from television licensing, together with related costs, are recognized when the feature film or television program is available to the licensee for telecast. Long-term non-interest-bearing receivables arising from licensing agreements are discounted to present value.

Accounting for Film and Television Costs. Except for purchase accounting adjustments, film costs include the costs of production, prints, pre-release and other advertising expected to benefit future periods and capitalized overhead and interest. These costs, as well as participations and talent residuals, are charged against earnings on an individual film basis in the ratio that the current year's gross film revenues bear to management's estimate of total remaining ultimate gross film revenues from all sources. The cost allocated to films revalued in purchase accounting is being amortized over their estimated economic lives not to exceed 20 years.

Film costs are stated at the lower of cost or estimated net realizable value on an individual film basis. Revenue and cost forecasts are continually reviewed by management and revised when warranted by changing conditions. When estimates of total revenues and costs indicate that a feature film or television program will result in an ultimate loss, additional amortization is recognized to the extent required to produce a zero gross margin over the remaining life of the film or television program.

Property and Equipment. Except for purchase accounting adjustments, property and equipment are stated at cost. Property and equipment acquired as part of the acquisitions of MGM Studios and Orion are stated at estimated fair market value. Depreciation of property and equipment is computed under the straight-line method over the expected useful lives of applicable assets, ranging from three to five years. Leasehold improvements are amortized under the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the related leases. When property is sold or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts, and any resulting gain or loss is included in income. The costs of normal maintenance, repairs and minor replacements are charged to expense when incurred.

Goodwill. The excess cost of acquisition over the fair market values of identifiable net assets acquired (goodwill) is amortized over an estimated useful life of 40 years using the straight-line method. The Company has adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". This statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. The carrying value of existing assets are reviewed when events or changes in circumstances indicate that an impairment test is necessary in order to determine if an impairment has occurred. When factors indicate that such assets should be evaluated for possible impairment, the Company will estimate the future cash flows expected to result from the use of the assets and their eventual disposition, and compare the amounts to the carrying value of the assets to determine if an impairment loss has occurred. For the period from October 11, 1996 to December 31, 1996, goodwill was reduced by $1,206,000 due to the utilization of certain tax assets not benefitted at the acquisition date. During the year ended December 31, 1997, the Company reduced goodwill and accrued tax reserves by $11,075,000 due to the favorable resolution of certain pre-acquisition contingencies. Accumulated amortization of goodwill was $26,716,000 and $12,947,000 as of December 31, 1998 and 1997, respectively.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Income Taxes. In accordance with SFAS No. 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recognized with respect to the tax consequences attributable to differences between the financial statement carrying values and tax bases of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. Further, the effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the enactment date.

Foreign Currency Translation. Generally, foreign subsidiary assets and liabilities are translated into United States dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses of foreign subsidiaries are translated into United States dollars at the average exchange rates that prevailed during the period. The gains or losses that result from this process are included as a component of the accumulated other comprehensive income balance in stockholders' equity. Foreign currency denominated transactions are recorded at the exchange rate in effect at the time of occurrence, and the gains or losses resulting from subsequent translation at current exchange rates are included in the statement of operations.

Financial Instruments. The carrying values of short-term trade receivables and payables approximate their estimated fair values because of the short maturity of these instruments. The carrying values of receivables with maturities greater than one year have been discounted at LIBOR plus 2.50 percent (approximately 7.57 percent and 8.31 percent at December 31, 1998 and 1997, respectively), which approximates the Company's current effective borrowing rates.

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined interest rate risks. The Company enters into interest rate swaps to lower funding costs, to diversify sources of funding, or to alter interest rate exposures arising from mismatches between assets and liabilities. Interest rate swaps allow the Company to raise long-term borrowings at floating rates and effectively swap them into fixed rates that are lower than those available to the Company if fixed-rate borrowings were made directly. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount.

Accounts and Contracts Receivable. At December 31, 1998, accounts and contracts receivable aggregated $388,287,000 (before allowance for doubtful accounts), of which approximately $338,000,000 is due within one year. Concentration of credit and geographic risk with respect to accounts receivable is limited due to the large number and general dispersion of accounts which constitute the Company's customer base. The Company performs credit evaluations of its customers and in some instances requires collateral. At December 31, 1998 and 1997, there were no significant customers accounting for greater than 10 percent of the Company's accounts and contracts receivable.

Earnings Per Share. The Company has adopted SFAS No. 128, "Earnings Per Share" ("EPS"), effective for the year ending December 31, 1997, and has restated its earnings per share disclosures for the period ended December 31, 1996 to comply with SFAS No. 128. Under SFAS No. 128, primary EPS is replaced by "Basic" EPS, which excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. "Diluted" EPS, which is computed similarly to fully diluted EPS, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. When dilutive, stock options are included as share equivalents in computing diluted earnings per share using the treasury stock method. The weighted average number of shares used in computing basic earnings (loss) per share was 75,816,326 and 28,634,362 in the years ended December 31, 1998 and 1997, and 16,692,217 in the period from October 11, 1996 to December 31, 1996, respectively. The per share computations for all periods presented reflect the 41.667 for

1 stock split (see Note 7). Basic EPS for the period from October 11, 1996 to December 31, 1996 increased by $.01 per share due to the adoption of SFAS No.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

128. Included in the computation of weighted average shares for diluted EPS for the period from October 11, 1996 to December 31, 1996 are 21,104,455 shares of dilutive securities. Dilutive securities of 1,642,556 and 18,291,004 shares are not included in the calculation of diluted EPS in the years ending December 31, 1998 and 1997 because they are antidilutive.

Comprehensive Income. The Company has adopted SFAS No. 130, "Reporting Comprehensive Income", effective for the year ending December 31, 1998. This statement establishes standards for the reporting and display of comprehensive income and its components in financial statements and thereby reports a measure of all changes in equity of an enterprise that result from transactions and other economic events other than transactions with owners.

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Management estimates ultimate revenues and costs for feature films and television programs for each market based on anticipated release patterns, public acceptance and historical results for similar products. Actual results could differ from those estimates.

New Accounting Pronouncements. In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which is effective for all quarters of fiscal years beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities.

In October 1998, the FASB issued an Exposure Draft on a proposed Statement of Position (the "Proposed SOP") for "Accounting By Producers and Distributors of Films". If adopted, the Proposed SOP would establish new accounting and reporting standards for all producers and distributors that own or hold the rights to distribute or exploit films. The Proposed SOP provides that the cumulative effect of changes in accounting principles caused by adoption of the provisions of the SOP should be included in the determination of net income in conformity with Accounting Principles Board Opinion No. 20, "Accounting Changes". If adopted, the Proposed SOP, as currently drafted, would be effective for financial statements for fiscal years beginning after December 15, 1999, with earlier adoption encouraged.

The Company will adopt these statements on their respective effective dates. The effect of these new accounting pronouncements has not yet been determined by Management.

Note 2--Acquisitions and Restructuring Charges

On October 10, 1996, MGM completed the acquisition of all the common stock of MGM Studios (the "Acquisition") for a purchase price of $1,300,000,000 in cash, plus payment of acquisition related costs of approximately $31,430,000. In connection with an investment agreement (the "Investment Agreement") among Mr. Frank Mancuso, an investor group comprised of Tracinda and Seven (collectively, the "Investors") and MGM, Tracinda acquired $200,000,000 of the common stock of MGM (the "Common Stock") and $450,000,000 of the Series A Cumulative Convertible Preferred Stock of MGM (the "Preferred Stock"), and Seven acquired $200,000,000 of the Common Stock and $50,000,000 of the Preferred Stock, concurrent with the closing of the Acquisition. Also, in connection with the Acquisition, Tracinda and Celsus Financial Corp., an entity wholly-owned by Michael R. Gleason (a former director of the Company), were each granted an option by the Company to purchase 156,251 shares of the Common Stock at an exercise price of $6.41 per share (the options expire on October 10, 2002) and reimbursed an agreed-upon amount of $4,750,000 each for costs related to the Acquisition.

On July 10, 1997, the Company acquired all the outstanding common stock of Orion, together with certain of its subsidiaries, for an aggregate purchase price of $573,000,000 (the "Orion Acquisition"). The Company financed the Orion Acquisition through (i) the issuance of 13,375,107 and 1,625,013 shares of the Common Stock to Tracinda and Seven, respectively, for aggregate net proceeds of $360,000,000, (ii) borrowings by Orion under a new $250,000,000 Orion credit facility ("Original Orion Credit Facility"), which was subsequently amended (see Note 6), and (iii) assumption of certain liabilities.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The Orion Acquisition has been accounted for as a purchase. Orion's assets and liabilities have been recorded in the Company's financial statements at their estimated fair values at the acquisition date allocated as follows (in thousands):

Accounts and contracts receivable	$ 51,015
Film and television costs	396,437
Other assets	14,953
Excess of cost over net assets of acquired businesses	294,355
Liabilities assumed, including reserve for severance of $36,000	(190,795)
Cash on hand	(4,348)
Cash purchase price	$ 561,617

The results of operations of MGM Studios have been included in the consolidated financial statements from October 11, 1996, date of commencement of principal operations. The results of operations of Orion have been included in the consolidated financial statements from July 10, 1997, date of acquisition. The Company has made severance and other payments associated with the Orion Acquisition aggregating $36,000,000 from the date of acquisition to December 31, 1998. The pro forma results of operations for the years ended December 31, 1997 and 1996 as if the Acquisition, the Orion Acquisition, the 41.667 stock split and the conversion of the Preferred Stock had occurred at the beginning of each period are as follows (in thousands, except share data):

	Year Ended December 31, 1997	1996
Revenues	$ 893,419	$1,315,128
Operating income (loss)	$ (84,819)	$ (598,742)
Net income (loss)	$ (158,364)	$ (669,251)
Pro forma loss per share	$ (2.91)	$ (12.73)
Pro forma weighted average shares	54,458,427	52,567,754

In association with a restructuring program implemented by the Company in September 1998, the Company recorded a charge of $13,782,000 representing severance and other costs, of which $9,972,000 has been paid through December 31, 1998. This charge included the termination of 114 employees across all divisions of the Company.

Note 3--Film and Television Costs

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

	December 31, 1998	December 31, 1997
Theatrical productions:		
Released	$2,116,007	$1,688,378
Less: accumulated amortization	(750,008)	(269,932)
Released, net	1,365,999	1,418,446
Completed not released	98,654	7,662
In process and development	283,242	174,386
Subtotal: theatrical productions	1,747,895	1,600,494
Television programming	567,138	361,514
Less:accumulated amortization	(238,370)	(94,882)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Subtotal: television programming	328,768	266,632
	$2,076,663	$1,867,126

</TABLE>

Interest costs capitalized to theatrical productions were $16,775,000, $15,242,000 and $524,000 during the years ended December 31, 1998 and 1997, and the period from October 11, 1996 to December 31, 1996, respectively.

Based on the Company's estimates of projected gross revenues as of December 31, 1998, approximately 60% of unamortized film costs applicable to released theatrical films and released television programs will be amortized during the nine years ending December 31, 2007.

On January 7, 1999, the Company acquired certain film libraries and film related rights containing over 1,300 feature films that were previously owned by PolyGram N.V. and its subsidiaries for $235 million. The purchase was funded through an advance on the Revolving Facility (as defined in Note 6) and utilization of cash on hand.

Note 4--Investments and Advances to Affiliates

Distribution in foreign theatrical and certain pay television markets is performed by United International Pictures B.V. ("UIP"), in which the Company has a one-third interest. The Company's investment in UIP, which is included in investments and advances to affiliates, is stated at cost plus equity in undistributed earnings. The Company includes in its financial statements the revenues and related costs associated with its films distributed by UIP. The distribution fees paid to UIP by the Company are included in film and television production and distribution expense. Due to timing differences there are no taxable earnings and therefore, there is no tax provision on undistributed earnings. The Company's share of the net profits in UIP in the years ended December 31, 1998 and 1997, and the period from October 11, 1996 to December 31, 1996, were $7,391,000, $6,227,000 and $2,592,000, respectively.

In May 1996, the Company entered into a joint venture agreement with Encore International, Inc., an indirect subsidiary of Telecommunications, Inc., to develop MGM Gold Networks (Asia) ("MGM Gold"), a satellite and cable delivery channel based in Asia whose operations were terminated in April 1998. In addition, in May 1998, the Company acquired a 50 percent interest in a Latin American cable programming joint venture, MGM Networks Latin America ("MGM Latin America"), for certain assets contributed by the Company to the joint venture. The Company shares equally in the profits of the venture and is obligated to fund 50 percent of the

joint venture's expenses up to a maximum of approximately $24,000,000, of which the Company had funded approximately $12,400,000 as of December 31, 1998. The Company's share of MGM Gold's and MGM Latin America's start-up losses in the years ended December 31, 1998 and 1997 were $9,296,000 and $11,754,000, respectively.

Investments are summarized as follows (in thousands):

<TABLE>
<CAPTION>

<S>	December 31, 1998 <C>	December 31, 1997 <C>
UIP	$ 8,273	$ 6,623
MGM Latin America	6,724	--
Others	2,677	3,294
	$ 17,674	$ 9,917

Note 5--Property and Equipment

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

<CAPTION>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	December 31, 1998	December 31, 1997
Leasehold improvements...........................	$ 20,921	$ 14,845
Furniture, fixtures and equipment................	34,056	26,141
	54,977	40,986
Less accumulated depreciation and amortization....	(16,341)	(8,201)
	$ 38,636	$ 32,785

Note 6--Bank and Other Debt

Bank and other debt is summarized as follows (in thousands):

	December 31, 1998	December 31, 1997
Revolving Facility...............................	$ --	$175,000
Term Loans.......................................	700,000	700,000
Capitalized lease obligations and other borrowings......................................	15,574	15,508
	$715,574	$890,508

On October 15, 1997, the Company entered into an amended and restated credit facility with a syndicate of banks aggregating $1.3 billion (the "Amended Credit Facility") consisting of a six year $600 million revolving credit facility (the "Revolving Facility"), a $400 million seven and one-half year term loan ("Tranche A Loan") and a $300 million eight and one-half year term loan ("Tranche B Loan") (collectively, the "Term Loans"). The Amended Credit Facility contains provisions allowing, with the consent of the requisite lenders and subject to syndication thereof, for an additional $200 million tranche, raising the potential amount of Amended Credit Facility to $1.5 billion. The Revolving Facility and the Tranche A Loan bear interest at 2.50 percent over the Adjusted LIBOR rate, as defined (7.94 percent at December 31, 1998). The Tranche B Loan bears interest at 2.75 percent over the Adjusted LIBOR rate (8.19 percent at December 31, 1998). Scheduled amortization of the Term Loans under the Amended Credit Facility commences with $33 million in 2001, $73 million in 2002, $103 million in 2003, $103 million in 2004 and $103 million in 2005, with the remaining balance due at maturity. The Revolving Facility matures in October 2003, subject to extension under certain conditions.

The Company has entered into three year fixed interest rate swap contracts in relation to a portion of the Amended Credit Facility for a notional value of $800,000,000 at an average rate of approximately 7.5 percent, which expire in various terms no later than December 2001. At December 31, 1998, the Company would have to pay approximately $6,978,000 to terminate such swap contracts.

The Company's borrowings under the Amended Credit Facility are secured by substantially all the assets of the Company. The Amended Credit Facility contains various covenants including limitations on dividends, capital expenditures and indebtedness, and the maintenance of certain financial ratios. The Amended Credit Facility was amended, effective March 30, 1998 and September 9, 1998, to modify certain of these financial covenants.

Lease and other borrowings. Capitalized lease and other borrowings relate principally to contractual liabilities and computer equipment financing at interest rates of approximately 10%.

Maturity schedule. Credit facilities, lease and other borrowings at December 31, 1998 are scheduled to mature as follows (in thousands):

<TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

1999	$ 7,334
2000	5,009
2001	33,123
2002	73,695
2003	103,774
Thereafter	492,639
	$715,574

Note 7--Stockholders' Equity

Recapitalization. On November 13, 1997, the Company effected a recapitalization pursuant to which the Company, immediately prior to the closing of the IPO and the Tracinda Purchase (as such terms are defined below) (i) converted each share of its Preferred Stock into one share of Common Stock, (ii) effected a 41.667 for 1 stock split and (iii) increased the number of authorized shares of the Common Stock from 50,000,000 to 125,000,000. Share and per share information have been retroactively restated for all periods presented to reflect this recapitalization.

Orion Acquisition. The Company financed a portion of the Orion Acquisition through the issuance of 13,375,107 and 1,625,013 shares of the Common Stock to Tracinda and Seven, respectively, for aggregate net proceeds of $360,000,000 (see Note 2).

Initial Public Offering and Tracinda Purchase. On November 13, 1997, the Company issued and sold 9,000,000 new shares of the Common Stock at a price per share of $20, less an underwriting discount and offering expenses, for net proceeds of $165,000,000, in an initial public offering (the "IPO"). Concurrent with the consummation of the IPO, Tracinda purchased directly from the Company 3,978,780 shares of the Common Stock, at a price per share of $20 less an amount equal to the underwriting discount per share for shares issued in the IPO, for net proceeds of $75,000,000 (the "Tracinda Purchase"). Subsequently, $190,000,000 of the net proceeds of the IPO and the Tracinda Purchase were used to repay existing bank debt and the remaining net proceeds were retained and used for working capital purposes.

Seven Sale. On September 1, 1998, Tracinda purchased from Seven 16,208,463 shares of the Common Stock, representing all of the capital stock of the Company beneficially owned by Seven, for a price per share of

$24 and an aggregate purchase price of $389,003,000 (the "Seven Sale"). With the consummation of the Seven Sale, Tracinda and 250 Rodeo, Inc., an affiliate of Tracinda ("250 Rodeo"), increased their beneficial ownership of the Company to approximately 89.5 percent.

Rights Offering. On October 26, 1998 (the "Record Date"), the Company issued to the holders of record of the Common Stock, at no charge to such holders, transferable subscription rights (the "Rights") to subscribe for 84,848,485 shares (the "Shares") of the Common Stock for $8.25 per share (the "Subscription Price") (the "Rights Offering"). Holders of the Common Stock received 1.289 Rights for each share of the Common Stock held as of the Record Date. Rights holders were allowed to purchase one share of the Common Stock at the Subscription Price for each whole Right held (the "Basic Subscription Privilege"). Rights holders who exercised the Basic Subscription Privilege in full also had the opportunity to purchase additional shares at the Subscription Price pursuant to an Oversubscription Privilege, as defined. Pursuant to the Rights Offering, Tracinda and 250 Rodeo each committed to exercise the Basic Subscription Privilege with respect to all of the Subscription Rights distributed to it (subject to certain conditions). The Rights expired on November 16, 1998. The Rights Offering was fully subscribed (including shares issued pursuant to the Oversubscription Privilege), and the Company issued the Shares for total net proceeds of $696,500,000 (gross proceeds of $700,000,000 less applicable fees and expenses of approximately $3,500,000). The net proceeds from the Rights Offering were used to repay in full the amounts outstanding under a bridge loan, and then to repay borrowings outstanding under the Revolving Facility.

In connection with the Rights Offering, the Company also amended its Amended and Restated Certificate of Incorporation in order to increase the number of shares of the Common Stock authorized from 125,000,000 to 250,000,000 (the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

"Amendment"). The Amendment was approved by the Board of Directors of the Company and Tracinda (which represents a majority of the outstanding Common Stock) on October 22, 1998 and was effective prior to the closing of the Rights Offering.

1996 Incentive Plan. The Company has an Amended and Restated 1996 Stock Incentive Plan (the "1996 Incentive Plan"). Awards under the 1996 Incentive Plan are generally not restricted to any specific form or structure and may include, without limitation, qualified or non-qualified stock options, incentive stock options, restricted stock awards and stock appreciation rights (collectively, "Awards"). Outstanding stock options under the 1996 Incentive Plan generally vest over a period of five years and are not exercisable until vested. Awards may be conditioned on continued employment, have various vesting schedules and accelerated vesting and exercisability provisions in the event of, among other things, a change in control of the Company.

In connection with the Rights Offering, the per share exercise price of the stock options granted to certain executive officers and other key employees of the Company (the "Executive Repricing Participants") aggregating 3,164,604 options were reduced from $24.00 to $14.90, and for approximately 400 other employees the exercise price of 2,027,900 stock options was reduced from $20.00 to $14.90, for 10,400 options from $22.00 to $14.90, for 103,800 options from $21.50 to $14.90 and for 19,800 options from $19.63 to $14.90 (the "Employee Options") (collectively, the "Options Repricing"). The options which have had their exercise price adjusted pursuant to the Options Repricing will not be exercisable until the later of (i) six months following the Rights Offering, (ii) the date the Options Repricing is approved by the holders of 75 percent of the outstanding shares of the Common Stock and (iii) the applicable date of exercise set forth in the respective option agreement. No changes will be made to the vesting schedule or expiration date of the options subject to the Options Repricing.

Stock option transactions under the 1996 Incentive Plan were as follows:

<TABLE>
<CAPTION>

	December 31, 1998		December 31, 1997		October 11 to December 31, 1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding at beginning of year......	7,683,952	$22.71	1,745,680	$24.00	--	--
Granted.................	5,973,714	$14.73	5,948,672	$22.33	1,745,680	$24.00
Cancelled...............	(5,945,055)	$22.16	(10,400)	$20.00	--	--
Options outstanding at end of year...........	7,712,611	$17.25	7,683,952	$22.71	1,745,680	$24.00
Options exercisable at end of year...........	765,662	$24.00	--	--	--	--

The following table summarizes information about the outstanding options at December 31, 1998 under the 1996 Incentive Plan:
<CAPTION>

	Outstanding		
	Exercise Price	Number of Options	Weighted Average remaining years of contractual life
<S>	<C>	<C>	<C>
	$11.38	285,000	9.94
	$14.90	5,323,595	8.39
	$24.00	2,104,016	7.78

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

----
7,712,611
=========

</TABLE>

Senior Management Bonus Plan. The Company has a Senior Management Bonus Plan (the "Senior Management Bonus Plan") under which 2,420,685 bonus interests ("Bonus Interests") have been granted to certain key employees. Subject to certain vesting and other requirements, each Bonus Interest held by the Executive Repricing Participants entitles the holder to receive a cash payment if (a) the sum of the average closing price of Common Stock during the 20 trading days plus, in certain circumstances, per share distributions on the Common Stock (together, the "Price") preceding a Determination Date, as defined, is greater than (b) $14.90 and less than $29.80 (adjusted for stock splits, reverse stock splits and similar events). With respect to Bonus Interests held by all others, each Bonus Interest entitles the holder to receive a cash payment if the Price preceding a Determination Date, as defined, is greater than $24.00 and less than $48.00 (adjusted for stock splits, reverse stock splits and similar events). The cash payment will be equal to (i) the vested portion of the Bonus Interest at the Determination Date multiplied by (ii) the amount by which the Price at the Determination Date is less than $29.80, with respect to Executive Repricing Participants, or $48.00 with respect to all others, multiplied by (iii) 1.61, with respect to the Executive Repricing Participants only (in each case, a maximum of $24.00 per Bonus Interest). Once a payment is made in respect of the vested portion of a Bonus Interest, no further payment is due in respect of that portion. If at any Determination Date the Price equals or exceeds $29.80, with respect to Executive Repricing Participants, or $48.00, with respect to all others, no payments will thereafter be due in respect of any then-vested portion of a Bonus Interest. Bonus Interests vested 20 percent at October 1, 1997 and 1/60 each month thereafter. Bonus Interests vested at December 31, 1998 were 1,103,301.

The Company applies Accounting Principles Board ("APB") Opinion No. 25, "Accounting For Stock Issued to Employees," and related interpretations in accounting for its plans. Had compensation cost for these plans been determined consistent with FASB Statement No. 123, the Company's net income (loss) would have been reduced to the following pro forma amounts:

<TABLE>
<CAPTION>

	Year Ended December 31, 1998	Year Ended December 31, 1997	October 11 to December 31, 1996
<S>	<C>	<C>	<C>
Net income (loss):			
As reported	$(157,648)	$(128,114)	$ 166
Pro forma	$(170,546)	$(136,187)	$ (15)
Pro forma loss per share	$ (2.25)	$ (4.76)	$(0.00)

</TABLE>

The fair value of each option grant was estimated using the Black-Scholes model based on the following assumptions: the weighted average fair value of stock options granted in the year ended December 31, 1998, 1997 and in the period from October 11 to December 31, 1996 was $4.62, $5.41 and $6.94, respectively. The dividend yield was 0 percent in all periods, and expected volatility was 40.5 percent for the year ended December 31, 1998 and 0 percent in all other periods. Also, the calculation uses a weighted average expected life of 5.0 years, 5.0 years and 5.5 years, and a weighted average assumed risk-free interest rate of 4.9 percent, 5.9 percent and 6.2 percent, for the years ended December 31, 1998, 1997 and the period from October 11 to December 31, 1996, respectively.

Note 8--Income Taxes

The Company's domestic and foreign tax liability balances consist of the following (in thousands):

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Current	$34,869	$30,879
Deferred	--	700
	$34,869	$31,579

</TABLE>

For income tax purposes, the historical tax basis of the assets and liabilities of MGM Studios and Orion have been retained following their acquisitions by the Company. The income tax effects of temporary differences between book value and tax basis of assets and liabilities are as follows (in thousands):

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
Deferred tax assets:		
Film and television costs	$ 32,078	$ 21,143
Participations and residuals payable	61,434	10,886
Reserves and investments	48,332	52,375
Net miscellaneous tax assets	26,595	34,780
Operating loss carryforwards	104,607	74,069
Subtotal, gross deferred tax assets	273,046	193,253
Valuation allowance	(228,044)	(173,867)
Total deferred tax assets	45,002	19,386
Deferred tax liabilities:		
Film revenue	(41,556)	(18,709)
Goodwill	(3,446)	(1,377)
Total deferred tax liabilities	(45,002)	(20,086)
Net deferred tax liability	$ --	$ (700)

</TABLE>

As of December 31, 1998, the Company and its subsidiaries for U.S. federal income tax purposes had net operating loss carryforwards of $30,323,000, $91,511,000 and $146,388,000, which expire in 2011, 2012 and 2018, respectively. Under U.S. tax rules enacted in 1997, net operating losses generated in tax years beginning before August 6, 1997 may be carried forward for 15 years while losses generated in subsequent tax years may be carried forward 20 years. Presently, there are no limitations on the use of these carryforwards.

At December 31, 1998, management has determined that $228,044,000 of deferred tax assets do not satisfy the recognition criteria set forth in SFAS No. 109. Accordingly, a valuation allowance has been recorded by the Company for this amount.

Details of the provision for income taxes are as follows (in thousands):

<TABLE>
<CAPTION>

	Year Ended December 31, 1998	Year Ended December 31, 1997	October 11 to December 31, 1996
Current taxes:			
Foreign taxes	$ 10,181	$ 9,645	$ 3,140
Deferred taxes:			
Federal and state taxes (benefit).	(54,177)	(66,102)	6,055
Adjustment for change in valuation allowance	54,177	66,802	(4,849)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Total tax provision................	$ 10,181	$ 10,345	$ 4,346

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

	Year Ended December 31, 1998	Year Ended December 31, 1997	October 11 to December 31, 1996
Federal tax rate on pre-tax book income (loss)...................................	(35)%	(35)%	35%
Goodwill and other permanent differences....	3 %	3 %	14%
Foreign taxes, net of available federal tax benefit..................................	7 %	8 %	45%
Loss carryforward not benefitted...........	32 %	32 %	--%
Effective tax rate.........................	7 %	8 %	94%

The Company has various foreign subsidiaries formed or acquired to produce or distribute motion pictures outside the United States. In the opinion of management, the earnings of these subsidiaries are not permanently invested outside the United States. Pursuant to APB No. 23, "Accounting For Income Taxes--Special Areas," tax expense has accordingly been provided for these unremitted earnings.

Note 9--Retirement Plans

The Company has a non-contributory retirement plan (the "Basic Plan") covering substantially all regular full-time, non-union employees. Benefits are based on years of service and compensation, as defined. In 1998, the Company adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits", which revised employers' disclosures about pension and post-retirement benefit plans.

Reconciliation of the funded status of the plans and the amounts included in the Company's consolidated balance sheets are as follows (in thousands):

	December 31, 1998	December 31, 1997
Projected benefit obligations:		
Beginning obligations..........................	$10,500	$ 9,913
Service cost...................................	1,149	1,213
Interest cost..................................	852	841
Actuarial gains................................	1,506	381
Benefits paid..................................	(355)	(1,848)
Ending obligations.............................	$13,652	$10,500
Fair value of plan assets (primarily debt securities):		
Beginning fair value...........................	$ 8,741	$ 8,403
Actual return on plan assets...................	1,107	662
Employer contributions.........................	1,712	1,524
Benefits paid..................................	(355)	(1,848)
Expenses.......................................	--	--
Ending fair value..............................	$11,205	$ 8,741

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	December 31, 1998	December 31, 1997
Funded status of the plans:		
Projected benefit obligations	$13,652	$10,500
Plan assets at fair value	11,205	8,741
Projected benefit obligations in excess of plan assets	(2,447)	(1,759)
Unrecognized net asset as of beginning of year	(140)	(160)
Unrecognized net gain	1,936	860
Unrecognized prior service cost	(149)	(163)
Net balance sheet liability	$ (800)	$(1,222)

Key assumptions used in the actuarial computations were as follows:

	December 31, 1998	December 31, 1997
Discount rate	6.75%	7.50%
Long-term rate of return on assets	7.25%	7.25%
Rate of increase in future compensation levels	5.00%	5.00%

The unrecognized net asset is being amortized over the estimated remaining service life of 19.4 years. Domestic pension benefits and expense were determined under the entry age actuarial cost method.

Pension cost includes the following components (in thousands):

	Year ended December 31, 1998	Year ended December 31, 1997	October 11 to December 31, 1996
Service cost	$1,149	$1,213	$ 244
Interest cost on projected benefit obligation	852	841	163
Actual (return) loss on plan assets	(676)	(636)	224
Net amortization and deferral	(34)	(34)	(330)
Net periodic pension cost	$1,291	$1,384	$ 301

A significant number of the Company's production employees are covered by union sponsored, collectively bargained multi-employer pension plans. The Company contributed approximately $8,890,000, $12,366,000 and $2,824,000, respectively, for such plans in years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996. Information from the plans' administrators is not sufficient to permit the Company to determine its share of unfunded vested benefits, if any.

The Company also provides each of its employees, including its officers, who have completed one year of service with the Company the opportunity to participate in the MGM Savings Plan (the "Savings Plan"). The Company contributed approximately $1,435,000, $1,172,000 and $219,000, respectively, to the Savings Plan in the years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996.

Note 10--Related Party Transactions

In February 1980 a predecessor-in-interest to the Company granted to a predecessor-in-interest to MGM Grand, Inc. an exclusive open-ended royalty-free license, which was amended in 1992 and further amended in 1998. Pursuant to the license, as amended, MGM Grand, Inc. has the right to use certain

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

trademarks that include the letters "MGM," as well as logos and names consisting of or related to stylized depictions of a lion, in its resort hotel and/or gaming businesses and other businesses that are not related to filmed entertainment. In 1986

MGM granted MGM Grand Air, Inc. ("Grand Air") an exclusive open-ended royalty-free license to use one of its logos consisting of a stylized depiction of a lion in Grand Air's airline business. The Company did not receive any monetary compensation for these licenses. Tracinda owns a majority of the outstanding common stock of MGM Grand, Inc., the parent of both MGM Grand Hotel ("Grand Hotel") and Grand Air. Additionally, the Company and affiliates of Tracinda occasionally conduct cross-promotional campaigns, in which the Company's motion pictures and the affiliates' hotels are promoted together; however, the Company believes that the amounts involved are immaterial.

The Company and Grand Hotel have an ongoing relationship whereby Grand Hotel can utilize key art, still photographs of artwork and one minute film clips from certain of the Company's motion picture releases on an as-needed basis. The Company did not receive any monetary compensation for these licenses.

The Company sells to Grand Hotel and certain of its affiliates, on a wholesale basis, videocassettes and other merchandise such as baseball caps, clothing, keychains and watches bearing the Company's trademarks and logos for resale to consumers in retail shops located within Grand Hotel's hotels. Grand Hotel currently is the Company's largest wholesale customer of the Company's merchandise and, consequently, receives customary volume discounts from the Company. During the years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996, the Company recognized revenues of $24,000, $257,000 and $70,000, respectively, for such videocassettes and merchandise.

In 1997 MGM Studios and Grand Hotel entered into a site location agreement with respect to production of a pilot episode of a television series being developed by MGM Studios. Grand Hotel was not compensated for the use of the site, but was compensated, on customary terms, for goods and services provided by Grand Hotel in the amount of $462,000 in the year ended December 31, 1997.

From time to time, the Company charters airplanes from Tracinda for use in the Company's business. The Company believes that the terms of the charter arrangements are no less favorable to the Company than those that could be obtained from unrelated third parties. During the years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996, the aggregate of the payments made to Tracinda for such charters were approximately $3,000, $308,000 and $10,000, respectively.

In 1995 the Company licensed to a subsidiary of Seven, a former beneficial owner of more than 5 percent of the Company's Common Stock, the right to distribute certain motion picture and television product in the Australian free television market. This agreement was amended on September 9, 1997. The product licensed includes certain library pictures and theatrical motion pictures and television series, miniseries and made-for-television movies produced or distributed by the Company during the term of the agreement. The license fees for the library product are at a rate which the Company believes is arm's-length. The term of the output portion of the agreement is 15 years. The license fees for output product television series, television movies and television mini-series are on a "most favored nations" basis with prices paid by the Seven subsidiary for comparable programming. During the years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996, the Company recognized revenues of $5,651,000, $4,454,000 and $1,055,000, respectively, under this agreement. Management believes that the terms of this agreement are consistent with the terms of comparable television license arrangements with third parties.

In 1994, in connection with the formation of MovieVision, a joint venture in which the Company and a subsidiary of Seven have non-controlling interests, the Company licensed to the joint venture certain of its current theatrical and television motion pictures, as well as a number of its library pictures, for distribution on Australian pay and basic cable television. The agreement expires on June 30, 2000, with all motion pictures covered by the agreement reverting to the Company within one year after that date, but both the Company and

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

MovieVision have the right to extend the license for a further five years. The Company receives a license fee for each picture that is based on the number of MovieVision's subscribers. The Company recognized such license fee revenues of $3,678,000, $3,056,000 and $292,000 during the years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996, respectively. The Company believes that the terms of the agreement are no less favorable to the Company than those contained in its licenses with unaffiliated licensees.

Seven has agreed to reimburse the Company for losses that the Company may incur in connection with the distribution of an Australian film with respect to which the Company has acquired distribution rights from an unrelated third party.

The Company has an exclusive producer overhead arrangement with FGM Entertainment for the services of Frank Mancuso, Jr., the son of the Company's Chairman of the Board and Chief Executive Officer, which expires on July 31, 2002. FGM Entertainment, a company wholly owned by Mr. Mancuso, Jr., receives $400,000 each year, subject to five to ten percent annual increases, for overhead expenses, as well as a development fund and a production fund to pay for the costs of developing and producing projects. FGM Entertainment must submit all projects that it wishes to produce or develop to the Company and receives a producing fee, as well as certain participations and royalties, for each picture that is produced under the arrangement. The Company has the right to acquire the domestic or worldwide rights to each picture produced under the arrangement and controls all remake, sequel and television rights. Pursuant to this arrangement, the Company paid Mr. Mancuso, Jr. approximately $2,429,000, $1,916,000 and $39,000 during the years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996, respectively.

On January 14, 1997, MGM Studios and Tracinda entered into an agreement to share the proceeds from certain insurance claims relating to litigation which arose prior to 1991. The potential insurance proceeds were allocated 65% to MGM Studios and 35% to Tracinda based on the relative value of each company's respective claims, as determined by the parties. The Company received $8,031,000 in insurance proceeds under such policies during the year ended December 31, 1997, of which $2,811,000 was paid to Tracinda.

Note 11--Segment Information

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", for its fiscal year ended December 31, 1998, which changed the way the Company reports information about its operating segments. The Company business units have been aggregated into three reportable operating segments: feature films, television programming and other (see Note 1). The factors for determining the reportable segments were based on the distinct nature of their operations. They are managed as separate business units because each requires and is responsible for executing a unique business strategy. Earnings of industry segments and geographic areas exclude interest income, interest expense, goodwill amortization, income taxes and other unallocated corporate expenses. Identifiable assets are those assets used in the operations of the segments. Corporate assets consist of cash, certain corporate receivables and intangibles. Summarized financial information concerning the Company's reportable segments is shown in the following tables (in thousands):

<TABLE>
<CAPTION>

<S>	Feature Films <C>	Television Programs <C>	Other <C>	Total <C>
Year Ended December 31, 1998:				
Revenues..........................	$1,005,747	$197,759	$ 37,217	$1,240,723
Segment income (loss)............	$ 39,748	$ 12,885	$ (3,758)	$ 48,875
Identifiable assets..............	$2,096,092	$400,646	$ 19,718	$2,516,456
Capital expenditures.............	$ 9,293	$ 1,776	$ 18,733	$ 29,802
Depreciation expense.............	$ 5,683	$ 1,086	$ 53	$ 6,822

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Year Ended December 31, 1997:				
Revenues..........................	$ 699,219	$114,200	$ 17,883	$ 831,302
Segment income (loss)............	$ 65,509	$ (7,201)	$(26,545)	$ 31,763
Identifiable assets..............	$1,874,683	$311,873	$ 9,414	$2,195,970
Capital expenditures.............	$ 6,346	$ 1,056	$ 11,312	$ 18,714
Depreciation expense.............	$ 4,505	$ 749	$ 23	$ 5,277
October 11 to December 31, 1996:				
Revenues..........................	$ 209,354	$ 14,413	$ 4,919	$ 228,686
Segment income (loss)............	$ 37,140	$ (4,062)	$ 532	$ 33,610
Identifiable assets..............	$1,255,389	$166,781	$ 4,573	$1,426,743
Capital expenditures.............	$ 1,471	$ 195	$ 1,543	$ 3,209
Depreciation expense.............	$ 1,003	$ 133	$ 4	$ 1,140

</TABLE>

The following table presents the details of other operating segment income (loss):

<TABLE>
<CAPTION>

	Year Ended December 31,		October 11 to December 31,
	1998	1997	1996
<S>	<C>	<C>	<C>
Licensing and merchandising.........	$ 484	$ 2,526	$ 801
Interactive media..................	(9,930)	(16,828)	(1,878)
Music..............................	4,787	2,140	1,149
Losses on equity investments........	(12,536)	(14,225)	--
Profit on sale of interest in joint venture............................	10,000	--	--
Other..............................	3,437	(158)	460
	$ (3,758)	$ (26,545)	$ 532

</TABLE>

The following is a reconciliation of reportable segment income to consolidated income (loss) before taxes:

<TABLE>
<CAPTION>

	Year Ended December 31,		October 11 to December 31,
	1998	1997	1996
<S>	<C>	<C>	<C>
Segment income..........................	$ 48,875	$ 31,763	$ 33,610
General and administrative expenses.....	(92,244)	(87,644)	(18,319)
Severance and related costs.............	(13,182)	--	--
Goodwill amortization...................	(14,289)	(11,230)	(1,717)
Operating income (loss)..............	(70,840)	(67,111)	13,574
Interest expense, net of amounts capitalized...........................	(80,611)	(53,105)	(9,875)
Interest and other income, net..........	3,984	2,447	813
Consolidated income (loss) before taxes..............................	$(147,467)	$(117,769)	$ 4,512

</TABLE>

The following is a reconciliation of reportable segment assets to consolidated total assets:

<TABLE>
<CAPTION>

	Year Ended December 31,		October 11 to December 31,
	1998	1997	1996
<S>	<C>	<C>	<C>
Total assets for reportable segments....	$2,516,456	$2,195,970	$1,426,743
Goodwill not allocated to segments......	561,026	574,795	302,741

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Other unallocated amounts	81,496	51,889	45,184
Consolidated total assets	$3,158,978	$2,822,654	$1,774,668

</TABLE>

The Company's foreign activities are principally motion picture and television production and distribution in territories outside of the United States and Canada. Net foreign assets of subsidiaries operating in foreign countries are not material in relation to consolidated net assets. Revenues earned from motion picture and television films produced in the United States by territory were as follows (in thousands):

	Year Ended December 31, 1998	Year Ended December 31, 1997	October 11 to December 31, 1996
United States and Canada	$ 740,480	$458,977	$137,160
Europe	276,673	255,396	62,298
Asia and Australia	158,615	86,695	15,052
Other	64,955	30,234	14,176
	$1,240,723	$831,302	$228,686

Note 12--Commitments and Contingencies

Leases. The Company has operating leases for offices and equipment. Certain property leases include provisions for increases over base year rents as well as for escalation clauses for maintenance and other building operations. Rent expense was approximately $15,011,000, $12,915,000 and $2,936,000 for the years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996, respectively.

Employment Agreements. The Company has employment agreements with several principal officers and employees. The agreements provide for minimum salary levels as well as, in some cases, bonuses.

Creative Talent Agreements. The Company has entered into contractual agreements for creative talent related to future film production. Such amounts are scheduled to be paid through 2002.

Future minimum annual commitments under non-cancelable operating leases, employment agreements, and creative talent agreements as of December 31, 1998 are as follows (in thousands):

1999	$ 78,746
2000	45,923
2001	27,246
2002	13,013
2003	8,075
Thereafter	1,260
	$174,263

Litigation. The Company, together with other major companies in the filmed entertainment industry, has been subject to numerous antitrust suits brought by various motion picture exhibitors, producers and others. In addition, various legal proceedings involving alleged breaches of contract, antitrust violations, copyright infringement and other claims are now pending, which the Company considers routine to its business activities.

In the opinion of Company management, any liability under pending litigation is likely to be not material in relation to the Company's financial condition.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 13--Supplementary Cash Flow Information

The Company paid interest, net of capitalized interest, of $66,887,000, $45,394,000 and $7,103,000 during the years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996, respectively.

The Company paid income taxes of $7,137,000, $8,425,000 and $922,000 during the years ended December 31, 1998 and 1997 and the period from October 11, 1996 to December 31, 1996, respectively. During the year ended December 31, 1997, the Company also received foreign remittance tax refunds of $12,296,000.

Note 14--Quarterly Financial Data (Unaudited)

Certain quarterly information is presented below (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998:				
Revenues	$316,460	$281,201	$259,622	$383,440
Operating income (loss)	$ 1,929	$(33,621)	$(17,402)	$(21,746)
Interest expense, net of amounts capitalized	$ 18,254	$ 20,174	$ 22,022	$ 20,161
Net loss	$(18,643)	$(54,994)	$(40,271)	$(43,740)
Basic and diluted loss per share	$ (.28)	$ (.84)	$ (.61)	$ (.30)
1997:				
Revenues	$197,629	$153,385	$221,068	$259,220
Operating income (loss)	$ (1,084)	$ (4,775)	$ 1,254	$(62,506)
Interest expense, net of amounts capitalized	$ 11,016	$ 9,583	$ 15,415	$ 17,091
Net loss	$(14,193)	$(14,812)	$(16,560)	$(82,549)
Basic and diluted loss per share	$ (.85)	$ (.88)	$ (.55)	$ (1.64)

Note 15--Subsequent Events

On March 12, 1999, the Company agreed to accelerate the expiration of the right of Warner Home Video ("WHV") to distribute the Company's product in the home video marketplace under the agreement executed in 1990 (the "WHV Agreement"). In consideration for the early expiration of the WHV Agreement, the Company has agreed to pay WHV $225 million, of which $112.5 million was paid on March 12, 1999 and the remaining $112.5 million of which is payable in September 1999. The parties restructured the terms of the WHV Agreement, which will function as an interim distribution agreement (the "Transitional Video Agreement"), under which WHV will distribute certain of the Company's product in the home video marketplace while the Company establishes its own home video distribution network. The Transitional Video Agreement expires on January 31, 2000. Additionally, the Company reconveyed as of January 1, 1999 to Turner Entertainment, Co., Inc., an affiliate of WHV, the right that the Company had to distribute in the home video markets worldwide until June 1, 2001, 2,950 titles that had been serviced under the WHV Agreement. The Company intends to record a one-time pre-tax contract termination charge in the first quarter of 1999 for approximately $225 million for costs in connection with the early expiration of WHV's rights under the WHV Agreement. The Company's obligation to pay the remaining $112.5 million installment (plus interest at the rate of eight percent per year from March 1999) in September 1999 is secured by a standby letter of credit issued by one of the Company's principal lenders.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Metro-Goldwyn-Mayer Studios Inc.:

We have audited the accompanying consolidated statements of operations and comprehensive income (loss), stockholder's equity and cash flows for the period from January 1, 1996 to October 10, 1996 of Metro-Goldwyn-Mayer Studios Inc. (formerly known as Metro-Goldwyn-Mayer Inc.) and its subsidiaries. These

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of the Company for the period from January 1, 1996 to October 10, 1996 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Los Angeles, California
December 16, 1996

METRO-GOLDWYN-MAYER STUDIOS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands)

<TABLE>
<CAPTION>

<S>	<C> January 1 to October 10, 1996
Revenues	$ 912,706
Expenses:	
Film and television production and distribution	953,820
General and administrative	60,056
Goodwill amortization	11,570
Provision for impairment	563,829
Total expenses	1,589,275
Operating loss	(676,569)
Other income (expense):	
Interest expense, net of amounts capitalized	(71,375)
Interest and other income, net	3,179
Total other expense	(68,196)
Loss from operations before provision for income taxes	(744,765)
Income tax provision	(273)
Net loss	(745,038)
Other comprehensive income, net of tax:	
Foreign currency translation adjustment	95
Comprehensive loss	$ (744,943)

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

METRO-GOLDWYN-MAYER STUDIOS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(in thousands, except share data)

<TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	Common Stock		Additional		Accum. Other	Total
	Number of Shares	Par Value	Paid-in Capital	Deficit	Comprehensive Income	Stockholder's Equity
Balance December 31, 1995	10	$ 1	$2,132,694	$(1,472,783)	$(413)	$ 659,499
Contributions received from affiliate	--	--	89,439	--	--	89,439
Dividends declared	--	--	--	(3,995)	--	(3,995)
Foreign currency translation adjustment	--	--	--	--	95	95
Net loss	--	--	--	(745,038)	--	(745,038)
Balance October 10, 1996	10	$ 1	$2,222,133	$(2,221,816)	$(318)	$ --

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

METRO-GOLDWYN-MAYER STUDIOS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	January 1 to October 10, 1996
Operating activities:	
Net loss	$(745,038)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:	
Amortization of film and television costs, film distribution organization and participants' share	608,704
Depreciation and amortization of property and equipment	4,645
Provision for impairment and amortization of intangibles	575,399
Increase in bad debt and other reserves	430
Gains on equity investments	(1,967)
Increase in accounts and contracts receivable, advances to affiliates and other assets	(28,192)
Decrease in accounts payable, accrued and other liabilities, accrued participants' share and domestic and foreign taxes	(19,970)
Decrease in advances and deferred revenues	(51,199)
Foreign currency exchange loss and other	325
Net cash provided by operating activities	343,137
Investing activities:	
Additions to film costs, net	(369,148)
Additions to property and equipment	(6,901)
Other investing activities	(4,093)
Net cash used in investing activities	(380,142)
Financing activities:	
Additions to borrowed funds	165,866
Repayments of borrowed funds	(114,854)
Dividends paid	(6,160)
Net cash provided by financing activities	44,852
Net change in cash and cash equivalents from operating, investing and financing activities	7,847
Net decrease in cash due to foreign currency fluctuations	(258)
Net change in cash and cash equivalents	7,589
Cash and cash equivalents at beginning of period	17,128
Cash and cash equivalents at end of the period	$ 24,717

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

METRO-GOLDWYN-MAYER STUDIOS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 10, 1996

Note 1--Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation. The accompanying consolidated financial statements include the accounts of Metro-Goldwyn-Mayer Studios Inc. (formerly known as Metro-Goldwyn-Mayer Inc.), and its majority-owned subsidiaries ("MGM Studios" or "the Company"). The Company is wholly owned by MGM Group Holdings Corporation ("MGM Group Holdings"), an indirect wholly owned subsidiary of Consortium de Realisation ("CDR"). CDR is a wholly owned subsidiary of Credit Lyonnais S.A. ("Credit Lyonnais") and is controlled by the French State. On October 10, 1996, the Company was sold to an unaffiliated group of investors (see Note 11). The sale transaction has not been reflected in the accompanying historical financial statements, except to reduce certain long-lived assets to their net realizable value (see Note 2).

Business. The Company is engaged in the financing, production and worldwide distribution of theatrical motion pictures and television programming, as well as new media and interactive products. The Company also distributes films produced or financed, in whole or in part, by third parties.

Principles of Consolidation. The consolidated financial statements include the accounts of MGM Studios and all of its majority-owned and controlled subsidiaries. The Company's investments in related companies which represent a 20% to 50% ownership interest over which the Company has significant influence but not control are accounted for using the equity method. All significant intercompany balances and transactions have been eliminated.

Revenue Recognition. Revenues from theatrical distribution of feature films are recognized on the dates of exhibition. Revenues from direct home video distribution are recognized, net of an allowance for estimated returns, together with related costs, in the period in which the product is available for sale by the Company's customers. Revenues from television licensing, together with related costs, are recognized when the feature film or television program is available to the licensee for telecast. Generally, feature films are first made available for home video release in a particular territory six months after theatrical release in such territory; for pay television, one year after theatrical release; for initial free television, two to three years after theatrical release; and for syndication, approximately three to five years after theatrical release. Long-term non-interest-bearing receivables arising from licensing agreements are discounted to present value.

Accounting for Film Costs. Except for purchase accounting adjustments, film costs include the costs of production, prints, pre-release and other advertising expected to benefit future periods and capitalized overhead and interest. These costs, as well as participations and talent residuals, are charged against earnings on an individual film basis in the ratio that the current year's gross film revenues bear to management's estimate of total remaining ultimate gross film revenues from all sources.

Film costs are stated at the lower of cost or estimated net realizable value on an individual film basis. Revenue and cost forecasts are continually reviewed by management and revised when warranted by changing conditions. When estimates of total revenues and costs indicate that a feature film or television program will result in an ultimate loss, additional amortization is recognized to the extent required to produce a zero gross margin over the remaining life of the film or television program.

The film distribution organization is an intangible asset reflecting the estimated value of the Company's investment in its worldwide distribution organization; these costs are being amortized on a straight-line basis over 40 years. During the period ended October 10, 1996, the Company recorded a charge of $404,409,000 to write off its remaining investment in the film distribution organization (see Note 2).

Property and equipment. Property and equipment are stated at cost. Depreciation of property and equipment is computed under the straight-line

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

method over the expected useful lives of applicable assets, ranging from three

to five years. Amortization of leasehold assets is computed under the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the related leases. When property is sold or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts, and any resulting gain or loss is included in income. The costs of normal maintenance and repairs and minor replacements are charged to expense when incurred.

Trademarks, Logos and Goodwill. Trademarks, logos and the excess cost of acquisitions over the fair market values of identifiable net assets acquired (goodwill) are amortized over an estimated useful life of 40 years using the straight-line method. During 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". This statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. The carrying value of existing assets are reviewed when events or changes in circumstances indicate that an impairment test is necessary in order to determine if an impairment has occurred. When factors indicate that such assets should be evaluated for possible impairment, the Company will estimate the future cash flows expected to result from the use of the assets and their eventual disposition, and compare the amounts to the carrying value of the assets to determine if an impairment loss has occurred. Accordingly, the Company recorded a charge of $159,420,000 to reduce the net realizable value of goodwill (see Note 2).

Income Taxes. In accordance with SFAS No. 109, "Accounting For Income Taxes", deferred tax assets and liabilities are recognized with respect to the tax consequences attributable to differences between the financial statement carrying values and tax bases of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. Further, the effect on deferred tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the enactment date.

From May 7, 1992 to October 10, 1996, the Company had been included in the consolidated federal income tax return of MGM Group Holdings. The Company's income tax provision has been computed on a separate return basis, modified to allocate to MGM Studios the benefits calculated at the MGM Group Holdings level which results from the Company's tax attributes. Foreign subsidiaries file separate or consolidated returns depending on the statutes and elections available in each foreign jurisdiction.

Foreign Currency Translation. Generally, foreign subsidiary assets and liabilities are translated into United States dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses of foreign subsidiaries are translated into United States dollars at the average exchange rates that prevailed during the period. The gains or losses that result from this process are included as a component of the cumulative translation adjustment balance in stockholder's equity. Foreign currency denominated transactions are recorded at the exchange rate in effect at the time of occurrence, and the gains or losses resulting from subsequent translation at current exchange rates are included in the statement of operations.

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Management estimates ultimate revenues and costs for feature films and television programs for each market based on anticipated release patterns, public acceptance and historical results for similar products. Actual results could differ from those estimates.

Note 2--Impairment of Intangible Assets

As discussed in Note 11, the Company was sold to an unaffiliated group of investors effective on October 10, 1996. The proceeds from the sale of $1,300,000,000 were insufficient to recover the net asset value of the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Company on the date of the disposition, and were insufficient to repay the bank debt and related accrued interest due to Credit Lyonnais. In accordance with SFAS No. 121, the Company recorded a charge of $404,409,000 to write off its remaining investment in the film distribution organization and a charge of $159,420,000 to reduce its investment in goodwill to net realizable value during the period ended October 10, 1996.

Note 3--Stockholder's Equity

An affiliate of Credit Lyonnais has agreed to pay bonuses to certain executives of the Company due upon the sale of the Company (see Note 11). Accordingly, the Company has recorded compensation expense and a corresponding contribution to capital of $9,641,000 during the period ended October 10, 1996, respectively.

Note 4--Income Taxes

Pursuant to a tax sharing agreement, the Company computes its income tax provision and corresponding deferred tax liabilities and assets, net of a valuation allowance, on a separate tax return basis, modified as discussed above with respect to the tax basis of assets transferred in the restructuring, and further modified to reflect the allocation to the Company of any tax benefits recognized by the consolidated filing group to the extent that the Company's losses in the current period reduce the current or deferred income taxes payable.

As of October 10, 1996, the Company and its subsidiaries had net operating loss carryforwards of $268,888,000, capital loss carryforwards of $29,616,000 and investment tax credit carryforwards of $12,836,000, before adjustments for the effect of the tax sharing agreement, which expire through 2010. These carryforwards are available for use in the U.S. consolidated tax return group, of which the Company is a member, and are subject to the tax sharing agreement between the Company and MGM Group Holdings. A portion of these losses are subject to substantial limitations on utilization because of various income tax rules.

Details of the provision for income taxes are as follows (in thousands):

<TABLE>
<CAPTION>

	January 1 to October 10, 1996
Current taxes:	
Foreign taxes	$ 273
Deferred taxes:	
Federal and state taxes (benefit)	(241,630)
Adjustment for change in enacted tax rate	--
Adjustment for change in valuation allowance	241,630
Total tax provision	$ 273

</TABLE>

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

<TABLE>
<CAPTION>

	January 1 to October 10, 1996
Assumed federal tax rate on loss	(35)%
Goodwill and other permanent differences	8 %
Foreign taxes, net of available federal tax benefit	1 %
Loss carryforward not benefited	27 %
Effective tax rate	1 %

</TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

METRO-GOLDWYN-MAYER STUDIOS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The Company has various foreign subsidiaries formed or acquired to produce or distribute motion pictures outside the United States. In the opinion of management, the earnings of these subsidiaries are not permanently invested outside the United States. Pursuant to APB 23, tax expense has accordingly been provided for these unremitted earnings.

Federal income tax returns for the periods ended through March 25, 1986 have been examined by the Internal Revenue Service. In the opinion of management, any adjustments which may result from the examination of subsequent periods for which the Company is responsible will not have a material effect on the Company's consolidated financial position or results of operations.

Note 5--Retirement Plans

The Company has a non-contributory retirement plan (the "Basic Plan") covering substantially all regular full-time, non-union employees. Benefits are based on years of service and compensation, as defined.

Pension costs includes the following components (in thousands):

<TABLE>
<CAPTION>

<S>	January 1 to October 10, 1996 <C>
Service cost	$ 54
Interest cost on projected benefit obligation	570
Actual return on plan assets	(521)
Net amortization and deferral	148
Net periodic pension cost	$1,051

</TABLE>

A significant number of the Company's production employees are covered by union sponsored, collectively bargained multi-employer pension plans. The Company contributed approximately $5,775,000 in 1996 for such plans. Information from the plans' administrators is not sufficient to permit the Company to determine its share of unfunded vested benefits, if any.

Note 6--Related Party Transactions

The Company has credit arrangements with CLBN and Credit Lyonnais (collectively, the "'Bank"). Interest of approximately $45,000,000 was charged by the Bank during the period ended October 10, 1996. Pursuant to the terms of its credit facilities, the Company also paid to the Bank charges related to letters of credit and other fees of approximately $19,000.

The Company has entered into various agreements to develop and produce certain films and television programs with Hometown Films Inc., an entity controlled by Mr. Frank Mancuso, Jr., who is a relative of the Company's Chairman of the Board and Chief Executive Officer. Pursuant to these agreements, the Company paid Hometown Films Inc., approximately $1,582,000 during the period from January 1, 1996 to October 10, 1996. The agreements provide for additional producer fees and potential profit participations to be paid in the future at terms consistent with comparable development and production agreements with third parties.

During the period ended October 10, 1996, the Company incurred legal fees of approximately $1,735,000 to White & Case, one of whose partners is also a director of the Company.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Note 7--Foreign Operations and Export Sales

The Company's foreign activities are principally motion picture and television production and distribution in territories outside of the United States and Canada. Net foreign assets and income from subsidiaries operating in foreign countries are not material in relation to consolidated net assets or consolidated net loss.

Revenues earned from motion picture and television films produced in the United States by territory were as follows (in thousands):

	January 1 to October 10, 1996
United States and Canada	$570,586
Europe	215,588
Asia and Australia	94,133
Other	32,399
	$912,706

Note 8--Commitments and Contingencies

Leases. The Company has operating leases for offices and equipment. Certain property leases include provisions for increases over base year rents as well as for escalation clauses for maintenance and other building operations. Rent expense was approximately $8,500,000 for the period ended October 10, 1996.

Employment Agreements. The Company has employment agreements with several principal officers and employees. The agreements provide for minimum salary levels as well as, in some cases, bonuses. In addition, the Company's shareholder is obligated to pay bonuses to certain executives in the event the value of the Company is eventually determined to exceed a defined amount. Based on the sales price of the Company, as described in Note 11, this incentive bonus amounted to $19,641,000. The Company has recorded compensation expense and a corresponding contribution to capital of $9,641,000 for the period ended October 10, 1996. Certain executives are entitled to terminate their employment agreements upon the sale of the Company.

Creative Talent Agreements. The Company has entered into contractual agreements for creative talent related to future film production which aggregate approximately $9,449,000 at October 10, 1996. Such amounts are scheduled to be paid through 1997.

Litigation. The Company, together with other major companies in the filmed entertainment industry, has been subject to numerous antitrust suits brought by various motion picture exhibitors, producers and others. In addition, various legal proceedings involving alleged breaches of contract, antitrust violations, copyright infringement and other claims are now pending, which the Company considers routine to its business activities.

In the opinion of Company management, any liability under pending litigation is not material in relation to the Company's results of operations.

Note 9--Supplementary Cash Flow Information

Total interest paid, net of capitalized interest, was $29,490,000 in the period ended October 10, 1996. Income taxes paid were $17,856,000 in the period ended October 10, 1996.

The Company recorded a non-cash contribution of capital of $9,641,000 during the period ended October 10, 1996, respectively, from CDR due to the payment of compensation expense (see Note 8).

Note 10--Quarterly Financial Data (Unaudited)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Certain quarterly information is presented below (in thousands):

	First Quarter	Second Quarter	Third Quarter
1996:			
Revenues	$ 286,947	$308,185	$ 317,574
Operating loss	(24,724)	(25,086)	(626,759)
Interest expense, net	22,361	22,725	26,289
Net loss	(53,678)	(49,874)	(641,486)

1996 Quarterly Results. The third quarter of 1996 includes the period from July 1, 1996 to October 10, 1996, the date of the Acquisition. In the third quarter of 1996, the Company recorded a charge of $563,829,000 to write off its remaining investment in the film distribution organization and to reduce its investment in goodwill to net realizable value (see Note 2).

Note 11--Subsequent Event

On October 10, 1996, CDR completed the sale of all of the Company's outstanding stock to Metro-Goldwyn-Mayer Inc. (formerly P&F Acquisition Corp.) an entity formed by Tracinda Corporation, Seven Network Limited and Mr. Frank G. Mancuso, for $1,300,000,000. In connection with the sale of the Company, Mr. Mancuso has entered into a new five year employment agreement to remain as Chief Executive Officer and Chairman of the Board of Directors of the Company. The acquisition price was financed with equity contributions of $900,000,000 and new bank debt of $400,000,000. The Company obtained $800,000,000 in Senior Secured Credit Facilities to partially finance the acquisition of the Company and to provide for ongoing operations of the Company. The Company's existing bank debt was extinguished upon the closing of the transaction. The acquisition will be accounted for as a purchase.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Metro-Goldwyn-Mayer Inc.:

We have audited in accordance with generally accepted auditing standards, the financial statements of Metro-Goldwyn-Mayer Inc. included in this Report on Form 10-K and have issued our report thereon dated February 23, 1999. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Los Angeles, California
February 23, 1999

SCHEDULE I: CONDENSED FINANCIAL INFORMATION OF REGISTRANT

METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

BALANCE SHEETS
(in thousands, except share data)

	December 31, 1998	December 31, 1997
ASSETS		
Investments and advances to affiliates	$1,919,657	$ 1,378,555

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	==========	===========

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities	$ --	$ --
Commitments and contingencies		
Stockholders' equity:		
Common Stock, $.01 par value, 250,000,000 shares authorized, 150,856,424 and 65,765,655 shares issued and outstanding	1,509	658
Additional paid-in capital	2,203,490	1,504,850
Deficit	(285,596)	(127,948)
Accumulated other comprehensive income	254	995
Stockholders' equity	1,919,657	1,378,555
	$1,919,657	$ 1,378,555

</TABLE>

The accompanying Notes to Financial Statements are an integral part of these statements.

METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except share data)

<TABLE>
<CAPTION>

	Year Ended December 31, 1998	Year Ended December 31, 1997	October 11 to December 31, 1996
<S>	<C>	<C>	<C>
Revenues	$ --	$ --	$ --
Expenses:			
Equity in net (income) losses of subsidiaries	157,648	94,760	(9,776)
Interest expense, net	--	33,354	9,610
Total expenses	157,648	128,114	(166)
Net income (loss)	(157,648)	(128,114)	166
Foreign currency translation adjustment	(741)	(150)	1,145
Comprehensive income (loss)	$ (158,389)	$ (128,264)	$ 1,311
Earnings (loss) per share:			
Basic	$ (2.08)	$ (4.47)	$ 0.01
Diluted	$ (2.08)	$ (4.47)	$ 0.00
Weighted average number of common shares outstanding:			
Basic	75,816,326	28,634,362	16,692,217
Diluted	75,816,326	28,634,362	37,796,672

</TABLE>

The accompanying Notes to Financial Statements are an integral part of these statements

METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(in thousands, except share data)

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock					
	No. of Shares	Par Value	No. of Shares	Par Value	Add'l Paid-in Capital	Retained Earnings (Deficit)	Accum. Other Comprehensive Income	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Beginning Balance.......	--	$ --	--	$ --	$ --	$ --	$ --	$ --
Issuance of preferred and common stock.......	501,006	5	16,700,342	167	901,639	--	--	901,811
Foreign currency translation adjustment.	--	--	--	--	--	--	1,145	1,145
Net income.............	--	--	--	--	--	166	--	166
Balance December 31, 1996...................	501,006	5	16,700,342	167	901,639	166	1,145	903,122
Issuance of preferred and common stock.......	1,914	--	28,110,145	281	603,416	--	--	603,697
Conversion of preferred stock into common stock..................	(502,920)	(5)	20,955,168	210	(205)	--	--	--
Foreign currency translation adjustment.	--	--	--	--	--	--	(150)	(150)
Net loss...............	--	--	--	--	--	(128,114)	--	(128,114)
Balance December 31, 1997...................	--	--	65,765,655	658	1,504,850	(127,948)	995	1,378,555
Issuance of common stock..................	--	--	85,090,769	851	697,084	--	--	697,935
Amortization of deferred stock compensation.....	--	--	--	--	1,556	--	--	1,556
Foreign currency translation adjustment.	--	--	--	--	--	--	(741)	(741)
Net loss...............	--	--	--	--	--	(157,648)	--	(157,648)
Balance December 31, 1998...................	--	$ --	150,856,424	$1,509	$2,203,490	$(285,596)	$ 254	$1,919,657

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

STATEMENTS OF CASH FLOWS
(in thousands)

<TABLE>
<CAPTION>

	Year Ended December 31,		October 11 to December 31,
	1998	1997	1996
<S>	<C>	<C>	<C>
Operating activities:			
Net income (loss)........................	$(157,648)	$(128,114)	$ 166
Adjustments to reconcile net income from operations to net cash used by operating activities:			
Losses (gains) on equity investments, net..................................	157,648	94,760	(9,776)
Amortization of debt issuance costs.....	--	3,934	1,068
Increase (decrease) in accrued liabilities..........................	--	(1,453)	1,453
Net cash used by operating activities...	--	(30,873)	(7,089)
Investing activities:			
Acquisition of MGM Studios Inc...........	--	--	(1,331,430)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Acquisition of Orion Pictures Corporation.	--	(561,617)	--
Net cash used in investing activities.....	--	(561,617)	(1,331,430)
Financing activities:			
Proceeds from issuance of equity securities to outside parties...........	73,185	165,000	--
Proceeds from issuance of equity securities to related parties...........	623,315	438,697	901,811
Proceeds from debt issuance..............	--	--	475,000
Net bank repayments......................	--	(443,750)	(31,417)
Net intercompany advances (repayments)....	(696,500)	432,543	(6,875)
Net cash provided by financing activities.	--	592,490	1,338,519
Net change in cash and cash equivalents.....	--	--	--
Cash and cash equivalents at beginning of period..................................	--	--	--
Cash and cash equivalents at end of the period....................................	$ --	$ --	$ --

</TABLE>

The accompanying Notes to Financial Statements are an integral part of these statements.

METRO-GOLDWYN-MAYER INC. (PARENT ONLY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

Note 1--Basis of Presentation

The accompanying financial statements include the accounts of Metro-Goldwyn-Mayer Inc. (formerly known as P&F Acquisition Corp.) ("MGM", or "the Company") presented on a separate company (parent only) basis. MGM is a Delaware corporation formed on July 10, 1996 specifically to acquire MGM Studios. The acquisition of MGM Studios by MGM was completed on October 10, 1996 (see Note 2), at which time MGM commenced principal operations. MGM acquired Orion Pictures Corporation and its majority owned subsidiaries on July 10, 1997. Prior to its acquisition by MGM, MGM Studios was wholly owned by MGM Group Holdings Corporation, an indirect wholly owned subsidiary of Consortium de Realisation ("CDR"). CDR is a wholly owned subsidiary of Credit Lyonnais S.A. and is controlled by the French State.

Note 2--Bank Debt

On October 15, 1997, MGM Studios entered into an amended and restated credit facility with a syndicate of banks aggregating $1.3 billion (the "Amended Credit Facility"). Concurrent with the Amended Credit Facility, MGM Studios repaid $739,653,000 of bank debt and accrued interest on behalf of the Company. For additional information regarding the Registrant's borrowings under debt agreements and other borrowings, see Note 6 to the Consolidated Financial Statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Metro-Goldwyn-Mayer Studios Inc.:

We have audited in accordance with generally accepted auditing standards, the financial statements of Metro-Goldwyn-Mayer Studios Inc. for the period from January 1, 1996 to October 10, 1996 included in this Report on Form 10-K and have issued our report thereon dated December 16, 1996. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule is the responsibility of the Company's management and are presented for the purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Arthur Andersen LLP

Los Angeles, California
December 16, 1996

METRO-GOLDWYN-MAYER INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In Thousands)

	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Acquired	Deductions	Balance at End of Period
Year Ended December 31, 1998:					
Reserve for allowances and doubtful accounts..........	$27,603	$ 467	$ --	$ (4,850)	$23,220
Reserve for termination costs under acquisitions...	$16,380	$ --	$ --	$(16,380)	$ --
Reserve for severance under corporate restructuring program....................	$ --	$ 13,182	$ --	$ (9,372)	$ 3,810
Year Ended December 31, 1997:					
Reserve for allowances and doubtful accounts..........	$11,730	$ 3,166	$ 13,600	$ (893)	$27,603
Reserve for termination costs under acquisitions...	$ 9,547	$ --	$ 36,000	$(29,167)	$16,380
For the Period from October 11, 1996 to December 31, 1996:					
Reserve for allowances and doubtful accounts..........	$12,718	$ (21)	$ --	$ (967)	$11,730
Reserve for termination costs under acquisitions...	$ --	$ --	$ 45,384	$(35,837)	$ 9,547
For the Period from January 1, 1996 to October 10, 1996:					
Reserve for allowances and doubtful accounts..........	$18,479	$ 430	$ --	$ (6,191)	$12,718
Reserve for home video inventory obsolescence, shrinkage and reduplication..............	$ 1,769	$ --	$ --	$ (1,769)	$ --

EXHIBIT INDEX

Exhibit Number	Document Description
2.1(2)	Stock Purchase Agreement, dated as of July 16, 1996, by and among the Company, CDR, MGM Holdings Corporation, MGM Group Holdings Corporation and MGM Studios (f/k/a Metro-Goldwyn-Mayer Inc.)*
2.2(2)	Stock Purchase Agreement, dated as of May 2, 1997, by and among the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Company, Orion and Metromedia International Group, Inc. ("MIG")*

2.3(2)	Agreement and Plan of Merger, dated as of January 31, 1996, by and among MIG, SAC Merger Corp. and the Samuel Goldwyn Company (the "Goldwyn Merger Agreement")*
2.4(2)	Amendment No. 1 to Goldwyn Merger Agreement dated as of May 29, 1996
2.5(2)	Amendment and Restated Plan of Merger, dated as of May 17, 1996, between MIG, MPCA Merger Corp., Bradley Krevoy, Steven Stabler and the Motion Picture Corporation of America*
3.1(2)	Form of Amended and Restated Certificate of Incorporation of the Company
3.2(2)	Form of Amended and Restated Bylaws of the Company
10.1(2)	Credit Agreement, dated as of October 10, 1996, among the Company, MGM Studios, certain lenders and Morgan Guaranty Trust Company of New York ("Morgan"), as agent*
10.2(2)	Credit Agreement, dated as of July 10, 1997, among Orion, certain lenders and Morgan, as agent*
10.3(2)	Amended and Restated Credit Agreement, dated as of October 15, 1997, among the Company, MGM Studios, Orion, certain lenders, Morgan, as agent and Bank of America ("B of A"), as syndication agent*
10.4(5)	Amendment I to Amended and Restated Credit Agreement, dated as of March 30, 1998, among the Company, MGM Studios, Orion, certain lenders, Morgan, as agent and B of A, as syndication agent
10.5(5)	Amendment II and Waiver I to Amended and Restated Credit Agreement; Amendment I to Amended and Restated Holdings Agreement dated as of September 9, 1998, among the Company, MGM Studios, Orion, certain lenders, Morgan, as agent and B of A, as syndication agent
10.6(2)	Form of Modification and Cancellation Agreement, dated as of November 5, 1997
10.7(2)	Amended and Restated 1996 Stock Incentive Plan dated as of November 11, 1997 and form of related Stock Option Agreement
10.8(1)	Form of Executive Option Exchange Agreement
10.9(2)	Senior Management Bonus Plan dated as of November 11, 1997 and form of related Bonus Interest Agreement
10.10(1)	Form of Bonus Interest Amendment
10.11(2)	Form of Amended and Restated Employment Agreement of Frank G. Mancuso dated as of August 4, 1997
10.12(2)	Employment Agreement of A. Robert Pisano dated as of October 10, 1996
10.13(2)	Employment Agreement of William A. Jones dated as of October 10, 1996
10.14(5)	Employment Agreement of Daniel J. Taylor dated as of August 1, 1997
10.15(5)	Amendment to Employment Agreement of Daniel J. Taylor dated as of June 15, 1998
10.16(1)	Employment Agreement of Robert Brada dated as of March 3, 1995
10.17(1)	Amendment to Employment Agreement of Robert Brada dated as of June 1, 1998
10.18(1)	Amendment to Employment Agreement of Robert Brada dated as of October 30, 1998
10.19(2)	Indemnification Agreement dated as of October 10, 1996--Frank G. Mancuso

</TABLE>

<TABLE>
<CAPTION>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exhibit Number	Document Description
10.20(2)	Indemnification Agreement dated as of October 10, 1996--A. Robert Pisano
10.21(2)	Indemnification Agreement dated as of October 10, 1996--William A. Jones
10.22(2)	Indemnification Agreement dated as of October 10, 1996--James D. Aljian
10.23(2)	Indemnification Agreement dated as of October 10, 1996--Kirk Kerkorian
10.24(2)	Indemnification Agreement dated as of October 10, 1996--Jerome B. York
10.25(3)	Indemnification Agreement dated as of November 7, 1997--Alex Yemenidjian
10.26(3)	Indemnification Agreement dated as of January 28, 1998--Francis Ford Coppola
10.27(5)	Indemnification Agreement dated as of June 15, 1998--Daniel J. Taylor
10.28(1)	Indemnification Agreement dated as of October 10, 1996--Robert Brada
10.29(1)	Indemnification Agreement dated as of November 12, 1998--Alexander M. Haig, Jr.
10.30(1)	Indemnification Agreement dated as of November 12, 1998--Willie D. Davis
10.31(2)	Amended and Restated Supplemental Executive Retirement Agreement dated as of July 18, 1997--A. Robert Pisano
10.32(2)	Form of Amended and Restated Shareholders Agreement dated as of August 4, 1997
10.33(5)	Form of Waiver and Amendment No. 1 to Amended and Restated Shareholders Agreement dated as of August 8, 1998
10.34(5)	Form of Amendment No. 2 to Amended and Restated Shareholders Agreement dated September 1, 1998
10.35(1)	Form of Waiver and Amendment No. 3 to Amended and Restated Shareholders Agreement
10.36(2)	Form of Amended and Restated Investors Shareholder Agreement dated as of August 4, 1997
10.37(5)	Form of Amendment No. 1 to Amended and Restated Investors Shareholder Agreement dated as of September 1, 1998
10.38(2)	Form of Amended and Restated Stock Option Agreement between the Company and Tracinda
10.39(2)	Form of Amended and Restated Stock Option Agreement between the Company and Celsus Financial Corp.
10.40(2)	Form of Inducement Agreement dated as of November 5, 1997
10.41(2)	Form of Investment Agreement dated November 12, 1997 between the Company and Tracinda
10.42(4)	1998 Non-Employee Director Stock Plan
21(1)	List of Subsidiaries of Metro-Goldwyn-Mayer Inc.
23(1)	Consent of Arthur Andersen LLP
27(1)	Financial Data Schedule

----

* Filed without Schedules.

(1) Filed herewith.

(2) Filed as an exhibit to the Company's Registration Statement on Form S-1,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

as amended (File No. 333-35411) and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 1997 (File No. 001-13481) and incorporated herein by reference.

(4) Filed as an exhibit to the Company's Form S-8 (File No. 333-52953) and incorporated herein by reference.

(5) Filed as an exhibit to the Company's Registration Statement on Form S-1, as amended (File No. 333-60723) and incorporated herein by reference.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

METRO-GOLDWYN-MAYER INC.
EXECUTIVE OPTION EXCHANGE AGREEMENT
PURSUANT TO THE
AMENDED AND RESTATED 1996 STOCK INCENTIVE PLAN

This Executive Option Exchange Agreement (this "Agreement") is entered into as of November 30, 1998 by Metro-Goldwyn-Mayer Inc., a Delaware corporation ("MGM"), Metro-Goldwyn-Mayer Studios Inc., a Delaware corporation ("Studios" and, collectively with MGM, the "Company"), and the person whose name appears on the signature page of this Agreement ("Participant").

A. Under the Company's Amended and Restated 1996 Stock Incentive Plan (the "Plan") and pursuant to that certain Stock Option Agreement Pursuant to the Amended and Restated 1996 Stock Incentive Plan (the "Stock Option Agreement") dated as of November 6, 1997 between the Company and Participant, the Company granted to Participant Series A Options and Series B Options (each as defined in the Stock Option Agreement and set forth on the signature page to this Agreement, and collectively referred to herein as the "Old Options") to purchase shares of the common stock, $0.01 par value per share ("Common Stock"), of the Company.

B. In connection with the Company's initial public offering in November 1997, the Company effected a 41.667 to 1 stock split of the Common Stock (the "Stock Split") and, pursuant to Section 7 of the Plan and Section 8 of the Stock Option Agreement, the aggregate number of options subject to the Plan (including, but not limited to, as set forth in Section 4 of the Plan), the number of Old Options granted to Participant under the Stock Option Agreement and the Exercise Price (as defined in Section 6(a) of the Stock Option Agreement) of the Old Options were appropriately and proportionately adjusted to take into account the effect of the subdivision of the shares of the Common Stock in connection with the Stock Split.

C. Due to the recent decline in the market price of the Common Stock, the Company believes that the purpose of the Plan is being frustrated and that it is in the best interests of the Company to effectively adjust the Exercise Price of the Old Options in order to more closely realign the value of the options with the market price of the Common Stock and thereby, better enable the Company to attract, retain and motivate its employees.

D. In order to effect such adjustment, the Company and Participant now desire to cancel Participant's Old Options in exchange for the Company granting Participant the same number of new options (as set forth on the signature page to this Agreement, the "New Options") under the Plan and on the terms and conditions specified herein and (except as described in Section 2 hereof) set forth in the Stock Option Agreement, with the result that following the cancellation of the Old Options pursuant to this Agreement, Participant will own the New Options, which New Options shall have the Exercise Price set forth on the signature page to this Agreement.

NOW, THEREFORE, in consideration of the covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Cancellation and Grant of Options.

(a) Subject to the fulfillment of the Condition (as defined below), (i) Participant does hereby agree to the cancellation of the Old Options and such Old Options shall be deemed to be of no further force or effect, without the requirement of any further action by the Company or Participant and (ii) in consideration of the cancellation of the Old Options, the Company does hereby grant to Participant the

New Options, subject to the terms and conditions specified herein and (except as described in Section 2 hereof) set forth in the Stock Option Agreement.

(b) Participant hereby agrees and acknowledges that the Amended and Restated Shareholders Agreement dated as of August 4, 1997, as amended August 8, 1998 and September 1, 1998 (as amended, the "Shareholders Agreement"), by and among the Company, Tracinda Corporation, Participant and the other parties thereto, shall remain in full force and effect and shall not be modified in any respect by this Agreement.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(c) Participant acknowledges that, by reason of the foregoing cancellation of the Old Options, Participant releases all rights and interests Participant may have held, whether pursuant to the Plan, the Stock Option Agreement, the Shareholders Agreement or otherwise, to acquire the shares of the Common Stock with respect to the Old Options. Participant hereby represents to the Company that (i) he or she is the sole owner of the Old Options and that he or she has not sold, transferred, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner any of the Old Options or any right to or interest in the Old Options to any person, (ii) the number of Old Options set forth on the signature page to this Agreement represents all of the options heretofore granted to him or her under the Plan, (iii) he or she, or his or her representative, has had an opportunity to ask questions and receive answers and to undertake whatever additional inquiry regarding the subject matter of this Agreement as such Participant has deemed necessary or appropriate under the circumstances in order to reach an informed decision regarding the merits of the transactions contemplated by this Agreement, and (iv) he or she has carefully reviewed and understands the Plan, the Stock Option Agreement and this Agreement and has had an opportunity to review such documents with counsel of his or her choosing. Participant agrees and acknowledges that the Company is relying on Participant's representations in entering into and effecting the transaction contemplated by this Agreement.

2. Terms of the New Options. Subject to the fulfillment of the Condition (as defined below), and except as set forth in this Section 2, the terms and conditions of the New Options shall be identical to the terms and conditions of the Old Options and will be governed by the Plan and the Stock Option Agreement (which, except as set forth in this Section 2 shall remain in full force and effect with respect to the New Options) in all respects, including, but not limited to, the date of grant, expiration date, general vesting provisions, acceleration and exercisability; provided, however, that, notwithstanding anything to the contrary in the Plan, the Stock Option Agreement or this Agreement:

(a) the Exercise Price of the New Options shall be as set forth on the signature page to this Agreement;

(b) the New Options shall not be exercisable until the later of (x) six months after the date of this Agreement, (y) the date the Condition is fulfilled and (z) the applicable date for such options set forth in the Stock Option Agreement;

(c) all references in the Stock Option Agreement to the Old Options shall be deemed to refer to the New Options.

3. Conditions.

(a) The cancellation of the Old Options and the grant of the New Options provided for in this Agreement will not become effective unless and until the grant of the New Options has been approved by the holders of 75% of the outstanding shares of Common Stock of the Company (the "Condition").

(b) Upon fulfillment of the Condition: (i) the cancellation of the Old Options will become effective; (ii) the Stock Option Agreement will terminate and be void with respect to the Old Options; and (iii) the grant of the New Options, subject to the terms and conditions specified herein and set forth in the Stock Option Agreement, will become effective.

(c) If the Condition is not satisfied on or before May 31, 1999, this Agreement will be null and void, the cancellation of the Old Options and the grant of the New Options will not occur and the Old Options will remain in full force and effect, on the terms and conditions of the Plan and the Stock Option Agreement as if this Agreement had not been entered into.

4. Agreement Not Revocable; Successors, Specific Performance and Other Equitable Remedies.

(a) Neither the Company nor Participant may revoke or rescind this Agreement, which shall survive the death, incapacity or termination of employment of Participant. This Agreement will be binding on the Company,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Participant and their respective successors and assigns, however such succession or assignment is effected (including, without limitation, by the laws of descent, distribution and conservatorship, sale, assignment, conveyance, gift, pledge, hypothecation or otherwise). This Agreement and the New Options may not be transferred, assigned, pledged or hypothecated by Participant, except as contemplated in the Stock Option Agreement.

(b) The parties to this Agreement will, in addition to damages or other remedies at law for breach, default or misrepresentation, as appropriate, be entitled to equitable remedies, including specific performance, for breach of prospective breach of this Agreement.

5. No Employment Right. Section 14 of the Stock Option Agreement is hereby incorporated into and made part of this Agreement by reference and shall be deemed to refer and apply to this Agreement.

6. Arbitration. Section 16 of the Stock Option Agreement is hereby incorporated into and made part of this Agreement by reference and shall be deemed to refer and apply to this Agreement.

7. Severability. If any provision or portion of this Agreement is illegal or unenforceable, the other portions of this Agreement will not be affected by the illegality or unenforceability.

8. Governing Law. Except to the extent provided in Section 16(d) of the Stock Option Agreement (which is incorporated by reference pursuant to Section 6 hereof), this Agreement is governed by and is to be construed and enforced in accordance with the internal laws, and not the laws pertaining to choice or conflict of laws, of the State of Delaware.

9. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. This Agreement may only be amended or modified by an agreement in writing signed by the Company and Participant.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and entered into as of the date first written above.

PARTICIPANT

[Name of Participant]

METRO-GOLDWYN-MAYER INC.

By:______________________________________
William A. Jones
Senior Executive Vice President and Secretary

METRO-GOLDWYN-MAYER STUDIOS INC.

By:______________________________________
William A. Jones
Senior Executive Vice President and Secretary

The following sets forth, upon satisfaction of the Condition, the Old Options which are canceled hereunder and the New Options that Participant is granted under this Agreement and the Amended and Restated Plan and the Stock Option Agreement.

<TABLE>
<CAPTION>

Series A Options	Series B Options
Number of Common Shares	Number of Common Shares

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	subject to Options	Exercise Price	subject to Options	Exercise Price
<S>	<C>	<C>	<C>	<C>
Old Options (to be canceled)	______	$24.00	______	$24.00
New Options	______	______	______	______

</TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 10.10

METRO-GOLDWYN-MAYER INC.
AND
METRO-GOLDWYN-MAYER STUDIOS INC.
AMENDMENT TO
BONUS INTEREST AGREEMENT
PURSUANT TO THE
SENIOR MANAGEMENT BONUS PLAN

This Amendment to Bonus Interest Agreement (this "Agreement") is entered into as of November 30, 1998 by Metro-Goldwyn-Mayer Inc., a Delaware corporation ("MGM"), Metro-Goldwyn-Mayer Studios Inc., a Delaware corporation ("Studios" and, collectively with MGM, the "Company"), and the person whose name appears on the signature page of this Agreement ("Participant").

A. Under the Company's Senior Management Bonus Plan (the "Plan") and pursuant to that certain Bonus Interest Agreement Pursuant to the Senior Management Bonus Plan (the "Bonus Interest Agreement") dated as of November 6, 1997 between the Company and Participant, the Company granted to Participant certain Bonus Interests (as defined in the Bonus Interest Agreement and set forth on the signature page to the Bonus Interest Agreement and the signature page to this Agreement, and referred to herein as the "Bonus Interests").

B. In connection with the initial public offering of the Common Stock by the Company in November, 1997, the Company effected a 41.667 to 1 stock split of the Common Stock (the "Stock Split") and, pursuant to Section 5 of the Plan and Section 8 of the Bonus Interest Agreement, certain appropriate and proportionate adjustments were made to take into account the effect of the subdivision of shares of the Common Stock in connection with the Stock Split, including, but not limited to, adjustments to the maximum aggregate number of Bonus Interests subject to the Plan (as set forth in Section 5 of the Plan), the maximum payment amount with respect to each Bonus Interest (as set forth in Section 4 of the Plan), the number of Bonus Interests granted to Participant under the Bonus Interest Agreement and the floor or trigger amount (the "Trigger Amount") and ceiling or cap amount (the "Cap Amount") of the Bonus Interests set forth in Sections 4, 5, 7 and 8 (or any other section) of the Bonus Interest Agreement.

C. Due to the recent decline in the market price of the Common Stock, the Company believes that the purpose of the Plan is being frustrated and that it is in the best interest of the Company to effectively adjust the Trigger Amount and the Cap Amount of the Bonus Interests in order to more closely realign the value of the Bonus Interests with the market price of the Common Stock and thereby better enable to Company to attract, retain and motivate its employees.

D. In order to effect such adjustment the Company and Participant now desire to amend the Bonus Interest Agreement, with the result that following the amendment, each of the Bonus Interests held by Participant will have the Trigger Amount and Cap Amount and entitle Participant to receive up to the maximum amount set forth on the signature page to this Agreement.

NOW, THEREFORE, in consideration of the covenants contained herein, the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. <u>Amendments</u>. Subject to the fulfillment of the Condition (as defined below) and after giving effect to the adjustments made as a result of the Stock Split, the Bonus Interest Agreement shall be amended as follows:

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(a) Sections 4, 5, 7 and 8 (any other applicable section) shall be amended to provide that the $1,000 (i.e., the Trigger Amount) and $2,000 (i.e., the Cap Amount) amounts throughout Section 4, 5, 7 and

8 (or any such other section), which were adjusted as a result of the Stock Split to $24 and $48, respectively, shall be further adjusted to $14.90 and $29.80, respectively.

(b) Section 4(a)(ii), Clause (C) shall be amended to add the following clause to the end of the Clause immediately after clause (y):

"..., multiplied by (z) 1.61."

(c) Section 5(a) shall be amended to add the following clause to the end of the Section immediately after clause (y):

"..., multiplied by (z) 1.61."

(d) Except as amended hereby or in accordance herewith, the Bonus Interest Agreement shall be unchanged and continue in full force and effect, including, but not limited to, with respect to the date of grant, expiration, general vesting provisions and acceleration.

2. Conditions.

(a) The amendment of the Bonus Interest Agreement provided for in this Agreement will not become effective unless and until the amendment of the Bonus Interest Agreement has been approved by the holders of at least 75% of the outstanding shares of Common Stock of the Company (the "Condition").

(b) If the Condition is not fulfilled on or before May 31, 1999, this Agreement will be null and void and the Bonus Interests outstanding immediately prior to the execution of this Agreement will remain in full force and effect, on the terms and conditions of the Plan and the Bonus Interest Agreement, as if this Agreement had not been entered into.

3. Representations of Participant. Participant hereby represents to the Company that (i) he or she is the sole owner of the Bonus Interests and that he or she has not sold, transferred, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner any of the Bonus Interests or any right to or interest in the Bonus Interests to any person, (ii) the number of Bonus Interests set forth on the signature page to this Agreement represents all of the Bonus Interests held by him or her, (iii) he or she, or his or her representative, has had an opportunity to ask questions and receive answers and to undertake whatever additional inquiry regarding the subject matter of this Agreement as such Participant has deemed necessary or appropriate under the circumstances in order to reach an informed decision regarding the merits of the transactions contemplated by this Agreement and (iv) he or she has carefully reviewed and understands the Plan, the Bonus Interest Agreement and this Agreement and has had an opportunity to review such documents with counsel of his or her choosing. Participant agrees and acknowledges that the Company is relying on the representations of Participant in entering into and effecting the transaction contemplated by this Agreement.

4. No Employment Rights. Section 14 of the Bonus Interest Agreement is hereby incorporated into and made part of this Agreement by reference and shall be deemed to refer and apply to this Agreement.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

5. Arbitration. Section 16 of the Bonus Interest Agreement is hereby incorporated into and made part of this Agreement by reference and shall be deemed to refer and apply to this Agreement.

6. Severability. If any provision or portion of this Agreement is illegal or unenforceable, the other portions of this Agreement will not be affected by the illegality or unenforceability.

7. Governing Law. Except to the extent provided in Section 16(d) of the Bonus Interest Agreement (which is incorporated by reference pursuant to Section 6 hereof), this Agreement is governed by and is to be construed and enforced in accordance with the internal laws, and not the laws pertaining to choice or conflict of laws, of the State of Delaware.

8. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. This Agreement may only be amended or modified by an agreement in writing signed by the Company and Participant.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and entered into as of the date first written above.

PARTICIPANT

(Participant)

METRO-GOLDWYN-MAYER INC.

By:____
William A. Jones
Senior Executive Vice President and Secretary

METRO-GOLDWYN-MAYER STUDIOS INC.

By:____
William A. Jones
Senior Executive Vice President and Secretary

The following sets forth, upon fulfillment of the Condition, the number of Bonus Interests that Participant will hold, the Trigger Amount and Cap Amount of such Bonus Interests and the maximum amount which the Participant will receive with respect to each Bonus Interest.

<TABLE>
<CAPTION>

Number of Bonus Interests	Trigger Amount	Cap Amount	Maximum Amount Receivable per Bonus Interest

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

```
            <S>                         <C>                 <C>                 <C>
            (Bonus_Interests)           $14.90              $29.80               $24.00
</TABLE>
```


Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 10.16

AGREEMENT made this 3rd day of March, 1995, between METRO-GOLDWYN-MAYER INC., a Delaware corporation (hereinafter referred to as "MGM"), and DONALD ROBERT BRADA, JR. (hereinafter referred to as the "Employee").

W I T N E S S E T H

1. MGM hereby employs the Employee and engages his exclusive services for the three (3) year period commencing as of June 1, 1995 and terminating three (3) years thereafter (the "Term").

   The Employee accepts such employment and agrees to render his services solely and exclusively for MGM during the Term. The Employee agrees to devote his best efforts to the business of MGM (or its present or future parents, subsidiaries, affiliates or successor companies) as MGM may request and as may be consistent with the duties of Employee's position. Employee hereby represents and warrants that he is legally able to enter into this employment agreement and that he has no other agreements or commitments with any third parties which would preclude or prevent him from entering into this agreement and rendering his services hereunder.

2. Employee's title shall be Senior Vice President and Deputy General Counsel, or a substantially equivalent title in the event of a corporate reorganization. Employee's duties shall be those which are commensurate with his title and shall include, without limitation, responsibility for overseeing corporate legal affairs. Employee shall report directly to the Executive Vice President and General Counsel (presently David G. Johnson) or to a comparable executive in the event of a corporate reorganization.

   Employee currently resides in Paris, France and MGM will reimburse Employee for his reasonable moving expenses to the Los Angeles, California area in accordance with MGM's policy for comparable executives.

3. Provided that Employee shall fully perform all of his obligations hereunder, MGM shall pay Employee a salary:

   (a) at the rate of Two Hundred Thousand Dollars ($200,000) per annum for the first year of the Term.

   (b) at the rate of Two Hundred Twenty-Five Thousand Dollars ($225,000) per annum for the second year of the Term.

   (c) at the rate of Two Hundred Fifty Thousand Dollars ($250,000) per annum for the third year of the Term.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Such salary shall be payable in installments in accordance with MGM's standard payment practices.

4. MGM shall have the right to terminate this agreement if:

   (a) Employee shall die.

   (b) Employee shall be unable to perform his duties for two (2) consecutive months due to illness or other physical incapacity.

   (c) MGM and/or any of its subsidiary, affiliated, or parent companies are materially hampered in the conduct of their business by an event of force majeure (including but not limited to an act of God, strike, lockout, declaration of war or other cause similar or dissimilar to the foregoing beyond their control) for a consecutive period of two (2) months; it being understood that MGM shall have the right to suspend this agreement without payment of any salary to Employee during any period of force majeure and a reasonable time thereafter to resume full operations.

   (d) Employee shall fail to perform his duties, functions and responsibilities hereunder.

   (e) Employee shall be convicted of a felony offense.

   In case of termination pursuant to (a) or (b), MGM shall pay all salary due through the date of termination. With respect to a contingency described in (c), if MGM has not exercised its suspension right, it shall pay the salary due through the date of termination; it being further understood that if MGM exercises its suspension right and does not elect to exercise its termination right it shall have the right but not the obligation to extend the Term for the period of the suspension.

   MGM reserves all rights it may have at law or equity in the event of a contingency described in (d) or (e) above.

5. So long as Employee is rendering services hereunder, Employee will be a participant in the management incentive compensation plan (the "Incentive Plan") (or such other comparable plan or plans as MGM may in its discretion adopt with respect to executive compensation). Nothing contained herein shall obligate MGM to continue the Incentive Plan or to provide for any other plans, nor is any commitment made hereby as to the amount or extent (dollars or otherwise) of Employee's participation.

6. So long as MGM gives car allowances and Employee is rendering services hereunder, Employee shall be given a car allowance in accordance with MGM's then current

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

policy for comparable executives (presently $800 a month). Employee shall be entitled to incur and be reimbursed for reasonable expenses in connection with the performance by Employee of his duties hereunder. Such reimbursement shall be made on the basis of statements thereof (together with vouchers or documents evidencing such expenses) furnished by Employee to MGM in accordance with MGM's standard practices.

7. So long as Employee is rendering services hereunder, the Employee shall be entitled to:

   (a) Vacation each year (without deduction of salary or other compensation) in accordance with MGM's standard policies (but not less than four (4) weeks), such vacation to be taken at such time or times during such years as may be mutually agreed upon by MGM and the Employee.

   (b) Participate in any group, life, health or accident insurance or other similar program or arrangement which may presently be in effect or may hereafter be adopted by MGM generally or for particular individuals upon the same terms as are available to other employees of MGM.

8. Employee agrees that all the results and proceeds of his services, including any ideas, programs, formats, plans and arrangements, composed, conceived or created by him during the period of this employment, solely or in collaboration with others, whether or not same is made at the request or suggestion of MGM, or during or outside regular hours of work, shall at all times be and remain the sole and exclusive property of MGM. The Employee further agrees that he will, at the request of MGM, execute and deliver to MGM, in form satisfactory to MGM, documents evidencing MGM's ownership to the foregoing; but notwithstanding that no such documents are executed, MGM, as Employee's employer, shall be deemed the owner thereof immediately upon creation. All memoranda, notes, records, and other documents made or compiled by Employee, or made available to him, during his employment by MGM shall remain the sole and exclusive property of MGM. Employee shall not use for himself, or others, any secret or confidential information, knowledge or data of MGM (or any of its affiliates) obtained by Employee as a result of his employment by MGM. Anything in this agreement to the contrary notwithstanding, the provisions of this paragraph shall survive the termination, for any reason, of this agreement.

9. Employee agrees that MGM may deduct and withhold from the payments to be made to the Employee hereunder, the amounts required to be deducted and withheld by MGM under the provisions of any statute, law, regulation or ordinance heretofore or hereafter enacted.

10. Any notices and payments herein provided for shall be given by sending the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

same by certified or registered mail or by wire, addressed as follows:

(a) To MGM - Metro-Goldwyn-Mayer Inc.
2500 Broadway Street
Santa Monica, CA 90404
Attn.: General Counsel

(b) To Employee - Donald Robert Brada, Jr.
c/o Metro-Goldwyn-Mayer Inc.
2500 Broadway Street
Santa Monica, CA 90404

or to such other address as may hereinafter be designated in writing by the party concerned. The date of delivery to the post office or cable office, all postage or other charges prepaid, shall be deemed the date of delivery hereunder.

11. MGM shall have the right to assign this agreement to any subsidiary, successor or parent company of MGM or to any other person, firm or corporation which acquires MGM or a substantial part of MGM's assets or into which MGM may merge. The obligations and duties of Employee hereunder are personal and not assignable.

12. Except with respect to any disputes which may arise pursuant to Paragraph 8, any controversy or claim between or among Employee, MGM or any of its affiliates arising out of or relating to this agreement or any breach of this agreement shall be settled by arbitration. Any such arbitration shall be held in Los Angeles, California and shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration proceedings shall be conducted in English. The arbitration panel shall consist of three (3) arbitrators to be selected pursuant to such Commercial Arbitration Rules. The arbitration proceedings, all documents related thereto and all testimony, written or oral, and the arbitration award shall be confidential, except with respect to any proceedings commenced to compel arbitration or to enforce the arbitration award or as otherwise required by law. Each party hereto agrees that once an arbitration request has been made by either party that each party will proceed expeditiously to commence and complete the arbitration proceedings, with the intent of completing same within three months.

13. This agreement shall be construed under the laws of the State of California applicable to contracts executed and fully performed therein. The state and federal courts (or arbitrators appointed as described herein) located in Los Angeles, California shall be the sole fora for any action for relief arising out of or pursuant to, or to enforce or interpret, this agreement. Each party to this agreement consents to the personal jurisdiction and arbitration in such fora and courts and each party

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

hereto covenants not to, and waives any right to, seek a transfer of venue from such jurisdiction on any grounds. This agreement constitutes the full understanding of the parties and cannot be modified except in writing. No waiver of one provision shall constitute a continuing waiver or a waiver of any other provision or default hereof.

IN WITNESS WHEREOF, the parties have hereunto affixed their signatures the day and year first hereinabove written.

METRO-GOLDWYN-MAYER INC.

By: /s/ David G. Johnson
____
Executive Vice President

/s/ Donald Robert Brada, Jr.
____
DONALD ROBERT BRADA, JR.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 10.17

[LOGO APPEARS HERE]

As of June 1, 1998

Donald Robert Brada, Jr.
c/o Metro-Goldwyn-Mayer Studios Inc.
2500 Broadway Street
Santa Monica, CA 90404

Dear Mr. Brada:

Kindly refer to the Employment Agreement dated March 3, 1995 between you ("Employee") and Metro-Goldwyn-Mayer Inc., now known as Metro-Goldwyn-Mayer Studios Inc., ("MGM") herein called the "Employment Agreement."

MGM and Employee mutually agree to amend the Employment Agreement effective as of June 1, 1998 as follows:

1. The term of the Employment Agreement shall be extended for the three (3) year period commencing on June 1, 1998 and terminating May 31, 2001 (the "Extended Term").

   The word "Term" as used in the Employment Agreement shall be deemed to include the Extended Term.

2. Employee's title shall be changed to Executive Vice President, or a substantially equivalent title in the event of a corporate reorganization. Employee's duties shall include, in addition to responsibility for overseeing corporate legal affairs, responsibility for corporate ventures and the development and structure of acquisition, investment, financing, equity, joint venture and other strategic alliance opportunities for Metro-Goldwyn-Mayer Inc. and its subsidiaries.

3. Provided Employee shall fully perform all of his obligations under the Employment Agreement, as amended hereby, MGM shall pay Employee a salary during the Extended Term as follows:

   (a) at the rate of Three Hundred Thousand Dollars ($300,000) per annum during the first year of the Extended Term.

   (b) at such rate as may be determined pursuant to a review on or about June 1, 1999 for the second year of the Extended Term, but

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

in no event less than the salary then received.

(c) at such rate as may be determined pursuant to a review on or about June 1, 2000 for the third year of the Extended Term, but in no event less than the salary then received.

Such salary shall be payable in installments in accordance with MGM's standard payment practices.

4. (a) Subject to subparagraph 4(c) below, in the event of a Designated Change of Control or a Major Corporate Event, Employee shall be entitled to receive a cash bonus equal to the result obtained by calculating as of the Bonus Determination Date (defined below) the difference between (a) the sum of (i) the amount that would have been payable to Employee had he been a participant in the Senior Management Bonus Plan who had been granted as of October 10, 1996 an aggregate of 27,125 bonus interests pursuant to the Bonus Interest Agreement and (ii) the Gross Spread that would have been available to Employee had he been granted an aggregate of 29,167 Series A Options and 29,167 Series B Options pursuant to the Executive Stock Option Agreement; and (b) the Gross Spread available to Employee on all stock options theretofore granted to him pursuant to the Employee Stock Option Agreement, whether or not such stock options are then fully vested and exercisable.

(b) The date on which the amount of such bonus shall be determined (the "Bonus Determination Date") shall be (i) in the case of a Designated Change of Control at a price per share of Metro-Goldwyn-Mayer Inc. common stock (the "Trading Price") of greater than $24.00 per share, the date of such Designated Change of Control; (ii) in the case of a Designated Change of Control at a Trading Price of $24.00 or less per share or in the case of a Major Corporate Event, the next Determination Date (as such term is defined in the Bonus Interest Agreement) which results in participants in the Senior Management Bonus Plan as a group receiving payments thereunder. Such bonus shall be payable in each such case on the same date the corresponding payments are made pursuant to the Bonus Interest Agreement.

(c) It is understood and agreed that such bonus shall be payable only if Employee is either rendering services to MGM at the time of the announcement of such Designated Change of Control or Major Corporate Event or, if not rendering services to the Company at such time, shall have been terminated without Cause or resigned for Good Reason within three (3) months prior thereto.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(d) As used herein, certain terms shall have the meanings ascribed to them below:

"Designated Change of Control" has the meaning set forth in Schedule 1 to the Metro-Goldwyn-Mayer Inc. Stock Option Agreement Pursuant to the Amended and Restated 1996 Stock Incentive Plan.

"Major Corporate Event" means any merger, acquisition, consolidation, joint venture or similar arrangement (not constituting a Designated Change of Control) involving Metro-Goldwyn-Mayer Inc. or any of its subsidiaries and having an equity or similar value in excess of $500 million or any other event designated as such by the Chairman or Vice Chairman of MGM.

"Senior Management Bonus Plan" means the Metro-Goldwyn-Mayer Inc. and Metro-Goldwyn-Mayer Studios Inc. Senior Management Bonus Plan as adopted by the Board of Directors of such companies on November 7, 1997 and approved by the stockholders of Metro-Goldwyn-Mayer Inc. on May 12, 1998.

"Bonus Interest Agreement" means the form of Metro-Goldwyn-Mayer Inc. and Metro-Goldwyn-Mayer Studios Inc. Bonus Interest Agreement Pursuant to the Senior Management Bonus Plan.

"Stock Incentive Plan" means the Amended and Restated 1996 Stock Incentive Plan adopted by the Board of Directors and stockholders of Metro-Goldwyn-Mayer Inc. on November 7, 1997.

"Executive Stock Option Agreement" means the form of Metro-Goldwyn-Mayer Inc. Stock Option Agreement Pursuant to the Amended and Restated 1996 Stock Incentive Plan.

"Employee Stock Option Agreement" means the form of Metro-Goldwyn-Mayer Inc. Employee Non-Qualified Stock Option Agreement Pursuant to the Amended and Restated 1996 Stock Incentive Plan.

"Gross Spread" means the product of (a) the difference between (i) the Trading Price of the Company's Common Stock on the Bonus Determination Date and (ii) the exercise price of the stock options in question and (b) the number of such stock options.

"Cause" and "Good Reason" have the respective meanings set forth in Schedule A to the Employee Stock Option Agreement.

5. Metro-Goldwyn-Mayer Inc. presently maintains the Stock Incentive Plan under which Employee has heretofore been granted options to purchase 15,600 shares of Metro-Goldwyn-Mayer Inc. Common Stock, $.01 par value, pursuant to the Employee Stock Option Agreement ("Employee

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Stock Options"). Management agrees to recommend to the Compensation Committee of the Board of Directors of Metro-Goldwyn-Mayer Inc. that Employee be granted an additional 10,400 Employee Stock Options which additional options will be effective as of the date of grant and will be exercisable in accordance with the terms and restrictions contained in the Employee Stock Option Agreement.

6. Employee's car allowance set forth in paragraph 6 of the Employment Agreement shall be increased to $1,000 per month in accordance with MGM's current policy for comparable executives.

7. In the event of the termination of Employee's employment with MGM for any reason and for a period of one (1) year thereafter:

   (a) Employee shall not either alone or jointly, with or on behalf of others, either directly or indirectly, whether as principal, partner, agent, shareholder, director, employee, consultant or otherwise, offer employment to, or solicit the employment or engagement of, or otherwise entice away from the employment of MGM, either for Employee's own account or for any other person, firm or company, any employee of MGM at the level of Manager or above; and

   (b) Employee shall not make any public statement concerning MGM or any of its affiliates or subsidiaries or relating to Employee's employment with MGM unless previously approved by MGM, except as may be required by law.

8. Except as herein specifically provided, the Employment Agreement shall not be amended in any respect whatsoever and shall continue in full force and effect.

If the foregoing is in accordance with your understanding and agreement, please so indicate by signing in the place for your signature below.

Very truly yours,

METRO-GOLDWYN-MAYER STUDIOS INC.

By: /s/ William A. Jones

Senior Executive Vice President

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

AGREED:

/s/ Donald Robert Brada, Jr.

DONALD ROBERT BRADA, JR.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

[METRO GOLDEN MAYER LOGO]

EXHIBIT 10.18

October 30, 1998

Donald Robert Brada, Jr.
c/o Metro-Goldwyn-Mayer Studios Inc.
2500 Broadway Street
Santa Monica, CA 90404

Dear Mr. Brada:

Kindly refer to the Employment Agreement dated March 3, 1995 (the "Original Agreement") as amended as of June 1, 1998 (the "June Amendment") between you ("Employee") and Metro-Goldwyn-Mayer Inc., now known as Metro-Goldwyn-Mayer Studios Inc., ("MGM") collectively called the "Employment Agreement."

MGM and Employee mutually agree to amend the Employment Agreement effective as of August 21, 1998 as follows:

1. Employee's title shall be changed to Executive Vice President and General Counsel. Employee's duties shall be commensurate with his title as assigned by the Chairman of the Board or the Vice Chairman and shall include overseeing the legal affairs of MGM and its subsidiaries with the exception of (i) entertainment legal affairs, (ii) non-corporate litigation in respect of (A) the development, production, and distribution of individual motion pictures (i.e. intellectual property issues, breach of contract claims, audit and accounting claims), and (B) financing/production/distribution arrangements negotiated principally by the business affairs division, and (iii) employment and labor matters including litigation arising therefrom. Employee shall report directly to the Vice Chairman (currently Bob Pisano) or to a comparable executive in the event of a corporate reorganization.

2. Provided Employee shall fully perform all of his obligations under the Employment Agreement, as amended hereby, MGM shall pay Employee a salary in lieu of the salary set forth in Paragraph 3 of the June Amendment as follows:

   (a) at the rate of Four Hundred Twenty-five Thousand Dollars ($425,000) per annum during the period commencing August 21, 1998 and ending August 20, 1999.

   (b) at such rate as may be determined pursuant to a review on or

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

about August 21, 1999 for the period commencing August 21, 1999 and ending August 20, 2000, but in no event less than the salary then received.

(c) at such rate as may be determined pursuant to a review on or about August 21, 2000 for the period commencing August 21, 2000 and ending May 31, 2001, but in no event less than the salary then received.

Such salary shall be payable in installments in accordance with MGM's standard payment practices.

3. Employee's car allowance set forth in paragraph 6 of the Original Agreement shall be increased to $1,100 per month in accordance with MGM's current policy for comparable executives.

4. Paragraph 4 of the June Amendment is hereby amended and restated to read as follows:

"4 (a) Subject to subparagraph (c) below, in the event of a Designated Change of Control or a Major Corporate Event, Employee shall be entitled to receive a cash bonus equal to the amount that would have been payable to Employee had he been a participant in the Senior Management Bonus Plan who had been granted as of October 10, 1996 an aggregate of 40,584 bonus interests pursuant to the Bonus Interest Agreement.

(b) The date on which the amount of such bonus shall be determined (the "Bonus Determination Date") shall be (i) in the case of a Designated Change of Control at a price per share of Metro-Goldwyn-Mayer Inc. common stock (the "Trading Price") of greater than $14.90 per share, the date of such Designated Change of Control; (ii) in the case of a Designated Change of Control at a Trading Price of $14.90 or less per share or in the case of a Major Corporate Event, the next Determination Date (as such term is defined in the Bonus Interest Agreement) which results in participants in the Senior Management Bonus Plan as a group receiving payments thereunder. Such bonus shall be payable in each such case on the same date the corresponding payments are made pursuant to the Bonus Interest Agreement.

(c) It is understood and agreed that such bonus shall be payable only if Employee is either rendering services to MGM at the time of the

announcement of such Designated Change of Control or Major

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Corporate Event or, if not rendering services to the Company at such time, shall have been terminated without Cause or resigned for Good Reason within six (6) months prior thereto and that Employee shall be entitled to the benefits of any relevant amendments or modifications to the Senior Management Bonus Plan or benefits thereunder (including modification of the threshold price for bonus payment) made during the time that Employee is rendering services hereunder."

5. Paragraph 5 of the June Amendment is hereby amended and restated to read as follows:

"5 (a) Metro-Goldwyn-Mayer Inc. (the "Company") presently maintains the Stock Incentive Plan pursuant to which Employee has heretofore been granted an aggregate of 26,000 Employee Stock Options (the "Existing Options"). Upon the execution hereof, management agrees to recommend to the Compensation Committee of the Board of Directors of the Company (the "Committee") that all the Existing Options be converted to Executive Stock Options (Series A) and that Employee be granted an additional 61,292 Executive Stock Options (the "Additional Options"), allocated equally between Series A and Series B.

(b) Subject to the fulfillment of certain conditions (the "Conditions") as set forth in the Executive Option Exchange Agreement, the form of which is attached hereto as Exhibit "A" (the Exchange Agreement"), the Existing Options and the Additional Options (collectively, the "Old Options") will be canceled in exchange for the Company granting Employee an aggregate of 87,292 new options (the "New Options") under the Plan (allocated between Series A and Series B as provided in subparagraph 5(a) above) and on the terms and conditions specified in the Executive Stock Option Agreement and/or the Exchange Agreement, which terms and conditions shall provide, among other things, that (i) Employee shall be given credit for prior vesting in respect to the 26,000 New Options granted in exchange for the Existing Options; (ii) the exercise price of all the New Options shall be $14.90 per share; and (iii) none of the New Options shall be deemed to be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

(c) If the Conditions are not satisfied, the cancellation of the Old Options and grant of the New Options shall be null and void, and the Old Options (allocated between Series A and Series B as provided in subparagraph 5(a) above) shall be subject to all the terms and conditions of the Executive Stock Option Agreement in the form

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

previously approved by the Committee, subject to the following: (a) the respective exercise prices of the Existing Options shall be as provided in the Employee Stock Option Agreements previously executed by Employee, (b) Employee shall be given credit for prior vesting in respect to the Existing Options, and (c) all of the Additional Options shall have an exercise price of $24.00 per share."

6. As used herein, certain terms shall have the meanings ascribed to them below:

"Designated Change of Control" has the meaning set forth in Schedule 1 to the Metro-Goldwyn-Mayer Inc. Stock Option Agreement Pursuant to the Amended and Restated 1996 Stock Incentive Plan.

"Major Corporate Event" means any merger, acquisition, consolidation, joint venture or similar arrangement (not constituting a Designated Change of Control) involving Metro-Goldwyn-Mayer Inc. or any of its subsidiaries and having an equity or similar value in excess of $500 million or any other event designated as such by the Chairman or Vice Chairman of MGM.

"Senior Management Bonus Plan" means the Metro-Goldwyn-Mayer Inc. and Metro-Goldwyn-Mayer Studios Inc. Senior Management Bonus Plan as adopted by the Board of Directors of such companies on November 7, 1997 and approved by the stockholders of Metro-Goldwyn-Mayer Inc. on May 12, 1998.

"Bonus Interest Agreement" means the form of Metro-Goldwyn-Mayer Inc. and Metro-Goldwyn-Mayer Studios Inc. Bonus Interest Agreement Pursuant to the Senior Management Bonus Plan.

"Stock Incentive Plan" means the Amended and Restated 1996 Stock Incentive Plan adopted by the Board of Directors and stockholders of Metro-Goldwyn-Mayer Inc. on November 7, 1997.

"Executive Stock Options" means stock options granted pursuant to the Executive Stock Option Agreement.

"Executive Stock Option Agreement" means the form of Metro-Goldwyn-Mayer Inc. Stock Option Agreement Pursuant to the Amended and Restated 1996 Stock Incentive Plan.

"Employee Stock Options" means stock options granted pursuant to the Employee Stock Option Agreement.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

"Employee Stock Option Agreement" means the form of Metro-Goldwyn-Mayer Inc. Employee Non-Qualified Stock Option Agreement Pursuant to the Amended and Restated 1996 Stock Incentive Plan.

"Series A" and "Series B" shall have the meanings set forth in the Executive Stock Option Agreement.

"Cause" and "Good Reason" have the respective meanings set forth in Schedule A to the Employee Stock Option Agreement.

7. In the event MGM terminates the Employment Agreement, as amended hereby, and Employee's employment thereunder other than for Cause, or if Employee terminates this agreement for Good Reason, MGM shall continue to pay the salary as provided in Paragraph 2 hereof for the remainder of the Term. Employee shall not be required to mitigate damages nor shall any income received by Employee from sources other than MGM reduce MGM's obligation with respect to such termination.

8. Except as herein specifically provided, the Employment Agreement shall not be amended in any respect whatsoever and shall continue in full force and effect.

If the foregoing is in accordance with your understanding and agreement, please so indicate by signing in the place for your signature below.

Very truly yours,

METRO-GOLDWYN-MAYER STUDIOS INC.

/s/ William A. Jones
By: ________________________________
Senior Executive Vice President

AGREED:

/s/ Donald Robert Brada Jr.
____
DONALD ROBERT BRADA, JR.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 10.28

JOINT AND SEVERAL INDEMNITY AGREEMENT

AGREEMENT dated as of October 10, 1996 by and between P&F Acquisition Corp., a Delaware corporation (the "Corporation") and Metro-Goldwyn-Mayer Inc., a Delaware corporation ("MGM Inc." and together with the Corporation, the "Indemnitors") on the one hand, and Robert Brada (the "Indemnitee"), on the other.

RECITALS

The Indemnitee is a director and/or officer of the Corporation, MGM Inc. and/or an Affiliate Indemnitee (as hereinafter defined). Each of the Indemnitors and the Indemnitee recognize the increased risk of litigation and other claims being asserted against directors and officers in today's environment.

The Bylaws of the Corporation requires the Corporation and the Bylaws of MGM Inc. requires MGM Inc. to indemnify its directors and officers as currently provided therein, and the Indemnitee has been serving and continues to serve as a director and/or officer of the Corporation and/or MGM Inc. in part in reliance on such provisions. The Bylaws of each of the Indemnitors permit such Indemnitor to purchase and maintain insurance or to furnish similar protection or make other arrangements (any such insurance, protection or arrangement, an "Indemnification Arrangement") on behalf of the Indemnitee against personal liability (including, but not limited to, providing for Advanced Amounts as hereinafter defined) asserted against him or incurred by or on behalf of him in such capacity as a director or officer of such Indemnitor or as an Affiliate Indemnitee, or arising out of his status as such, whether or not such Indemnitor would have the power to indemnify him against such liability under the provisions of this Agreement or under the Delaware General Corporation Law (the "DGCL"), as it may then be in effect.

In part to provide the Indemnitee with specific contractual assurance of substantial protection against personal liability (regardless of, among other things, any amendment to or revocation of the aforementioned provisions of any of the Indemnitor's Bylaws or any change in the composition of such Indemenitor's Board of Directors or control of such Indemnitor), each of the Indemnitors desires to enter into this Agreement. DGCL Section 145(f) expressly recognizes that the indemnification provisions of the DGCL are not exclusive of any other rights to which a person seeking indemnification may be entitled under the Certificate of Incorporation or Bylaws of any of the Indemnitors, or an agreement providing for indemnification, or a resolution of stockholders or directors, or otherwise, and the Bylaws of each of the Indemnitors expressly recognizes that the indemnification provisions of the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Bylaws of such Indemnitor shall not be deemed exclusive of, and shall not affect, any other rights to which a person seeking indemnification may be entitled under any agreement, and this Agreement is being entered into pursuant to the Bylaws of each of the Indemnitors, as permitted by the DGCL, and has been authorized by the stockholders of the Indemnitors.

In order to induce the Indemnitee to serve as a director and/or officer of the Corporation and/or MGM Inc. and in consideration of the Indemnitee's so serving, each of the Indemnitors desires jointly and severally to hold harmless and indemnify the Indemnitee and to make arrangements pursuant to which the Indemnitee may be advanced or reimbursed expenses incurred by the Indemnitee in certain proceedings, in every case to the fullest extent authorized or permitted by the DGCL, or any other applicable law, or by any amendment thereof or other statutory provisions authorizing or permitting such indemnification which are adopted after the date hereof (but, in the case of any such amendment, only to the extent that such amendment permits the Indemnitor to provide broader indemnification rights than the DGCL, or other applicable law, permitted such Indemnitor to provide prior to such amendment).

NOW, THEREFORE, in consideration of the foregoing recitals and of the Indemnitee's continuing to serve the Corporation and/or MGM Inc. as a director and/or officer, the parties agree as follows:

1. Indemnification. To the fullest extent allowed by law, each of the Indemnitors, jointly and severally, shall hold harmless and indemnify the Indemnitee, his executors, administrators or assigns against any and all expenses, liabilities and losses (including, without limitation, investigation expenses, expert witnesses' and attorneys' fees and expenses, judgments, penalties, fines, amounts paid or to be paid in settlement any interest, assessments, or other charges imposed thereon and any federal, state, local or foreign taxes imposed as a result of actual or deemed receipt of any payment hereunder) actually incurred by the Indemnitee (net of any related insurance proceeds or other amounts received by the Indemnitee or paid by or on behalf of an Indemnitor on the Indemnitee's behalf in compensation of such expenses, liabilities or losses) in connection with any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative or in arbitration, to which the Indemnitee is a party or participant or is threatened to be made a party or participant (a "Proceeding"), as a plaintiff, defendant, respondent, witness or otherwise, based upon, arising from, relating to or by reason of the fact that the Indemnitee: (a) is, was, shall be or shall have been a director and/or officer of the Corporation, (b) is or was serving, shall serve, or shall have served at the request of the Corporation as a director, officer, partner, trustee, fiduciary, employee or agent ("Affiliate Indemnitee") of another foreign or domestic corporation or non-profit corporation, cooperative, partnership, joint venture, trust, employee benefit plan, or other incorporated or unincorporated enterprise (each, a "Company Affiliate") or (c)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

----
is, was, shall be or shall have been a director and/or officer of MGM Inc., during the period from and after the date on which Indemnitee became an officer and/or director of MGM Inc. through and until the Closing Date in connection with the potential sale of MGM Inc. and the Indemnitee's efforts to assemble a bid group to purchase MGM Inc.; or arising from or relating to any action or omission to act taken by the Indemnitee in any of the foregoing capacities; provided, however, that, except as provided in Section 9(b) hereof, an Indemnitor shall indemnify the Indemnitee in connection with a Proceeding initiated by the Indemnitee only if such proceeding (or part thereof) was authorized by a two-thirds vote of the Board of Directors of such Indemnitor and provided further, that Indemnitors shall have no obligation for indemnification hereunder for liabilities and other amounts owed to Indemnitee for any salary, compensation or bonus payment arising out of or from the change of control of MGM Inc. on or about the date hereof and pursuant to any employment agreement between MGM Inc. and Indemnitee as in effect immediately prior to the date hereof.

The Indemnitee shall be presumed to be entitled to such indemnification under this Agreement upon submission of a written claim pursuant to Section 4 hereof. Thereafter, the Indemnitors shall have the burden of proof to overcome the presumption that the Indemnitee is so entitled. Such presumption shall only be overcome by a judgment or other final adjudication, after all appeals and all time for appeals has expired ("Final Determination"), which is adverse to the
----
Indemnitee and which establishes (i) that his acts were committed in bad faith, or were the result of active and deliberate dishonesty, and were material to the cause of action so adjudicated and (ii) that the Indemnitee in fact personally gained a financial profit or other advantage to which he was not legally entitled. If the Indemnitee is not wholly successful in any Proceeding but is successful on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding the Indemnitors agree, jointly and severally, to indemnify the Indemnitee to the maximum extent permitted by law against all losses and expenses incurred by the Indemnitee in connection with each successfully resolved claim, issue or matter. Neither the failure of any of the Indemnitors (including their respective Boards of Directors, legal counsel or stockholders) to have made a determination prior to the commencement of such Proceeding that indemnification of the

Indemnitee is proper in the circumstances because such person has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by such Indemnitor (including its Board of Directors, its legal counsel or its stockholders) that the Indemnitee has not met the applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. The purchase, establishment or maintenance of any Indemnification Arrangement shall not in any way diminish, restrict, limit or adversely affect the rights and obligations of any of the Indemnitors or of the Indemnitee under this Agreement,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

except as expressly provided herein, and the execution and delivery of this Agreement by the Indemnitors and the Indemnitee shall not in any way diminish, restrict, limit or adversely affect the Indemnitee's right to indemnification from the Indemnitors or any other party or parties under any other Indemnification Arrangement, the Certificate of Incorporation or Bylaws of any of the indemnitors, or the DGCL.

2. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or on behalf of an Indemnitor or any affiliate of an Indemnitor against the Indemnitee, Indemnitee's spouse, heirs, executors, or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, or such longer period as may be required by applicable law under the circumstances. Any claim or cause of action of the Indemnitor or its affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action the shorter period shall govern.

3. Insurance. Subject only to the provisions of this Section 3, as long as the Indemnitee shall continue to serve as a director and/or officer of an Indemnitor (or shall continue at the request of an Indemnitor to serve as an Affiliate Indemnitee) and, thereafter, as long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the indemnitee was a director and/or officer of the Corporation and/or MGM Inc. (or served in any of said other capacities), the Indemnitors shall, unless no such policies are available in any market, purchase and maintain in effect for the benefit of the indemnitee one or more valid, binding and enforceable policies (the "Insurance Policies") of directors' and officers' liability insurance ("D&O Insurance") providing adequate liability coverage for the Indemnitee's acts as a director and/or officer of the Indemnitors or as an Affiliate Indemnitee. Each Indemnitor shall promptly notify the Indemnitee of any lapse, amendment or failure to renew said policy or policies or any provision thereof relating to the extent or nature of coverage provided thereunder. In the event any Indemnitor does not purchase and maintain in effect said policy or policies of D&O Insurance pursuant to the provisions of this Section 3, such Indemnitor shall, in addition to and not in limitation of the other rights granted the Indemnitee under this Agreement, hold harmless and indemnify the Indemnitee to the full extent of coverage which would otherwise have been provided for the benefit of the Indemnitee pursuant to the Insurance Policies.

4. Claims for Payments. The Indemnitee shall have the right to receive from the Indemnitors on demand or, at his option, to have any of the Indemnitors pay promptly on his behalf, in advance of a Final Determination of a Proceeding, all amounts payable by the Indemnitors pursuant to the terms of this Agreement as corresponding amounts as expended or incurred by the Indemnitee in connection with any Proceeding or otherwise (such amounts so expended or incurred being referred to as "Advanced Amounts"). In making any claim for payment by the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

----
Indemnitors of any amount, including any Advanced Amount, pursuant to this Agreement, the Indemnitee shall submit to the Indemnitors a written request for payment (a "Claim") which includes a schedule setting forth in reasonable detail
-----
the dollar amount expended (or incurred or expected to be expended or incurred). Each item

on such schedule shall be supported by the bill, agreement, or other documentation relating thereto, a copy of which shall be appended to the schedule as an exhibit.

Where the Indemnitee is requesting Advanced Amounts, the Indemnitee must also provide an undertaking to repay such Advanced Amounts if a Final Determination is made that the Indemnitee is not entitled to indemnification hereunder.

5. Section 16(b) Liability. No Indemnitor shall be liable under
----
this Agreement to make any payment in connection with any claim made against the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of an Indemnitor within the meaning of Section 16(b) of the Securities Exchange Act of 1934, and amendments thereto, or similar provisions of any state statutory law or common law.

6. Continuation of Indemnity. All agreements and obligations of
----
the Indemnitors contained herein shall continue during the period the Indemnitee is a director and/or officer of such Indemnitor (or is serving at the request of an Indemnitor as an Affiliate Indemnitee) and shall continue thereafter so long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the Indemnitee was a director or officer of such Indemnitor or served as such an Affiliate Indemnitee.

7. Successors: Binding Agreement. This Agreement shall be binding
----
on, and shall inure to the benefit of and be enforceable by, each of the Indemnitor's successors and assigns and by the Indemnitee's personal or legal representatives, executors, administrators, successors, heirs, distributees, divisees and legatees. Each Indemnitor shall require any successor or assignee (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of such Indemnitor, by written agreement in form and substance reasonably satisfactory to such Indemnitor and to the Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that such Indemnitor would be required to perform if no such succession or assignment had taken place.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

8. Notification and Defense of Claim. Promptly after receipt by the Indemnitee of notice of the commencement of any Proceeding, the Indemnitee shall, if a claim in respect thereof is to be made against an Indemnitor under this Agreement, notify such Indemnitor of the commencement thereof, but the failure to so notify such Indemnitor will not relieve the Indemnitors from any liability which it may have to the Indemnitee. With respect to any such Proceeding:

(i) Each Indemnitor shall be entitled to participate therein at its own expense;

(ii) Except with prior written consent of the Indemnitee, the Indemnitors shall not be entitled to assume the defense of any Proceeding; and

(iii) No Indemnitor shall settle any Proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's prior written consent.

The Indemnitee shall not settle any Proceeding with respect to which the Indemnitee has received indemnified amount or Advanced Amounts without the Indemnitors' prior written consent, nor will the Indemnitee unreasonably withhold consent to any proposed settlement.

9. Enforcement. (a) Each Indemnitor has entered into this Agreement and assumed the obligations imposed on such Indemnitor hereby in order to induce the

Indemnitee to act as a director and/or officer of the Corporation and/or MGM Inc. or as an Affiliate Indemnitee and acknowledges that the Indemnitee is relying upon this Agreement in continuing in such capacity.

(b) All expenses incurred by the Indemnitee in connection with the preparation and submission of the Indemnitee's request for indemnification hereunder shall be borne, jointly and severally, by the Indemnitors. In the event the Indemnitee has requested payment of any amount under this Agreement and has not received payment thereof within thirty (30) days of such request, the Indemnitee may bring any action to enforce rights or collect moneys due under this Agreement, and, if the Indemnitee is successful in such action, the Indemnitors shall reimburse the Indemnitee for all of the Indemnitee's fees and expenses in bringing and pursuing such action. If it is determined that the Indemnitee is entitled to indemnification for part (but not all) of the indemnification so requested, expenses incurred in seeking enforcement of such partial indemnification shall be reasonably prorated amount the claims, issues or matters for which the Indemnitee is entitled to indemnification for claims, issues or matter for which the Indemnitee is not so entitled. The indemnitee

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

shall be entitled to the advancement of such amounts to the full extent contemplated by Section 4 hereof in connection with such Proceeding.

10. Separability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, all portions of any sections or subsections of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not by themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of any section or subsections of this Agreement containing any such provisions held to be invalid, illegal or unenforceable shall be construed so as to give effect to the intent of the parties that the Indemnitors (or any of them) provide protection to the Indemnitee to the fullest extent enforceable.

11. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is agreed to in writing signed by the Indemnitee and an officer of each of the Indemnitors designated by the Board of Directors of such Indemnitor. No waiver by either party at any time of any breach by other party of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same time or at any prior or subsequent time. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof. The Indemnitee may bring an action seeking resolution of disputes or controversies arising under, or in any way related to, this Agreement in the state or federal court jurisdiction in which the Indemnitee resides or in which his place of business is located and in any related appellate courts, and each of the Indemnitors hereby consents to the jurisdiction of such courts and to such venue.

12. Notices. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

If to the Indemnitee: Robert Brada
Fifth Floor
2500 Broadway

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Santa Monica, CA 90404

If to the Corporation: P & F Acquisition Corp.
Fifth Floor
2500 Broadway
Santa Monica, CA 90404
Att: General Counsel

If to MGM Inc.: Metro-Goldwyn-Mayer Inc.
Fifth Floor
2500 Broadway
Santa Monica, CA 90404
Att: General Counsel

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

13. Effectiveness. This Agreement shall be effective as of the day and year first above written.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed as of the day and year first above written.

P & F ACQUISITION CORP.

By: /s/ David G. Johnson
Name: David G. Johnson
Title: Executive Vice President

METRO-GOLDWYN-MAYER INC.

BY: /s/ David G. Johnson
Name: David G. Johnson
Title: Executive Vice President

INDEMNITEE

/s/ Robert Brada

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

----
Robert Brada

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 10.29

JOINT AND SEVERAL INDEMNITY AGREEMENT

AGREEMENT dated as of November 12, 1998 by and between Metro-
----
Goldwyn-Mayer Inc., a Delaware corporation (the "Corporation") and Metro-
----
Goldwyn-Mayer Studios, a Delaware corporation ("MGM Studios." and together with
----
the Corporation, the "Indemnitors") on the one hand, and Alexander M. Haig, Jr.

(the "Indemnitee"), on the other.

RECITALS

The Indemnitee is a director and/or officer of the Corporation, MGM Studios and/or an Affiliate Indemnitee (as hereinafter defined). Each of the Indemnitors and the Indemnitee recognize the increased risk of litigation and other claims being asserted against directors and officers in today's environment.

The Bylaws of the Corporation requires the Corporation and the Bylaws of MGM Studios requires MGM Studios to indemnify their respective directors and officers as currently provided therein, and the Indemnitee has been serving and continues to serve as a director and/or officer of the Corporation and/or MGM Studios in part in reliance on such provisions. The Bylaws of each of the Indemnitors permit such Indemnitor to purchase and maintain insurance or to furnish similar protection or make other arrangements (any such insurance, protection or arrangement, an "Indemnification Arrangement") on behalf of the
----
Indemnitee against personal liability (including, but not limited to, providing for Advanced Amounts as hereinafter defined) asserted against him or incurred by or on behalf of him in such capacity as a director or officer of such Indemnitor or as an Affiliate Indemnitee, or arising out of his status as such, whether or not such Indemnitor would have the power to indemnify him against such liability under the provisions of this Agreement or under the Delaware General Corporation Law (the "DGCL"), as it may then be in effect.

In part to provide the Indemnitee with specific contractual assurance of substantial protection against personal liability (regardless of, among other things, any amendment to or revocation of the aforementioned provisions of any of the Indemnitor's Bylaws or any change in the composition of such Indemnitor's Board of Directors or control of such Indemnitor), each of the Indemnitors desires to enter into this Agreement. DGCL Section 145(f) expressly recognizes that the indemnification provisions of the DGCL are not exclusive of any other

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

rights to which a person seeking indemnification may be entitled under the Certificate of Incorporation or Bylaws of any of the Indemnitors, or an agreement providing for indemnification, or a resolution of stockholders or directors, or otherwise, and the Bylaws of each of the Indemnitors expressly recognizes that the indemnification provisions of the Bylaws of such Indemnitor shall not be deemed exclusive of, and shall not affect, any other rights to which a person seeking indemnification may be entitled under any agreement, and this Agreement is being entered into pursuant to the Bylaws of each of the Indemnitors, as permitted by the DGCL, and has been authorized by the stockholders of the Indemnitors.

In order to induce the Indemnitee to serve as a director and/or officer of the Corporation and/or MGM Studios and in consideration of the Indemnitee's so serving, each of the Indemnitors desires jointly and severally to hold harmless and indemnify the Indemnitee and to make arrangements pursuant to which the Indemnitee may be advanced or reimbursed expenses incurred by the Indemnitee in certain proceedings, in every case to the fullest extent authorized or permitted by the DGCL, or any other applicable law, or by any amendment thereof or other statutory provisions authorizing or permitting such indemnification which are adopted after the date hereof (but, in the case of any such amendment, only to the extent that such amendment permits the Indemnitor to provide

broader indemnification rights than the DGCL, or other applicable law, permitted such Indemnitor to provide prior to such amendment).

NOW, THEREFORE, in consideration of the foregoing recitals and of the Indemnitee's continuing to serve the Corporation and/or MGM Studios as a director and/or officer, the parties agree as follows:

1. Indemnification. To the fullest extent allowed by law, each of the Indemnitors, jointly and severally, shall hold harmless and indemnify the Indemnitee, his executors, administrators or assigns against any and all expenses, liabilities and losses (including, without limitation, investigation expenses, expert witnesses' and attorneys' fees and expenses, judgments, penalties, fines, amounts paid or to be paid in settlement any interest, assessments, or other charges imposed thereon and any federal, state, local or foreign taxes imposed as a result of actual or deemed receipt of any payment hereunder) actually incurred by the Indemnitee (net of any related insurance proceeds or other amounts received by the Indemnitee or paid by or on behalf of an Indemnitor on the Indemnitee's behalf in compensation of such expenses, liabilities or losses) in connection with any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative or in arbitration, to which the Indemnitee is a party or participant or is threatened to be made a party or participant (a "Proceeding"), as a plaintiff, defendant, respondent, witness or otherwise, based upon, arising from, relating to or by reason of the fact that the Indemnitee: (a) is, was, shall be or shall have been a director and/or officer of the Corporation or (b) is or was serving, shall

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

serve, or shall have served at the request of the Corporation as a director, officer, partner, trustee, fiduciary, employee or agent ("Affiliate Indemnitee") of another foreign or domestic corporation or non-profit corporation, cooperative, partnership, joint venture, trust, employee benefit plan, or other incorporated or unincorporated enterprise (each, a "Company Affiliate"); or arising from or relating to any action or omission to act taken by the Indemnitee in any of the foregoing capacities; provided, however, that, except as provided in Section 9(b) hereof, an Indemnitor shall indemnify the Indemnitee in connection with a Proceeding initiated by the Indemnitee only if such proceeding (or part thereof) was authorized by a two-thirds vote of the Board of Directors of such Indemnitor.

. The Indemnitee shall be presumed to be entitled to such indemnification under this Agreement upon submission of a written claim pursuant to Section 4 hereof. Thereafter, the Indemnitors shall have the burden of proof to overcome the presumption that the Indemnitee is so entitled. Such presumption shall only be overcome by a judgment or other final adjudication, after all appeals and all time for appeals has expired ("Final Determination"), which is adverse to the Indemnitee and which establishes (i) that his acts were committed in bad faith, or were the result of active and deliberate dishonesty, and were material to the cause of action so adjudicated and (ii) that the Indemnitee in fact personally gained a financial profit or other advantage to which he was not legally entitled. If the Indemnitee is not wholly successful in any Proceeding but is successful on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding the Indemnitors agree, jointly and severally, to indemnify the Indemnitee to the maximum extent permitted by law against all losses and expenses incurred by the Indemnitee in connection with each successfully resolved claim, issue or matter. Neither the failure of any of the Indemnitors (including their respective Boards of Directors, legal counsel or stockholders) to have made a determination prior to the commencement of such Proceeding that indemnification of the Indemnitee is proper in the circumstances because such person has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by such Indemnitor (including its Board of Directors, its legal counsel or its stockholders) that the Indemnitee has not met the applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. The purchase, establishment or maintenance of any Indemnification Arrangement

shall not in any way diminish, restrict, limit or adversely affect the rights and obligations of any of the Indemnitors or of the Indemnitee under this Agreement, except as expressly provided herein, and the execution and delivery of this Agreement by the Indemnitors and the Indemnitee shall not in any way diminish, restrict, limit or adversely affect the Indemnitee's right to indemnification from the Indemnitors or any other party or parties under any

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

other Indemnification Arrangement, the Certificate of Incorporation or Bylaws of any of the Indemnitors, or the DGCL.

2. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or on behalf of an Indemnitor or any affiliate of an Indemnitor against the Indemnitee, Indemnitee's spouse, heirs, executors, or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, or such longer period as may be required by applicable law under the circumstances. Any claim or cause of action of the Indemnitor or its affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action the shorter period shall govern.

3. Insurance. Subject only to the provisions of this Section 3, as long as the Indemnitee shall continue to serve as a director and/or officer of an Indemnitor (or shall continue at the request of an Indemnitor to serve as an Affiliate Indemnitee) and, thereafter, as long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the Indemnitee was a director and/or officer of the Corporation and/or MGM Studios (or served in any of said other capacities), the Indemnitors shall, unless no such policies are available in any market, purchase and maintain in effect for the benefit of the Indemnitee one or more valid, binding and enforceable policies (the "Insurance Policies") of directors' and officers' liability insurance ("D&O Insurance") providing adequate liability coverage for the Indemnitee's acts as a director and/or officer of the Indemnitors or as an Affiliate Indemnitee. Each Indemnitor shall promptly notify the Indemnitee of any lapse, amendment or failure to renew said policy or policies or any provision thereof relating to the extent or nature of coverage provided thereunder. In the event any Indemnitor does not purchase and maintain in effect said policy or policies of D&O Insurance pursuant to the provisions of this Section 3, such Indemnitor shall, in addition to and not in limitation of the other rights granted the Indemnitee under this Agreement, hold harmless and indemnify the Indemnitee to the full extent of coverage which would otherwise have been provided for the benefit of the Indemnitee pursuant to the Insurance Policies.

4. Claims for Payments. The Indemnitee shall have the right to receive from the Indemnitors on demand or, at his option, to have any of the Indemnitors pay promptly on his behalf, in advance of a Final Determination of a Proceeding, all amounts payable by the Indemnitors pursuant to the terms of this Agreement as corresponding amounts are expended or incurred by the Indemnitee in connection with any Proceeding or otherwise (such amounts so expended or incurred being referred to as "Advanced Amounts"). In making any claim for

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

payment by the Indemnitors of any amount, including any Advanced Amount, pursuant to this Agreement, the Indemnitee shall submit to the Indemnitors a written request for payment (a "Claim") which includes a schedule setting forth in reasonable detail the dollar amount expended (or incurred or expected to be expended or incurred). Each item on such schedule shall be supported by the bill, agreement, or other documentation relating thereto, a copy of which shall be appended to the schedule as an exhibit.

Where the Indemnitee is requesting Advanced Amounts, the Indemnitee must also provide an undertaking to repay such Advanced Amounts if a Final Determination is made that the Indemnitee is not entitled to indemnification hereunder.

5. Section 16(b) Liability. No Indemnitor shall be liable under this Agreement to make any payment in connection with any claim made against the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of an Indemnitor within the meaning of Section 16(b) of the Securities Exchange Act of 1934, and amendments thereto, or similar provisions of any state statutory law or common law.

6. Continuation of Indemnity. All agreements and obligations of the Indemnitors contained herein shall continue during the period the Indemnitee is a director and/or officer of such Indemnitor (or is serving at the request of an Indemnitor as an Affiliate Indemnitee) and shall continue thereafter so long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the Indemnitee was a director or officer of such Indemnitor or served as such an Affiliate Indemnitee.

7. Successors: Binding Agreement. This Agreement shall be binding on, and shall inure to the benefit of and be enforceable by, each of the Indemnitor's successors and assigns and by the Indemnitee's personal or legal representatives, executors, administrators, successors, heirs, distributees, divisees and legatees. Each Indemnitor shall require any successor or assignee (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of such Indemnitor, by written agreement in form and substance reasonably satisfactory to such Indemnitor and to the Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that such Indemnitor would be required to perform if no such succession or assignment had taken place.

8. Notification and Defense of Claim. Promptly after receipt by the Indemnitee of notice of the commencement of any Proceeding, the Indemnitee shall, if a claim in respect thereof is to be made against an Indemnitor under

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

this Agreement, notify such Indemnitor of the commencement thereof, but the failure to so notify such Indemnitor will not relieve the Indemnitors from any liability which it may have to the Indemnitee. With respect to any such Proceeding:

(i) Each Indemnitor shall be entitled to participate therein at its own expense;

(ii) Except with prior written consent of the Indemnitee, the Indemnitors shall not be entitled to assume the defense of any Proceeding; and

(iii) No Indemnitor shall settle any Proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's prior written consent.

The Indemnitee shall not settle any Proceeding with respect to which the Indemnitee has received indemnified amounts or Advanced Amounts without the Indemnitors' prior written consent, nor will the Indemnitee unreasonably withhold consent to any proposed settlement.

9. Enforcement. (a) Each Indemnitor has entered into this Agreement and assumed the obligations imposed on such Indemnitor hereby in order to induce the Indemnitee to act as a director and/or officer of the Corporation and/or MGM Studios or as an Affiliate Indemnitee and acknowledges that the Indemnitee is relying upon this Agreement in continuing in such capacity.

(b) All expenses incurred by the Indemnitee in connection with the preparation and submission of the Indemnitee's request for indemnification hereunder shall be borne, jointly and severally, by the Indemnitors. In the event the Indemnitee has

requested payment of any amount under this Agreement and has not received payment thereof within thirty (30) days of such request, the Indemnitee may bring any action to enforce rights or collect moneys due under this Agreement, and, if the Indemnitee is successful in such action, the Indemnitors shall reimburse the Indemnitee for all of the Indemnitee's fees and expenses in bringing and pursuing such action. If it is determined that the Indemnitee is entitled to indemnification for part (but not all) of the indemnification so requested, expenses incurred in seeking enforcement of such partial indemnification shall be reasonably prorated among the claims, issues or matters for which the Indemnitee is entitled to indemnification for claims, issues or matter for which the Indemnitee is not so entitled. The Indemnitee shall be entitled to the advancement of such amounts to the full extent contemplated by Section 4 hereof in connection with such Proceeding.

10. Separability. If any provision or provisions of this Agreement

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, all portions of any sections or subsections of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not by themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of any section or subsections of this Agreement containing any such provisions held to be invalid, illegal or unenforceable shall be construed so as to give effect to the intent of the parties that the Indemnitors (or any of them) provide protection to the Indemnitee to the fullest extent enforceable.

11. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is agreed to in writing signed by the Indemnitee and an officer of each of the Indemnitors designated by the Board of Directors of such Indemnitor. No waiver by either party at any time of any breach by the other party of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same time or at any prior or subsequent time. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof. The Indemnitee may bring an action seeking resolution of disputes or controversies arising under, or in any way related to, this Agreement in the state or federal court jurisdiction in which the Indemnitee resides or in which his place of business is located and in any related appellate courts, and each of the Indemnitors hereby consents to the jurisdiction of such courts and to such venue.

12. Notices. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

If to the Indemnitee: Alexander M. Haig, Jr.
Fifth Floor
2500 Broadway Street
Santa Monica, CA 90404

If to the Corporation: Metro-Goldwyn-Mayer Inc.
Fifth Floor
2500 Broadway Street
Santa Monica, CA 90404
Attn: General Counsel

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

If to MGM Studios: Metro-Goldwyn-Mayer Studios
Fifth Floor
2500 Broadway Street
Santa Monica, CA 90404
Attn: General Counsel

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

13. Effectiveness. This Agreement shall be effective as of the day and year first above written.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed as of the day and year first above written.

METRO-GOLDWYN-MAYER INC.

By: /s/ William A. Jones
Name: William A. Jones
Title: SENIOR EXECUTIVE VICE PRESIDENT

METRO-GOLDWYN-MAYER STUDIOS

By: /s/ William A. Jones
Name: William A. Jones
Title: SENIOR EXECUTIVE VICE PRESIDENT

INDEMNITEE

/s/ Alexander M. Haig, Jr.
Alexander M. Haig, Jr.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 10.30

JOINT AND SEVERAL INDEMNITY AGREEMENT

AGREEMENT dated as of November 12, 1998 by and between Metro-Goldwyn-Mayer Inc., a Delaware corporation (the "Corporation") and Metro-Goldwyn-Mayer Studios, a Delaware corporation ("MGM Studios." and together with the Corporation, the "Indemnitors") on the one hand, and Willie D. Davis (the "Indemnitee"), on the other.

RECITALS

The Indemnitee is a director and/or officer of the Corporation, MGM Studios and/or an Affiliate Indemnitee (as hereinafter defined). Each of the Indemnitors and the Indemnitee recognize the increased risk of litigation and other claims being asserted against directors and officers in today's environment.

The Bylaws of the Corporation requires the Corporation and the Bylaws of MGM Studios requires MGM Studios to indemnify their respective directors and officers as currently provided therein, and the Indemnitee has been serving and continues to serve as a director and/or officer of the Corporation and/or MGM Studios in part in reliance on such provisions. The Bylaws of each of the Indemnitors permit such Indemnitor to purchase and maintain insurance or to furnish similar protection or make other arrangements (any such insurance, protection or arrangement, an "Indemnification Arrangement") on behalf of the Indemnitee against personal liability (including, but not limited to, providing for Advanced Amounts as hereinafter defined) asserted against him or incurred by or on behalf of him in such capacity as a director or officer of such Indemnitor or as an Affiliate Indemnitee, or arising out of his status as such, whether or not such Indemnitor would have the power to indemnify him against such liability under the provisions of this Agreement or under the Delaware General Corporation Law (the "DGCL"), as it may then be in effect.

In part to provide the Indemnitee with specific contractual assurance of substantial protection against personal liability (regardless of, among other things, any amendment to or revocation of the aforementioned provisions of any of the Indemnitor's Bylaws or any change in the composition of such Indemnitor's Board of Directors or control of such Indemnitor), each of the Indemnitors desires to enter into this Agreement. DGCL Section 145(f) expressly recognizes that the indemnification provisions of the DGCL are not exclusive of any other

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

rights to which a person seeking indemnification may be entitled under the Certificate of Incorporation or Bylaws of any of the Indemnitors, or an agreement providing for indemnification, or a resolution of stockholders or directors, or otherwise, and the Bylaws of each of the Indemnitors expressly recognizes that the indemnification provisions of the Bylaws of such Indemnitor shall not be deemed exclusive of, and shall not affect, any other rights to which a person seeking indemnification may be entitled under any agreement, and this Agreement is being entered into pursuant to the Bylaws of each of the Indemnitors, as permitted by the DGCL, and has been authorized by the stockholders of the Indemnitors.

In order to induce the Indemnitee to serve as a director and/or officer of the Corporation and/or MGM Studios and in consideration of the Indemnitee's so serving, each of the Indemnitors desires jointly and severally to hold harmless and indemnify the Indemnitee and to make arrangements pursuant to which the Indemnitee may be advanced or reimbursed expenses incurred by the Indemnitee in certain proceedings, in every case to the fullest extent authorized or permitted by the DGCL, or any other applicable law, or by any amendment thereof or other statutory provisions authorizing or permitting such indemnification which are adopted after the date hereof (but, in the case of any such amendment, only to the extent that such amendment permits the Indemnitor to provide

broader indemnification rights than the DGCL, or other applicable law, permitted such Indemnitor to provide prior to such amendment).

NOW, THEREFORE, in consideration of the foregoing recitals and of the Indemnitee's continuing to serve the Corporation and/or MGM Studios as a director and/or officer, the parties agree as follows:

1. Indemnification. To the fullest extent allowed by law, each of the Indemnitors, jointly and severally, shall hold harmless and indemnify the Indemnitee, his executors, administrators or assigns against any and all expenses, liabilities and losses (including, without limitation, investigation expenses, expert witnesses' and attorneys' fees and expenses, judgments, penalties, fines, amounts paid or to be paid in settlement any interest, assessments, or other charges imposed thereon and any federal, state, local or foreign taxes imposed as a result of actual or deemed receipt of any payment hereunder) actually incurred by the Indemnitee (net of any related insurance proceeds or other amounts received by the Indemnitee or paid by or on behalf of an Indemnitor on the Indemnitee's behalf in compensation of such expenses, liabilities or losses) in connection with any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative or in arbitration, to which the Indemnitee is a party or participant or is threatened to be made a party or participant (a "Proceeding"), as a plaintiff, defendant, respondent, witness or otherwise, based upon, arising from, relating to or by reason of the fact that the Indemnitee: (a) is, was, shall be or shall have been a director and/or officer of the Corporation or (b) is or was serving, shall

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

serve, or shall have served at the request of the Corporation as a director, officer, partner, trustee, fiduciary, employee or agent ("Affiliate Indemnitee") of another foreign or domestic corporation or non-profit corporation, cooperative, partnership, joint venture, trust, employee benefit plan, or other incorporated or unincorporated enterprise (each, a "Company Affiliate"); or arising from or relating to any action or omission to act taken by the Indemnitee in any of the foregoing capacities; provided, however, that, except as provided in Section 9(b) hereof, an Indemnitor shall indemnify the Indemnitee in connection with a Proceeding initiated by the Indemnitee only if such proceeding (or part thereof) was authorized by a two-thirds vote of the Board of Directors of such Indemnitor.

. The Indemnitee shall be presumed to be entitled to such indemnification under this Agreement upon submission of a written claim pursuant to Section 4 hereof. Thereafter, the Indemnitors shall have the burden of proof to overcome the presumption that the Indemnitee is so entitled. Such presumption shall only be overcome by a judgment or other final adjudication, after all appeals and all time for appeals has expired ("Final Determination"), which is adverse to the Indemnitee and which establishes (i) that his acts were committed in bad faith, or were the result of active and deliberate dishonesty, and were material to the cause of action so adjudicated and (ii) that the Indemnitee in fact personally gained a financial profit or other advantage to which he was not legally entitled. If the Indemnitee is not wholly successful in any Proceeding but is successful on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding the Indemnitors agree, jointly and severally, to indemnify the Indemnitee to the maximum extent permitted by law against all losses and expenses incurred by the Indemnitee in connection with each successfully resolved claim, issue or matter. Neither the failure of any of the Indemnitors (including their respective Boards of Directors, legal counsel or stockholders) to have made a determination prior to the commencement of such Proceeding that indemnification of the Indemnitee is proper in the circumstances because such person has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by such Indemnitor (including its Board of Directors, its legal counsel or its stockholders) that the Indemnitee has not met the applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. The purchase, establishment or maintenance of any Indemnification Arrangement

shall not in any way diminish, restrict, limit or adversely affect the rights and obligations of any of the Indemnitors or of the Indemnitee under this Agreement, except as expressly provided herein, and the execution and delivery of this Agreement by the Indemnitors and the Indemnitee shall not in any way diminish, restrict, limit or adversely affect the Indemnitee's right to indemnification from the Indemnitors or any other party or parties under any

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

other Indemnification Arrangement, the Certificate of Incorporation or Bylaws of any of the Indemnitors, or the DGCL.

2. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or on behalf of an Indemnitor or any affiliate of an Indemnitor against the Indemnitee, Indemnitee's spouse, heirs, executors, or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, or such longer period as may be required by applicable law under the circumstances. Any claim or cause of action of the Indemnitor or its affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action the shorter period shall govern.

3. Insurance. Subject only to the provisions of this Section 3, as long as the Indemnitee shall continue to serve as a director and/or officer of an Indemnitor (or shall continue at the request of an Indemnitor to serve as an Affiliate Indemnitee) and, thereafter, as long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the Indemnitee was a director and/or officer of the Corporation and/or MGM Studios (or served in any of said other capacities), the Indemnitors shall, unless no such policies are available in any market, purchase and maintain in effect for the benefit of the Indemnitee one or more valid, binding and enforceable policies (the "Insurance Policies") of directors' and officers' liability insurance ("D&O Insurance") providing adequate liability coverage for the Indemnitee's acts as a director and/or officer of the Indemnitors or as an Affiliate Indemnitee. Each Indemnitor shall promptly notify the Indemnitee of any lapse, amendment or failure to renew said policy or policies or any provision thereof relating to the extent or nature of coverage provided thereunder. In the event any Indemnitor does not purchase and maintain in effect said policy or policies of D&O Insurance pursuant to the provisions of this Section 3, such Indemnitor shall, in addition to and not in limitation of the other rights granted the Indemnitee under this Agreement, hold harmless and indemnify the Indemnitee to the full extent of coverage which would otherwise have been provided for the benefit of the Indemnitee pursuant to the Insurance Policies.

4. Claims for Payments. The Indemnitee shall have the right to receive from the Indemnitors on demand or, at his option, to have any of the Indemnitors pay promptly on his behalf, in advance of a Final Determination of a Proceeding, all amounts payable by the Indemnitors pursuant to the terms of this Agreement as corresponding amounts are expended or incurred by the Indemnitee in connection with any Proceeding or otherwise (such amounts so expended or incurred being referred to as "Advanced Amounts"). In making any claim for

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

payment by the Indemnitors of any amount, including any Advanced Amount, pursuant to this Agreement, the Indemnitee shall submit to the Indemnitors a written request for payment (a "Claim") which includes a schedule setting forth in reasonable detail the dollar amount expended (or incurred or expected to be expended or incurred). Each item on such schedule shall be supported by the bill, agreement, or other documentation relating thereto, a copy of which shall be appended to the schedule as an exhibit.

Where the Indemnitee is requesting Advanced Amounts, the Indemnitee must also provide an undertaking to repay such Advanced Amounts if a Final Determination is made that the Indemnitee is not entitled to indemnification hereunder.

5. Section 16(b) Liability. No Indemnitor shall be liable under this Agreement to make any payment in connection with any claim made against the Indemnitee for an accounting of profits made from the purchase or sale by the Indemnitee of securities of an Indemnitor within the meaning of Section 16(b) of the Securities Exchange Act of 1934, and amendments thereto, or similar provisions of any state statutory law or common law.

6. Continuation of Indemnity. All agreements and obligations of the Indemnitors contained herein shall continue during the period the Indemnitee is a director and/or officer of such Indemnitor (or is serving at the request of an Indemnitor as an Affiliate Indemnitee) and shall continue thereafter so long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the Indemnitee was a director or officer of such Indemnitor or served as such an Affiliate Indemnitee.

7. Successors: Binding Agreement. This Agreement shall be binding on, and shall inure to the benefit of and be enforceable by, each of the Indemnitor's successors and assigns and by the Indemnitee's personal or legal representatives, executors, administrators, successors, heirs, distributees, divisees and legatees. Each Indemnitor shall require any successor or assignee (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of such Indemnitor, by written agreement in form and substance reasonably satisfactory to such Indemnitor and to the Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that such Indemnitor would be required to perform if no such succession or assignment had taken place.

8. Notification and Defense of Claim. Promptly after receipt by the Indemnitee of notice of the commencement of any Proceeding, the Indemnitee shall, if a claim in respect thereof is to be made against an Indemnitor under

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

this Agreement, notify such Indemnitor of the commencement thereof, but the failure to so notify such Indemnitor will not relieve the Indemnitors from any liability which it may have to the Indemnitee. With respect to any such Proceeding:

(i) Each Indemnitor shall be entitled to participate therein at its own expense;

(ii) Except with prior written consent of the Indemnitee, the Indemnitors shall not be entitled to assume the defense of any Proceeding; and

(iii) No Indemnitor shall settle any Proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's prior written consent.

The Indemnitee shall not settle any Proceeding with respect to which the Indemnitee has received indemnified amounts or Advanced Amounts without the Indemnitors' prior written consent, nor will the Indemnitee unreasonably withhold consent to any proposed settlement.

9. Enforcement. (a) Each Indemnitor has entered into this Agreement and assumed the obligations imposed on such Indemnitor hereby in order to induce the Indemnitee to act as a director and/or officer of the Corporation and/or MGM Studios or as an Affiliate Indemnitee and acknowledges that the Indemnitee is relying upon this Agreement in continuing in such capacity.

(b) All expenses incurred by the Indemnitee in connection with the preparation and submission of the Indemnitee's request for indemnification hereunder shall be borne, jointly and severally, by the Indemnitors. In the event the Indemnitee has

requested payment of any amount under this Agreement and has not received payment thereof within thirty (30) days of such request, the Indemnitee may bring any action to enforce rights or collect moneys due under this Agreement, and, if the Indemnitee is successful in such action, the Indemnitors shall reimburse the Indemnitee for all of the Indemnitee's fees and expenses in bringing and pursuing such action. If it is determined that the Indemnitee is entitled to indemnification for part (but not all) of the indemnification so requested, expenses incurred in seeking enforcement of such partial indemnification shall be reasonably prorated among the claims, issues or matters for which the Indemnitee is entitled to indemnification for claims, issues or matter for which the Indemnitee is not so entitled. The Indemnitee shall be entitled to the advancement of such amounts to the full extent contemplated by Section 4 hereof in connection with such Proceeding.

10. Separability. If any provision or provisions of this Agreement

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, all portions of any sections or subsections of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not by themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of any section or subsections of this Agreement containing any such provisions held to be invalid, illegal or unenforceable shall be construed so as to give effect to the intent of the parties that the Indemnitors (or any of them) provide protection to the Indemnitee to the fullest extent enforceable.

11. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is agreed to in writing signed by the Indemnitee and an officer of each of the Indemnitors designated by the Board of Directors of such Indemnitor. No waiver by either party at any time of any breach by the other party of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same time or at any prior or subsequent time. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principles of conflicts of laws thereof. The Indemnitee may bring an action seeking resolution of disputes or controversies arising under, or in any way related to, this Agreement in the state or federal court jurisdiction in which the Indemnitee resides or in which his place of business is located and in any related appellate courts, and each of the Indemnitors hereby consents to the jurisdiction of such courts and to such venue.

12. Notices. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

If to the Indemnitee: Willie D. Davis
Fifth Floor
2500 Broadway Street
Santa Monica, CA 90404

If to the Corporation: Metro-Goldwyn-Mayer Inc.
Fifth Floor
2500 Broadway Street
Santa Monica, CA 90404
Attn: General Counsel

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

If to MGM Studios: Metro-Goldwyn-Mayer Studios
Fifth Floor
2500 Broadway Street
Santa Monica, CA 90404
Attn: General Counsel

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

13. Effectiveness. This Agreement shall be effective as of the day and year first above written.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed as of the day and year first above written.

METRO-GOLDWYN-MAYER INC.

By: /s/ William A. Jones
Name: William A. Jones
Title: SENIOR EXECUTIVE VICE PRESIDENT

METRO-GOLDWYN-MAYER STUDIOS

By: /s/ William A. Jones
Name: William A. Jones
Title: SENIOR EXECUTIVE VICE PRESIDENT

INDEMNITEE

/s/ Willie D. Davis

Willie D. Davis

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 10.35

WAIVER AND AMENDMENT NO. 3 TO AMENDED AND RESTATED SHAREHOLDERS AGREEMENT

This WAIVER AND AMENDMENT NO. 3 TO AMENDED AND RESTATED SHAREHOLDERS AGREEMENT (this "Amendment") is made and entered into as of March __, 1999 by and among METRO-GOLDWYN-MAYER INC., a corporation organized under the laws of the State of Delaware (the "Company"); TRACINDA CORPORATION, a corporation organized under the laws of the State of Nevada ("Tracinda"); METRO-GOLDWYN-MAYER STUDIOS INC., a corporation organized under the laws of the State of Delaware ("MGM Studios"); Mr. Frank G. Mancuso ("Mr. Mancuso"), and the Persons listed on the signature pages hereto (Mr. Mancuso and each such Person is herein referred to as an "Executive" and together as the "Executives"). Except as otherwise provided herein, capitalized terms used herein will have the meanings ascribed to them in the Shareholders Agreement (as defined below).

W I T N E S S E T H

WHEREAS, Tracinda, the Company, MGM Studios and each of the Executives entered into that certain Amended and Restated Shareholders Agreement, dated as of August 4, 1997, as amended August 8, 1998 and September 1, 1998 (the "Shareholders Agreement");

WHEREAS, Tracinda has granted to each of Alex Yemenidjian and Jerome York options (the "Options") to purchase up to 2 million shares of the Common Stock of the Company held by Tracinda pursuant to letter agreements dated February 4, 1999 ("Letter Agreements"), copies of which were made available for examination by the Executives;

WHEREAS, Section 3.2 of the Shareholders Agreement provides that the Company and each of the Executives have certain "tag-along" rights ("Tag-Along Rights") in the event Tracinda transfers or disposes of any shares of the Common Stock of the Company;

WHEREAS, the Company and each of the Executives party hereto now desire to waive, with respect to the Options, any and all of their respective Tag-Along

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Rights, including as provided by Section 3.2 of the Shareholders Agreement;

WHEREAS, the Company has granted Robert Brada certain options to acquire shares of Common Stock of the Company pursuant to the 1996 Stock Incentive Plan;

WHEREAS, Section 5.4 of the Shareholders Agreement provides that the Shareholders Agreement may be amended by an instrument in writing signed by or on behalf of each of the parties thereto which, with respect to the Executives, shall refer to the holders of a majority of the shares of capital stock of the Company owned by the Executives and subject to the terms of the Shareholders Agreement; and

WHEREAS, Tracinda, the Company, MGM Studios and the Executives desire to amend the Shareholders Agreement as set forth below.

A G R E E M E N T

NOW, THEREFORE, in consideration of the premises herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The Company and each of the Executives hereby fully and forever waive, with respect to (a) the grant of the Options by Tracinda, or (b) the transfer by Tracinda of the shares of Common Stock underlying the Options upon the exercise of the Options, any and all of its, his or her respective Tag-Along Rights, including as provided by Section 3.2 of the Shareholders Agreement; provided that if all or a portion of the Options are terminated pursuant to Section 4 of the Letter Agreements or expire, and such Options are not exercised prior to such termination or expiration, then the shares of Common Stock issuable upon the exercise of the Options so terminated or expired and not exercised shall remain subject to the terms of the Shareholders Agreement as if the foregoing waiver had not been given.

2. The grant of the Options and transfer of the underlying shares of Common Stock upon exercise thereof shall not be subject to, or counted against the number of shares set forth in, Section 3.2(e) of the Shareholders Agreement.

3. The Shareholders Agreement is hereby amended to provide that Mr. Brada, upon the execution of the acknowledgment of this Amendment below, shall become a party to the Shareholders Agreement and shall be bound by all of the obligations and entitled to all of the rights of an "Executive" thereunder, as if he had been original signatory thereto.

4. Except as amended hereby or in accordance herewith, the Shareholders Agreement shall continue in full force and effect.

5. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Each counterpart may consist of a number of copies of this Agreement, each of which may be signed by less than all of the parties hereto, but together all such copies are signed by all of the parties hereto. This Agreement shall become effective at such time as it has been executed by the Company, MGM Studios, Tracinda and the holders of a majority of the shares of capital stock of the Company owned by the Executives and subject to the terms of the Shareholders Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement and caused the same to be duly delivered on their behalf as of the day and year first written above.

TRACINDA CORPORATION

By:____________________________________
Name:
Title:

METRO-GOLDWYN-MAYER STUDIOS INC.

By:____________________________________
Name:
Title:

METRO-GOLDWYN-MAYER INC.

By:____________________________________
Name:
Title:

____
Frank G. Mancuso

Number of shares of the
Common Stock owned:________________

Acknowledged and Agreed:

____
Robert Brada

Other Executives Signature Page:

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

----

____

Name: ______________________________

Number of shares of the
Common Stock owned:________________

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 21

METRO-GOLDWYN-MAYER INC. AND SUBSIDIARIES

December 31, 1998

<TABLE>
<CAPTION>
<S>
ACCIDENTALLY SERIOUS INC.
AIDART DISTRIBUTORS CORP.
AIDART PICTURES, INC.
ALBINO ALLIGATOR PRODUCTIONS, INC.
AMERICAN INTERNATIONAL PICTURES, INC.
BEVERLY HILLS NINJA PRODUCTIONS, INC.
BEGINNING TO ROAR INC.
BLAND CO. I
BRIGHTON PRODUCTIONS, INC.
CANDANTINO MUSIC, INC.
CANZIONE MUSIC, INC.
COSMIC TITLE CORP
DAYS PICTURE CORPORATION
DAYTON FILM PRODUCTIONS, INC.
DONNA MUSIC PUBLICATIONS
EIGHTEEN LEASING CORPORATION
FAMOUS ARTIST PRODUCTIONS, INC.
FAMOUS ARTISTS AGENCY, INC.
FAMOUS ARTISTS CORPORATION OF NEW YORK
F.P. PRODUCTIONS
FLIPPER PRODUCTIONS, INC.
GOLDWYN 26 COMPANY
GOLDWYN LIBRARY HOLDING COMPANY
GOLDWYN ENTERTAINMENT COMPANY
GOLDWYN ENTERTAINMENT COMPANY, LTD.
GOLDWYN FILMS INTERNATIONAL LTD
GOLDWYN FILMS INC.
GRAND TALK INC.
HERITAGE ENTERTAINMENT, INC.
IVAN TORS MUSIC, INC.
LION INDEPENDENT TELEVISION INC.
LOPERT PICTURES CORPORATION
MCEG STERLING COMPUTER SERVICES
MCEG STERLING DEVELOPMENT
MCEG STERLING ENTERTAINMENT
MCEG STERLING PRODUCTIONS
MEDIA RESOURCES CREDIT CORPORATION
METRO-GOLDWN-MAYER ANIMATION, INC.
METRO-GOLDWYN-MAYER DISTRIBUTION CO.
METRO-GOLDWYN-MAYER HOME ENTERTAINMENT INC.
METRO-GOLDWYN-MAYER INC.
METRO-GOLDWYN-MAYER INDIA, LTD.
METRO-GOLDWYN-MAYER INTERACTIVE PRODUCTIONS INC.
METRO-GOLDWYN-MAYER LION CORP.
METRO-GOLDWYN-MAYER MOTION PICTURE CO.
METRO-GOLDWYN-MAYER MUSIC INC.
METRO-GOLDWYN-MAYER OF CHINA, INC.
METRO-GOLDWYN-MAYER OVERSEAS INC.
METRO-GOLDWYN-MAYER PICTURES, INC.
METRO-GOLDWYN-MAYER STUDIOS INC.
MGM AND UA SERVICES COMPANY
MGM DEVELOPMENT, INC.
MGM DOMESTIC TELEVISION DISTRIBUTION INC.
MGM FRANCE HOLDINGS INC.
MGM HOME ENTERTAINMENT DISTRIBUTION CORP.
MGM INTERACTIVE INC.
MGM INTERNATIONAL INC.
MGM INTERNATIONAL TELEVISION DISTRIBUTION INC.
MGM LAPTV INC.

<C>
MGM NETWORKS LATIN AMERICA LLC
MGM SUPER PRODUCTIONS INC.
MGM TELEVISION FUNDING INC.
MGM WORLDWIDE TELEVISION PRODUCTIONS INC.
MGM/UA, INC.
MIDNIGHT BLUE PRODUCTIONS, INC.
METRO PICTURE CORPORATION OF AMERICA
MUSICWAYS, INC.
NSNA CO
OPC MUSIC PUBLISHING, INC.
ORION HOME ENTERTAINMENT CORPORATION
ORION MUSIC PUBLISHING, INC.
ORION PICTURES CORPORATION
ORION PICTURES DISTRIBUTION CORPORATION
ORION PRODUCTIONS, INC.
ORION TV PRODUCTIONS, INC.
P & F ACQUISITION CORP
PARTNERSHIP PICTURE CORP.
PATHE ENTERTAINMENT MOVIESONGS, INC.
PATHE ENTERTAINMENT MUSIC, INC.
PATHE FILMS, INC.
PATHE RELEASING CORP.
PATHE TS. INC.
PITTSBURGH PRODUCTIONS LIMITED
PREP2POST PRODUCTIONS SERVICES
PURPLE PHOTOPLAYS, INC.
RED CORNER PRODUCTION INC.
SEVENTEEN LEASING CORPORATION
SINGLES PRODUCTIONS, INC.
TANGLED WEB PRODUCTIONS, INC.
THE AZIMUTH COMPANY, INC.
THE MIRISCH CORPORATION OF DELAWARE
THE WAR AT HOME PRODUCTIONS, INC.
THREE PICTURES CORPORATION
U/A MUSIC INC.
U.A. OF BRAZIL, INC.
UNITED ARTISTS CHINA, INC.
UNITED ARTISTS CORPORATION
UNITED ARTISTS CORPORATION OF EGYPT
UNITED ARTISTS CORPORATION OF PUERTO RICO
UNITED ARTISTS EUROPA, INC.
UNITED ARTISTS MUSIC (BELGIUM), INC.
UNITED ARTISTS OVERSEAS, INC.
UNITED ARTISTS PICTURES INC.
UNITED ARTISTS PRODUCTIONS INC.
UNITED ARTISTS TELEVISION CORP.
UNITED LION MUSIC, INC.
WEBSPINNER, INC.
VIRGIN VISION
</TABLE>

<TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

<S> <C>
BEHAVIORAL PROBLEM PRODUCTIONS LTD.
BUCKMINSTER MUSIC, LTD.
CAMBRIDGE HOLDINGS LTD
CANADIAN ACQUISITION CORPORATION
CANNON DREAMAXE LTD
CANNON FILM DISTRIBUTION NEDERLAND B.V.
CANNON FILM DISTRIBUTION V.O.F.
CANNON FILM DISTRIBUTORS (UK) LTD
CANNON FILM FINANCE LTD
CANNON FILM SALES LTD
CANNON INTERNATIONAL B.V.
CANNON INTERNATIONAL V.O.F.
CANNON IRISBOOK LTD
CANNON MUSIC LTD
CANNON NEXTLOW LIMITED
CANNON S.E. INTERNATIONAL LTD
CANNON SCREEN ENTERTAINMENT (HOLDINGS) LTD
CANNON SCREEN ENTERTAINMENT NV/SA
LES ARTISTES ASSOCIES S.A.
LES PRODUCTIONS ARTISTES ASSOCIES S.A.
LONDON CANNON FILMS LTD
MAUBEE PRODUCTIONS, LIMITED
METRO-GOLDWYN-MAYER HOLDINGS LTD. (CANADA)
METRO-GOLDWYN-MAYER IBERICA S.A.
METRO-GOLDWYN-MAYER INTERNATIONAL INC.
MGM/UA HOME ENTERTAINMENT (Europe) LIMITED
MGM NEDERLAND B.V.
MGM PRODUCTION SERVICES (B.C.) Ltd.
MGM PRODUCTION SERVICES (Canada) LIMITED
MGM TELECOMMUNICATIONS (FRANCE) S.A.R.L.
MGM TELEVISION (EUROPE) LIMITED
MGM/UA FILMAATSCHAPPIJ B.V.
MGM/UA HOME ENTERTAINMENT GROUP (Canada) LTD
MGM/UA HOME VIDEO (UK) LTD
MGM/UA SOUTH AMERICA B.V.
MINTAKA FILMS, B.V.
ORION PICTURES CORPORATION (H.K.) LTD.
ORION PICTURES DISTRIBUTION (CANADA) INC.
PACIFIC LION TELEVISION (H.K.) LIMITED
PATHE ENTERTAINMENT N.V.
PATHE INTERNATIONAL B.V.
PRODUZIONI ASSOCIATE DELPHOS SARL
UNITED ARTISTS (Australasia)(Proprietary) LIMITED
UNITED ARTISTS CORPORATION GmbH
UNITED ARTISTS CORPORATION LIMITED
UNITED ARTISTS CORPORATION (SouthAfrica)(Proprietary) LIMITED
UNITED ARTISTS MUSIC DE MEXICO S.A.
UNITED ARTISTS SCREEN ENTERTAINMENT LTD
</TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report, dated February 23, 1999 (except with respect to the matter discussed in Note 15, as to which the dated is March 12, 1999), appearing in Metro-Goldwyn-Mayer Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998, into Metro-Goldwyn-Mayer Inc.'s previously filed Registration Statements Nos. 333-35411, 333-60903, 333-52953 and 333-60723.

ARTHUR ANDERSEN LLP

Los Angeles, California
March 29, 1999

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

```
<TABLE> <S> <C>



<ARTICLE> 5
<MULTIPLIER> 1,000

<S>                               <C>
<PERIOD-TYPE>                     YEAR
<FISCAL-YEAR-END>                            DEC-31-1998
<PERIOD-END>                                 DEC-31-1998
<CASH>                                            54,839
<SECURITIES>                                           0
<RECEIVABLES>                                    388,287
<ALLOWANCES>                                    (23,220)
<INVENTORY>                                    2,076,663
<CURRENT-ASSETS>                                       0
<PP&E>                                            54,977
<DEPRECIATION>                                  (16,341)
<TOTAL-ASSETS>                                 3,158,978
<CURRENT-LIABILITIES>                                  0
<BONDS>                                          715,574
<PREFERRED-MANDATORY>                                  0
<PREFERRED>                                            0
<COMMON>                                       2,204,999
<OTHER-SE>                                     (285,342)
<TOTAL-LIABILITY-AND-EQUITY>                   3,158,978
<SALES>                                        1,240,723
<TOTAL-REVENUES>                               1,240,723
<CGS>                                          1,191,381
<TOTAL-COSTS>                                  1,191,381
<OTHER-EXPENSES>                                 119,715
<LOSS-PROVISION>                                     467
<INTEREST-EXPENSE>                                76,627
<INCOME-PRETAX>                                (147,467)
<INCOME-TAX>                                      10,181
<INCOME-CONTINUING>                            (157,648)
<DISCONTINUED>                                         0
<EXTRAORDINARY>                                        0
<CHANGES>                                              0
<NET-INCOME>                                   (157,648)
<EPS-PRIMARY>                                     (2.08)
<EPS-DILUTED>                                     (2.08)



</TABLE>
```

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document