METRO-GOLDWYN-MAYER INC
Form 10-K/A
March 31, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission File No. 1-13481

METRO-GOLDWYN-MAYER INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction** **of incorporation or organization)**	**95-4605850** **(I.R.S. Employer** **Identification No.)**
2500 Broadway Street, Santa Monica, CA **(Address of principal executive offices)**	**90404** **(Zip Code)**

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

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

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

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

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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. x

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x   No ¨

The aggregate market value of the Registrant s Common Stock held by non-affiliates of the Registrant as of June 30, 2002 (based on the closing price on the New York Stock Exchange Composite Tape on June 30, 2002) was $657,635,273.

The number of shares of the Registrant s common stock outstanding as of February 6, 2003 was 249,212,736.

EXPLANATORY NOTE

The purpose of this amendment is to supplement Item 15(a) of Part IV.

PART IV

Item 15. 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/A at pages 55 to 106.

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/A at pages 107 to 114.

3. *Exhibits*

The exhibits listed in the accompanying Exhibit Index on pages 115 to 117 are filed as part of this Form 10-K/A.

(b) *Reports on Form 8-K*

Date Filed	Relating to
November 6, 2002	Item 5. Other Information
December 10, 2002	Item 5. Other Information

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.

METRO-GOLDWYN-MAYER INC.

By: /s/ DANIEL J. TAYLOR

Daniel J. Taylor

Senior Executive Vice President and

Chief Financial Officer

March 31, 2003

CERTIFICATIONS

I, Alex Yemenidjian, certify that:

1. I have reviewed this annual report on Form 10-K/A of Metro-Goldwyn-Mayer Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: March 31, 2003

/s/ ALEX YEMENIDJIAN

Alex Yemenidjian

Chief Executive Officer

I, Daniel J. Taylor, certify that:

1. I have reviewed this annual report on Form 10-K/A of Metro-Goldwyn-Mayer Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: March 31, 2003

/s/ DANIEL J. TAYLOR

Daniel J. Taylor

Chief Financial Officer

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders

Metro-Goldwyn-Mayer Inc.

We have audited the accompanying consolidated balance sheet of Metro-Goldwyn-Mayer Inc. as of December 31, 2002, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended. The consolidated financial statements of the Company as of December 31, 2001 and for each of the two years in the period ended December 31, 2001 were audited by other auditors who have ceased operations and whose report dated February 4, 2002, expressed an unqualified opinion on those statements. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Metro-Goldwyn-Mayer Inc. as of December 31, 2002, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets.

As discussed above, the consolidated financial statements of the Company as of December 31, 2001 and for each of the two years in the period ended December 31, 2001 were audited by other auditors who have ceased operations. As described in Note 1, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards (Statement) No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures in Note 1 with respect to 2001 and 2000 included (a) agreeing the previously reported net income (loss) to the previously issued financial statements and the adjustments to reported net income (loss) representing amortization expense recognized in those periods related to goodwill and goodwill related to equity investees, which is no longer being amortized as a result of initially applying Statement No. 142 to the Company s underlying records obtained from management, and (b) testing the mathematical accuracy of the reconciliation of adjusted net income (loss) to reported net income (loss), and the related earnings-per-share amounts. In our opinion, the disclosures for 2001 and 2000 in Note 1 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

ERNST & YOUNG LLP

Los Angeles, California

February 4, 2003

THIS REPORT IS A COPY OF A REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP. THE REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP NOR HAS ARTHUR ANDERSEN LLP PROVIDED A CONSENT TO THE INCLUSION OF ITS REPORT IN THIS FORM 10-K.

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 (the Company) as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 consolidated 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2001, the Company changed its method of accounting for film and television costs and its accounting for derivative instruments and hedging activities.

Arthur Andersen LLP

Los Angeles, California

February 4, 2002

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31, 2002	December 31, 2001
ASSETS		
Cash and cash equivalents	$ 593,131	$ 2,698
Short-term investments	6,488	
Accounts and contracts receivable (net of allowance for doubtful accounts of $40,980 and $26,173, respectively)	590,637	458,010
Film and television costs, net	1,870,692	2,035,277
Investments in and advances to affiliates	620,132	845,042
Property and equipment, net	41,397	38,837
Goodwill	516,706	516,706
Other assets	29,791	26,594
	$ 4,268,974	$ 3,923,164
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Bank and other debt	$ 1,156,725	$ 836,186
Accounts payable and accrued liabilities	212,792	198,520
Accrued participants' share	263,070	243,836
Income taxes payable	33,030	31,865
Advances and deferred revenues	65,051	82,156
Other liabilities	23,840	41,119
Total liabilities	1,754,508	1,433,682
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, none issued		
Common stock, $.01 par value, 500,000,000 shares authorized, 251,960,505 and 239,629,500 shares issued	2,520	2,396
Additional paid-in capital	3,914,923	3,717,767
Deficit	(1,345,812)	(1,203,565)
Accumulated other comprehensive loss	(18,361)	(27,116)
Less: treasury stock, at cost, 3,107,609 shares	(38,804)	

Total stockholders equity	2,514,466	2,489,482
	$ 4,268,974	$ 3,923,164

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

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Year Ended December 31,		
	2002	**2001**	**2000**
Revenues	$ 1,654,102	$ 1,387,531	$ 1,237,447
Expenses:			
Operating	1,062,956	766,330	771,811
Selling, general and administrative	671,817	585,255	339,458
Severance and related recoveries			(3,715)
Depreciation and non-film amortization	20,467	32,952	28,648
Total expenses	1,755,240	1,384,537	1,136,202
Operating income (loss)	(101,138)	2,994	101,245
Other income (expense):			
Gain on sale of equity interest in cable channel	32,514		
Equity in net earnings (losses) of affiliates	13,561	(2,421)	1,953
Interest expense, net of amounts capitalized	(79,929)	(51,494)	(51,425)
Interest and other income, net	7,432	9,478	12,706
Total other expenses	(26,422)	(44,437)	(36,766)
Income (loss) from operations before provision for income taxes	(127,560)	(41,443)	64,479
Income tax provision	(14,687)	(14,297)	(13,480)
Net income (loss) before cumulative effect of accounting change	(142,247)	(55,740)	50,999
Cumulative effect of accounting change		(382,318)	
Net income (loss)	$ (142,247)	$ (438,058)	$ 50,999
Income (loss) per share:			
Basic:			
Net income (loss) before cumulative effect of accounting change	$ (0.57)	$ (0.24)	$ 0.25
Cumulative effect of accounting change		(1.65)	
Net income (loss)	$ (0.57)	$ (1.89)	$ 0.25
Diluted:			
Net income (loss) before cumulative effect of accounting change	$ (0.57)	$ (0.24)	$ 0.24
Cumulative effect of accounting change		(1.65)	
Net income (loss)	$ (0.57)	$ (1.89)	$ 0.24

Weighted average number of common shares outstanding:			
Basic	248,355,556	232,082,403	204,797,589
Diluted	248,355,556	232,082,403	210,313,274

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

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except share data)

	Preferred Stock		Common Stock					Accum. Other Compre-hensive Income (Loss)		
	No. of Shares	Par Value	No. of Shares	Par Value	Add l Paid-in Capital	Deficit	Compre-hensive Income (Loss)		Less: Treasury Stock	Total Stockholders Equity
Balance December 31, 1999		$	201,419,331	$ 2,014	$ 2,931,004	$ (816,506)	$	$ 316	$ (4)	$ 2,116,824
Common stock issued to outside parties, net			5,363,800	54	133,330					133,384
Common stock issued to directors, officers and employees, net			434,454	4	8,277				4	8,285
Comprehensive income (loss):										
Net income						50,999	50,999			50,999
Foreign currency translation adjustment							152	152		152
Unrealized gains on securities							43	43		43
Comprehensive income							51,194			
Balance December 31, 2000			207,217,585	2,072	3,072,611	(765,507)		511		2,309,687
Preferred stock issued to Tracinda, net	15,715,667	157			324,843					325,000
Conversion of preferred stock into common stock	(15,715,667)	(157)	15,715,667	157						
Common stock issued to outside parties, net			16,080,590	161	310,478					310,639
Common stock issued to directors, officers and employees, net			615,658	6	9,835					9,841
Comprehensive income (loss):										
Net loss						(438,058)	(438,058)			(438,058)
Cumulative effect of accounting change							469	469		469
Unrealized loss on derivative instruments							(27,523)	(27,523)		(27,523)
Unrealized loss on securities							(240)	(240)		(240)
Foreign currency translation adjustments							(333)	(333)		(333)

Comprehensive loss							(465,685)			
Balance December 31, 2001			239,629,500	2,396	3,717,767	(1,203,565)		(27,116)		2,489,482
Common stock issued to outside parties, net			10,550,000	106	164,665					164,771
Acquisition of treasury stock, at cost									(32,709)	(32,709)
Contribution of treasury stock to deferred compensation plan									(7,608)	(7,608)
Common stock issued to directors, officers and employees, net			1,781,005	18	32,491				1,513	34,022
Comprehensive income (loss):										
Net loss						(142,247)	(142,247)			(142,247)
Unrealized gain on derivative instruments							13,195	13,195		13,195
Unrealized loss on securities							(585)	(585)		(585)
Change in unfunded pension obligation							(3,994)	(3,994)		(3,994)
Foreign currency translation adjustments							139	139		139
Comprehensive loss							(133,492)			
Balance December 31, 2002		$	251,960,505	$ 2,520	$ 3,914,923	$ (1,345,812)	$	$ (18,361)	$ (38,804)	$ 2,514,466

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

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2002	**2001**	**2000**
Operating activities:			
Net income (loss)	$ (142,247)	$ (438,058)	$ 50,999
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Cumulative effect of accounting change		382,318	
Additions to film costs, net	(468,083)	(391,633)	(810,956)
Amortization of film and television costs and participants share	798,411	548,742	665,148
Depreciation and amortization of property and equipment	20,467	18,218	13,913
Amortization of goodwill and deferred financing costs	16,637	21,439	20,994
Change in fair value of financial instruments	(462)	(292)	
Stock contributions to employees, directors and employee savings plan	4,252	2,773	3,432
Provision for bad debt and other reserves	21,205	1,442	3,545
Loss on sale of marketable equity securities			1,265
(Gains) losses on equity investments, net	(13,561)	2,421	(1,953)
Gain on sale of cable channel	(32,514)		
(Increase) decrease in accounts and contracts receivable and other assets	(171,169)	(35,739)	36,589
Decrease in accounts payable, accrued and other liabilities, accrued participants share and taxes	(105,940)	(97,983)	(152,518)
Decrease in advances and deferred revenues	(17,105)	(9,981)	(20,052)
Foreign currency exchange loss	1,330	148	7,135
Net cash provided by (used in) operating activities	(88,779)	3,815	(182,459)
Investing activities:			
Sale of equity interest in cable channel	250,000		
Dividends received from cable channels	30,000		
Investments in and advances to affiliates	(9,376)	(834,882)	(1,247)
Purchases of short-term investments	(6,456)		
Purchases of available-for-sale securities			(152,819)
Sales of available-for-sale securities			148,081
Additions to property and equipment	(23,055)	(9,905)	(12,259)
Net cash provided by (used in) investing activities	241,113	(844,787)	(18,244)
Financing activities:			
Net proceeds from issuance of preferred stock to Tracinda		325,000	
Net proceeds from issuance of equity securities to outside parties	164,771	310,639	133,384
Net proceeds from issuance of equity securities to related parties	2,154	7,068	4,849
Acquisition of treasury stock	(32,709)		
Additions to borrowed funds	1,337,410	159,000	54,000
Repayments of borrowed funds	(1,016,871)	(34,766)	(63,121)
Financing costs and other	(16,823)		(3,267)

Net cash provided by financing activities	437,932	766,941	125,845
Net change in cash and cash equivalents from operating, investing and financing activities	590,266	(74,031)	(74,858)
Net increase (decrease) in cash due to foreign currency fluctuations	167	(411)	(215)
Net change in cash and cash equivalents	590,433	(74,442)	(75,073)
Cash and cash equivalents at beginning of the year	2,698	77,140	152,213
Cash and cash equivalents at end of the year	$ 593,131	$ 2,698	$ 77,140

The accompanying Notes to Consolidated Financial Statements

are an integral part of these consolidated statements.

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

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. (MGM), Metro-Goldwyn-Mayer Studios Inc. and its majority owned subsidiaries (collectively, MGM Studios) and Orion Pictures Corporation and its majority owned subsidiaries (collectively, 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 current and former executive officers of the Company. The acquisition of MGM Studios by MGM was completed on October 10, 1996, at which time MGM commenced principal operations. The acquisition of Orion was completed on July 10, 1997. The Company completed the acquisition of certain film libraries and film related rights that were previously owned by PolyGram N.V. and its subsidiaries (collectively, PolyGram) on January 7, 1999.

As permitted by the American Institute of Certified Public Accountant s Statement of Position (SOP) 00-2, Accounting by Producers or Distributors of Films, the Company has presented unclassified consolidated balance sheets. For the years ended December 31, 2002 and 2001, exploitation costs are included in selling, general and administrative expenses. In prior years, the amortization of these costs are included in operating expenses, as these amounts were previously capitalized and amortized as part of film costs. See *New Accounting Pronouncements*.

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. Additionally, the Company holds equity interests in three domestic cable channels as well as various international cable channels. The Company s business units have been aggregated into four reportable operating segments: feature films, television programming, cable channels and other operating activities (see Note 12). Operating units included in the other operating segment include consumer products, interactive media and music.

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. 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, among other factors, 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

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METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

but not control are accounted for using the equity method (see Note 4). All significant intercompany balances and transactions have been eliminated.

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, 2002 and 2001 is approximately $5,066,000 and $4,127,000, respectively, of cash restricted by various escrow agreements. The Company has reclassified a $32,247,000 and $25,312,000 bank overdraft to accounts payable at December 31, 2002 and 2001, respectively. The carrying value of the Company s cash equivalents approximated cost at each balance sheet date.

Short-Term Investments. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders equity. As of December 31, 2002, short-term investments consist of U.S. Treasury Bills of $6,488,000 with maturity terms ranging from 4 to 6 months.

Accounts and Contracts Receivable. At December 31, 2002, accounts and contracts receivable aggregated $631,617,000 (before allowance for doubtful accounts), of which approximately $465,552,000 is due within one year and $327,107,000 is unbilled. 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, 2002 and 2001, there were no customers accounting for greater than ten percent of the Company s accounts and contracts receivable.

Sales Returns. In the home video market, the Company calculates an estimate of future product returns. In determining the estimate of product sales that will be returned, the Company performs an analysis that considers historical returns, changes in customer demand and current economic trends. Based on this information, a percentage of each sale is reserved provided that the customer has the right of return.

Revenue Recognition. All revenue is recognized upon meeting all recognition requirements of SOP 00-2. 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. Under revenue sharing arrangements, the Company also participates in consumer rental revenues generated in the home video market by rental establishments and records revenues as earned. Revenues from television licensing, together with related costs, are recognized when the feature film or television program is initially available to the licensee for telecast. Payments received in advance of initial availability are classified as deferred revenue until all SOP 00-2 revenue recognition requirements have been met. As of December 31, 2002, deferred revenue primarily consists of advances related to the Company s television licensing contracts under which the related product will become available in future periods. Long-term, non-interest-bearing receivables arising from licensing agreements are discounted to present value in accordance with Accounting Principles Board (APB) Opinion No. 21, Interest on Receivables and Payables.

Film and Television Costs. Except for purchase accounting adjustments, film costs include the costs of production, capitalized overhead and interest. These costs, as well as participations and talent residuals, are

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 as of the beginning of the current year from all sources (the individual film forecast method). The cost allocated to films revalued in purchase accounting (including the MGM, Orion and PolyGram film libraries) is being amortized over their estimated economic lives not to exceed 20 years.

Beginning January 1, 2001, under SOP 00-2 (see *New Accounting Pronouncements*), exploitation costs, including advertising and marketing costs, are being expensed as incurred. The Company incurred advertising and marketing costs of approximately $410,000,000 and $346,000,000, respectively, for the years ended December 31, 2002 and 2001. Theatrical print costs are being amortized over the periods of theatrical release of the respective territories and are included in operating expenses. Under accounting rules in effect for periods prior to January 1, 2001, such costs were capitalized as a part of film costs and amortized over the life of the film using the individual film forecast method.

Capitalized film costs are stated at the lower of unamortized cost or estimated fair 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 that capitalized film costs exceed estimated fair value.

The Company also maintains home video product in inventory which primarily consists of digital video discs and videocassette tapes and are stated at the lower of cost or market.

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 at the date of acquisition. 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. Beginning January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (see *New Accounting Pronouncements*). According to this statement, goodwill and intangible assets with indefinite lives are no longer subject to amortization, but rather an annual assessment of impairment by applying a fair-value based test. Fair value for goodwill is based on discounted cash flows, market multiples and/or appraised values as appropriate. Under SFAS No. 142, the carrying value of assets are calculated at the lowest level for which there are identifiable cash flows, which include feature film operations, television programming operations, cable channels and other businesses (consumer products, music and interactive operations). SFAS 142 requires the Company to compare the fair value of the reporting unit to its carrying amount on an annual basis to determine if there is potential impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. Upon adoption and during 2002, the Company completed an impairment review and did not recognize any impairment of goodwill and other intangible assets already included in the financial statements. The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time. Accordingly,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

beginning January 1, 2002, the Company has foregone all related amortization expense. Since the Company is recording its equity in net earnings of the Cable Channels (see Note 4) on a one-quarter lag, amortization of goodwill of the Cable Channels ($9,528,000 for the quarter ended March 31, 2002) is not included in the calculation of the Company s equity in the net earnings in this investment commencing on April 1, 2002. Prior to January 1, 2002, the Company amortized goodwill over an estimated useful life of 40 years (20 years for the Cable Channels) using the straight-line method. Amortization expense, including amounts related to equity investees, totaled $9,528,000, $34,117,000 and $15,064,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Accumulated amortization of goodwill was $71,037,000 as of December 31, 2001.

For the years ended December 31, 2002, 2001 and 2000, the reconciliation of reported net income (loss) and net income (loss) per share to adjusted net income (loss) and adjusted net income (loss) per share reflecting the elimination of goodwill amortization is as follows (in thousands, except per share data, unaudited):

	Year Ended December 31,					
	2002	**2001**	**2000**	**2002**	**2001**	**2000**
	Net Income (Loss)			**Per Share Data**		
Net income (loss) before cumulative effect of accounting change, as reported	$ (142,247)	$ (55,740)	$ 50,999	$ (0.57)	$ (0.24)	$ 0.25
Elimination of goodwill amortization		14,734	14,734		0.06	0.07
Elimination of goodwill amortization related to equity investees	9,528	19,383	330	0.04	0.08	0.00
Net income (loss) before cumulative effect of accounting change, as adjusted	$ (132,719)	$ (21,623)	$ 66,063	$ (0.53)	$ (0.10)	$ 0.32
Net income (loss), as reported	$ (142,247)	$ (438,058)	$ 50,999	$ (0.57)	$ (1.89)	$ 0.25
Elimination of goodwill amortization		14,734	14,734		0.06	0.07
Elimination of goodwill amortization related to equity investees	9,528	19,383	330	0.04	0.08	0.00
Net income (loss), as adjusted	$ (132,719)	$ (403,941)	$ 66,063	$ (0.53)	$ (1.75)	$ 0.32

Due to the one-quarter lag in reporting of the Cable Channels, operating results for the the year ended December 31, 2002 were reduced by amortization of goodwill of $9,528,000.

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 basis 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. 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 accompanying statements of operations.

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 2.75 percent (approximately four percent and five percent at December 31, 2002 and 2001, respectively), which approximates the Company s current effective borrowing rates, in accordance with APB Opinion No. 21.

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 differences 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. Additionally, in certain instances, we enter into foreign currency exchange forward contracts in order to reduce exposure to changes in foreign currency exchange rates that affect the value of our firm commitments and certain anticipated foreign currency cash flows. See *New Accounting Pronouncements*.

Earnings Per Share. The Company computes earnings per share in accordance with SFAS No. 128, Earnings Per Share (EPS). The weighted average number of shares used in computing basic earnings or loss per share was 248,355,556, 232,082,403 and 204,797,589 in the years ended December 31, 2002, 2001 and 2000, respectively. Dilutive securities of 5,515,685 related to stock options have been included in the calculation of diluted EPS for the year ended December 31, 2000. Dilutive securities of 1,000,720 and 3,248,176 are not included in the calculation of diluted EPS in the years ending December 31, 2002 and 2001, respectively, because they are antidilutive. Additionally, potentially dilutive securities of 30,850,065, 10,811,375 and 9,668,136 have not been included in the calculation of diluted EPS in the years ended December 31, 2002, 2001 and 2000, respectively, because their exercise prices are greater than the average market price of the Company s common stock during the periods.

Comprehensive Income (Loss). The Company computes comprehensive income pursuant to SFAS No. 130, Reporting Comprehensive Income. 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. Total comprehensive income (loss) for the Company includes net income (loss) and other comprehensive income items, including unrealized loss on derivative instruments, unrealized gain (loss) on securities, changes in unfunded pension plan obligations and cumulative foreign currency translation adjustments. Components of other comprehensive income (loss) are shown below (in thousands):

	Year Ended December 31,		
	2002	**2001**	**2000**
Net income (loss)	$ (142,247)	$ (438,058)	$ 50,999
Other comprehensive income (loss):			
Cumulative effect of accounting change for derivative Instruments		469	
Unrealized gain (loss) on derivative instruments	13,195	(27,523)	
Unrealized gain (loss) on securities	(585)	(240)	43

Unfunded pension plan obligation	(3,994)		
Cumulative foreign currency translation adjustments	139	(333)	152
Total comprehensive income (loss)	$ (133,492)	$ (465,685)	$ 51,194

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of accumulated other comprehensive income (loss) are shown below (in thousands):

	Unrealized Loss on Derivative Instruments	Unrealized Gain (Loss) on Securities	Unfunded Pension Plan Obligation	Cumulative Translation Adjustments	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2000	$	$ 43	$	$ 468	$ 511
Cumulative effect of accounting change	469				469
Current year change	(27,523)	(240)		(333)	(28,096)
Balance at December 31, 2001	(27,054)	(197)		135	(27,116)
Current year change	13,195	(585)	(3,994)	139	8,755
Balance at December 31, 2002	$ (13,859)	$ (782)	$ (3,994)	$ 274	$ (18,361)

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the 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 materially from those estimates.

New Accounting Pronouncements. In June 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 139, Rescission of FASB Statement No. 53 and Amendments to FASB Statements No. 63, 89 and 121, which, effective for financial statements for fiscal years beginning after December 15, 2000, rescinds SFAS No. 53, Financial Reporting by Producers and Distributors of Motion Picture Films. The companies that were previously subject to the requirements of SFAS No. 53 now follow the guidance in SOP 00-2 issued in June 2000. SOP 00-2 establishes new accounting and reporting standards for all producers and distributors that own or hold the rights to distribute or exploit films. SOP 00-2 provides that the cumulative effect of changes in accounting principles caused by its adoption should be included in the determination of net income in conformity with APB Opinion No. 20, Accounting Changes. The Company adopted SOP 00-2 on January 1, 2001 and recorded a one-time, non-cash cumulative effect charge to earnings of $382,318,000, primarily to reduce the carrying value of its film and television costs. The new rules also require that advertising costs be expensed as incurred as opposed to the old rules which generally allowed advertising costs to be capitalized as part of film costs and amortized using the individual film forecast method. Due to the significant advertising costs incurred in the early stages of a film s release, the Company anticipates that the new rules will significantly impact its results of operations for the foreseeable future. Additionally, under SFAS No. 53, the Company classified additions to film costs as an investing activity in the Statements of Cash Flows. In accordance with SOP 00-2, the Company now classifies additions to film costs as an operating activity.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133, and by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities an Amendment of FASB No. 133. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in contracts, and for hedging activities. The Company adopted SFAS No. 133 on January 1, 2001 and recorded a one-time, non-cash cumulative effect adjustment to stockholders equity and other comprehensive income (loss) of $469,000. The adoption of SFAS No. 133 has not materially impacted the Company s results of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. According to this statement, goodwill and intangible assets with indefinite lives are no longer subject to amortization, but rather an annual assessment of impairment by applying a fair-value based test. Under SFAS No. 142, the carrying value of assets are calculated at the lowest level for which there are identifiable cash flows, which include feature film operations, television programming operations, cable channels and other businesses (consumer products, music and interactive operations). The Company adopted SFAS No. 142 beginning January 1, 2002, and upon adoption the Company did not recognize any impairment of goodwill and other intangible assets already included in the financial statements. The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time. Accordingly, beginning January 1, 2002, the Company has foregone all related amortization expense.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The purpose of this statement is to develop consistent accounting of asset retirement obligations and related costs in the financial statements and provide more information about future cash outflows, leverage and liquidity regarding retirement obligations and the gross investment in long-lived assets. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will implement SFAS No. 143 on January 1, 2003. The impact of such adoption is not anticipated to have a material effect on the Company s financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for fiscal years beginning after December 15, 2001. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). This Statement also amends Accounting Research Board No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for subsidiaries for which control is likely to be temporary. The Company adopted SFAS No. 144 on January 1, 2002. The impact of such adoption did not have a material effect on the Company s financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 nullifies EITF Issue No 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and will be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company will implement SFAS No. 146 on January 1, 2003. The impact of such adoption is not anticipated to have a material effect on the Company s financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This statement also amends the disclosure requirements of SFAS No. 123 and APB Opinion No. 28, Interim Financial Reporting, to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company will implement SFAS No. 148 effective January 1, 2003 regarding disclosure requirements for condensed financial statements for interim periods. The Company has not yet determined whether they will voluntarily change to the fair value based method of accounting for stock-based employee compensation.

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METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Severance and Other Related Costs

In June 1999, the Company incurred $85,171,000 of severance and other related costs, as well as the estimated costs of withdrawing from the Company s arrangements with United International Pictures B.V. (UIP) on November 1, 2000. The severance charge in 1999 included the termination of 46 employees, including the Company s former Chairman and Vice Chairman, across all divisions of the Company.

In June 2000, the Company reduced previously charged reserves by $5,000,000 due to a negotiated settlement with UIP regarding the Company s withdrawal from the joint venture. Additionally, in June 2000, the Company incurred severance and other related charges of $1,285,000 related to the closure of a foreign sales office.

As of December 31, 2002, the Company has paid $54,844,000 of the severance and other related costs. In January and February 2002, in accordance with certain agreements with the Company s former Chairman and Vice Chairman, $16,964,000 of the severance and related costs were converted into 863,499 shares of common stock of the Company.

Note 3 Film and Television Costs

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

	December 31, 2002	December 31, 2001
Theatrical productions:		
Released	$ 3,984,330	$ 3,515,842
Less: accumulated amortization	(2,593,626)	(2,117,116)
Released, net	1,390,704	1,398,726
Completed not released	34,521	99,142
In production	188,188	242,621
In development	28,745	31,931
Subtotal: theatrical productions	1,642,158	1,772,420
Television programming:		

Released	936,440	861,826
Less: accumulated amortization	(738,164)	(626,686)
Released, net	198,276	235,140
In production	29,224	25,968
In development	1,034	1,749
Subtotal: television programming	228,534	262,857
	$ 1,870,692	$ 2,035,277

Interest costs capitalized to theatrical productions were $14,520,000, $23,466,000 and $15,453,000 during the years ended December 31, 2002, 2001 and 2000, respectively.

Based on the Company s estimates of projected gross revenues as of December 31, 2002, approximately 17 percent of completed film costs are expected to be amortized over the next twelve months, and approximately $210,000,000 of accrued participants share as of December 31, 2002 will be paid in the next twelve months. Additionally, approximately 68 percent of unamortized film costs applicable to released theatrical films and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

television programs, excluding acquired film libraries, will be amortized during the three years ending December 31, 2005, and 82 percent will be amortized by December 31, 2007. For acquired film libraries, approximately $1.0 billion of net film costs as of December 31, 2002 remain to be amortized under the individual film forecast method over an average remaining life of 14 years.

Note 4 Investments In and Advances to Affiliates

Investments are summarized as follows (in thousands):

	December 31, 2002	December 31, 2001
Domestic cable channels	$ 595,457	$ 822,502
Foreign cable channels	15,697	15,351
Joint ventures	8,828	7,039
Others	150	150
	$ 620,132	$ 845,042

Domestic Cable Channels. On April 2, 2001, the Company invested $825,000,000 in cash for a 20 percent interest in two general partnerships which own and operate the American Movie Classics, the Independent Film Channel and WE: Women s Entertainment (formerly Romance Classics) and, until recently, Bravo, cable channels, collectively referred to as the Cable Channels. These partnerships were wholly-owned by Rainbow Media Holdings, Inc. (Rainbow Media), a 74 percent subsidiary of Cablevision Systems Corporation (Cablevision). The proceeds of the $825,000,000 investment were used as follows: (i) $365,000,000 was used to repay bank debt of the partnerships; (ii) $295,500,000 was used to repay intercompany loans from Cablevision and its affiliates; and (iii) $164,500,000 was added to the working capital of the partnerships. The Company financed the investment through the sale of equity securities (see Note 8), which provided aggregate net proceeds of approximately $635,600,000, and borrowings under the Company s credit facilities. Based upon certain assumptions that management of the Company believes are reasonable, the Company s determination of the difference between the Company s original cost basis in their investment in the Cable Channels and the Company s share of the underlying equity in net assets (referred to as intangible assets) was approximately $762,000,000 (after amortization of goodwill and the sale of the Bravo cable channel discussed below, the difference between our cost basis and our share of the underlying equity in net assets is approximately $530 million).

On December 5, 2002, the Company and Cablevision, together with an affiliate of Cablevision, sold their ownership interests in the Bravo cable channel (Bravo) to an affiliate of the National Broadcasting Company (NBC) for $1.25 billion. The proceeds were divided between Cablevision and the Company in accordance with their 80 percent and 20 percent ownership interests in Bravo. The Company received $250,000,000 in cash from an affiliate of NBC for its interest in Bravo, and recorded a gain of $32,514,000 on the sale.

The Company is accounting for its remaining investment in the Cable Channels in accordance with APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. In accordance with APB Opinion No. 18, management continually reviews its equity investments to determine if any permanent impairment has occurred. If, in management s judgment, an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. Such determination is dependent on the specific facts and circumstances, including the financial condition of the investee, subscriber demand and growth, demand for advertising time and space, the intent and ability to retain the investment, and general economic conditions in the areas in which the investee operates. As of December 31, 2002, management has determined that there have been no impairments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pursuant to the requirements of APB No. 18, the Company is recording its share of the earnings and losses in the Cable Channels based on the most recently available financial statements received from the Cable Channels. Due to a lag in the receipt of the financial statements from the Cable Channels, the Company is reporting its interest in the Cable Channels on a one-quarter lag. Summarized financial information for the Cable Channels as of September 30, 2002, and for the year ended September 30, 2002, were as follows (in thousands):

As of September 30, 2002:		
Current assets	$	422,427
Non-current assets	$	589,897
Current liabilities	$	149,928
Non-current liabilities	$	291,082
For the year ended September 30, 2002:		
Revenues, net	$	476,703
Operating income	$	143,341
Net income	$	143,300

In the year ended December 31, 2002, the Company s share of the Cable Channels net operating results was a profit of $20,627,000 (of which a profit of $5,829,000 pertained to Bravo). Due to the one quarter lag in reporting of the Cable Channels, the results for the year ended December 31, 2002 were reduced by the amortization of goodwill of $9,528,000 for the period from January 1 to March 31, 2002 (see Note 1). In the year ended December 31, 2001, the Company s share of the Cable Channel s net operating results was a loss of $2,845,000 (of which a loss of $118,000 pertained to Bravo), which included goodwill amortization of $19,050,000.

While the Company is not involved in the day-to-day operations of the Cable Channels, the Company s approval is required before either partnership may: (i) declare bankruptcy or begin or consent to any reorganization or assignment for the benefit of creditors; (ii) enter into any new transaction with a related party; (iii) make any non-proportionate distributions; (iv) amend the partnership governing documents; or (v) change its tax structure.

The Company has the right to participate on a pro rata basis in any sale to a third party by Rainbow Media of its partnership interests, and Rainbow Media can require the Company to participate in any such sale. If a third party invests in either partnership, the Company s interest and that of Rainbow Media will be diluted on a pro rata basis. Neither the Company nor Rainbow Media will be required to make additional capital contributions to the partnerships. However, if Rainbow Media makes an additional capital contribution and the Company does not, the Company s interest in the partnerships will be diluted accordingly. If the partnerships fail to attain certain financial projections provided to the Company by Rainbow Media for the years 2002 through 2005, inclusive, the Company will be entitled, 30 days after receipt of partnership financial statements for 2005, to require Rainbow Media to acquire the Company s partnership interests for fair market value, as determined pursuant to the agreement. The Company formed a wholly-owned subsidiary, MGM Networks U.S. Inc., which made the above-described investment, serves as a general partner of the applicable Rainbow Media companies and is the MGM entity which holds the aforesaid partnership interests and rights attendant thereto.

Foreign Cable Channels. 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 $25,250,000, of which the Company had funded approximately $24,800,000 as of December 31, 2002. The Company s share of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MGM Latin America s losses in the years ended December 31, 2002, 2001 and 2000 were $2,672,000, $1,592,000 and $3,388,000, respectively.

Additionally, the Company holds minority equity interests in various television channels located in certain international territories for which the Company realized its share of the channels net operating results, which aggregated a net loss of $265,000 in the year ended December 31, 2002 and a net profit of $3,476,000 and $5,341,000 in the years ended December 31, 2001 and 2000, respectively.

Joint Ventures. On August 13, 2001, the Company, through its wholly-owned subsidiary, MGM On Demand Inc., acquired a 20 percent interest in a joint venture established to create an on-demand movie service to offer a broad selection of theatrically-released motion pictures via digital delivery for broadband internet users in the United States. Other partners in the joint venture include Sony Pictures Entertainment, Universal Studios, Warner Bros. and Paramount Pictures. The Company has funded $11,609,000 for its equity interest and its share of operating expenses of the joint venture as of December 31, 2002. The Company financed its investment through borrowings under its credit facilities. The Company is committed to fund its share of the operating expenses of the joint venture, as required. The Company is accounting for its interest in the joint venture under the equity method. In the years ended December 31, 2002 and 2001, the Company recognized a net loss of $3,352,000 and $446,000 for its share of the operating results of the joint venture.

In February 2002, the Company, through its wholly-owned subsidiary, MGM Domestic Television Distribution Inc., and NBC Enterprises, Inc. formed a new media sales company, MGM-NBC Media Sales, LLC (MGM-NBC Media Sales), to distribute off-network feature film and television series and first-run syndication programming from each company in the television barter sales markets. The joint venture recognizes income from distribution fees of ten percent earned on each company s barter sales, and incurs overhead costs to operate the joint venture, which are shared between the companies. Each company is entitled to its share of the net profits or losses of MGM-NBC Media Sales based on a contractual formula as specified in the agreement. In the year ended December 31, 2002, the Company recognized a profit of $243,000 for its share of the operating results of the joint venture.

On March 27, 2002, the Company, through its wholly-owned subsidiary, MGM Digital Development Inc. (MGM Digital), acquired a one-seventh interest in NDC, LLC (NDC), a partnership created with the six other major studios to (i) develop and/or ratify standards for digital motion picture equipment and for digital cinema technology to be used in the delivery of high quality in-theatre digital cinema, and (ii) update and deploy a limited amount of new digital motion picture equipment in theatres. MGM Digital contributed $979,000 for its initial interest in NDC. The agreement has an initial term expiring on March 27, 2004. In the year ended December 31, 2002, the Company recognized a loss of $1,020,000 representing its aggregate investment in the joint venture.

Other Investments. Until November 1, 2000, distribution in foreign theatrical and certain pay television markets was performed by United International Pictures (UIP), in which the Company had a one-third interest. The Company included 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.

On November 1, 2000, the Company contracted with Twentieth Century Fox Film Corporation (Fox) for distribution of the Company s film releases in international theatrical and non-theatrical markets in territories in which the Company owns or controls the right to perform distribution services in such territories. Under the terms of the agreement, the Company pays Fox a distribution fee based on gross film rentals.

The Company has

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the option to terminate the agreement on January 31, 2004 for a fee ranging from $10,000,000 to $15,000,000, which includes any distribution fees owed to Fox for the year prior to the termination date.

Note 5 Property and Equipment

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

	December 31, 2002	December 31, 2001
Leasehold improvements	$ 38,853	$ 28,081
Furniture, fixtures and equipment	79,858	68,115
	118,711	96,196
Less accumulated depreciation and amortization	(77,314)	(57,359)
	$ 41,397	$ 38,837

Note 6 Bank and Other Debt

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

	December 31, 2002	December 31, 2001
Revolving Facility	$	$ 159,000
Term Loans	1,150,000	668,500
Capitalized lease obligations and other borrowings	6,725	8,686
	$ 1,156,725	$ 836,186

On June 11, 2002, the Company entered into a third amended and restated credit facility with a syndicate of banks, which amended a pre-existing credit facility, aggregating $1.75 billion (the Amended Credit Facility) consisting of a five-year $600,000,000 revolving credit facility (the Revolving Facility), a five-year $300,000,000 term loan (Tranche A Loan) and a six-year $850,000,000 term loan (Tranche B Loan) (collectively, the Term Loans). The Revolving Facility and the Tranche A Loan bear interest at 2.75 percent over the Adjusted LIBOR rate, as defined (4.14 percent at December 31, 2002). The Tranche B Loan bears interest at 3.00 percent over the Adjusted LIBOR rate (4.39 percent at December 31, 2002). Scheduled amortization of the Term Loans under the Amended Credit Facility is $16,411,000 in 2003, $65,643,000 in each of 2004, 2005 and 2006, $122,786,000 in 2007 and $813,875,000 in 2008. The Revolving Facility matures on June 30, 2007. In connection with the amendment of the pre-existing credit facility, the Company expensed previously deferred financing costs aggregating approximately $12,000,000, which have been included in interest expense for the year ended December 31, 2002.

The Company s borrowings under the Amended Credit Facility are secured by substantially all the assets of the Company, with the exception of the copyrights in the James Bond series of motion pictures. 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 limits the amount of the investment in the Company which may be made by MGM Studios and Orion in the form of loans or advances, or purchases of capital stock of the Company, up to a maximum aggregate amount of $500,000,000 (or a maximum aggregate amount of $300,000,000 in the event that MGM Studios elects to release its entire investment in the Cable Channels from the loan collateral, as permitted under the Amended Credit Facility). As

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of December 31, 2002, $38,804,000 was loaned to MGM by MGM Studios to fund the purchase of treasury stock by MGM (see Note 8). Restricted net assets of MGM Studios and Orion at December 31, 2002 are approximately $2.0 billion. As of December 31, 2002, the Company was in compliance with all applicable covenants.

Production loans and other borrowings. Production loans and other borrowings relate principally to individual bank loans to fund production costs, contractual liabilities and capitalized lease obligations.

Maturity schedule. See Note 13 for maturity schedule for credit facilities, lease and other borrowings as of December 31, 2002.

Note 7 Financial Instruments

The Company is exposed to the impact of interest rate changes as a result of its variable rate long-term debt. Accordingly, the Company had previously entered into three-year fixed interest rate swap agreements whereby 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 swap agreements aggregate a notional value of $565,000,000 at an average rate of approximately 5.94 percent and expire in July 2003. Because these swap agreements carry interest rates that currently exceed the Company s borrowing rates under the Amended Credit Facility (see Note 6), the Company will recognize additional interest costs, which will be charged against future earnings. The Company has also entered into additional interest rate swap agreements for a notional value of $100,000,000 at an average pay rate of approximately 2.34 percent, which expired in January 2003. As of December 31, 2002, the Company would be required to pay approximately $13,929,000 if all such swap agreements were terminated, and this amount has been included in other liabilities and accumulated other comprehensive income (loss).

The Company is subject to market risks resulting from fluctuations in foreign currency exchange rates because approximately 25 percent of the Company s revenues are denominated, and the Company incurs certain operating and production costs, in foreign currencies. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to changes in foreign currency exchange rates that affect the value of the Company s firm commitments and certain anticipated foreign currency cash flows. The Company currently intends to continue to enter into such contracts to hedge against future material foreign currency exchange rate risks. As of December 31, 2002, the Company has outstanding foreign currency forward contracts aggregating Canadian $8,500,000 and EUR 213,000. As of December 31, 2002, the Company would be entitled to receive approximately $52,000 if all such foreign currency forward contracts were terminated, and this amount has been included in other assets and accumulated other comprehensive income (loss).

Note 8 Stockholders Equity

Private Placements. On May 26, 2000, pursuant to a Form S-3 shelf registration statement (the Shelf Registration Statement) filed with the Securities and Exchange Commission, the Company completed the sale of 4,890,000 shares of the Common Stock at $25 per share to various third party investors for aggregate net proceeds of $121,539,000. On August 15, 2000, the Company, pursuant to the Shelf Registration Statement, issued an additional 473,800 shares of the Common Stock at $25 per share to third party investors for aggregate net proceeds of

$11,845,000.

In February and March 2001, pursuant to the Shelf Registration Statement, the Company issued 16,080,590 shares of the Common Stock for aggregate net proceeds of $310,639,000. On April 2, 2001, the Company used the net proceeds from these sales to partially finance its investment in the Cable Channels (see Note 4).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On March 18, 2002, pursuant to the Shelf Registration Statement, the Company completed the sale of 10,550,000 shares of common stock of the Company at $16.50 per share, less an underwriting discount of $0.825 per share, in an underwritten public offering for aggregate net proceeds of $164,771,000. The Company used the net proceeds from the stock offering for general corporate purposes, including reduction of the revolving portion of its credit facility and financing of business operations.

Sale of Preferred Stock to Tracinda. On February 7, 2001, the Company sold 15,715,667 shares of Series B preferred stock (Preferred Stock) to Tracinda for net proceeds of $325,000,000. On April 2, 2001, the Company used the net proceeds of this sale to partially finance its investment in the Cable Channels. On May 2, 2001, upon approval of the stockholders of the Company, the Preferred Stock was converted into 15,715,667 shares of the Common Stock of the Company. Tracinda currently beneficially owns approximately 67.3 percent of the Company s outstanding Common Stock.

Treasury Stock. On January 3, 2002, certain Senior Executives of the Company, pursuant to the conversion of bonus interests payable under a Senior Management Bonus Plan, contributed 383,940 shares of the Company s common stock valued at $7,608,000 to a senior executive deferred compensation plan. These shares have been classified as treasury stock.

On July 26, 2002, the Company announced a share repurchase program authorizing the Company to purchase up to 10,000,000 shares of its common stock. The Company intends to fund the repurchase program from available cash on hand. As of December 31, 2002, the Company had repurchased 2,866,800 shares of common stock at an aggregate cost of $32,709,000.

Stock Options. Commencing in August 2002, Celsus Financial Corp., an entity wholly-owned by a director of the Company, exercised options to acquire 177,814 shares of the Company s common stock (as adjusted) at an exercise price of $5.63 per share (as adjusted).

1996 Incentive Plan. The Company has an Amended and Restated 1996 Stock Incentive Plan (the 1996 Incentive Plan), which allows for the granting of stock awards aggregating not more than 36,000,000 shares. 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). 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. Outstanding stock options under the 1996 Incentive Plan generally vest over a period of five years and are not exercisable until vested.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31, 2002		December 31, 2001		December 31, 2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	25,163,418	$ 20.30	23,675,034	$ 21.01	21,396,307	$ 20.52
Granted	5,027,300	$ 15.65	3,423,100	$ 18.05	3,116,082	$ 22.92
Exercised	(79,748)	$ 14.47	(468,905)	$ 14.80	(330,802)	$ 14.66
Cancelled or expired	(352,105)	$ 18.98	(1,465,811)	$ 28.66	(506,553)	$ 16.08
Options outstanding at end of year	29,758,865	$ 19.54	25,163,418	$ 20.30	23,675,034	$ 21.01
Options exercisable at end of year	16,905,382	$ 20.13	12,427,343	$ 19.83	9,457,039	$ 19.86

The following table summarizes information about the outstanding options as of December 31, 2002 under the 1996 Incentive Plan:

Exercise price	Outstanding Number of Options	Weighted Average Remaining Contractual Life
$10.89 $11.38	654,480	8.87
$14.90	12,384,937	5.99
$15.19 $19.94	6,869,540	8.67
$20.00 $26.63	3,249,908	7.41
$30.00	6,600,000	6.35
	29,758,865	

The Company applies APB Opinion No. 25, Accounting For Stock Issued to Employees, and related interpretations in accounting for its plan. Had compensation cost for the plan been determined consistent with FASB Statement No. 123, the Company s net income (loss) would have been the following pro forma amounts (in thousands, except per share data):

	Year Ended December 31,		
	2002	2001	2000
Net income (loss):			
As reported	$ (142,247)	$ (438,058)	$ 50,999
Pro forma	$ (189,465)	$ (479,245)	$ 16,721
Basic income (loss) per share:			
As reported	$ (0.57)	$ (1.89)	$ 0.25
Pro forma	$ (0.76)	$ (2.06)	$ 0.08
Diluted income (loss) per share:			
As reported	$ (0.57)	$ (1.89)	$ 0.24
Pro forma	$ (0.76)	$ (2.06)	$ 0.08

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, 2002,

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2001 and 2000 was $7.31, $9.26 and $12.54, respectively. The dividend yield was 0 percent in all periods, and expected volatility was 51.0 percent, 53.5 percent and 56.3 percent for the years ended December 31, 2002, 2001 and 2000, respectively. Also, the calculation uses a weighted average expected life of 5.0 years in each year, and a weighted average assumed risk-free interest rate of 4.4 percent, 4.6 percent and 6.2 percent for the years ended December 31, 2002, 2001 and 2000, respectively.

Senior Management Bonus Plan and Other Options. The Company has a Senior Management Bonus Plan (the Senior Management Bonus Plan) under which 2,420,685 bonus interests (Bonus Interests) were granted to certain senior 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.

On October 23, 2001, the Company entered into agreements with certain executives who are participants in the Senior Management Bonus Plan, pursuant to which such executives agreed to accept in lieu of cash amount otherwise payable with respect to the December 31, 2001 Determination Date, shares of the Common Stock of the Company, as determined by dividing such cash amount by the fair market value of the Common Stock (as defined). On January 2, 2002, 383,940 shares of the Common Stock were issued pursuant to these agreements. The shares issued in accordance with the agreements were deferred pursuant to the Amended and Restated MGM Deferred Compensation Plan and are not transferable by any such executive during the holding period which ends the earlier of (i) January 1, 2003, (ii) the date such executive ceases to be employed by the Company, or (iii) a designated change in control, as defined. In addition, on November 21, 2001 and February 15, 2002 the Company entered into similar agreements with three former executives who also held bonus interests under the Senior Management Bonus Plan. The 1,022,813 shares of the Common Stock issued to such former executives in accordance with the aforementioned agreement were sold on the open market in accordance with a trading plan that complies with the Securities Exchange Act of 1934, as amended, or pursuant to a Registration Statement on Form S-3 filed with the Securities and Exchange Commission.

At December 31, 2002, there were 187,853 Bonus Interests outstanding, all of which are vested.

Pursuant to an employment termination agreement, in August 1999 the Company repriced stock options of a former executive officer aggregating 1,745,680 shares. Such options were repriced to $14.90 and became fully vested and exercisable. These options are being accounted for as a variable option grant.

During the year ended December 31, 2002, the Company recognized a benefit under these plans of $12,111,000 due to the decrease in the market price of the Company s common stock. The Company has

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METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expensed $4,371,000 and $2,650,000 for obligations under these plans for the years ended December 31, 2001 and 2000, respectively. There are no amounts accrued under these plans at December 31, 2002. At December 31, 2001, the Company had accrued $45,814,000 for these obligations.

Employee Incentive Plan. In January 2000 the Company approved the adoption of an employee incentive plan (the Employee Incentive Plan) for eligible employees (the Participants), subject to stockholder approval, which was obtained May 4, 2000. In the case of certain named executive officers of the Company (the Named Executive Officers), bonus awards are determined solely by the Compensation Committee of the Board of Directors (the Committee) as follows: (i) objective performance goals, bonus targets and performance measures are pre-established by the Committee at a time when the actual performance relative to the goal remains substantially uncertain and may be based on such objective business criteria as the Committee may determine, including film performance and EBITDA, among others; (ii) the Committee may exercise discretion to reduce an award to a Named Executive Officer by up to 25% so long as such reduction does not result in an increase in the amount of the bonus of any other Participant; and (iii) prior to the payment of any bonus to any of the Named Executive Officers, the Committee will certify to the Company s Board of Directors or the Executive Committee that the objective pre-established performance goals upon which such bonus is based have been attained and that the amount of each bonus has been determined solely on the basis of the attainment of such goals (subject to the exercise of the negative discretion discussed above). The Company has expensed $2,750,000 and $13,335,000 for obligations under this plan for the years ended December 31, 2002 and 2001, respectively.

Additionally, the Company issued a stock bonus to certain employees aggregating $2,154,000 in the year ended December 31, 2000.

Note 9 Income Taxes

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

	December 31, 2002	December 31, 2001
Current	$ 33,030	$ 31,865
Deferred		
	$ 33,030	$ 31,865

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The income tax effects of temporary differences between book value and tax basis of assets and liabilities are as follows (in thousands):

	December 31, 2002	December 31, 2001
Deferred tax assets:		
Film and television costs	$ 379,984	$ 289,621
Participations and residuals payable	33,037	28,924
Reserves and investments	59,438	61,897
Net miscellaneous tax assets	44,422	48,281
Operating loss carryforwards	181,970	161,122
Subtotal, gross deferred tax assets	698,851	589,845
Valuation allowance	(443,157)	(372,542)
Total deferred tax assets	255,694	217,303
Deferred tax liabilities:		
Film revenue	(73,266)	(48,498)
Purchased film costs	(21,415)	(23,794)
Goodwill	(13,553)	(9,839)
Acquired partnership interests	(147,460)	(135,172)
Total deferred tax liabilities	(255,694)	(217,303)
Net deferred tax liability	$	$

At December 31, 2002, the Company and its subsidiaries for U.S. federal income tax purposes had a net operating loss carryforward of $466,589,000, which expires in various years between 2011 and 2022. 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, 2002 and 2001, the Company has determined that deferred tax assets in the amount of $443,157,000 and $372,542,000 do not satisfy the recognition criteria set forth in SFAS No. 109, Accounting for Income Taxes. Accordingly, the Company has recorded valuation allowances for these amounts.

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

	Year Ended December 31,		
	2002	2001	2000
Current taxes:			
Foreign taxes	$ 14,687	$ 14,297	$ 12,480
Federal and state taxes			1,000
Deferred taxes:			
Federal and state taxes	(70,615)	23,820	(27,734)
Adjustment for change in valuation allowance	70,615	(23,820)	27,734
Total tax provision	$ 14,687	$ 14,297	$ 13,480

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Year Ended December 31,		
	2002	**2001**	**2000**
Federal tax rate on pre-tax book income (loss)	(35)%	(35)%	35%
Goodwill and other permanent differences	(2)	1	9
Foreign taxes, net of available federal tax benefit	8	2	14
Loss carryforward and other tax attributes (benefited) not benefited	41	35	(37)
Effective tax rate	12 %	3 %	21%

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 Opinion No. 23, Accounting For Income Taxes-Special Areas, tax expense has accordingly been provided for these unremitted earnings.

Note 10 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. The Company s disclosures are in accordance with SFAS No. 132, Employers Disclosures about Pensions and Other Post-retirement Benefits, which revised employers disclosures about pension and post-retirement benefit plans.

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2000, the Company amended the Basic Plan to cease benefit accruals. 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, 2002	December 31, 2001
Projected benefit obligations:		
Beginning obligations	$ 15,713	$ 14,542
Service cost		
Interest cost	1,127	1,072
Actuarial loss	1,508	465
Benefits paid	(1,080)	(366)
Ending obligations	$ 17,268	$ 15,713
Fair value of plan assets (primarily debt securities):		
Beginning fair value	$ 14,765	$ 14,688
Actual return on plan assets	(1,422)	(174)
Employer contributions	1,083	617
Benefits paid	(1,080)	(366)
Ending fair value	$ 13,346	$ 14,765
Funded status of the plans:		
Projected benefit obligations	$ 17,268	$ 15,713
Plan assets at fair value	13,346	14,765
Projected benefit obligations in excess of plan assets	(3,922)	(948)
Unrecognized net asset as of beginning of year	(61)	(81)
Unrecognized net loss	6,056	2,095
Unrecognized prior service credit	(93)	(107)
Net balance sheet asset	$ 1,980	$ 959
Key assumptions used in the actuarial computations were as follows:		
Discount rate	7.25%	7.25%
Long-term rate of return on assets	7.25%	7.25%
Rate of increase in future compensation levels	N/A	N/A

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.

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pension cost includes the following components (in thousands):

	Year Ended December 31,		
	2002	**2001**	**2000**
Service cost	$	$	$ 1,459
Interest cost on projected benefit obligation	1,127	1,072	1,230
Expected return on plan assets	(1,058)	(1,080)	(1,210)
Net amortization and deferral	(7)	(34)	(34)
Recognized curtailment gain			(1,588)
Net periodic pension (benefit) cost	$ 62	$ (42)	$ (143)

A significant number of the Company s production employees are covered by union sponsored, collectively bargained multi-employer pension plans. The Company contributed approximately $17,487,000, $11,541,000 and $11,577,000, respectively, for such plans for the years ended December 31, 2002, 2001 and 2000. 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 $3,536,000, $2,653,000 and $1,285,000, respectively, to the Savings Plan in the years ended December 31, 2002, 2001 and 2000.

Note 11 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 1998. Pursuant to the license, as amended, MGM Grand Inc. (now known as MGM MIRAGE) 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. The Company did not receive any monetary compensation for this license. In June 2000, in consideration of the payment to the Company of an annual royalty of $1,000,000, such license was further amended to permit MGM Grand, Inc. to use the letters MGM combined with the name Mirage in the same manner and to the same extent that it was permitted theretofore to use the name MGM Grand. Tracinda owns a majority of the outstanding common stock of MGM MIRAGE, the parent of MGM Grand Hotel, Inc. (Grand Hotel). In consideration of this further grant of rights, MGM MIRAGE paid the Company $1,000,000 in each of the years ended December 31, 2002, 2001 and 2000. Subsequent annual payments are due on each anniversary date thereafter. 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. In addition, the Company makes available to Grand Hotel approximately 20 seats for casino guests at certain premieres of the Company s motion pictures. The Company did not receive any monetary compensation for the use of these assets.

The Company periodically 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

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company s trademarks and logos for resale to consumers in retail shops located within Grand Hotel s hotels. In December 2000, pursuant to a Merchandise License Agreement, the Company granted a subsidiary of MGM MIRAGE the right to use certain of the Company s trademarks and logos in connection with the retail sale of merchandise at MGM MIRAGE s properties. The Company receives royalties based on retail sales of the licensed merchandise. The agreement has a term of five years, subject to the MGM MIRAGE s right to extend the term for one additional five-year period and its option to terminate the agreement at any time upon 60 days notice. During the years ended December 31, 2002, 2001 and 2000, the Company recognized licensing and royalty revenues of $4,000, $9,000 and $6,000, respectively.

In July 2001, the Company entered into an agreement with Grand Hotel for the licensing of the MGM logo on slot machines for a one year term. The Company recognized licensing revenue of $200,000 during the year ended December 31, 2001 with respect to this agreement.

From time to time, the Company charters airplanes from MGM MIRAGE and 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, 2002, 2001 and 2000, the aggregate of the payments made to MGM MIRAGE and/or Tracinda for such charters were approximately $79,000, $271,000 and $98,000, respectively.

From time to time, the Company reserves hotel rooms from MGM MIRAGE for use by key exhibitors. For the years ended December 31, 2002 and 2001, the aggregate amount paid by the Company for such rooms was approximately $465,000 and $32,000, respectively.

In 1994, in connection with the formation of Movie Network Channels, a joint venture in which the Company has a non-controlling interest, 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 television. The agreement expires on June 30, 2005, with all motion pictures covered by the agreement reverting to the Company within one year after that date, but both the Company and Movie Network Channels have the right to extend the license for a further four years. The Company receives a license fee for each picture that is based on the number of Movie Network Channel s subscribers. The Company recognized such license fee revenues of $4,014,000, $3,249,000 and $3,273,000 during the years ended December 31, 2002, 2001 and 2000, 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.

The Company, under various agreements, licenses the right to distribute certain motion picture and television product in the domestic television market to the Rainbow Media cable channels, in which the Company acquired a 20 percent equity interest on April 2, 2001. During the years ended December 31, 2002 and 2001, the Company recognized revenues of $4,768,000 and $6,158,000, respectively, under these licensing arrangements. The Company believes that the terms of these agreements are no less favorable to the Company than those contained in its licenses with unaffiliated licensees.

The Company has equity interests ranging from five percent to 50 percent in certain television channels located in various international territories, in which the Company licenses certain library pictures and theatrical motion pictures and television series, miniseries and made-for-television movies produced or distributed by the Company during the terms of the agreements. The Company recognized aggregate license fees under these agreements of $22,804,000, $24,107,000 and $23,861,000 during the years ended December 31, 2002, 2001 and 2000, respectively.

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has a 50 percent equity interest in MGM-NBC Media Sales (see Note 4) to distribute off-network feature films and television series and first-run syndication programming from both the Company and NBC Enterprises, Inc. in the television barter sales markets. In the year ended December 31, 2002, the Company incurred a sales agency fee to MGM-NBC Media Sales of $1,298,000. At December 31, 2002, the Company has a receivable from MGM-NBC Media Sales of $11,661,000 for the distribution of its product and certain administration charges.

In December 1999, the Company agreed to provide a production company owned by Mr. Coppola, a director of the Company and a member of the Company s Executive Committee, certain office space and office furnishings/equipment at no charge for a two-year period, as consideration for creative services provided by Mr. Coppola in connection with certain of the Company s film product.

In March 2000, the Company entered into an agreement in principle with a subsidiary of American Zoetrope (Zoetrope), a production company owned by Mr. Coppola, for the financing and distribution in the United States and Canada of lower budget theatrical motion pictures to be produced by Zoetrope over a three-year period. This Agreement was scheduled to expire on March 3, 2003, but has been extended for six months until September 3, 2003. Under the agreement, the Company has an exclusive first look on projects developed by Zoetrope with a budget (or anticipated budget) of less than $12,000,000 and, subject to certain conditions being met, the Company will acquire distribution rights in the United States and Canada as well as certain other ancillary rights on up to ten qualifying pictures produced by Zoetrope in exchange for an amount equal to no more than $2,500,000 per picture. In addition, the Company has agreed to spend a minimum of between approximately $1,000,000 to $2,250,000 per qualifying picture in marketing and release costs.

Another motion picture studio has acquired the right, for a designated period of time, from the Company to produce a motion picture. The Company has retained the option to either co-finance such motion picture or receive a rights fee and passive profit participation. Ms. Presley, a director of the Company, is a producer of such contemplated motion picture.

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Segment Information

The Company applies the disclosure provisions of SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. The Company s business units have been aggregated into four reportable operating segments: feature films, television programming, cable channels and other (see Note 1). Due to the significant acquisitions of cable channels in 2001, the Company has separated cable channels as a reportable operating segment. 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. Income or losses of industry segments and geographic areas, other than those accounted for under the equity method, 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. In 2002, upon adoption of SFAS No. 142, the Company has allocated goodwill of $516,706,000 to its operating segments ($475,201,000 to feature films and $41,505,000 to television programming). In prior years, goodwill was included in corporate assets and not allocated to segments. Other corporate assets consist of cash and certain corporate receivables. Summarized financial information concerning the Company s reportable segments is shown in the following tables (in thousands):

	Year Ended December 31,		
	2002	**2001**	**2000**
Revenues:			
Feature films	$ 1,416,947	$ 1,217,969	$ 1,058,296
Television programming	171,220	137,967	139,229
Cable channels	113,066	77,674	32,744
Other	64,393	31,595	39,922
Subtotal	1,765,626	1,465,205	1,270,191
Less: unconsolidated companies	(111,524)	(77,674)	(32,744)
Consolidated revenues	$ 1,654,102	$ 1,387,531	$ 1,237,447
Segment Income (Loss):			
Feature films	$ (40,052)	$ 101,842	$ 200,478
Television programming	4,902	12,715	(2,649)
Cable channels	12,850	(4,140)	953
Other	40,047	15,800	18,768
Subtotal	17,747	126,217	217,550
Less: unconsolidated companies	(13,561)	2,421	(1,953)
Consolidated segment income	$ 4,186	$ 128,638	$ 215,597
Identifiable Assets:			

Feature films	$ 2,640,294	$ 2,183,488	$ 2,479,639
Television programming	369,723	334,886	401,776
Cable channels	620,644	845,042	12,403
Other	12,349	9,857	14,772
Consolidated segment assets	$ 3,643,010	$ 3,373,273	$ 2,908,590

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31,		
	2002	**2001**	**2000**
Capital Expenditures:			
Feature films	$ 20,141	$ 8,554	$ 10,493
Television programming	2,820	1,312	1,700
Other	94	39	66
Consolidated capital expenditures	$ 23,055	$ 9,905	$ 12,259
Depreciation Expense:			
Feature films	$ 17,880	$ 15,733	$ 11,909
Television programming	2,504	2,414	1,930
Cable channels	5,174	1,115	311
Other	83	71	74
Subtotal	25,641	19,333	14,224
Less: unconsolidated companies	(5,174)	(1,115)	(311)
Consolidated segment depreciation	$ 20,467	$ 18,218	$ 13,913

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

	Year Ended December 31,		
	2002	**2001**	**2000**
Licensing and merchandising	$ 7,754	$ 6,460	$ 5,666
Interactive media	9,859	3,586	9,381
Music	8,175	7,593	6,111
Other	14,259	(1,839)	(2,390)
	$ 40,047	$ 15,800	$ 18,768

The following is a reconciliation of reportable segment income (loss) to income (loss) from operations before provision for income taxes:

	Year Ended December 31,

	2002	2001	2000
Segment income	$ 4,186	$ 128,638	$ 215,597
General and administrative expenses	(84,857)	(92,692)	(89,419)
Severance and related recoveries			3,715
Depreciation and non-film amortization	(20,467)	(32,952)	(28,648)
Operating income (loss)	(101,138)	2,994	101,245
Gain on sale of equity interest in cable channel	32,514		
Equity in net earnings (losses) of affiliates	13,561	(2,421)	1,953
Interest expense, net of amounts capitalized	(79,929)	(51,494)	(51,425)
Interest and other income, net	7,432	9,478	12,706
Income (loss) from operations before provision for income taxes	$ (127,560)	$ (41,443)	$ 64,479

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Year Ended December 31,		
	2002	2001	2000
Total assets for reportable segments	$ 3,643,010	$ 3,373,273	$ 2,908,590
Goodwill not allocated to segments		516,706	531,440
Other unallocated amounts (principally cash in 2002)	625,964	33,185	108,160
Consolidated total assets	$ 4,268,974	$ 3,923,164	$ 3,548,190

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:

	Year Ended December 31,		
	2002	2001	2000
United States and Canada	$ 1,101,624	$ 872,056	$ 669,158
Europe	366,918	364,663	372,308
Asia and Australia	123,415	97,925	138,672
Other	62,145	52,887	57,309
	$ 1,654,102	$ 1,387,531	$ 1,237,447

Note 13 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 $20,511,000, $18,499,000 and $17,264,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Employment Agreements. The Company has employment agreements with various 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 2006.

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum annual commitments under bank and other debt agreements, non-cancelable operating leases, employment agreements, creative talent agreements and letters of credit as of December 31, 2002 are as follows (in thousands):

	2003	2004	2005	2006	2007	Thereafter	Total
Bank and other debt	$ 22,471	$ 66,308	$ 65,643	$ 65,643	$ 122,785	$ 813,875	$ 1,156,725
Operating leases	21,182	24,611	24,988	25,493	26,268	252,425	374,967
Employment agreements	41,628	24,229	7,390				73,247
Creative talent agreements	20,010	2,126	1,307	765			24,208
Letters of credit	20,038	90					20,128
Total	$ 125,329	$ 117,364	$ 99,328	$ 91,901	$ 149,053	$ 1,066,300	$ 1,649,275

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.

The Company has provided an accrual for pending litigation as of December 31, 2002 in accordance with SFAS No. 5, Accounting for Contingencies. In the opinion of Company management, any liability under pending litigation is not expected to be material in relation to the Company s financial condition or results of operations.

Note 14 Supplementary Cash Flow Information

The Company paid interest, net of capitalized interest, of $63,211,000, $43,833,000 and $43,936,000 during the years ended December 31, 2002, 2001 and 2000, respectively. The Company paid income taxes of $13,237,000, $14,751,000 and $12,829,000 during the years ended December 31, 2002, 2001 and 2000, respectively.

During the year ended December 31, 2002, the Company contributed 1,406,753 shares of common stock aggregating $27,616,000 to participants of the Senior Management Bonus Plan (see Note 8). During the year ended December 31, 2000, the Company issued to certain employees a stock grant of 47,300 shares of common stock valued at $2,154,000.

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15 Quarterly Financial Data (Unaudited)

Certain quarterly information is presented below (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002:				
Revenues	$ 315,128	$ 336,923	$ 381,156	$ 620,895
Operating income (loss)	$ (66,398)	$ (99,253)	$ 23,732	$ 40,781
Interest expense, net of amounts capitalized	$ (16,095)	$ (26,530)	$ (18,107)	$ (19,197)
Net income (loss)	$ (90,792)	$ (121,809)	$ 11,695	$ 58,659
Basic and diluted income (loss) per share	$ (0.37)	$ (0.48)	$ 0.05	$ 0.24
2001:				
Revenues	$ 343,896	$ 274,859	$ 393,310	$ 375,466
Operating income (loss)	$ (9,321)	$ (43,946)	$ 969	$ 55,292
Interest expense, net of amounts capitalized	$ (9,453)	$ (13,475)	$ (14,287)	$ (14,279)
Cumulative effect of accounting change	$ (382,318)	$	$	$
Net income (loss)	$ (399,839)	$ (61,305)	$ (15,975)	$ 39,061
Basic and diluted income (loss) per share, before cumulative effect of accounting change	$ (0.08)	$ (0.26)	$ (0.07)	$ 0.16
Basic and diluted income (loss) per share	$ (1.86)	$ (0.26)	$ (0.07)	$ 0.16
2000:				
Revenues	$ 338,995	$ 294,486	$ 311,777	$ 292,189
Operating income	$ 19,917	$ 18,169	$ 36,669	$ 28,443
Interest expense, net of amounts capitalized	$ (14,893)	$ (14,722)	$ (12,583)	$ (9,227)
Net income	$ 5,215	$ 6,294	$ 27,115	$ 12,375
Basic and diluted income per share	$ .03	$ .03	$ .13	$ .06

The Company adopted SOP 00-2 on January 1, 2001 and recorded a one-time, non-cash cumulative effect charge to earnings of $382,318,000, primarily to reduce the carrying value of its film and television costs (see Note 1).

The Company regularly reviews, and revises when necessary, its total revenue estimates on an individual title basis. These revisions can result in significant quarter-by-quarter fluctuations in film write-downs and amortization. The results of operations for the fourth quarter of 2001 were positively impacted by reduced film amortization rates due to a significant increase in digital video disc revenues and new television licensing agreements. The favorable impact of these items was partially offset by advertising costs incurred for unreleased film product as of December 31, 2001, which in 2001 are required to be expensed under the new accounting rules. The net favorable impact of these items on our operating income in the fourth quarter of 2001 aggregated approximately $12,504,000.

INDEPENDENT AUDITORS REPORT

The Members

American Movie Classics Company, The Independent Film Channel LLC and Bravo Company:

We have audited the accompanying combined balance sheets of American Movie Classics Company (a general partnership) and subsidiaries, The Independent Film Channel LLC (a limited liability company) and subsidiaries, and Bravo Company (collectively, the Company), as of December 31, 2002 and 2001, and the related combined statements of income, members capital (deficiency) and cash flows for each of the years in the three-year period ended December 31, 2002. These combined financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Company at December 31, 2002 and 2001, and the combined results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

March 31, 2003

Melville, New York

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES,

THE INDEPENDENT FILM CHANNEL LLC AND SUBSIDIARIES, AND

BRAVO COMPANY

COMBINED BALANCE SHEETS

DECEMBER 31, 2002 and 2001

(in thousands)

	2002	2001
ASSETS		
Current assets:		
Cash	$ 33,830	$ 49,740
Trade accounts receivable (less allowance for doubtful accounts of $18,244 and $5,289)	66,684	83,574
Trade accounts receivable affiliates, net of allowance for doubtful accounts	722	1,028
Other receivables affiliates, net of allowance for doubtful accounts	620	642
Notes receivable affiliates	90,178	75,983
Prepaid expenses and other current assets	5,365	8,387
Current feature film inventory, net	65,455	71,077
Total current assets	262,854	290,431
Long-term feature film inventory, net	226,011	338,751
Plant and equipment, net	20,101	25,854
Deferred carriage fees, net	111,232	158,328
Deferred costs, net of accumulated amortization of $837 and $3,131	163	1,152
Other intangible assets, net of accumulated amortization of $122,399 and $107,854	23,046	37,591
Excess costs over the fair value of net assets acquired, net of accumulated amortization of $3,396 at December 31, 2001	1,574	1,574
	$ 644,981	$ 853,681
LIABILITIES AND MEMBERS CAPITAL		
Current liabilities:		
Accounts payable	$ 7,161	$ 24,398
Accrued payroll and related costs	20,279	14,707
Other accrued expenses	9,355	10,530
Accounts payable affiliates, net	6,131	7,720
Feature film rights payable, current	60,571	57,115
Deferred carriage fees payable	11,731	13,306
Capital lease obligations, current	3,008	4,415
Total current liabilities	118,236	132,191
Feature film rights payable, long-term	162,913	250,352
Capital lease obligations, long-term	6,068	12,829
Total liabilities	287,217	395,372

Commitments and contingencies		
Members capital	357,764	458,309
	$ 644,981	$ 853,681

See accompanying notes to combined financial statements.

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AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES,

THE INDEPENDENT FILM CHANNEL LLC AND SUBSIDIARIES, AND

BRAVO COMPANY

COMBINED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2002, 2001 and 2000

(in thousands)

	2002	2001	2000
Revenues, net (including affiliate amounts of $12,585, $12,405, and $13,191)	$ 488,899	$ 419,523	$ 353,461
Operating expenses:			
Technical and operating (including affiliate amounts of $15,302, $15,523, and $13,728)	154,646	141,317	116,911
Selling, general and administrative (including affiliate amounts of $39,689, $27,411, and $38,744)	155,260	132,694	143,278
Depreciation and amortization	23,058	22,462	25,244
	332,964	296,473	285,433
Operating income	155,935	123,050	68,028
Other income (expense):			
Interest expense	(3,253)	(9,941)	(30,443)
Interest income	3,600	5,885	119
Gain on sale of programming division			5,716
Miscellaneous, net	(1,332)	86	(206)
Write-off of deferred financing costs	(3,120)	(1,053)	
	(4,105)	(5,023)	(24,814)
Net income	$ 151,830	$ 118,027	$ 43,214

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES,

THE INDEPENDENT FILM CHANNEL LLC AND SUBSIDIARIES, AND

BRAVO COMPANY

COMBINED STATEMENTS OF MEMBERS CAPITAL (DEFICIENCY)

YEARS ENDED DECEMBER 31, 2002, 2001 and 2000

(in thousands)

	RMH	MGM	TOTAL
Balance, December 31, 1999	$ (161,419)	$	$ (161,419)
Contributions	12,785		12,785
Net income	43,214		43,214
Distributions	(73,992)		(73,992)
Balance, December 31, 2000	(179,412)		(179,412)
Contributions	21,299		21,299
Acquisition of members interests		825,000	825,000
Net income	100,191	17,836	118,027
Adjustment of members capital	751,174	(751,174)	
Distributions	(326,605)		(326,605)
Balance, December 31, 2001	366,647	91,662	458,309
Disposition of Bravo Company	(77,313)	(19,328)	(96,641)
Net income	122,273	29,557	151,830
Distributions	(125,396)	(30,338)	(155,734)
Balance, December 31, 2002	$ 286,211	$ 71,553	$ 357,764

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES,

THE INDEPENDENT FILM CHANNEL LLC AND SUBSIDIARIES, AND

BRAVO COMPANY

COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002, 2001 and 2000

(in thousands)

	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 151,830	$ 118,027	$ 43,214
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	22,953	22,462	25,244
CSC stock appreciation rights plan (benefit) expense allocations	(4,042)	(9,162)	12,785
Amortization of feature film inventory	76,625	69,329	53,398
Amortization of deferred carriage fees	22,484	5,923	6,849
Amortization and write-off of deferred costs	3,748	1,477	675
Gain on sale of programming division			(5,716)
Changes in assets and liabilities, net of effect of disposition:			
Trade accounts receivable, net	(12,201)	(27,468)	(17,101)
Trade accounts receivable affiliates, net	306	16,392	(4,812)
Other receivables affiliates, net	(3,400)	5,804	(5,832)
Prepaid expenses and other current assets	(1,107)	(3,829)	(4,781)
Feature film inventory	(152,674)	(140,009)	(66,510)
Deferred carriage fees	(16,078)	(145,337)	(4,435)
Accounts payable and accrued expenses	(1,357)	(8,465)	(177)
Accounts payable affiliates, net	637	(5,576)	(1,986)
Deferred carriage fees payable	4,880	6,225	3,694
Feature film rights payable	69,081	59,650	(15,420)
Net cash provided by (used in) operating activities	161,685	(34,557)	19,089
Cash flows (used in) provided by investing activities:			
Capital expenditures	(6,359)	(4,588)	(3,695)
Loan to affiliate	(124,355)	(90,246)	
Repayment of loan by affiliate	110,338	15,616	
Net proceeds from sale of programming division		4,000	8,828
Net cash (used in) provided by investing activities	(20,376)	(75,218)	5,133
Cash flows (used in) provided by financing activities:			
Proceeds from bank debt		425,000	114,225
Repayment of bank debt		(784,322)	(64,359)
Acquisition of members interests		825,000	
Distributions to members, net	(150,000)	(302,195)	(70,000)
Principal payments on capital lease obligation	(4,291)	(3,996)	(4,133)

Financing costs on bank debt	(2,928)		(9)
Net cash (used in) provided by financing activities	(157,219)	159,487	(24,276)
Net (decrease) increase in cash	(15,910)	49,712	(54)
Cash at beginning of year	49,740	28	82
Cash at end of year	$ 33,830	$ 49,740	$ 28

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES,

THE INDEPENDENT FILM CHANNEL LLC AND SUBSIDIARIES, AND

BRAVO COMPANY

NOTES TO COMBINED FINANCIAL STATEMENTS

(dollars in thousands)

1. Summary of Significant Accounting Policies

Description of Business

American Movie Classics Company and subsidiaries (AMCC) is a general partnership organized as of January 1, 1987 under the provisions of New York State Partnership Law. The Independent Film Channel LLC and subsidiaries (IFC) is a limited liability company organized as of October 4, 2000 under the provisions of Delaware State Law. IFC was formerly a subsidiary of Bravo Company, a general partnership. Bravo Company (Bravo), distributed its interest in IFC and its subsidiaries immediately prior to the sale of Bravo on December 7, 2002. AMCC, IFC, and, through December 7, 2002, Bravo (collectively, the Company) are operated as an integral part of Rainbow Media Holdings, Inc. (RMH). RMH is a wholly owned subsidiary of Cablevision Systems Corporation (CSC).

The Company produces, markets and distributes the American Movie Classics (AMC), WE: Women s Entertainment (WE), Independent Film Channel, and through December 7, 2002, Bravo services to the pay television industry located throughout the United States. Accordingly, the Company considers itself to be operating in a single industry segment.

On January 4, 2001, Bravo assigned its interests in certain developmental subsidiaries, including IFC Productions, LLC, Next Wave Films, LLC, IFC Theatres, LLC and IFC Films, LLC (collectively the Assigned Entities) to RMH. Bravo accounted for this transaction as a capital contribution from RMH as the then net book value of the Assigned Entities was a net liability. On April 2, 2001, a subsidiary of Metro-Goldwyn-Mayer, Inc. (MGM) acquired a 20% interest in AMCC and Bravo as they existed on such date for $825 million. All revenues and expenses subsequent to this date are allocated 80% to RMH and 20% to MGM except for certain stock-related incentive plans as described in footnote 6.

On December 7, 2002, National Broadcasting Company (NBC) completed its acquisition of Bravo from RMH pursuant to an Agreement and Plan of Merger and Exchange, as amended (the Agreement). Simultaneously, NBC acquired MGM s 20% interest in Bravo.

Principles of Combination and Basis of Presentation

The accompanying combined financial statements include the accounts of AMCC, IFC, and through December 7, 2002, Bravo. These combined financial statements of AMCC, IFC and Bravo have been prepared to reflect those entities in which MGM holds a minority interest. All significant intercompany transactions and balances are eliminated in combination.

Revenue Recognition

The Company recognizes subscriber revenue when programming services are provided to cable television systems or other pay television operators. Advertising revenue is recognized when commercials are telecast.

Costs of Revenue

Costs of revenue related to sales of programming services including, but not limited to, license fees and production costs, are classified as technical and operating expenses in the accompanying statements of income.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES,

THE INDEPENDENT FILM CHANNEL LLC AND SUBSIDIARIES, AND

BRAVO COMPANY

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)

Advertising Expenses

Advertising costs are charged to expense when incurred. Advertising costs were $62,530, $58,954 and $61,074 for the years ended December 31, 2002, 2001 and 2000, respectively.

Feature Film Inventory

Rights to feature film inventory acquired under license agreements along with the related obligations are recorded at the contract value when a license agreement is executed or the license period has begun. Costs are amortized to technical and operating expense on the straight-line basis over the respective license periods throughout the contract term. Feature film inventory is stated at the lower of cost less accumulated amortization or net realizable value. Estimated future revenues and planned airings are reviewed regularly and write-downs to net realizable value are made as required. Estimates of total gross revenues can change due to a variety of factors, including the level of advertising rates and subscriber fees. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted as necessary. Feature film inventory to be amortized within one year are classified as current assets while contract amounts payable within one year are classified as current liabilities. License periods generally range from one to five years. Perpetual television exhibition rights acquired under certain purchase agreements were recorded at the present value of the obligations (with the remainder recorded as imputed interest) and were being amortized over a period of eighteen years. On December 14, 2000, these perpetual television exhibition rights purchase agreements were assigned to RMH. The assignment of the net book value of the assets and the related obligations of $3,992 was recorded as a partner distribution.

Amounts payable subsequent to December 31, 2002, relating to feature film telecast rights, which are reflected on the accompanying combined balance sheet, amount to $60,571 in 2003, $48,398 in 2004, $35,618 in 2005, $23,699 in 2006, $18,285 in 2007 and $36,913 thereafter.

Long-Lived Assets

Plant and equipment are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation on plant and equipment is calculated on the straight-line basis over the estimated useful lives of the assets or, with respect to equipment under capital leases and leasehold improvements, amortized over the shorter of the lease term or the assets useful lives.

Intangible assets established in connection with the acquisition of interests in the AMCC in 1994 and 1995 consist of affiliation agreements, feature film intangibles and excess costs over fair value of net assets acquired. Affiliation agreements represent the value assigned to agreements with cable systems to carry the AMC service, and are amortized over a 10-year period on the straight-line basis. Feature film intangibles represent the value assigned to agreements with film distributors for the rights to exhibit films on the AMC service, and are amortized over a 6-year period on the straight-line basis. Feature film intangibles were fully amortized during 2000. Effective January 1, 2002, excess costs over fair value of net assets acquired in a purchase business combination which have indefinite useful lives are no longer amortized in connection with the adoption of Statement No. 142, Goodwill and Other Intangible Assets (see below).

In accordance with Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (see below), the Company reviews its long-lived assets (plant and equipment, and amortizable intangible assets that arose from business combinations accounted for under the purchase method) for impairment whenever

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AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES,

THE INDEPENDENT FILM CHANNEL LLC AND SUBSIDIARIES, AND

BRAVO COMPANY

NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)

events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Prior to the adoption of Statement No. 144, the Company accounted for long-lived assets in accordance with Statement No. 121, Accounting for the impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.

Deferred Carriage Fees

Deferred carriage fees primarily represent payments to multiple systems operators to guarantee carriage of the Company s programming services and are amortized to revenues, net over the period of the related guarantee (3 to 11 years).

Deferred Costs

Deferred costs consist of costs incurred to obtain debt (deferred financing costs) and costs that represent prepayments to secure transponder space on a satellite (deferred transmission costs). Deferred financing costs are amortized into interest expense over the life of the related debt. At December 31, 2002, there were no deferred financing costs reflected on the combined balance sheet as any unamortized amounts were written off in connection with the sale of Bravo (see footnote 5). Deferred transmission costs are amortized to technical and operating expense over the projected life (8-10 years) of the satellite.

Income Taxes

AMCC operates as a general partnership, IFC is treated as a general partnership, and Bravo operated as a general partnership for tax purposes; accordingly, their taxable income or loss is included in the tax returns of the individual members. The Company makes no provision for income taxes, except for unincorporated business tax which is included in other accrued expenses in the Company s combined balance sheet.

Supplemental Cash Flow Information

During 2002, in connection with the sale of Bravo, the Company had non-cash operating activities of $98,355 which included $96,641 of net assets of Bravo acquired by NBC and $1,692 in net assets distributed to affiliates of Bravo outside of the Company.

In connection with the January 4, 2001 assignment of certain subsidiaries to RMH, the Company had non-cash operating and financing activities of ($17,462) representing the net liabilities of the assigned entities and the offsetting contribution of capital. Also during 2001, the Company had non-cash financing activities that included a net capital distribution of $11,411. Proceeds from the sale of Bravo Latin America (BLA) in 2000, a division of Bravo, included $4,000 in the form of a note receivable (see footnote 2), which was collected in 2001. In 2000, the Company had non-cash operating and financing activities of $3,992 related to the assignment of the net book value of film assets and the related obligation, which was recorded as a distribution of capital.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES,

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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)

During the years ended December 31, 2002, 2001 and 2000, the Company paid cash interest expense of $1,535, $10,609, and $31,116, respectively. In addition, for each of the years ended December 31, 2002, 2001, and 2000, the Company recorded non-cash operating and financing activities related to the recognition of CSC Stock Appreciation Rights (CSC SAR Plan) expense (benefit) allocations of $(4,042), ($9,162), and $12,785, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Such estimates include, but are not limited to, provisions for doubtful accounts receivable and the net realizable value of feature film inventory.

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

Impact of New Accounting Standards

Effective January 1, 2002, the Company adopted Statement No. 142 which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement No. 142. Statement No. 142 requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement No. 144 (see below). In connection with the adoption of Statement 142, the Company ceased the amortization of goodwill that had been acquired in a purchase business combination. The Company did not record any impairment charges in connection with the implementation of Statement No. 142.

The adoption of Statement No. 142 did not have a material impact on the combined results of the Company.

Effective January 1, 2002, the Company adopted Statement No. 144 which supersedes both Statement No. 121 and the accounting and reporting provisions of Accounting Principles Board (APB) Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). Statement No. 144 provides a single accounting model for long-lived assets to be disposed of. Statement No. 144 also changes the criteria for classifying an asset as held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The adoption of Statement No. 144 did not have an impact on the Company s combined financial statements.

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(dollars in thousands)

Effective January 1, 2002, the Company adopted the provisions of the Financial Accounting Standards Board s (FASB) Emerging Issues Task Force, (EITF) No. 01-09, Accounting for the Consideration Given by a Vendor to a Customer or a Reseller of the Vendors Products. EITF No. 01-09 stipulates the criteria to be met in determining the financial statement classification of customer incentives (which includes deferred carriage fees) as either a reduction of revenue or an operating expense. Upon adoption, the Company reclassified the amortization of its deferred carriage fees as a reduction to revenues, net. This reclassification has been made for the comparable 2001 and 2000 periods. Customer incentives previously included in technical and operating expenses were correspondingly reduced such that operating income and net income were not affected.

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Statement No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of the Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of Statement No. 146 is not expected to have a material effect on the Company s financial statements.

Reclassifications

Certain reclassifications have been made to the prior year combined financial statements to conform to the current year presentation.

2. Disposition

On December 7, 2002, NBC completed its acquisition of Bravo from RMH pursuant to the Agreement. Simultaneously, NBC acquired MGM s 20% interest in Bravo. As part of the Agreement, Bravo distributed its interest in its wholly-owned subsidiary, IFC and its subsidiaries to RMH. Net assets of Bravo acquired by NBC amounted to $96,641 which is reflected as a disposition in the combined statement of members capital at December 31, 2002.

The following summary presents the Company s unaudited pro forma combined results of operations for the years ended December 31, 2002, 2001 and 2000, as if Bravo had been disposed of at the beginning of each period.

	2002	2001	2000
Revenues, net	$ 350,466	$ 291,183	$ 246,712
Net income	$ 102,611	$ 74,402	$ 12,887

The pro forma results are not necessarily indicative of what actually would have occurred if the disposition had been completed as of the beginning of each period presented, nor are they necessarily indicative of future combined results.

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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)

The pro forma net assets of the Company, assuming that Bravo had been disposed as of December 31, 2001, would have been as follows:

Total assets	$	534,824
Total liabilities	$	222,008
Members capital	$	312,816

On October 31, 2000 Bravo completed the sale of its BLA division for gross proceeds of $13,496, of which $4,000 was in the form of a note receivable. The note receivable, bearing interest at 8.5%, was paid in full in January 2001. In conjunction with the sale, Bravo entered into an agreement to cancel both its capital and operating leases on transponders covering this geographic region in 2001. As a result of these cancellations, during 2000, Bravo recognized a loss of approximately $2,686, representing lease termination penalties of $2,562 and periodic rental payments for the period the transponders will not be used. For the year ended December 31, 2000, after adjusting for the cost of the net assets sold and for the expenses associated with the divestiture, including accrued employee termination benefits of approximately $700 for eight employees, Bravo realized a gain of approximately $5,716.

3. Plant and Equipment

Plant and equipment consist of the following:

	December 31, 2002	December 31, 2001	Estimated useful lives
Program, service and test equipment	$ 20,005	$ 17,702	3 to 8 years
Origination equipment	23,994	33,498	8 to 10 years
Furniture and fixtures	8,493	7,560	5 to 8 years
Leasehold improvements	3,294	3,137	Life of lease
	55,786	61,897	
Accumulated depreciation and amortization	(35,685)	(36,043)	
	$ 20,101	$ 25,854	

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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)

4. Intangible Assets

The following table summarizes information relating to the Company s acquired intangible assets at December 31,:

	2002	2001
Gross carrying amount of amortized intangible assets		
Affiliation agreements	$ 145,445	$ 145,445
Accumulated amortization		
Affiliation agreements	122,399	107,854
Unamortized intangible assets		
Excess costs over the fair value of net assets acquired	1,574	1,574
Total intangibles	$ 24,620	$ 39,165
Aggregate amortization expense		
Twelve months ended December 31, 2002	$ 14,544	
Estimated amortization expense		
Year ending December 31, 2003	$ 14,544	
Year ending December 31, 2004	8,502	

There is no estimated amortization expense for years following December 31, 2004 as the affiliation agreements will be fully amortized during 2004.

5. Bank Debt

In March 2002, AMCC and Bravo entered into a $200,000 revolving credit facility with a group of banks. This facility amended and restated the previously existing AMCC $200,000 revolving loan. In connection with the sale of Bravo, the March 2002 credit facility was terminated by its terms; there were no outstanding borrowings at such time. The termination of the March 2002 credit facility and the previously existing AMCC loan resulted in the write-off of deferred financing costs in the amount of $3,120 which is reflected in the combined statements of income for the year ended December 31, 2002.

In 2001, AMCC had a Credit Agreement with a maturity date of March 31, 2006 and consisted of a term loan and a revolving loan with available borrowings of $225,000 and $200,000, respectively. On April 2, 2001, all outstanding debt was repaid and the term loan was cancelled.

6. Allocations and Related-Party Transactions

Notes Receivable Affiliates

Notes receivable affiliates includes loans of $90,000, plus accrued interest of $178, made by AMCC to a subsidiary of RMH. The note was entered into on December 4, 2002 and is due on the earlier of demand by AMCC or June 1, 2003 and bears interest at a rate of LIBOR plus 3% per annum. In September 2001, a note was entered into between the Company and a subsidiary of RMH which provided for payment on the earlier of demand by the Company or March 1, 2002. On February 28, 2002, this September 2001 Note was amended to extend the due date to the earlier of demand or April 30, 2002. During 2002, the Company loaned funds of $34,355 and was repaid $110,338 relating to the September 2001 Note.

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Allocations

The combined financial statements of the Company reflect the application of certain allocation policies of CSC and RMH, which are summarized below. Management believes that these allocations have been made on a reasonable basis. However, it is not practicable to determine whether the allocated amounts represent amounts that might have been incurred on a stand-alone basis, as there is no company-specific or comparable industry benchmarks with which to make such estimates. Explanations of the composition and the amounts of the more significant allocations are described below.

Corporate General and Administrative Costs

General and administrative costs, including costs of maintaining corporate headquarters, facilities and common support functions (such as human resources, legal, finance, accounting, tax, audit, treasury, strategy planning, information technology, creative and production services, etc.) have been allocated by CSC and RMH generally based upon specific usage measured by proportionate headcount or square footage. In addition, certain allocations are also based on revenues or expenses of the Company in relation to consolidated CSC or consolidated RMH. The remaining overhead, principally salaries of corporate executives, is allocated based on management s estimate of the level of effort expended on each business unit based on historical trends. Such costs allocated to the Company amounted to $27,288, $23,286 and $18,260 for the years ended December 31, 2002, 2001 and 2000, respectively, and have been included in selling, general and administrative expenses.

Related-Party Transactions

As described below, the Company provides services to and receives services from affiliates of CSC and RMH. As many of these transactions are conducted between subsidiaries under common control of CSC, amounts charged for these services have not necessarily been based upon arm s length negotiations. However, it is not practicable to determine whether the amounts charged represent amounts that might have been incurred on a stand-alone basis for the Company.

The Company distributes programming to the pay television industry under contracts called affiliation agreements. Revenues earned under affiliation agreements with companies owned by or affiliated with CSC for the years ended December 31, 2002, 2001 and 2000 were approximately $11,720, $11,420, and $12,738, respectively.

RMH pays the Company for advertising revenue earned in connection with an agreement between RMH and a third party entered into during 2000. Such revenues were $608, $583, and $453 for the years ended December 31, 2002, 2001, and 2000, respectively. In addition, the Company earned $257 and $402 for the years ended December 31, 2002 and 2001, respectively, for advertising revenue earned from subsidiaries of RMH; no amounts were earned in 2000.

The Company has the right to exhibit and promote films under contracts between the Company and RMH for films either licensed or owned by RMH. Amounts charged to the Company under these contracts amounted to $496 and $592 for the years ended December 31, 2002 and 2001, respectively.

CSC and the Company may enter into agreements with third party service providers in which the amounts paid by CSC or the Company may differ from the amounts that CSC or the Company would otherwise pay if

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(dollars in thousands)

such arrangements were on an arm s-length basis. These arrangements are in return for the service provider s or its affiliate s agreement to make payments or provide services to CSC or the Company on a basis more or less favorable than either CSC or the Company would otherwise obtain. Where the Company has received the benefits of CSC s negotiations in the form of increased affiliation payments or discounted license fees, CSC charges the Company the amount of the benefit. In one such agreement, the Company has recorded charges from CSC relating to increased affiliation payments amounting to $14,000 in 2002, 2001 and 2000, which has been reflected as a reduction of the Company s affiliation revenue. In another such agreement, CSC entered into an affiliation agreement with a provider that resulted in higher rates per subscriber charged to CSC than those under a previous agreement. As part of the negotiations, the service provider agreed to amend the existing film license agreement with the Company with both reduced license fees and a revised list of film titles licensed. Since the Company received the benefit of CSC s negotiations in the form of discounted license fees, CSC charged the Company $10,000, which was treated as a cost to acquire the rights to the revised list of film titles and was classified as feature film inventory. Amortization of this charge over the remaining license period has been reflected as increased film licensing costs of $1,622 in 2002, 2001, and 2000, respectively, which has been included in technical and operating expenses from continuing operations.

Rainbow Network Communications (RNC), an affiliate of the Company, provides certain transmission and production services to the Company. The Company was charged approximately $13,184, $13,309 and $12,106 in 2002, 2001 and 2000, respectively, for these services. The Company has entered into agreements that allow RNC to continue providing these services through 2006. Future cash payments required under these agreements amount to $5,889 in 2003, $6,178 in 2004, $3,522 in 2005, and $3,674 in 2006.

Under contractual agreements, CSC provides certain management services to the Company. These agreements provide for payment, in addition to expense reimbursement, of an aggregate fee of 3.5% of AMCC s gross revenues, as defined. The agreements are automatically renewable every five years at the option of CSC. Pursuant to the terms of these agreements, the Company was charged management fees of $10,793, $9,207, and $7,699 in 2002, 2001, and 2000, respectively.

CSC allocates to the Company its proportionate share of expenses or benefits related to the CSC SAR Plan and other incentive plans. For the years ended December 31, 2002, 2001 and 2000, the Company recorded a net expense (benefit) of approximately $1,608, ($5,082), and $12,785, respectively, for its proportionate share of the CSC SAR Plan expense (benefit) (($4,042), ($9,162), and $12,785, respectively) and other incentive plans (benefit) expense of (($5,650) and $4,080, for the years ended December 31, 2002 and 2001, respectively). Such amounts are recorded as administrative expenses in the accompanying combined statements of income. Liabilities related to the grants under the CSC SAR Plan are funded by RMH and are reflected as either capital contributions from or (distributions to) RMH in the combined financial statements of the Company. The other partner does not share in the charge or benefit associated with the CSC SAR Plan. The other incentive plans are funded by both partners and liabilities of $8,667 and $4,080, related to these plans are reflected as accrued payroll and related costs at December 31, 2002 and 2001, respectively.

7. Benefit Plans

CSC sponsors a cash balance pension plan and a 401(k) savings plan and during 2002 and 2001, CSC sponsored an excess savings and excess cash balance plan, in which the Company and its subsidiaries participate. In connection with the cash balance plan and excess cash plan, CSC charges the Company for credits made into an account established for each participant. Such credits are based upon a percentage of eligible base pay and a

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market-based rate of return. The Company also makes matching contributions for a portion of employee voluntary contributions to the 401(k) savings plan and the excess savings plan. Total expense related to these plans was approximately $1,376, $1,499 and $552 for the years ended December 31, 2002, 2001 and 2000, respectively. The Company does not provide post retirement benefits for any of its employees.

8. Leases

The Partnerships lease transponder space on several satellites and certain facilities under operating lease agreements that expire at various dates through 2006. Rent expense for operating leases amounted to approximately $5,137, $4,336 and $4,096 for the years ended December 31, 2002, 2001 and 2000, respectively. The following is a schedule of future minimum lease payments for operating leases as of December 31, 2002:

Year ending December 31,		
2003	$	3,039
2004		2,680
2005		2,530
2006		2,494
2007		714
Thereafter		119
Total minimum lease payments	$	11,576

The Company leases transponder space on satellites under capital leases that expire at various dates through 2006. At December 31, 2002 and 2001, the gross amount of equipment and related accumulated amortization recorded under capital leases was as follows:

		2002		**2001**
Origination equipment	$	21,718	$	33,499
Accumulated amortization		(14,757)		(19,644)
	$	6,961	$	13,855

Future minimum capital lease payments as of December 31, 2002 are:

Year ending December 31,		
2003	$	3,780
2004		3,600
2005		1,620
2006		1,620
Total minimum lease payments		10,620
Less amount representing interest (10%)		1,544
Present value of net minimum capital lease payments		9,076
Less current installments		3,008
Obligations under capital leases, excluding current installments	$	6,068

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(dollars in thousands)

9. Commitments and Contingencies

The Company has entered into various contracts with RMH subsidiaries to license films for pay television programming and to provide certain transmission and production services to the Company (previously disclosed in footnote 6). Maximum future cash payments required under these contracts as of December 31, 2002 are as follows:

Year ending December 31,		
2002	$	15,129
2003		15,418
2004		12,887
2005		4,789
2006		240
Thereafter		1,200
	$	49,663

During 2001, the Company secured carriage commitments with certain multiple system operators under long-term affiliation agreements, in exchange for which the Company agreed to make payments when certain launch thresholds are met conditioned upon continued carriage. The Company is contingently liable through 2003 for payments of up to $12,902, which will be used by the operators to provide various marketing and promotional support for the Company.

The Company has entered into various agreements with multiple system operators to make payments towards marketing programs of such operators. Future cash payments required under these agreements amount to $502 in 2003, $509 in 2004, $513 in 2005, $370 in 2006 and $375 in 2007.

Broadcast Music, Inc. (BMI), an organization which licenses the performance of the musical compositions of its affiliated composers, authors and publishers, has alleged that the Partnerships need a license to exhibit programs containing musical compositions in BMI s catalog and that continued use requires a license. In June 1992, the Company and BMI entered into a written license agreement covering the period January 1, 1990 through June 30, 1993, pursuant to which BMI agreed to an interim fee of 0.3% of net revenues. This agreement was extended several times and is currently extended on a month-to-month basis, terminable by either party on thirty days prior written notice.

BMI agreed to treat as final all payments made by the Company for the period commencing on the launch date of each service and ending June 30, 1992. However, commencing with July 1, 1992, the license fees payable by the Company are subject to retroactive adjustment either at such time as the Federal Rate Court reaches a final determination or the parties reach final agreement.

On November 4, 1997, the Company requested a license from BMI covering public performances of music by WE and its affiliated distributors from the date of launch of WE. BMI, in response, had indicated that WE is licensed as of the date of that correspondence at an interim fee equaling 0.3% of WE s net revenues. That interim fee is subject to retroactive adjustment in the same manner as pertains to the license arrangements with BMI for the AMC service. BMI has indicated that it is willing to discuss an appropriate retroactive license fee back to the date of launch. Those discussions have not yet concluded.

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(dollars in thousands)

The American Society of Composers, Authors and Publishers (ASCAP), another organization which licenses the performance of the musical compositions of its members, has also alleged that the Partnerships need a license to exhibit programs containing musical compositions in its catalog and that continued use requires a license. The subject of the fees to be paid to ASCAP and the manner in which they will be paid has been submitted to a Federal Rate Court in New York and is still pending. By submitting the matter to the Federal Rate Court, the Company has been licensed by ASCAP for periods subsequent to March 6, 1989, at an interim fee of 0.3% of net revenues per year. The interim fee is subject to retroactive adjustment when the Federal Rate Court reaches a final decision. In addition, ASCAP has sought payments for license fees for part or all of the period from January 1, 1986 to March 6, 1989.

On November 4, 1997, the Company requested from ASCAP a license covering the use of public performances of ASCAP music by WE and its affiliated distributors from the launch date of that service. ASCAP has agreed to license WE on an interim basis at the rate of 0.3% of WE s net revenues. That interim fee is subject to retroactive adjustment in the same manner as pertains to the license arrangements with ASCAP for the AMC service.

In addition, the Company is party to various lawsuits arising out of the ordinary conduct of its business.

Management believes that the settlement of the above matters will not have a material adverse effect on the financial position of the Company.

10. Concentrations of Credit Risk

During 2002 and 2000, the Company had three customers that collectively accounted for 47% and 40%, respectively, of net revenues. During 2001, the Company had two customers that collectively accounted for approximately 30% of net revenues. At December 31, 2002 and 2001, the Company had three and five customers, respectively, totaling approximately 44% and 62%, respectively, of the Company s net trade receivable balances including those due from affiliates, which exposes the Company to a concentration of credit risk.

11. Disclosures about the Fair Value of Financial Instruments

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Cash, Trade Accounts Receivable, Trade Accounts Receivable Affiliates, Other Receivables Affiliates, Note Receivable Affiliate, Prepaid Expenses and Other Assets, Accounts Payable, Accrued Expenses, Accounts Payable-Affiliates

The carrying amount approximates fair value due to the short-term maturity of these instruments.

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NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)

(dollars in thousands)

12. Subsequent Events

In February 2003, the Company made a distribution of $50,000 to each partner based on their pro rata partnership interests; $10,000 in cash was distributed to MGM and $40,000 was distributed to RMH comprised of $8,000 in cash and $32,000 in the forgiveness of debt due to AMCC.

In March 2003, AMCC, IFC, and WE, entered into a $75,000 credit facility consisting of a $40,000 revolver and a $35,000 term loan, maturing on March 31, 2008 and March 31, 2009, respectively (in certain limited circumstances the maturity date may be accelerated to November 1, 2005). The facility requires commitment reductions beginning in June of 2005. The facility contains certain covenants that may limit AMCC, IFC, and WE s ability to utilize all of the undrawn funds available there under, including covenants requiring the maintenance of financial ratios and restricting the permitted use of borrowed funds.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders

Metro-Goldwyn-Mayer Inc.

We have audited the consolidated financial statements of Metro-Goldwyn-Mayer Inc. as of December 31, 2002 and for the year then ended, and have issued our report thereon dated February 4, 2003 (included elsewhere in this Form 10-K). Our audit also included the financial statement schedules listed in Item 15(a) of this Form 10-K. These schedules are the responsibility of the Company s management. Our responsibility is to express an opinion based on our audit.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Los Angeles, California

February 4, 2003

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Metro-Goldwyn-Mayer Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of Metro-Goldwyn-Mayer Inc. included in this Report on Form 10-K and have issued our report thereon dated February 4, 2002. Our report on the financial statements includes an explanatory paragraph with respect to the change in method of accounting for film and television costs and for derivative instruments and hedging activities in 2001 as discussed in Note 1 to the financial statements. Our audits were 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 audits 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 consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Los Angeles, California

February 4, 2002

METRO-GOLDWYN-MAYER INC.

(PARENT ONLY)

SCHEDULE I: FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS

(in thousands, except share data)

	December 31, 2002	December 31, 2001
ASSETS		
Investments in and advances to affiliates	$ 2,514,466	$ 2,489,482
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities	$	$
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, none issued		
Common stock, $.01 par value, 500,000,000 shares authorized, 251,960,505 and 239,629,500 shares issued	2,520	2,396
Additional paid-in capital	3,914,923	3,717,767
Deficit	(1,345,812)	(1,203,565)
Accumulated other comprehensive loss	(18,361)	(27,116)
Less: treasury stock, at cost, 3,107,609 shares	(38,804)	
Total stockholders equity	2,514,466	2,489,482
	$ 2,514,466	$ 2,489,482

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

METRO-GOLDWYN-MAYER INC.

(PARENT ONLY)

STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Year Ended December 31,		
	2002	**2001**	**2000**
Revenues	$	$	$
Expenses:			
Equity in net (profit) losses of subsidiaries	142,247	438,058	(50,999)
Total expenses	142,247	438,058	(50,999)
Net income (loss)	$ (142,247)	$ (438,058)	$ 50,999
Income (loss) per share:			
Basic	$ (0.57)	$ (1.89)	$ 0.25
Diluted	$ (0.57)	$ (1.89)	$ 0.24
Weighted average number of common shares outstanding:			
Basic	248,355,556	232,082,403	204,797,589
Diluted	248,355,556	232,082,403	210,313,274

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

METRO-GOLDWYN-MAYER INC.

(PARENT ONLY)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except share data)

	Preferred Stock		Common Stock					Accum. Other		
	No. of Shares	Par Value	No. of Shares	Par Value	Add l Paid-in Capital	Retained Earnings (Deficit)	Compre- hensive Income (Loss)	Compre- hensive Income	Less: Treasury Stock	Total Stockholders Equity
Balance December 31, 1999		$	201,419,331	$ 2,014	$ 2,931,004	$ (816,506)	$	$ 316	$ (4)	$ 2,116,824
Common stock issued to outside parties, net			5,363,800	54	133,330					133,384
Common stock issued to directors, officers and employees, net			434,454	4	8,277				4	8,285
Comprehensive income (loss):										
Net income						50,999	50,999			50,999
Foreign currency translation adjustment							152	152		152
Unrealized gains on securities							43	43		43
Comprehensive income							51,194			
Balance December 31, 2000			207,217,585	2,072	3,072,611	(765,507)		511		2,309,687
Preferred stock issued to Tracinda, net	15,715,667	157			324,843					325,000
Conversion of preferred stock into common stock	(15,715,667)	(157)	15,715,667	157						
Common stock issued to outside parties, net			16,080,590	161	310,478					310,639
Common stock issued to directors, officers and employees, net			615,658	6	9,835					9,841
Comprehensive income (loss):										
Net loss						(438,058)	(438,058)			(438,058)
Cumulative effect of accounting change							469	469		469
Unrealized loss on derivative instruments							(27,523)	(27,523)		(27,523)
							(240)	(240)		(240)

Unrealized loss on securities										
Foreign currency translation adjustments							(333)	(333)		(333)
Comprehensive loss							(465,685)			
Balance December 31, 2001			239,629,500	2,396	3,717,767	(1,203,565)		(27,116)		2,489,482
Common stock issued to outside parties, net			10,550,000	106	164,665					164,771
Acquisition of treasury stock, at cost									(32,709)	(32,709)
Contribution of treasury stock to deferred compensation plan									(7,608)	(7,608)
Common stock issued to directors, officers and employees, net			1,781,005	18	32,491				1,513	34,022
Comprehensive income (loss):										
Net loss						(142,247)	(142,247)			(142,247)
Unrealized gain on derivative instruments							13,195	13,195		13,195
Unrealized loss on securities							(585)	(585)		(585)
Change in unfunded pension obligation							(3,994)	(3,994)		(3,994)
Foreign currency translation adjustments							139	139		139
Comprehensive loss							(133,492)			
Balance December 31, 2002		$	251,960,505	$ 2,520	$ 3,914,923	$ (1,345,812)	$	$ (18,361)	$ (38,804)	$ 2,514,466

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

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METRO-GOLDWYN-MAYER INC.

(PARENT ONLY)

STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2002	**2001**	**2000**
Operating activities:			
Net income (loss)	$ (142,247)	$ (438,058)	$ 50,999
Adjustments to reconcile net income (loss) from operations to net cash from operating activities:			
(Gains) losses on equity investments, net	142,247	438,058	(50,999)
Net cash from operating activities			
Financing activities:			
Proceeds from issuance of preferred stock to Tracinda		325,000	
Proceeds from issuance of equity securities to outside parties	164,772	310,766	133,384
Proceeds from issuance of equity securities to related parties	2,154	6,941	4,849
Acquisition of treasury stock	(32,709)		
Net intercompany advances	(134,217)	(642,707)	(138,233)
Net cash from financing activities			
Net change in cash and cash equivalents			
Cash and cash equivalents at beginning of period			
Cash and cash equivalents at end of the period	$	$	$

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

METRO-GOLDWYN-MAYER INC. (PARENT ONLY)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

Note 1 Basis of Presentation and Comprehensive Income (Loss)

Basis of Presentation. The accompanying financial statements include the accounts of Metro-Goldwyn-Mayer Inc (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, and is majority owned by an investor group comprised of Tracinda Corporation and a corporation that is principally owned by Tracinda Corporation, and certain current and former executive officers of the Company. The acquisition of MGM Studios by MGM was completed on October 10, 1996, at which time MGM commenced principal operations. MGM acquired Orion Pictures Corporation and its majority owned subsidiaries on July 10, 1997.

Comprehensive Income (Loss). The Company computes comprehensive income pursuant to SFAS No. 130, Reporting Comprehensive Income. 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. Total comprehensive income (loss) for the Company includes net income (loss) and other comprehensive income items, including unrealized loss on derivative instruments, unrealized gain (loss) on securities and cumulative foreign currency translation adjustments. Components of other comprehensive income (loss) are shown below (in thousands):

	Year Ended December 31,		
	2002	2001	2000
Net income (loss)	$ (142,247)	$ (438,058)	$ 50,999
Other comprehensive income (loss):			
Cumulative effect of accounting change for derivative Instruments		469	
Unrealized gain (loss) on derivative instruments	13,195	(27,523)	
Unrealized gain (loss) on securities	(585)	(240)	43
Unfunded pension plan obligation	(3,994)		
Cumulative foreign currency translation adjustments	139	(333)	152
Total comprehensive income (loss)	$ (133,492)	$ (465,685)	$ 51,194

Components of accumulated other comprehensive income (loss) are shown below (in thousands):

	Unrealized Loss on Derivative	Unrealized Gain (Loss)	Unfunded Pension Plan Obligation	Cumulative Translation Adjustments	Accumulated Other Comprehensive

	Instruments	on Securities			Income (Loss)
Balance at December 31, 2000	$	$ 43	$	$ 468	$ 511
Cumulative effect of accounting change	469				469
Current year change	(27,523)	(240)		(333)	(28,096)
Balance at December 31, 2001	(27,054)	(197)		135	(27,116)
Current year change	13,195	(585)	(3,994)	139	8,755
Balance at December 31, 2002	$ (13,859)	$ (782)	$ (3,994)	$ 274	$ (18,361)

Note 2 Bank Debt

On June 11, 2002, MGM Studios entered into a third amended and restated credit facility with a syndicate of banks, which amended a pre-existing credit facility, aggregating $1.75 billion (the Amended Credit Facility). For additional information regarding the Registrant s borrowings under debt agreements and other borrowings, see Note 6 to the Consolidated Financial Statements.

METRO-GOLDWYN-MAYER INC.

SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In thousands)

		Additions			
	Balance at Beginning of Period	Charged to Costs and Expenses	Acquired	Deductions	Balance at End of Period
Year Ended December 31, 2002:					
Reserve for allowances and doubtful accounts	$ 26,173	21,205		(6,398)	$ 40,980
Reserve for home video inventory obsolescence, shrinkage and reduplication	$ 14,326	3,791		(770)	$ 17,347
Reserve for severance and other costs under corporate restructuring program	$ 29,204	4,274		(30,188)	$ 3,290
Year Ended December 31, 2001:					
Reserve for allowances and doubtful accounts	$ 22,947	1,442		1,784	$ 26,173
Reserve for home video inventory obsolescence, shrinkage and reduplication	$ 8,920	5,406			$ 14,326
Reserve for severance and other costs under corporate restructuring program	$ 26,715	4,109		(1,620)	$ 29,204
Reserve for contract termination costs	$ 2,000			(2,000)	$
Year Ended December 31, 2000:					
Reserve for allowances and doubtful accounts	$ 20,985	3,545		(1,583)	$ 22,947
Reserve for home video inventory obsolescence, shrinkage and reduplication	$ 6,795	8,920		(6,795)	$ 8,920
Reserve for severance and other costs under corporate restructuring program	$ 32,912	1,285		(7,482)	$ 26,715
Reserve for contract termination costs	$ 32,100	(5,000)(1)		(25,100)	$ 2,000
Reserve for pre-release film inventory	$ 69,629			(69,629)	$

(1) Recovery of prior year reserves for contract termination costs.

EXHIBIT INDEX

Exhibit Number	Document Description
3.1(2)	Amended and Restated Certificate of Incorporation of the Company
3.2(7)	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company
3.3(2)	Amended and Restated Bylaws of the Company
10.1(2)	Amended and Restated Credit Agreement, dated as of October 15, 1997, among the Company, MGM Studios, Orion, certain lenders, Morgan Guaranty Trust Company of New York (Morgan), as agent and Bank of America (B of A), as syndication agent**
10.2(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
10.3(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
10.4(8)	Amendment III and Waiver I to Amended and Restated Credit Agreement; Amendment II to Amended and Restated Holdings Agreement dated as of April 30, 1999, among the Company, MGM Studios, Orion, certain lenders, Morgan, as agent and B of A, as syndication agent
10.5(18)	Third Amended and Restated Credit Agreement, dated as of June 11, 2002, among MGM Studios, Orion, Bank of America, as administrative agent, certain lenders and certain L/C issuers**
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(7)	Amendment No. 1 to Amended and Restated 1996 Stock Incentive Plan*
10.9(6)	Form of Executive Option Exchange Agreement*
10.10(15)	Form of Director Stock Option Agreement Pursuant to the Amended and Restated 1996 Stock Incentive Plan*
10.11(2)	Senior Management Bonus Plan dated as of November 11, 1997 and form of related Bonus Interest Agreement*
10.12(6)	Bonus Interest Amendment*
10.13(11)	Form of 2000 Employee Incentive Plan*
10.14(2)	Amended and Restated Employment Agreement of Frank G. Mancuso dated as of August 4, 1997
10.15(10)	Consulting Agreement of Frank G. Mancuso dated as of August 12, 1999
10.16(2)	Employment Agreement of William A. Jones dated as of October 10, 1996*
10.17(13)	Amendment to Employment Agreement of William A. Jones dated as of July 16, 1999*
10.18(5)	Employment Agreement of Daniel J. Taylor dated as of August 1, 1997*
10.19(5)	Amendment to Employment Agreement of Daniel J. Taylor dated as of June 15, 1998*
10.20(13)	Amendment to Employment Agreement of Daniel J. Taylor dated as of November 1, 2000*
10.21(9)	Employment Agreement of Christopher J. McGurk dated as of April 28, 1999*
10.22(9)	Letter Agreement between the Company and Christopher J. McGurk dated April 28, 1999*

Exhibit Number	Document Description
10.23(17)	Amendment to Employment Agreement of Christopher J. McGurk dated March 25, 2002*
10.24(9)	Employment Agreement of Alex Yemenidjian dated as of April 28, 1999*
10.25(17)	Amendment to Employment Agreement of Alex Yemenidjian dated March 25, 2002*
10.26(12)	Employment Agreement of Jay Rakow dated as of August 7, 2000*
10.27(12)	Addendum to Employment Agreement of Jay Rakow dated as of August 7, 2000*
10.28(12)	Employment Agreement of Michael R. Gleason dated August 22, 2000
10.29(2)	Indemnification Agreement dated as of October 10, 1996 Frank G. Mancuso
10.30(2)	Indemnification Agreement dated as of October 10, 1996 William A. Jones
10.31(2)	Indemnification Agreement dated as of October 10, 1996 James D. Aljian
10.32(2)	Indemnification Agreement dated as of October 10, 1996 Michael R. Gleason
10.33(2)	Indemnification Agreement dated as of October 10, 1996 Kirk Kerkorian
10.34(2)	Indemnification Agreement dated as of October 10, 1996 Jerome B. York
10.35(3)	Indemnification Agreement dated as of November 7, 1997 Alex Yemenidjian
10.36(3)	Indemnification Agreement dated as of January 28, 1998 Francis Ford Coppola
10.37(5)	Indemnification Agreement dated as of June 15, 1998 Daniel J. Taylor
10.38(6)	Indemnification Agreement dated as of November 12, 1998 Alexander M. Haig, Jr.
10.39(6)	Indemnification Agreement dated as of November 12, 1998 Willie D. Davis
10.40(9)	Indemnification Agreement dated as of April 28, 1999 Christopher J. McGurk
10.41(12)	Indemnification Agreement dated as of August 2, 2000 Jay Rakow
10.42(12)	Indemnification Agreement dated as of September 7, 2000 Priscilla Presley
10.43(16)	Indemnification Agreement dated as of February 12, 2001 Henry Winterstern
10.44(2)	Form of Amended and Restated Shareholders Agreement dated as of August 4, 1997
10.45(5)	Form of Waiver and Amendment No. 1 to Amended and Restated Shareholders Agreement dated as of August 8, 1998
10.46(5)	Form of Amendment No. 2 to Amended and Restated Shareholders Agreement dated September 1, 1998
10.47(6)	Form of Waiver and Amendment No. 3 to Amended and Restated Shareholders Agreement
10.48(2)	Form of Amended and Restated Stock Option Agreement between the Company and Celsus Financial Corp.
10.49(2)	Form of Inducement Agreement dated as of November 5, 1997
10.50(2)	Form of Investment Agreement dated November 12, 1997 between the Company and Tracinda
10.51(4)	1998 Non-Employee Director Stock Plan*
10.52(14)	Agreement between Metro-Goldwyn-Mayer Inc. and Rainbow Media Holdings Inc. dated January 31, 2001
21(19)	List of Subsidiaries of Metro-Goldwyn-Mayer Inc.
23(19)	Consent of Independent Auditors
23.1(1)	Consent of Independent Auditors
99.1(19)	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit Number	Document Description
99.2(19)	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.3(1)	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.4(1)	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan.
** Filed without Schedules.
(1) Filed herewith.
(2) Filed as an exhibit to the Company s Registration Statement on Form S-1, 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.
(6) Filed as an exhibit to the Company s Form 10-K for the fiscal year ended December 31, 1998 (File No. 001-13481) and incorporated herein by reference.
(7) Filed as an exhibit to the Company s Registration on Form S-8 (File No. 333-83823) and incorporated herein by reference.
(8) Filed as an exhibit to the Company s Form 10-Q for the quarter ended June 30, 1999 (File No. 001-13481) and incorporated herein by reference.
(9) Filed as an exhibit to the Company s Registration Statement on Form S-3 (File No. 333-82775) and incorporated herein by reference.
(10) Filed as an exhibit to the Company s Form 10-Q for the quarter ended September 30, 1999 (File No. 001-13481) and incorporated herein by reference.
(11) Filed as an appendix to the Company s Proxy Statement for the annual meeting held on May 4, 2000 and incorporated herein by reference.
(12) Filed as an exhibit to the Company s Form 10-Q for the quarter ended September 30, 2000 (File No. 001-13481) and incorporated herein by reference.
(13) Filed as an exhibit to the Company s Form 10-K for the fiscal year ended December 31, 2000 (File No. 001-13481) and incorporated herein by reference.
(14) Filed as an exhibit to the Company s Form 8-K dated January 31, 2001 (File No. 001-13481) and incorporated herein by reference.
(15) Filed as an exhibit to the Company s Form 10-Q for the quarter ended June 30, 2001 (File No. 001-13481) and incorporated herein by reference.
(16) Filed as an exhibit to the Company s Form 10-K for the fiscal year ended December 31, 2001 (File No. 001-13481) and incorporated herein by reference.
(17) Filed as an exhibit to the Company s Form 10-Q for the quarter ended March 31, 2002 (File No. 001-13481) and incorporated herein by reference.
(18) Filed as an exhibit to the Company s Form 10-Q for the quarter ended June 30, 2002 (File No. 001-13481) and incorporated herein by reference
(19) Filed as an exhibit to the Company s Form 10-K for the fiscal year ended December 31, 2002 (File No. 001-13481) and incorporated herein by reference.