METRO-GOLDWYN-MAYER INC
Form PREM14A
October 29, 2004
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Metro Goldwyn Mayer Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common stock, par value $0.01 per share, of Metro-Goldwyn-Mayer Inc. (MGM common stock).

(2) Aggregate number of securities to which transaction applies:

(a) 238,238,371 shares of MGM common stock and (b) options to purchase 18,855,967 shares of MGM common stock.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined by multiplying .00012670 by the sum of: (x) $2,858,860,452.00, which is the product of 238,238,371 shares of MGM common stock and the merger consideration of $12.00 per share in cash and (y) $85,417,530.51, which is the product of options to purchase 18,855,967 shares of MGM common stock and $4.53, which is the amount equal to the weighted average option consideration to be received by option holders pursuant to the merger.

(4) Proposed maximum aggregate value of transaction

$ 2,944,277,982.51

(5) Total fee paid:

$373,040.02

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

(4) Date Filed:

Notes:

Table of Contents

SUBJECT TO COMPLETION OCTOBER 28, 2004

10250 Constellation Boulevard

Los Angeles, California 90067

, 2004

Dear Stockholder:

We cordially invite you to attend our special meeting of stockholders to be held at , Los Angeles, California, on , 2004, at a.m. local time.

At the special meeting, you will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of September 23, 2004, by and between LOC Acquisition Company and Metro-Goldwyn-Mayer Inc., pursuant to which MGM will be merged with LOC Acquisition Company, with MGM as the surviving corporation in the merger. LOC Acquisition Company is a Delaware corporation which, at the time of the merger, will be owned by Sony Corporation of America, Comcast Studio Investments, Inc. and affiliates of Providence Equity Partners, Inc., Texas Pacific Group and DLJ Merchant Banking Partners.

Upon completion of the merger, you will be entitled to receive $12.00 in cash, without interest, for each share of MGM common stock that you own. The receipt of cash in exchange for your shares of common stock in the merger will constitute a taxable transaction for U.S. federal income tax purposes.

Our board of directors has unanimously approved the merger agreement and determined that the merger is advisable and is fair to, and in the best interests of, our stockholders. **Accordingly, our board of directors unanimously recommends that you vote FOR adoption of the merger agreement at the special meeting.**

The accompanying document provides detailed information about the special meeting, the merger agreement and the merger and includes the merger agreement as Appendix A. We encourage you to read the enclosed materials carefully and in their entirety.

The proposed merger cannot occur unless, among other things, the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of MGM common stock. Stockholders owning or controlling a total of 164,049,644 shares of common stock as of the record date for the special meeting, which is approximately 69% of all outstanding shares of MGM common stock entitled to vote on the merger, have entered into a voting and support agreement with LOC Acquisition Company, pursuant to which they have agreed to vote in

favor of adoption of the merger agreement.

Your vote is very important. Whether or not you plan to attend the special meeting, please complete, sign and date the enclosed proxy card and promptly return it in the enclosed envelope, which needs no postage if mailed within the United States. Failure to submit a properly executed proxy card will have the same effect as a vote against the merger agreement. By voting your proxy now, you will not be precluded from attending the meeting and voting in person.

Sincerely,

Alex Yemenidjian
Chairman of the Board

and Chief Executive Officer

This proxy statement is dated , 2004 and is first being mailed to stockholders on or about , 2004.

Table of Contents

PRELIMINARY COPY

METRO-GOLDWYN-MAYER INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON , 2004

We will hold a special meeting of stockholders of Metro-Goldwyn-Mayer Inc. at , Los Angeles, California, on , 2004, at a.m. local time for the following purposes:

1. to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of September 23, 2004, by and between LOC Acquisition Company, a Delaware corporation, and Metro-Goldwyn-Mayer Inc.; and

2. to consider such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

Only stockholders who held shares of record as of the close of business on November 5, 2004 are entitled to receive notice of and to vote at the special meeting or any adjournment or postponement thereof. Whether or not you plan to attend the special meeting in person, please submit your proxy as soon as possible. Voting by proxy will ensure that you are represented at the special meeting even if you are not there in person. Please review the instructions on the enclosed proxy card.

A list of stockholders entitled to vote at the special meeting may be examined at our executive offices, located at 10250 Constellation Boulevard, Los Angeles, California 90067, during the 10-day period preceding the special meeting.

Under Delaware law, if the merger is completed, holders of our common stock who do not vote in favor of adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery, but only if they submit a written demand for such an appraisal prior to the vote on the merger agreement and they comply with other Delaware procedures and requirements explained in the accompanying proxy statement.

Whether you attend the meeting or not, you may revoke a proxy at any time before we vote it at the meeting. You may do so by executing and returning a proxy card dated later than the previous one or by casting your vote by ballot at the meeting or by submitting a written notice of proxy revocation to the undersigned before we take the vote at the meeting. If you hold your shares through a bank or brokerage firm, you should follow the instructions of your bank or brokerage firm regarding revocation of proxies.

Our board of directors unanimously recommends that you vote **FOR** adoption of the merger agreement.

By Order of the Board of Directors

William Allen Jones

Senior Executive Vice President

and Secretary

Los Angeles, California

, 2004

Table of Contents

TABLE OF CONTENTS

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER	1
SUMMARY TERM SHEET	5
The Companies	5
The Special Meeting	6
The Merger	8
THE SPECIAL MEETING OF STOCKHOLDERS	15
Date, Time and Place	15
Purpose of the Special Meeting	15
Record Date, Shares Entitled to Vote and Quorum	15
Vote Required for Adoption of the Merger Agreement	15
Voting by Directors, Executive Officers and Principal Stockholders	15
Voting of Proxies	16
Revocability of Proxies	16
Solicitation of Proxies	16
THE MERGER	17
Background of the Merger	17
Our Reasons for the Merger; Recommendation of the MGM Board	28
Opinions of Financial Advisors	32
Material Federal Income Tax Consequences	44
Governmental and Regulatory Matters	46
Interests of Certain Persons in the Merger	48
Financing; Source of Funds	52
Deposit Agreement	53
Letters of Credit	53
Delisting and Deregistration of MGM Common Stock	54
Appraisal or Dissenters Rights	54
Voting and Support Agreement	56
THE MERGER AGREEMENT	58
Structure and Effective Time	58
Board of Directors and Officers of MGM Following the Merger	58
Merger Consideration	58
Payment Procedures	58
Treatment of MGM Stock Options and Equity Plans	59
No Solicitation	59
Access to Information	60
Stockholder Approval; MGM Board Recommendation	61
Representations and Warranties	61
Covenants; Conduct of the Business of MGM Prior to the Merger	63
Agreement To Obtain Clearance From Regulatory Authorities	64
Indemnification and Insurance	66
Tax Matters	66
Employee Benefit Plans	66
Termination of the Merger Agreement	67
Termination Fee if Merger is Not Consummated	68
Damages if Merger Agreement is Terminated	69
Conditions to the Consummation of the Merger	69

Table of Contents

Expenses and Fees	70
Amendment and Waiver	70
STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	71
STOCKHOLDER PROPOSALS	72
OTHER MATTERS	73
FORWARD-LOOKING STATEMENTS	73
WHERE YOU CAN FIND MORE INFORMATION	74

Appendix A Agreement and Plan of Merger, dated as of September 23, 2004, by and between LOC Acquisition Company and Metro-Goldwyn-Mayer Inc.
Appendix B Opinion of Goldman, Sachs & Co.
Appendix C Opinion of Morgan Stanley & Co. Incorporated.
Appendix D Indemnity Agreement, dated as of September 23, 2004, between Metro-Goldwyn-Mayer Inc., on the one hand, and Tracinda Corporation, 250 Rodeo, Inc. and Kirk Kerkorian, on the other hand.
Appendix E Voting and Support Agreement, dated as of September 23, 2004, among Tracinda Corporation, 250 Rodeo, Inc. and LOC Acquisition Company.
Appendix F Section 262 (Appraisal Rights) of Delaware General Corporation Law.

Table of Contents

Questions and Answers about the Special Meeting and the Merger

The following questions and answers address briefly some commonly asked questions regarding the special meeting and the proposed merger. These questions and answers may not address all of the questions that may be important to you as an MGM stockholder. Please refer to the more detailed information contained elsewhere in this proxy statement and the appendices to this proxy statement.

References in this proxy statement to MGM, the Company, we, our and us mean, unless the context indicates otherwise, Metro-Goldwyn-Mayer Inc. and its consolidated subsidiaries. The term LOC refers to LOC Acquisition Company.

Q. What is the purpose of the Special Meeting?

A. We are seeking your approval of the merger of LOC with and into MGM. LOC is a Delaware corporation. Sony Corporation of America, Comcast Studio Investments, Inc. and affiliates of Providence Equity Partners, Inc., Texas Pacific Group and DLJ Merchant Banking Partners have each committed to purchase securities of LOC in connection with the merger and, at the time of the merger, LOC will be owned by these investors.

Q. If the Company completes the merger, what will I receive for my common stock?

A. You will receive $12.00 in cash, without interest, in exchange for each share of MGM common stock that you own immediately prior to the time the merger is completed. We refer to the amount of consideration to be received by stockholders pursuant to the merger as the merger consideration.

Q. If the Company completes the merger, what will I receive for my stock options?

A. In general, your options will be cancelled and you will receive a payment equal to the excess, if any, of $20.00 over the applicable exercise price per share specified on your stock options multiplied by the total number of shares of MGM common stock subject to your stock options. The $20.00 amount was determined by adding $8.00, to give effect to the dividend paid to holders of MGM common stock on May 17, 2004, to the merger consideration of $12.00 per share. We refer to the amount of consideration to be received by option holders pursuant to the merger as the option consideration.

If the exercise price of your option has already been adjusted as a result of the $8.00 per share dividend paid on May 17, 2004 or your options were granted after May 17, 2004, then you will receive a payment equal to the excess, if any, of $12.00 per share over the applicable exercise price per share specified on your stock options multiplied by the total number of shares of MGM common stock subject to your stock options.

Solely with respect to options granted to persons subject to laws outside the United States and to specified individuals identified in the merger agreement, including some of our directors and officers, such options will vest and become fully exercisable at the effective time of the merger, and, upon exercise, the holder will receive the option consideration without paying the exercise price.

Q. When and where is the special meeting?

A. The special meeting will take place at , Los Angeles, California on , 2004 at a.m. local time.

Q. Who may attend the special meeting?

A. All stockholders of the Company who owned shares on November 5, 2004, the record date for the special meeting, may attend. Just check the box on your proxy card and bring the admission ticket included in this proxy statement with you to the special meeting.

Please note that the admission ticket will be required in order to obtain admission to the meeting. Accordingly, the admission ticket should not be returned with your proxy card. If your shares are held in a brokerage account, you will also need to bring a copy of your brokerage account statement (which you can obtain from your broker) reflecting your stock ownership as of November 5, 2004.

Table of Contents

Q. Who may vote at the special meeting?

A. Only holders of record of MGM common stock as of the close of business on November 5, 2004, the record date for the special meeting, may vote at the special meeting. As of November 5, 2004, MGM had 238,238,371 outstanding shares of common stock entitled to vote.

Q. What is the required vote to adopt the merger agreement?

A. In order to adopt the merger agreement, holders of a majority of the outstanding shares of MGM common stock entitled to vote must vote in favor of adoption of the merger agreement. Each share of MGM common stock is entitled to one vote. Tracinda Corporation and 250 Rodeo, Inc., which together hold approximately 69% of the outstanding shares of MGM common stock entitled to vote, have entered into a voting and support agreement with LOC and agreed to vote all of their shares in favor of adoption of the merger agreement.

Q. How does the MGM board of directors recommend I vote on the proposal?

A. Our board of directors unanimously recommends that you vote **FOR** adoption of the merger agreement.

Q. What should I do now?

A. After carefully reading and considering the information contained in this proxy statement, including the appendices, please authorize your shares of MGM common stock to be voted by marking, signing and dating the enclosed proxy card and returning it in the postage prepaid envelope provided as soon as possible. Do NOT enclose or return your stock certificates with the proxy card.

Q. May I vote in person?

A. Yes. You may attend the special meeting and vote your shares in person rather than by signing and returning your proxy card if your shares are held directly in your name.

Q. If my shares are held in street name by my broker, will my broker vote my shares for me?

A. Yes, but your broker will only be permitted to vote your shares of MGM common stock if you instruct your broker how to vote. You should follow the procedures provided to you by your broker regarding how to instruct your broker to vote your shares.

Q. If my shares are held in the company stock fund under the MGM savings plan, will the trustee of the savings plan vote my shares for me?

A. Yes. However, the trustee will only be permitted to vote your shares of MGM common stock held in the fund as of the record date for the special meeting if you instruct the trustee of the MGM savings plan how to vote those shares. You can authorize your shares of MGM common stock held in the company stock fund as of the record date for the special meeting to be voted by marking, signing and dating the enclosed proxy card with the blue stripe and returning it to the trustee of the MGM savings plan in the postage prepaid envelope provided as soon as possible.

Q. What happens if I do not vote?

A. Because the required vote of our stockholders is based upon the number of outstanding shares of MGM common stock entitled to vote rather than upon the number of shares actually voted, the failure to return your proxy card and to vote in person at the special meeting will have the same effect as a vote AGAINST the merger.

Table of Contents

Q. If I have given a proxy, may I change my vote?

A. Yes. You may change your vote at any time before your proxy is voted at the special meeting. You may revoke your proxy by notifying MGM s Corporate Secretary, William Allen Jones, at Metro-Goldwyn-Mayer Inc., 10250 Constellation Boulevard, Los Angeles, California 90067 in writing or by submitting a new proxy, in each case dated after the date of the proxy being revoked. In addition, your proxy may be revoked by attending the special meeting and voting in person. If you have instructed a broker to vote your shares, the above-described options for changing your vote do not apply; instead, you must follow the instructions received from your broker to change your vote.

Your attendance at the special meeting will not in and of itself constitute a revocation of the proxy.

Q. How will my proxy be voted?

A. If your proxy in the accompanying form is properly executed, returned to and received by the Company (or its designated solicitation agent) prior to the special meeting and is not revoked, it will be voted in accordance with your instructions. If you return your signed proxy but do not mark the boxes to show how you wish to vote on the proposal, the shares for which you have given your proxy will, in the absence of your instructions to the contrary, be voted FOR adoption of the merger agreement.

Q. Will my shares be voted if I do not provide my proxy?

A. Under rules currently in effect, brokerage firms and nominees that are members of the NYSE have the authority under the NYSE s rules to vote their customers unvoted shares only on some routine matters if the customers have not furnished voting instructions within a specified period prior to the meeting. Adoption of the merger agreement is *not* considered a routine matter and, therefore, brokerage firms and nominees will not be able to vote their customers shares as to which no instruction has been received.

With respect to the proposal to adopt the merger agreement, the shares represented by a broker non-vote will be considered present at the special meeting for the purposes of determining a quorum, and will have the same effect as a vote AGAINST the proposal to adopt the merger agreement. If you hold your shares directly in your own name and attend the special meeting, your shares will be counted as shares present for the purposes of establishing a quorum but will not be voted if you do not provide a proxy or vote the shares yourself.

Q. What happens if I sell my shares of MGM common stock before the special meeting?

A. The record date for the special meeting is November 5, 2004, which is earlier than the date of the special meeting. If you held your shares of MGM common stock on the record date for the special meeting, you will retain your right to vote at the special meeting. If you transfer your shares of MGM common stock after the record date for the special meeting but prior to the date on which the merger is completed, you will lose the right to receive the merger consideration for the shares of MGM common stock you have sold. The right to receive the merger consideration will pass to the person who owns your shares of MGM common stock when the merger is completed.

Q. Will I owe taxes as a result of the receipt of the merger consideration?

A. Generally, yes. Your receipt of the merger consideration for each share of MGM common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes and may also be taxable under applicable state, local, foreign and other tax laws. See The Merger Material Federal Income Tax Consequences starting on page [ ] for a more complete discussion of the U.S. federal income tax consequences of the merger. You are urged to consult your tax advisor about the specific tax consequences to you of the merger.

Table of Contents

Q. Will I have appraisal rights if I dissent from the merger?

A. Yes. You are entitled to appraisal rights under Section 262 of the Delaware General Corporation Law. Under Delaware law, holders of our common stock who do not vote in favor of adopting the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for an appraisal prior to the vote on the merger agreement and they comply with the Delaware law procedures explained in this proxy statement. See the section of this proxy statement entitled The Merger Appraisal or Dissenters Rights starting on page [ ].

Q. What does it mean if I get more than one proxy card?

A. If your shares are registered in multiple accounts with one or more brokers and/or the Company s transfer agent, you will receive more than one proxy card. In addition, you will receive a separate proxy card with a blue stripe if you hold shares of MGM common stock in the company stock fund under the MGM savings plan. Please complete and return each of the proxy cards you receive to ensure that all of your shares are voted.

Q. Why is the MGM board of directors recommending the merger?

A. Our board of directors believes that the merger is in the best interests of the Company s stockholders. To review our board s reasons for recommending the merger, see the section of this proxy statement entitled The Merger Our Reasons for the Merger; Recommendation of the MGM Board starting on page [ ].

Q. When do you expect to complete the merger?

A. We are working toward completing the merger as quickly as possible. We currently expect to complete the merger as soon as possible after the special meeting and after all the conditions to the merger, including antitrust regulatory approval, are satisfied or waived. In order to complete the merger, we must obtain stockholder approval and satisfy all other closing conditions under the merger agreement. See the section of this proxy statement entitled The Merger Agreement Conditions to the Consummation of the Merger starting on page [ ].

Q. Should I send in my stock certificates now?

A. No. After we complete the merger, you will receive written instructions informing you how to send in your stock certificates in order to receive the merger consideration. You will receive your cash payment as soon as practicable after receipt of your MGM stock certificates, together with the completed documents requested in the instructions. **PLEASE DO NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY CARD.**

Q. Where can I find more information about MGM?

A. We file periodic reports and other information with the Securities and Exchange Commission, which we refer to as the SEC. This information is available at the SEC s public reference facilities, and at the Internet site maintained by the SEC at *http://www.sec.gov*. For a more detailed description of the information available, please see the section of this proxy statement entitled Where You Can Find More Information, on page [ ].

Q. Who can help answer my questions?

A. If you have questions about the special meeting or the merger after reading this proxy statement, you should contact us at Metro-Goldwyn-Mayer Inc., 10250 Constellation Boulevard, Los Angeles, California 90067, Attn: Corporate Secretary or call us at (310) 449-3000. You may also contact our proxy solicitor, Mellon Investor Services LLC, at 44 Wall Street, 7th Floor, New York, New York 10005 or call them at (877) 216-9819.

Table of Contents

Summary Term Sheet

This summary, together with the preceding question and answer section, highlights selected information from this proxy statement about the proposed merger and our special meeting. It does not contain all of the information that is important to you. Accordingly, we encourage you to read this proxy statement and the other documents to which we refer you carefully, and in their entirety, for a more complete understanding of the matters being considered at the special meeting.

References in this proxy statement to MGM, the Company, we, our and us mean, unless the context indicates otherwise, Metro-Goldwyn-Mayer Inc. and its consolidated subsidiaries. The term LOC refers to LOC Acquisition Company.

The Companies

- ***Metro-Goldwyn-Mayer Inc.***

We are a global entertainment content company. Through our subsidiaries, including Metro-Goldwyn-Mayer Studios Inc., we are actively engaged in the development and worldwide production and distribution of entertainment product, including theatrical motion pictures, television programming, home video, interactive media, music and licensed merchandise. Our principal subsidiaries are Metro-Goldwyn-Mayer Studios Inc., United Artists Corporation, United Artists Films Inc. and Orion Pictures Corporation. Our library contains approximately 4,000 theatrically released feature film titles and over 10,200 television episodes. In addition, through MGM Networks, we have ownership interests in television channels that are distributed to subscribers in over 100 countries and territories around the globe.

We maintain our principal executive offices at 10250 Constellation Boulevard, Los Angeles, California 90067 and our telephone number is (310) 449-3000. For additional information with respect to MGM, see the section of this proxy statement entitled Where You Can Find More Information.

- ***LOC Acquisition Company.***

LOC Acquisition Company is a newly formed Delaware corporation organized solely for the purpose of consummating the proposed merger and entering into agreements with its stockholders relating to the operation of the surviving corporation after consummation of the merger. Sony Corporation of America, Comcast Studio Investments, Inc., Providence Equity Partners IV, L.P., TPG Partners IV, L.P., DLJ Merchant Banking Partners III, L.P. and certain of their affiliated funds have each committed to purchase securities of LOC in connection with the merger and, at the time of the merger, LOC will be owned by them. We sometimes refer to the stockholders of LOC as the equity investors. The principal executive offices of LOC are located at 50 Kennedy Plaza, 18th Floor, Providence, Rhode Island 02903 and its telephone number is (401) 751-1700.

Sony Corporation of America, based in New York City, is the U.S. subsidiary of Sony Corporation, headquartered in Tokyo. The principal businesses of Sony Corporation and its subsidiaries are the manufacture of audio, video, communications and information technology products for the consumer and professional markets, and the motion picture, television, music and computer games entertainment businesses. Sony Corporation s principal U.S. businesses include Sony Electronics Inc., Sony Pictures Entertainment, Sony Computer Entertainment America Inc.

and a 50% interest in Sony BMG Music Entertainment. We sometimes refer to Sony Corporation of America as Sony. The principal executive offices of Sony are located at 550 Madison Avenue, 33rd Floor, New York, New York 10022 and its telephone number is (212) 833-6884.

Comcast Studio Investments, Inc. is a Delaware corporation and a wholly owned subsidiary of Comcast Corporation. Comcast Corporation is a Pennsylvania corporation whose principal business is the development,

Table of Contents

management and operation of broadband cable networks and the provision of programming content. Comcast Corporation is the largest provider of cable and broadband services in the United States, serving more than 21 million cable television customers and more than 6 million high-speed Internet customers. Comcast Corporation s content businesses include majority ownership of Comcast Spectacor, Comcast SportsNet, E! Entertainment Television, Style Network, G4techTV, The Golf Channel, International Channel and Outdoor Life Network. We sometimes refer to Comcast Studio Investments, Inc. as Comcast. The principal executive offices of Comcast Studio Investments, Inc. are located at 1201 N. Market Street, Suite 1000, Wilmington, Delaware 19801 and its telephone number is (302) 594-8700. The principal executive offices of Comcast Corporation are located at 1500 Market Street, Philadelphia, Pennsylvania 19102 and the telephone number is (215) 665-1700.

Providence Equity Partners IV, L.P. is a private investment fund managed by Providence Equity Partners Inc. Providence Equity Partners Inc. is a private investment firm specializing in equity investments in media and communications companies. The principals of Providence Equity manage funds with over $9 billion in equity commitments and have invested in more than 70 companies operating in over 20 countries since the firm s inception in 1991. Current and previous areas of investment include cable television content and distribution, wireless and wireline telephony, publishing, radio and television broadcasting and other media and communications sectors. Significant investments include VoiceStream Wireless, Warner Music Group, PanAmSat, AT&T Canada, eircom plc, Casema, Kabel Deutschland, Language Line, F&W Publications, ProSiebenSat.1 and Bresnan Broadband Holdings. We sometimes refer to Providence Equity Partners IV, L.P. as Providence. The principal executive offices of Providence Equity Partners are located at 50 Kennedy Plaza, 18th Floor, Providence, Rhode Island 02903 and its telephone number is (401) 751-1700.

TPG Partners IV, L.P. is a private investment fund managed by TPG Genpar IV, L.P., its general partner. Texas Pacific Group, founded in 1993, is a private investment firm managing over $13 billion of commitments. Texas Pacific Group looks to invest in world-class franchises across a range of industries, including significant investments in branded consumer franchises (Burger King, Del Monte, Ducati), leading retailers (Petco, J.Crew, Debenhams UK), healthcare (Oxford Health Plans, Quintiles Transnational), technology companies (ON Semiconductor, MEMC, Seagate), and airlines (Continental, America West), among others. We sometimes refer to TPG Partners IV, L.P. as TPG. The principal executive offices of Texas Pacific Group are located at 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102 and its telephone number is (817) 871-4000.

DLJ Merchant Banking Partners III, L.P., together with affiliated investment vehicles, is an investment partnership sponsored by DLJ Merchant Banking Partners which seeks significant capital appreciation through private equity-related investments. DLJ Merchant Banking Partners is part of Credit Suisse First Boston s Alternative Capital Division, which is one of the largest alternative asset managers in the world with more than $36 billion of assets under management. DLJ Merchant Banking Partners was organized in 1985 and since that time has invested nearly $9.0 billion in 140 portfolio companies across a wide range of industries and geographies. Significant investments include Grohe AG, Jostens, Inc., American Ref-Fuel Company, TXU Energy Company, Safilo S.p.A. and Nycomed Holdings. We sometimes refer to DLJ Merchant Banking Partners and its affiliated investment funds as the DLJ funds. The principal executive offices of DLJ Merchant Banking Partners are located at 11 Madison Avenue, New York, New York 10010 and its telephone number is (212) 325-2000.

The Special Meeting

- ***Date, Time, Place and Matters to be Considered*** **(page [ ])**

The special meeting will be held on , 2004 at , Los Angeles, California, at a.m. local time. At the special meeting, holders of common stock will be asked to consider and vote on the proposal to adopt the merger agreement. A copy of the merger agreement is attached as Appendix A to this proxy statement.

Table of Contents

- ***Record Date and Voting Power* (page [ ])**

You are entitled to vote if you owned shares of our common stock at the close of business on November 5, 2004, the record date for the special meeting. You will have one vote for each share of our common stock you owned at the close of business on the record date. On the record date, there were 238,238,371 shares of our common stock entitled to be voted at the special meeting.

- ***Quorum* (page [ ])**

A quorum will be present at the special meeting if the holders of a majority of the outstanding shares of MGM common stock entitled to vote on the record date are represented in person or by proxy.

- ***Vote Required for Adoption of the Merger Agreement* (page [ ])**

In order to adopt the merger agreement, holders of a majority of the outstanding shares of MGM common stock entitled to vote must vote in favor of adopting the merger agreement. Each share of MGM common stock is entitled to one vote. If you withhold a vote or abstain from voting on the proposal relating to the adoption of the merger agreement, it will have the same effect as a vote AGAINST the proposal because holders of a majority of the outstanding shares of MGM common stock entitled to vote must vote in favor of the proposal in order to adopt the merger agreement.

As of the record date, Tracinda Corporation and 250 Rodeo, Inc., our principal stockholders, which we refer to as Tracinda and 250 Rodeo in this proxy statement, collectively held 164,049,644 shares of MGM common stock, which represents approximately 69% of all of the outstanding shares of MGM common stock entitled to vote at the special meeting. 250 Rodeo is a subsidiary of Tracinda, which is wholly owned by Kirk Kerkorian, a director of MGM. In connection with the merger agreement, Tracinda and 250 Rodeo entered into a voting and support agreement with LOC. Under the voting and support agreement, Tracinda and 250 Rodeo agreed, among other things and subject to certain exceptions, to vote in favor of the adoption of the merger agreement and against any alternative transaction.

As of the record date, our directors and executive officers as a group, including Mr. Kerkorian, owned or controlled 175,383,476 shares of common stock (including shares owned by Tracinda and 250 Rodeo), which represents approximately 74% of the total common stock outstanding on that date. Each of our directors and executive officers has indicated that he or she intends to vote in favor of adoption of the merger agreement but, except as described above, has no obligation to do so.

- ***Completing Your Proxy Card***

After carefully reading and considering the information contained in this proxy statement, you should complete, date and sign the enclosed proxy card and mail the proxy card in the enclosed return envelope as soon as possible so that your shares of common stock are represented at the special meeting, even if you plan to attend the special meeting in person. If no specification is indicated, all of your shares of common stock represented by valid proxies that have been submitted will be voted FOR the adoption of the merger agreement. You may also vote in person by ballot at the special meeting.

- ***Revoking Your Proxy***

Until your proxy is voted at the special meeting, you can revoke your proxy and change your vote in any of the following ways:

giving written notice of the revocation to the Company s Secretary, William Allen Jones, at Metro-Goldwyn-Mayer Inc., 10250 Constellation Boulevard, Los Angeles, California 90067;

by submitting another properly signed proxy with a later date;

voting in person at the meeting (if your shares are registered directly on our books and not held through a broker, bank, or other nominee); attendance at the special meeting will not in and of itself constitute a revocation of the proxy; or

if you have instructed your broker or other nominee to vote your shares, you must follow the procedures provided by your broker or nominee to change those instructions.

The Merger

- ***Structure of the Merger***

Subject to the terms and conditions of the merger agreement, LOC will merge with and into MGM and MGM will continue as the surviving corporation. As a result of the merger, MGM, as the surviving corporation, will cease to be a publicly traded company and will be owned by Sony Corporation of America, Comcast Studio Investments, Inc. and affiliates of Providence Equity Partners, Texas Pacific Group and DLJ Merchant Banking Partners.

- ***What You Will Receive in the Merger*** **(page [ ])**

If we complete the merger, holders of our common stock will be entitled to receive $12.00 per share in cash, without interest, in exchange for each share of common stock that they own (other than shares for which appraisal rights are properly being sought) at the time the merger is completed.

- ***Appraisal Rights*** **(page [ ])**

Holders of our common stock who do not wish to accept the $12.00 per share cash consideration payable pursuant to the merger may seek, under Delaware law, appraisal of the fair value of their shares by the Delaware Court of Chancery. The fair value, which would be exclusive of any value arising from the accomplishment or expectation of the merger, could be more or less than, or the same as, the merger consideration of $12.00 per share. This right of appraisal is subject to a number of restrictions and requirements. Generally, in order to exercise appraisal rights, among other things you:

must not vote your shares in favor of adoption of the merger agreement;

must make and deliver to us a written demand for appraisal in compliance with Delaware law before the vote on the adoption of the merger agreement; and

must continuously hold your shares of record from the date of making the written demand for appraisal through the effectiveness of the merger and otherwise comply with the procedures under Delaware law for exercising appraisal rights.

Because a signed proxy card not marked AGAINST or ABSTAIN will, unless revoked, be voted for the adoption of the merger agreement, the submission of a signed proxy card not marked AGAINST or ABSTAIN will result in the loss of your appraisal rights. If you hold shares in the

name of a broker or other nominee, you must instruct your broker or nominee to take the steps necessary to enable you to exercise your appraisal rights. If you or your nominee fails to follow all of the steps required by the statute, you will lose your right of appraisal.

Appendix F to this proxy statement sets forth the Delaware statute relating to your right of appraisal. This proxy statement constitutes the notice required by Delaware law concerning the appraisal rights of our common stockholders.

Under the merger agreement, LOC is not required to complete the merger if holders of 10% or more of our outstanding common stock as of the date of the merger agreement demand appraisal of their shares in accordance with Delaware law.

Table of Contents

- ***Recommendation of our Board of Directors* (page [ ])**

Our board of directors has determined that the merger is advisable and is fair to, and in the best interests of, our stockholders. **Accordingly, our board of directors unanimously recommends that you vote FOR adoption of the merger agreement at the special meeting.**

- ***Our Reasons for the Merger* (page [ ])**

Our board of directors determined to unanimously recommend approval of the adoption of the merger and the merger agreement based on its consideration of a number of factors, which are described in the section of this proxy statement entitled The Merger Our Reasons for the Merger; Recommendation of the MGM Board.

- ***Financing of the Merger; Source of Funds* (page [ ])**

In connection with entering into the merger agreement, LOC obtained a commitment letter from J.P. Morgan Securities Inc., JPMorgan Chase Bank and Credit Suisse First Boston. We refer to this letter as the debt commitment letter. Under the debt commitment letter, J.P. Morgan Securities Inc., JP Morgan Chase Bank and Credit Suisse First Boston agreed to provide LOC with up to $4.25 billion in debt financing in connection with the merger. The obligations of the lenders under the debt commitment letter are subject to customary conditions, including:

the satisfaction of the conditions to the merger contained in the merger agreement, such as the absence of a company material adverse effect;

the contribution of approximately $1.1 billion in equity financing to LOC by the equity investors; and

negotiation of mutually satisfactory definitive documentation.

In addition, each of the equity investors has delivered a commitment letter to LOC. We refer to these letters as the equity commitment letters. Under their equity commitment letters, Sony, Comcast, Providence, TPG and the DLJ funds have agreed to make equity contributions to LOC in the amounts of $300 million, $300 million, $525 million, $350 million and $125 million, respectively. The obligations of each equity investor under its equity commitment letter may be satisfied directly or through one of its affiliates and are subject to each other equity investor making its equity contribution to LOC and to the satisfaction of the other conditions to the merger contained in the merger agreement.

- ***Deposit Agreement* (page [ ])**

Sony Corporation of America and MGM have entered into a deposit agreement. Under the deposit agreement, Sony deposited $150 million into an MGM bank account. MGM must return the deposit to Sony at the effective time of the merger. Otherwise, the deposit is nonrefundable unless either:

the merger agreement is terminated under circumstances where MGM is required to pay the termination fee, provided that if MGM is required to pay the termination fee under the merger agreement because LOC terminated the merger agreement in the manner described under the second bullet point of the section of this proxy statement entitled The Merger Agreement Termination Fee if Merger is Not Consummated, MGM will not be required to return the deposit unless, within nine months of the termination of the merger agreement, MGM enters into a definitive agreement with a third party (other than Tracinda and 250 Rodeo) with respect to an alternative takeover proposal; or

a court has determined that there has been a material adverse effect on MGM.

Table of Contents

In addition, if LOC terminates the merger agreement because MGM has breached any of its covenants such that the conditions to the merger cannot be satisfied and there is a final binding judgment of a court that MGM willfully and materially breached the merger agreement (as to which all rights of appeal or other avenues of review have been exhausted or lapsed), then the amount of the deposit may be taken into account in determining the damages resulting from MGM s willful and material breach.

- ***Letters of Credit*** **(page [ ])**

In connection with the execution of the merger agreement, we received an aggregate of $100 million in letters of credit from Comcast, Providence, TPG and the DLJ funds. If we terminate the merger agreement because LOC breaches any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger to be satisfied and we obtain a final, binding judicial determination that LOC willfully and materially breached the merger agreement or any equity investor willfully and materially breached its obligations under its equity commitment letter then we will be able to draw under these letters of credit to the extent that the court awards us damages in excess of $150 million, up to an additional maximum of $100 million.

- ***Interests of Directors and Executive Officers of MGM in the Merger*** **(page [ ])**

When considering our board of directors unanimous recommendation that the MGM stockholders vote in favor of the adoption of the merger agreement, you should be aware that some directors and executive officers of MGM may have interests in the merger that may be different from, or in addition to, the interests of MGM stockholders.

Our board of directors knew about these additional interests, and considered them, among other matters, when it approved the merger agreement and determined that the merger is advisable and fair to, and in the best interests of MGM stockholders.

- ***Opinion of Goldman, Sachs & Co.*** **(page [ ] and Appendix B)**

Our board of directors considered the analyses of Goldman, Sachs & Co., or Goldman Sachs, and in particular the opinion of Goldman Sachs that, as of September 23, 2004 and based upon and subject to the factors and assumptions set forth in such opinion, the $12.00 per share in cash to be received by the holders of MGM common stock (other than Tracinda, 250 Rodeo and their principal stockholder) pursuant to the merger agreement is fair from a financial point of view to such holders. The full text of the written opinion of Goldman Sachs, dated September 23, 2004, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Appendix B to this proxy statement and is incorporated herein by reference. Goldman Sachs provided its opinion for the information and assistance of MGM s board of directors in connection with its consideration of the merger. The Goldman Sachs opinion does not in any respect address MGM s underlying business decision to engage in the merger and is not a recommendation as to how any holder of MGM common stock should vote with respect to the merger.

- ***Opinion of Morgan Stanley & Co. Incorporated*** **(page [ ] and Appendix C)**

Our board of directors considered the analyses of Morgan Stanley & Co. Incorporated, or Morgan Stanley, and in particular the opinion of Morgan Stanley that, as of September 23, 2004 and based upon and subject to the factors and assumptions set forth in such opinion, the $12.00 per share in cash to be received by the holders of MGM common stock (other than Tracinda, 250 Rodeo and their principal stockholder) pursuant to the merger agreement is fair from a financial point of view to such holders. The full text of the written opinion of Morgan Stanley,

dated September 23, 2004, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Appendix C to this proxy statement and is incorporated herein by reference. Morgan Stanley provided its opinion for the information and assistance of our board of directors in connection with its consideration of the merger. The Morgan Stanley opinion does not in any respect address our underlying business decision to engage in the merger and is not a recommendation as to how any holder of MGM common stock should vote with respect to the merger.

Table of Contents

- ***Material Federal Income Tax Consequences* (page [ ])**

The exchange of MGM common stock for cash pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes and may also be taxable under applicable state, local, foreign and other tax laws. For U.S. federal income tax purposes, a stockholder who receives cash as a result of the merger will generally recognize gain or loss equal to the difference between the adjusted basis of the shares exchanged and the amount of cash received therefor. Any such recognized gain or loss will be capital gain or loss if the shares are held as capital assets by the stockholder, and will generally be long-term capital gain or loss if the stockholder has held the shares for more than one year. Long-term capital gain of a non-corporate stockholder is generally subject to a maximum U.S. federal income tax rate of 15%.

The income tax discussion set forth above may not be applicable to stockholders in special situations such as stockholders who will own, actually or constructively, an interest in the surviving corporation following the merger, stockholders who received their shares upon the exercise of stock options or otherwise as compensation, stockholders who are traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, stockholders who are not U.S. persons and stockholders who are partnerships. Stockholders are urged to consult their own tax advisors with respect to the specific tax consequences to them of the merger, including the application and effect of federal, state, local, foreign or other tax laws.

- ***Conditions to the Merger* (page [ ])**

MGM and LOC are not required to consummate the merger unless the following conditions are satisfied or waived:

adoption of the merger agreement by our stockholders;

the waiting periods under the Hart-Scott-Rodino Act and Council Regulation (EC) No. 139/2004 have expired or been terminated and all other material regulatory consents or approvals necessary for the closing of the merger and the other transactions to be consummated in connection with the merger have been obtained;

no law or order is in effect prohibiting the completion of the merger; and

MGM and LOC shall have received a solvency opinion from Houlihan Lokey Howard & Zukin.

Furthermore, LOC is not required to consummate the merger unless the following additional conditions are satisfied or waived:

the financing necessary to complete the merger as contemplated by the debt commitment letter provided to LOC in connection with the merger shall have been consummated on its terms (or alternative financing on terms substantially equivalent to such contemplated financing shall have been obtained);

our representations and warranties in the merger agreement shall be true and correct, generally subject to such exceptions as would not result in a material adverse effect on MGM;

- we shall have complied in all material respects with all of our obligations, covenants and conditions under the merger agreement;

- no event or events shall exist or have occurred that have had, or would be reasonably expected to have, a material adverse effect on MGM; and

- holders of not more than 10% of our common stock outstanding as of September 23, 2004 shall have demanded appraisal of their shares in accordance with Delaware law.

Our obligation to complete the merger is subject to additional conditions, including, generally, the accuracy of the representations and warranties of LOC, and the performance by LOC in all material respects of its obligations under the merger agreement.

Table of Contents

A party to the merger agreement could choose to complete the merger even though a condition has not been satisfied, so long as the law allows it to do so. Some of these conditions are beyond our control. We cannot assure you that any of these conditions, including the conditions within our control, will be satisfied or waived, or that the merger will be completed.

• ***No Solicitation* (page [ ])**

The merger agreement contains restrictions on the ability of MGM and its affiliates to solicit or engage in discussions or negotiations with a third party regarding a proposal to acquire MGM or a significant interest in MGM. Notwithstanding these restrictions, under certain limited circumstances before the approval of our stockholders is obtained, our board may respond to a *bona fide* unsolicited written takeover proposal that it concludes constitutes, or could be reasonably expected to lead to, a superior proposal. In addition, before our stockholders adopt the merger agreement, we may terminate the merger agreement to enter into an agreement with respect to a superior proposal. See The Merger Agreement No Solicitation for a further description of these restrictions.

• ***Termination of the Merger Agreement* (page [ ])**

The merger agreement may be terminated:

if both we and LOC agree to do so;

by either us or LOC, if:

our stockholders fail to approve the merger at the special meeting or any adjournment of the special meeting;

the merger is not completed on or before September 27, 2005, except that either of the parties may extend this date until December 27, 2005 if all closing conditions have been satisfied other than the conditions relating to (1) expiration of waiting periods under antitrust laws and obtaining regulatory approvals and (2) absence of laws or orders prohibiting completion of the merger; we refer to this date, as it may be extended, as the termination date ; or

there is any law or any final and nonappealable governmental order, decree or ruling that prevents completion of the merger;

by us:

if LOC breaches any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied which is not cured prior to the earlier of 20 business days after LOC receives written notice of the breach or the termination date;

if any of the equity investors fails to make its equity contribution to LOC in accordance with the terms of the equity commitment letter it has delivered to LOC and the breach is not cured prior to the earlier of 10 business days after LOC receives written notice of the breach or the termination date;

in order to enter into an agreement with respect to a superior proposal, prior to adoption by our stockholders of the merger agreement, if we have complied with certain of our obligations in the merger agreement, including those described under The Merger Agreement No Solicitation, as they relate to the superior proposal, and if we pay the termination fee described below under The Merger Agreement Termination Fee if Merger is Not Consummated ; or

if the debt commitment letter that LOC has received in connection with the merger expires prior to consummation of the merger; the debt commitment letter is currently scheduled to expire on December 12, 2005;

by LOC:

if we breach any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied which is not cured prior to the earlier of 20 business days after we receive written notice of the breach or the termination date;

if our board of directors withdraws or modifies in a manner adverse to LOC its recommendation that MGM s stockholders adopt the merger agreement or recommends, approves or adopts a takeover proposal;

if we fail to include in this proxy statement (or any amendment) the recommendation of our board of directors that you vote in favor of the merger;

if a third party commences a tender or exchange offer for MGM and our board of directors does not recommend rejection of the offer within 10 business days of its commencement;

our board of directors approves or recommends a takeover proposal by a third party or approves or recommends that our stockholders tender their shares in any tender or exchange offer; or

we materially breach our covenant to not solicit alternative takeover proposals or to hold the special meeting.

- ***Termination Fee*** **(page [ ])**

We agreed to pay LOC a $135 million termination fee if:

we terminate the merger agreement in order to enter into an agreement with respect to a superior proposal;

LOC terminates the merger agreement because, prior to obtaining MGM stockholder approval:

our board withdraws or modifies in a manner adverse to LOC its recommendation that MGM s stockholders adopt the merger agreement or recommends, approves or adopts a takeover proposal;

we fail to include in this proxy statement (or any amendment) the recommendation of our board that you vote in favor of the merger;

a third party commences a tender or exchange offer for MGM and our board does not recommend rejection of the offer within 10 business days of its commencement; or

our board approves or recommends a takeover proposal or approves or recommends that our stockholders tender their shares in any tender or exchange offer.

the merger agreement is terminated by us or LOC because (i) our stockholders fail to approve the merger at the special meeting or any adjournment of the special meeting or (ii) because the merger is not consummated prior to the termination date (unless the conditions that have not been satisfied at such time are solely within the control of LOC), or by LOC because (i) we breach any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied or (ii) we breach our obligation not to solicit takeover proposals or fail to recommend that you vote in favor of adoption of the merger agreement; and

prior to termination of the merger agreement, a third party shall have publicly made, proposed, communicated or disclosed an intention to make a takeover proposal for MGM; and

within nine months following termination of the merger agreement, we enter into a definitive agreement with a third party with respect to a takeover proposal or any takeover proposal is consummated.

- ***Damages if Merger Agreement is Terminated*** **(page [ ])**

If we terminate the merger agreement because LOC breaches any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied and we obtain a final, binding judicial determination that LOC willfully and materially breached any covenant under the merger agreement or that any equity investor willfully and materially breached its obligations under its equity

Table of Contents

commitment letter, then under the merger agreement, we will keep the $150 million deposit and be entitled to recover from LOC the amount of our actual damages in excess of $150 million up to an additional $100 million, for an aggregate amount of actual damages not to exceed $250 million.

If we breach any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied and LOC obtains a final, binding judicial determination that we willfully and materially breached any covenant under the merger agreement and that LOC suffered actual damages resulting from such willful and material breach, then under the agreement, LOC will be entitled to recover from us the amount of its actual damages up to $135 million.

Table of Contents

The Special Meeting of Stockholders

We are furnishing this proxy statement to our stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting.

Date, Time and Place

We will hold the special meeting at , located at , Los Angeles, California, at a.m., Pacific standard time, on , 2004.

Purpose of the Special Meeting

At the special meeting, we will ask holders of our common stock to consider and vote on the proposal to adopt the merger agreement. Our board of directors has unanimously approved the merger agreement and has determined that the merger is advisable and is fair to, and in the best interests of, our stockholders. Accordingly, our board of directors unanimously recommends that you vote FOR the adoption of the merger agreement.

Record Date, Shares Entitled to Vote and Quorum

Only holders of record of our common stock at the close of business on November 5, 2004, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting. On the record date, 238,238,371 shares of our common stock were issued and outstanding and held by approximately 2,000 holders of record. A quorum will be present at the special meeting if the holders of a majority of the outstanding shares of our common stock entitled to vote on the record date are represented in person or by proxy. Each holder of MGM common stock is entitled to one vote for each share held of record on the record date.

Vote Required for Adoption of the Merger Agreement

In order to adopt the merger agreement, holders of at least a majority of the outstanding shares of MGM common stock entitled to vote must vote in favor of adopting the merger agreement.

If you withhold a vote or abstain from voting on the proposal to adopt the merger agreement, it will have the same effect as a vote AGAINST the proposal because holders of a majority of the outstanding shares of our common stock entitled to vote must vote in favor of the proposal to adopt the merger agreement in order for it to be adopted.

Broker non-votes occur when a person holding shares through a bank or brokerage account does not provide instructions as to how his or her shares should be voted and the broker does not exercise discretion to vote those shares on a particular matter. Brokers may not exercise discretion to vote shares as to which instructions are not given with respect to adoption of the merger agreement. The shares represented by a broker non-vote will be considered present at the special meeting for the purposes of determining a quorum, but will have the same effect as a vote AGAINST the proposal because holders of a majority of the outstanding shares of our common stock entitled to vote must vote in favor of the proposal in order to adopt the merger agreement.

A quorum of our shares must be present at the meeting in order for the meeting to be held. For purposes of determining the presence of a quorum, shares will be counted if they are present in person or by proxy. Shares present by proxy will be counted as present for purposes of determining the presence of a quorum even if the proxy does not have authority to vote on all matters.

Voting by Directors, Executive Officers and Principal Stockholders

As of the record date, our directors and executive officers as a group, including Mr. Kerkorian, owned and were entitled to vote 175,383,476 shares of our common stock (including shares owned by Tracinda and 250 Rodeo), which represents approximately 74% of the total common stock outstanding on that date. Each of our directors and executive officers has indicated that he or she intends to vote in favor of adoption of the merger agreement but, except as set forth below, has no obligation to do so.

Table of Contents

At the close of business on the record date, Tracinda and 250 Rodeo collectively owned and were entitled to vote shares of our common stock representing approximately 69% of the shares of our common stock outstanding on that date. Under a voting and support agreement, dated September 23, 2004, and entered into by Tracinda and 250 Rodeo, on the one hand, and LOC, on the other, in connection with the merger agreement, Tracinda and 250 Rodeo have agreed, among other things and subject to certain exceptions, to vote all of their shares of MGM common stock in favor of adoption of the merger agreement. Votes in favor of adoption of the merger agreement by the shares held by Tracinda and 250 Rodeo are sufficient to cause adoption of the merger agreement by our stockholders.

Voting of Proxies

All shares represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the holders. Properly executed proxies that do not contain voting instructions will be voted FOR adoption of the merger agreement.

We do not expect that any matter other than the proposal to approve the merger agreement will be brought before the special meeting. If, however, our board of directors properly presents other matters, the person named as proxy will vote in accordance with his judgment as to matters that he believes to be in the best interests of the stockholders. A proxy in the accompanying form will give authority to William Allen Jones, Jay Rakow and Daniel J. Taylor to vote on such matters at their respective discretion and they intend to do so in accordance with their respective best judgment on any such matter.

Revocability of Proxies

The grant of a proxy on the enclosed form of proxy does not preclude a stockholder from voting in person at the special meeting. You may revoke a proxy at any time prior to its exercise by (a) giving written notice of the revocation to the Company s Secretary, William Allen Jones, at Metro-Goldwyn-Mayer Inc., 10250 Constellation Boulevard, Los Angeles, California 90067, (b) submitting another properly signed proxy with a later date, or (c) voting in person at the meeting (if your shares are registered directly on our books and not held through a broker, bank, or other nominee). Attendance at the special meeting will not in and of itself constitute a revocation of the proxy. If you have instructed your broker or other nominee to vote your shares, you must follow the procedures provided by your broker or nominee to change those instructions.

Solicitation of Proxies

Pursuant to the merger agreement, MGM and LOC will share equally the expenses of soliciting proxies in the form included with this proxy statement, including the cost of preparing and filing material in connection with the solicitation. In addition to the use of the mail, our directors, executive officers and employees may solicit proxies personally or by telephone. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders. We have retained the firm of Mellon Investor Services LLC to assist in the solicitation of proxies for a base fee of $9,000, plus reasonable out-of-pocket expenses.

You should not send your stock certificates with your proxy. A letter of transmittal with instructions for the surrender of our common stock certificates will be mailed to our stockholders promptly after the consummation of the merger.

16

Table of Contents

The Merger

Background of the Merger

Our management and our board of directors regularly evaluate our operations, strategy and expectations for our business. Based on these evaluations, we have consistently stated, in recent years, that, in order to maximize the value of our assets, MGM should consider growing into, or becoming part of, a larger, vertically integrated organization either through business combinations or other strategic alternatives. To that end, we have regularly evaluated potential business combinations and other strategic opportunities as they arose. From time to time, these involved situations in which we entered into non-disclosure agreements whereby we received preliminary due diligence information from companies that we were interested in acquiring and also provided preliminary due diligence information to companies that expressed an interest in acquiring MGM. However, none of these ever progressed beyond preliminary discussions, and we continued to seek out opportunities for MGM to make an acquisition.

After considering various strategic opportunities, it became apparent to us that no major motion picture company, or other companies that would meet our objectives, were, or were likely to become, available for acquisition in the foreseeable future. As a result, in mid-2003, we began to focus on ways we could share some of the Company s wealth with our stockholders.

At the end of March 2004, Robert Wiesenthal, Executive Vice President and Chief Financial Officer of Sony Corporation of America, contacted Alex Yemenidjian, Chairman of the Board and Chief Executive Officer of MGM, and indicated that Sony was considering sending MGM a letter outlining a possible business combination and a request to begin a due diligence review of MGM.

On April 5, Mr. Yemenidjian received a letter from Howard Stringer, Chairman and Chief Executive Officer of Sony Corporation of America, indicating that Sony, in partnership with Providence and TPG, had the authority to pursue an acquisition of MGM based on a potential enterprise value of up to $5 billion. On April 6, we entered into a non-disclosure agreement with Sony, Providence and TPG. On April 7, Sony and its private equity partners began their due diligence review of MGM.

From time to time over the past several years, we had preliminary discussions with Time Warner Inc. regarding a potential business combination transaction and had provided Time Warner with preliminary due diligence information regarding MGM. In April 2004, a representative of Time Warner indicated to Goldman Sachs, our financial advisor, that Time Warner had some interest in a possible transaction with MGM, but that any proposal would be months away. Although general conversations regarding a potential business combination between representatives of Time Warner and MGM occurred from time to time, we only received a preliminary proposal from Time Warner in June 2004.

In early 2004, our management and board of directors continued to explore ways MGM could share some of the Company s wealth with our stockholders. In view of the preliminary nature of our discussions with Sony and its equity partners, the fact that Sony and its partners had just begun to conduct due diligence, the uncertainty of any possible transaction with any other potential acquirer, our strong cash flow and management s confidence in our ability to continue to generate strong cash flow in the future, on April 26, our board declared a one-time cash dividend of $8.00 per share, payable to stockholders of record as of the close of business on May 7.

Later in the day on April 26, Mr. Yemenidjian received a letter from Mr. Stringer which proposed an acquisition of MGM by a new company, ultimately named LOC Acquisition Company, to be owned by Sony and a number of funds affiliated with Providence Equity Partners Inc., Texas Pacific Group and DLJ Merchant Banking Partners, whom we refer to collectively as the Sony consortium. The proposal, which was subject to, among other things, completion of due diligence and negotiation of mutually satisfactory definitive documentation, indicated an enterprise value for MGM of $5 billion, which, according to the proposal, would be equal to approximately $20.00 per share in cash before taking into account the one-time special dividend of $8.00 per share. The proposal included a proposed debt commitment letter from Credit Suisse First Boston. In its proposal, Sony also requested a 20-business-day period to negotiate exclusively with MGM.

Table of Contents

After consulting with representatives of Goldman Sachs, and our attorneys at Latham & Watkins LLP and Christensen, Miller, Fink, Jacobs, Glaser, Weil & Shapiro, LLP, on April 28, we sent the Sony consortium a list of issues we had with the Sony consortium s proposal, including that:

- based upon our calculations and our anticipated operating results, we believed an aggregate enterprise value of $5 billion should result in an assumed purchase price of $21.00 per share prior to payment of the one-time dividend, rather than the $20.00 per share stated in Sony s letter;

- the proposal did not specify the equity commitments each of the members of the Sony consortium would make to LOC or include any kind of commitment on the part of the equity investors to make equity financing available to LOC;

- the debt commitment letter was subject to numerous conditions that created significant uncertainty as to the Sony consortium s ability to complete the transaction;

- the proposal did not describe the internal arrangements among the equity investors and, as a result, we were not able to analyze any potential risks to closing, the feasibility of the potential transaction under our material agreements or the impact of the proposed structure on the conditions contained in the debt commitment letter;

- the proposal did not address who would bear the regulatory risks related to closing the transaction;

- the proposal did not discuss numerous significant issues, such as the scope of representations, warranties and covenants, whether there would be a closing condition relating to obtaining debt financing and the terms of the non-solicitation provisions of the merger agreement;

- the proposal did not address issues related to employee retention and severance and did not confirm that severance costs would be excluded from the calculation of the per share price; and

- the proposal did not indicate what additional due diligence would be needed.

In addition, we advised the Sony consortium that we would not be willing to enter into an agreement to negotiate exclusively with the Sony consortium unless it contained a fiduciary out allowing us to respond to unsolicited offers from other potential acquirers.

On April 28, we entered into a non-disclosure agreement with DLJ Merchant Banking Partners.

On April 29, Mr. Yemenidjian and Mr. Kerkorian met with Mr. Stringer and Mr. Wiesenthal to discuss the proposal contained in Mr. Stringer s letter in greater detail.

On May 4, Mr. Stringer, on behalf of the Sony consortium, sent a letter to Mr. Yemenidjian containing additional information in response to our April 28 issues list, including a schedule deriving an implied price of $20.34 per share (prior to payment of the one-time cash dividend) based on the proposed $5 billion enterprise value. The letter also indicated that Sony expected our principal stockholders, Tracinda and 250 Rodeo, which

together own approximately 69% of our outstanding common stock, to agree to vote in favor of the proposed transaction and requested that we agree to negotiate exclusively with the consortium for 20 business days, subject to our ability to respond to unsolicited written proposals. The Sony consortium indicated that it expected to be able to complete all remaining due diligence and negotiate definitive documentation during this period.

On May 5, we announced that we were postponing our annual meeting of stockholders from May 12 to June 29 because we were considering strategic alternatives and we and our board of directors wanted additional time to evaluate such alternatives prior to the annual meeting.

Following further negotiations, we entered into a 15-business-day exclusivity agreement with the Sony consortium, dated May 6. Under the agreement, we agreed not to solicit other offers to acquire MGM and to

Table of Contents

provide the equity investors with exclusive access to MGM s due diligence information for a 15-business-day period but reserved the right to respond to unsolicited proposals.

Between May 7 and May 10, Mr. Yemenidjian spoke with Mr. Wiesenthal regarding the Sony consortium s May 4 letter. During this time, Mr. Yemenidjian advised Mr. Wiesenthal that MGM would insist that the terms and conditions of any transaction with the Sony consortium be consistent with a customary merger between two publicly-traded companies and, among other things, that the consortium bear all risks of closing the proposed transaction and that the representations and warranties be consistent with other public company transactions in the entertainment industry and not survive the closing.

On May 10, Mr. Yemenidjian sent a letter to the Sony consortium, addressed to Mr. Stringer, outlining these issues in more detail and requesting clarification of a number of other issues, including:

- what adjustments would be made to the $5 billion enterprise value to determine the per share price payable to our stockholders at closing;
- the status of financial commitments from Sony and its equity partners;
- the need for additional information regarding the business arrangements among Sony and the other equity investors following their acquisition of MGM;
- the acceptability of our employee security plans, which had previously been provided to, and, we believed, agreed with by, the Sony consortium; and
- the conditions that would be contained in the debt commitment letter.

On May 12, at a regularly scheduled meeting of our board of directors, Mr. Yemenidjian discussed with our board the proposal received from the Sony consortium, as well as other discussions that we had had with other third parties regarding a potential business combination. At this meeting, the board also considered and approved the employee security plans that had previously been approved by the compensation committee of the board of directors.

On May 17, 2004, we paid the previously declared one-time cash dividend of $8.00 per share.

On May 18, Dewey Ballantine LLP, counsel to Sony, and Skadden, Arps, Slate, Meagher & Flom LLP, counsel to Providence, TPG and DLJ Merchant Banking Partners, distributed initial drafts of a merger agreement and a voting and support agreement with Tracinda and 250 Rodeo. On May 20, Mr. Yemenidjian sent a letter to the Sony consortium, addressed to Mr. Wiesenthal, describing a number of significant concerns we had with the proposed merger agreement. The parties proceeded to negotiate these agreements, and comments and new drafts were exchanged over the following weeks. During this period, representatives of the Sony consortium, its legal counsel and other advisors conducted extensive due diligence. Also during this period, Mr. Yemenidjian had numerous conversations with Mr. Wiesenthal and representatives of the other equity investors to discuss various issues relating to the proposed transaction.

On May 27, the 15-business-day exclusivity agreement with the Sony consortium expired.

On June 11, Mr. Yemenidjian and Mr. Kerkorian met with representatives of Time Warner to discuss the parameters of a possible acquisition of MGM by Time Warner. During this meeting, the parties discussed a transaction that would involve aggregate consideration of $4.5 billion, including assumption of debt. Under the terms discussed, Tracinda and 250 Rodeo would receive 90 million shares of restricted Time Warner common stock with an aggregate value of approximately $1.575 billion based on the closing price of Time Warner common stock on June 10 (or approximately $9.60 per share of MGM common stock owned by Tracinda and 250 Rodeo) and all other stockholders, including Mr. Kerkorian, would receive cash consideration of $12.75 per share. Because Time Warner was not in a position to register with the SEC an issuance of its common stock for purposes of an acquisition, it indicated that it was unable to offer stock consideration to our public stockholders.

Table of Contents

Time Warner, which had previously conducted preliminary due diligence on MGM, recommenced its due diligence review of MGM following this meeting. Discussions among representatives of Time Warner, MGM and Tracinda concerning the structure of a possible transaction, antitrust issues and other issues continued through June. During this period, Time Warner agreed that it would pay a $150 million business interruption fee if it was unable to obtain antitrust approval for the transaction or if it was unwilling to agree to certain actions necessary to obtain required antitrust approvals.

On June 19 and 20, representatives of MGM, Tracinda, Sony, the other equity investors and their respective legal counsel met in New York City to identify and discuss open issues with respect to the draft merger agreement and the voting and support agreement and the proposed Sony consortium transaction, including:

- the method for converting a proposed enterprise value to a per share equity value;
- whether the equity investors would have any direct contractual relationship with MGM or any obligation to take actions to assist closing of the merger;
- whether, if Sony or any other equity investor did not make its equity contribution to LOC, the other equity investors would be required to make up the difference;
- whether MGM would have recourse to the equity investors if LOC breached its obligations under the merger agreement;
- the terms of the debt financing commitment, including the closing conditions contained in the debt commitment letter;
- whether the Sony consortium s obligation to close would be subject to receipt of any non-governmental third party consents;
- what the parties would consider in determining whether a company material adverse effect had occurred permitting the Sony consortium to terminate the merger;
- whether MGM or the Sony consortium would bear any potential regulatory risks to closing the proposed transaction;
- whether the Sony consortium would agree to pay a business interruption fee if the merger was not completed because the Sony consortium was unable to obtain required regulatory approvals or the contemplated debt financing was not available;
- the scope of the restrictions on the operation of our business prior to closing;
- the scope of the non-solicitation provisions in the merger agreement and the voting and support agreement with Tracinda and 250 Rodeo and the circumstances under which we, Tracinda and 250 Rodeo would be able to respond to unsolicited takeover proposals; and
- the size of the termination fee we would pay the Sony consortium if we accepted a superior proposal or took certain other actions.

We and our representatives continued to discuss these and other issues with the Sony consortium and its representatives over the next several weeks and our respective legal counsel exchanged several revised drafts of the merger agreement during this period.

On June 25, Latham & Watkins distributed a draft merger agreement to Time Warner s counsel. The draft agreement contemplated a transaction in which all holders of MGM common stock other than Tracinda and 250 Rodeo would receive $12.75 per share in cash and Tracinda and 250 Rodeo would receive an aggregate of 90 million shares of restricted Time Warner common stock on a tax-free basis. The consideration to be received by Tracinda and 250 Rodeo reflected an approximately 25% discount from the price to be paid to MGM s other stockholders based on the current market price of Time Warner stock at that time. This calculation of the discount reflected solely the difference between the then current market value of the Time Warner stock and the cash consideration of $12.75 and did not take into account any additional discount that would be attributable to

Table of Contents

the fact that the stock to be received by Tracinda and 250 Rodeo would be restricted and would not be freely transferable.

On June 29, at a regularly scheduled board meeting, Mr. Yemenidjian discussed with our board the status of the proposed transactions with the Sony consortium and Time Warner, the relative merits of each of the proposed transactions, including the financial, legal and regulatory risks of each transaction and the estimated time each transaction would take to close. At this meeting, our board established a special committee, comprised of non-management directors who are independent of Tracinda, 250 Rodeo and their affiliates, including MGM MIRAGE, to review and evaluate the fairness to our public stockholders of any acquisition transaction in which Tracinda and 250 Rodeo would receive different consideration than the public stockholders, to negotiate the terms of any such transaction to the extent deemed advisable by the committee and to report its conclusions and recommendations to our board. The members of the special committee were Frank G. Mancuso, A. N. Mosich, Priscilla Presley, Henry D. Winterstern and Jerome B. York.

On July 3, we received a revised merger agreement from Time Warner s legal counsel. On July 7, representatives of Latham & Watkins and Fried, Frank, Harris, Shriver & Jacobson LLP, counsel to Tracinda and 250 Rodeo, met with Time Warner s legal counsel to discuss the most significant business issues raised by Time Warner s comments on the merger agreement, as well as the documents proposed by Time Warner with respect to the terms of the stock to be received by Tracinda and 250 Rodeo. These issues related to, among other things:

Time Warner s proposal to issue special non-voting convertible preferred stock to Tracinda and 250 Rodeo, rather than common stock;

what obligations Time Warner would have to register the shares issued to Tracinda and 250 Rodeo;

the ability of Tracinda and 250 Rodeo to sell the stock under Rule 144 under the Securities Act of 1933;

the request by Time Warner for a profit-sharing arrangement with Mr. Kerkorian, Tracinda and 250 Rodeo under which Time Warner would receive 90% of the proceeds received by Mr. Kerkorian, Tracinda and 250 Rodeo above the price offered by Time Warner if the merger agreement were terminated for a superior proposal and would have the right to increase the price paid to the public stockholders without increasing the price to be paid to Mr. Kerkorian, Tracinda and 250 Rodeo;

the terms of a standstill agreement to be entered into by Mr. Kerkorian, Tracinda and 250 Rodeo;

the scope of the non-solicitation covenants in the merger agreement and our ability to terminate the merger agreement to accept a superior proposal;

a closing condition proposed by Time Warner that we have no more than $1.9 billion in indebtedness at closing and the possibility of substituting a purchase price adjustment based on our aggregate indebtedness at closing;

the triggers for payment of the $150 million business interruption fee and the types of actions Time Warner would be willing to agree to take to obtain antitrust approval for the transaction; and

the scope of our representations and warranties and the restrictions imposed on our operations prior to closing.

Over the following two weeks, we, Tracinda and our representatives continued to discuss these and other issues with Time Warner and its representatives, and exchanged drafts of various agreements relating to the proposed transaction. As these discussions continued, Tracinda and 250 Rodeo requested that Time Warner agree to provide some form of value protection in the event that the market price of their Time Warner stock declined significantly before Time Warner was able to effect a registration of the shares to be received by Tracinda and 250 Rodeo in the proposed transaction.

On July 14, representatives of MGM, the Sony consortium and their respective counsel met at MGM s executive offices to discuss the principal open issues with respect to the proposed Sony consortium transaction, which were identified at the meetings on June 19 and 20 and remained unresolved.

Table of Contents

On July 18, Mr. Yemenidjian and Jay Rakow, Senior Executive Vice President and General Counsel of MGM, met with representatives of Tracinda, Goldman Sachs, Latham & Watkins, Christensen Miller and Fried Frank to discuss the principal issues in the proposed transaction with Time Warner. Also on July 18, 2004, representatives of MGM and Latham & Watkins held a conference telephone call with representatives of Time Warner and its legal counsel to discuss antitrust issues related to the Time Warner proposal and the scope of Time Warner s obligations to obtain antitrust approval for the transaction.

On July 19, Mr. Yemenidjian and counsel to MGM and Tracinda met with representatives of Time Warner and its legal counsel in Los Angeles to discuss the principal business issues in the proposed transaction with Time Warner, including:

- whether the $1.9 billion limit on our indebtedness would be a closing condition or a purchase price adjustment based on the level of our indebtedness at closing;
- the scope of the representations and warranties Time Warner would make to Tracinda and 250 Rodeo and whether Tracinda and 250 Rodeo would have any post-closing remedies against Time Warner;
- whether Tracinda and 250 Rodeo would have the right not to complete the transaction if there was a material adverse effect on Time Warner prior to closing, including the possible effects of matters that had already been publicly disclosed;
- Time Warner s obligations to register the stock to be issued to Tracinda and 250 Rodeo and Tracinda s and 250 Rodeo s ability to sell their Time Warner stock under Rule 144 under the Securities Act of 1933;
- the scope of the non-solicitation covenants in the merger agreement and our ability to terminate the merger agreement to accept a superior proposal;
- the size of the termination fee we would pay to Time Warner if we accepted a superior proposal or took certain other actions and whether Mr. Kerkorian, Tracinda and 250 Rodeo would enter into a profit-sharing arrangement with Time Warner;
- the definition of company material adverse effect ; and
- the nature of the standstill agreements Mr. Kerkorian, Tracinda and 250 Rodeo would enter into with Time Warner with respect to the Time Warner stock Tracinda and 250 Rodeo would receive in the transaction.

On July 21, Dewey Ballantine and Skadden Arps distributed a revised draft of the Sony consortium merger agreement and, on July 23, Latham & Watkins distributed revised provisions relating to the non-solicitation of alternative takeover proposals and our ability to terminate the merger agreement to accept a superior proposal. On August 3, 2004, representatives of MGM, the Sony consortium, Goldman Sachs, Latham & Watkins, Christensen Miller, Dewey Ballantine and Skadden Arps met at MGM s executive offices to discuss open issues with respect to the proposed Sony consortium transaction. During this meeting, Mr. Wiesenthal and representatives of the other equity investors advised Mr. Yemenidjian that the Sony consortium proposed to lower the price for the company to $4.7 billion (or $11.23 per share after taking into account the one-time $8.00 per share dividend declared in April). The parties also discussed all of the other open issues in the transaction and its implementing documentation.

Negotiations with Time Warner continued throughout the end of July and into early August. Representatives of Goldman Sachs and Latham & Watkins spoke with representatives of Time Warner and its financial and legal advisors on numerous occasions. Also during this period, Mr. Yemenidjian spoke with representatives of Time Warner on several occasions. In early August, the parties discussed a proposed revised structure to address Tracinda s and 250 Rodeo s concerns that the value of the unregistered Time Warner stock to be issued to Tracinda and 250 Rodeo might decline before Time Warner would be in a position to register the shares. Under this proposal, which was never agreed to, all of our stockholders other than Tracinda and 250 Rodeo would receive $12.25 per share in cash and Tracinda and 250 Rodeo would receive Time Warner convertible preferred stock with an adjustable conversion ratio and an equivalent value of not less than approximately $9.33 per share

of MGM common stock, representing a 24% discount to the price to be paid to our other stockholders, without taking into account any additional discount attributable to the fact that the stock to be received by Tracinda and 250 Rodeo would be restricted and would not be freely transferable.

The special committee of our board of directors met on August 9 and elected Mr. York as chairman of the committee. Also at this meeting, following discussion about several potential financial and legal advisors, the special committee requested that Mr. York contact Morgan Stanley & Co. Incorporated to discuss serving as the special committee s financial advisor and Richards, Layton & Finger PA to discuss serving as the special committee s legal advisor.

Our board met again on August 11, 2004. Mr. Yemenidjian discussed with the board the progress of negotiations with the Sony consortium, their ongoing due diligence investigations, the open issues that remained to be resolved with the Sony consortium, including the equity investors unwillingness to enter into direct contractual arrangements with MGM and their refusal to agree to pay a business interruption fee if the transaction did not close because the Sony consortium was unable to obtain the required regulatory approvals or the contemplated debt financing was not available. Mr. Yemenidjian also discussed with the board the progress of negotiations with Time Warner, the fact that Time Warner was willing to pay a $150 million business interruption fee under some circumstances and the open issues that remained to be resolved with Time Warner, including the scope of restrictions on our operations prior to closing and the outstanding issues between Time Warner and Tracinda.

During the August 11 board meeting, representatives of Latham & Watkins gave a detailed presentation on the fiduciary duties of the board of directors in connection with a proposed business combination transaction and explained the role of the special committee in connection with any transaction that involved payment of different consideration to Tracinda and 250 Rodeo. They also reviewed in detail with the members of the board a comparison of the terms of each of the proposed transactions, including structure, consideration, tax treatment, antitrust risk, closing conditions, financing risks, representations and warranties, operating covenants and issues relating to treatment of our employees. Representatives of Latham & Watkins also explained the non-solicitation provisions in each of the proposed agreements, the proposed voting and support agreement with Tracinda and 250 Rodeo and other matters.

During the meeting, representatives of Goldman Sachs discussed financial analyses relating to MGM.

No formal action was taken by the board at this meeting.

The special committee also met on August 11, following the meeting of our full board of directors. At this meeting, representatives of Richards, Layton & Finger gave a detailed presentation on the purpose of the special committee, the qualifications of the firm to act as counsel to the special committee, the role of the members of the special committee and their fiduciary duties in connection with any transaction that provided for payment of different consideration to Tracinda and 250 Rodeo, on the one hand, and our other stockholders on the other hand. Representatives of Morgan Stanley also presented their qualifications to the committee, after which the committee met in executive session and determined that it would engage Morgan Stanley and Richards, Layton & Finger.

Negotiations continued with the Sony consortium and its advisors throughout August. On August 18, Mr. Yemenidjian and representatives of Goldman Sachs met with Mr. Wiesenthal and representatives of the other equity investors to discuss open issues in the Sony consortium transaction. During this meeting Mr. Yemenidjian presented the Sony consortium with a proposal for resolution of all outstanding issues, including a proposed purchase price of $11.50 per share. Mr. Yemenidjian also provided the Sony consortium with detailed comments on the most recent form of debt commitment letter they had received from CSFB. Following this meeting, the Sony consortium advised Mr. Yemenidjian that they would not pay more than $11.23 per share.

Discussions among Time Warner, MGM, Tracinda and 250 Rodeo and their respective advisors also continued throughout August. On August 15, Time Warner proposed a revised transaction in which Tracinda and

Table of Contents

250 Rodeo would receive 95 million shares of restricted Time Warner common stock and our other stockholders would receive $12.00 per share in cash. On August 22, Mr. Yemenidjian and representatives of Latham & Watkins and Fried Frank met with representatives of Time Warner and its legal counsel in New York to discuss the remaining issues in the Time Warner proposal. While the participants made progress on most of the remaining issues, they were unable to reach agreement on the terms of a merger that provided for stock consideration to be paid to Tracinda and 250 Rodeo and cash to be paid to our other stockholders. In particular, Tracinda and 250 Rodeo were concerned with respect to the lack of certainty as to when the Time Warner stock to be received by them would be freely tradable and the absence of downside protection with respect to any investment in Time Warner, as well as potential uncertainties relating to Time Warner s ongoing SEC investigation and securities litigation matters. In addition, because the proposed transaction involved differential treatment of stockholders and was conditioned upon a voting and support agreement from Mr. Kerkorian, Tracinda and 250 Rodeo, Mr. Kerkorian, Tracinda and 250 Rodeo requested an indemnity from Time Warner indemnifying Mr. Kerkorian (in his capacity as a stockholder), Tracinda and 250 Rodeo to the same extent as our board members were indemnified against liabilities in connection with any actual or threatened action, suit or proceeding relating to the proposed transaction. On August 26, Time Warner proposed an alternative transaction in which it would pay $10.68 per share in cash to all of our stockholders, including Tracinda and 250 Rodeo.

On August 26, the special committee of our board met by telephone to discuss recent developments in the negotiations with Time Warner and concluded that, because the parties were no longer considering a transaction in which Tracinda and 250 Rodeo would receive different consideration from our other stockholders, there was no reason for the committee to consider the competing Time Warner and Sony consortium proposals independently from the full board of directors. However, in light of the previous work Morgan Stanley had performed and its familiarity with the transaction, our management determined that it would recommend that our board of directors engage Morgan Stanley to provide a second fairness opinion in connection with the proposed transactions. The special committee was then dissolved.

Following further negotiations, on August 27, Time Warner indicated that it would increase the price to $11.00 per share, subject to completion of due diligence and satisfactory negotiation of a number of remaining issues in the proposed merger agreement, including the restrictions on our operations prior to closing and the scope of the representations and warranties we would make regarding intellectual property and related matters.

Following consultation with the members of our board of directors and our legal and financial advisors, and in light of the other terms and conditions of Time Warner s $11.00 per share cash proposal for all stockholders, including the $150 million business interruption fee Time Warner had agreed to with respect to antitrust contingencies, the significant likelihood that Time Warner would be able to complete the merger, the absence of a financing condition, and the continuing lack of progress in negotiations with the Sony consortium, Mr. Yemenidjian agreed to allow Time Warner access to additional due diligence information that had not previously been made available. By this time, most of the contractual issues with Time Warner had been resolved and the parties continued to expeditiously resolve the remaining open issues. Time Warner indicated that it would need approximately two weeks to complete its due diligence.

On September 1, a number of press reports appeared suggesting that MGM might be acquired in a transaction valuing the company at an enterprise value of $5 billion, which would have resulted in a per share purchase price of over $12.00 per share. In light of the valuations then being discussed with both Time Warner and the Sony consortium, we announced that we were actively continuing our consideration of strategic alternatives but that recent press reports regarding a possible transaction valuing MGM s enterprise value as high as $5 billion were inaccurate.

During this period, the Sony consortium advised Mr. Yemenidjian that it could not engage in further negotiations with CSFB and other possible debt financing sources regarding the debt commitment letter until they believed the parties had reached a fundamental understanding on the remaining open business issues. Nevertheless, Mr. Yemenidjian and representatives of the Sony consortium agreed that the respective legal

advisors should continue to discuss the remaining open issues in the Sony consortium merger agreement and our advisors had numerous telephone conferences during the last week of August and first week of September with the consortium s legal counsel. During these discussions, representatives of the Sony consortium proposed that the members of the consortium would post letters of credit in an aggregate amount of $135 million at the signing of the merger agreement and that we would be able to draw down on these letters of credit if we obtained a final, non-appealable judicial order that LOC had willfully and materially breached the merger agreement or that one of the equity sponsors had willfully and materially breached its obligation to make an equity contribution to LOC. However, our ability to recover damages for breach would be limited to $135 million.

On September 8, 2004, representatives of Latham & Watkins spoke at length with representatives of Dewey Ballantine and Skadden Arps regarding open issues in the Sony consortium transaction, including whether LOC s failure to cause the equity investors to take actions in furtherance of the merger would be deemed a breach of the merger agreement by LOC. Although the Sony consortium made a number of concessions, a number of significant issues in the Sony consortium s acquisition proposal remained unresolved, including:

- price;
- the definition of company material adverse effect;
- the consortium s insistence that it be allowed to meet with certain third parties as part of the due diligence process;
- the definition of what would constitute a superior proposal such that our board could elect to terminate the merger agreement to enter into an agreement with a third party;
- the circumstances under which we would be required to pay the termination fee;
- the terms of the debt commitment letter, including the conditions to funding;
- the terms of the equity commitment letters, including that they were not addressed to MGM and that the consortium insisted on disclaimers of third-party beneficiary rights with respect to their commitments for damages in excess of the proposed cap of $135 million;
- the maximum liability of the equity investors for breach of the merger agreement;
- the fact that any equity investor could choose not to make its equity commitment to LOC if any other equity investor failed to make its equity contribution;
- the limited scope of the consortium s obligations to obtain antitrust approval; and
- the limitations on our business operations prior to closing.

On September 9, immediately prior to a special meeting of our board of directors called to update the board on the progress of negotiations with Time Warner and the Sony consortium, Mr. Yemenidjian received a letter from Mr. Stringer, on behalf of the Sony consortium, in which the Sony consortium increased its bid price for MGM to $12.00 per share from $11.23 per share, subject to completion of due diligence and negotiation of mutually acceptable definitive documentation. The letter also indicated that Sony would agree to pay a $150 million business interruption fee if the transaction were not consummated as a result of Sony s failure to accept any conduct undertakings that might be required of Sony to obtain antitrust clearance for the transaction. However, the $150 million business interruption fee proposal did not protect us from certain risks relating to obtaining antitrust approval and did not address our concerns that the Sony consortium s debt financing might not be available after an extended regulatory review process or that one or more members of the Sony consortium would not fund its equity commitment. Nor did the Sony consortium s letter address our other concerns and issues with respect to the Sony consortium transaction.

At the September 9 board meeting, Mr. Yemenidjian described the letter he had just received from the Sony consortium. He also advised the board that representatives of Time Warner had informed him that a Time Warner board meeting was scheduled for Tuesday morning, September 14 for the purpose of approving a transaction with MGM at $11.00 per share.

Table of Contents

Representatives of Latham & Watkins then described the transactions proposed by each of Time Warner and the Sony consortium and the current state of negotiations with each group with respect to, among other things, consideration, structure, certainty of closing, obligations to obtain regulatory approvals, termination fees, indemnification and insurance, restrictions on our operations prior to closing and representations and warranties.

The board discussed at length how it might seek to obtain the best possible proposal from the Sony consortium without causing Time Warner to withdraw from the negotiations. In light of the fact that, following months of negotiations, there remained a number of significant unresolved business issues with the Sony consortium, the board instructed management to urge the Sony consortium to provide its final and best proposal as soon as possible but that management not jeopardize the Time Warner transaction until it had total confidence in the Sony consortium s willingness to sign definitive documentation that resolved all the remaining open business and legal issues.

Later in the day on September 9, Mr. Rakow and representatives of Latham & Watkins and Goldman Sachs spoke with representatives of the Sony consortium and its counsel by telephone to inform them that they needed to demonstrate that there was a clear path to execution of definitive transaction documents by Monday, September 13 and requested that the Sony consortium provide by Sunday afternoon final forms of all transaction documents, including a debt commitment letter, that they would be willing to sign. During this call, our advisors addressed in detail the issues that needed to be addressed in the consortium s proposal, including:

- payment of an unconditional $150 million good faith deposit that would not be refundable unless, after the merger agreement was signed, it was terminated because of our breach;
- the definition of company material adverse effect;
- a debt commitment letter with no conditions beyond those contained in the merger agreement;
- improved provisions regarding the equity investors obligations to obtain antitrust approval;
- a mechanism requiring the equity investors to provide additional equity contributions to LOC if any of the other equity investors fails to make its equity commitment; and
- the representations, warranties and covenants.

In the meantime, we and our advisors continued to negotiate the terms of a merger agreement and the related disclosure schedules with Time Warner and its advisors and Tracinda and 250 Rodeo continued to negotiate the terms of their voting and support agreement with Time Warner. In addition, we advised Time Warner that we had received an alternative offer at a higher price and indicated that Time Warner should consider increasing its offer price.

On Sunday, September 12, at a special meeting of our board of directors, Mr. Yemenidjian again updated the board on the status of the negotiations with the Sony consortium and informed the board that the Sony consortium had requested additional due diligence information, which request was denied. On the evening of September 12, we received proposed definitive transaction documents, including a $4.25 billion debt commitment letter from JPMorgan Chase and CSFB. We and our advisors negotiated through the night on September 12 and on the morning of September 13 with respect to the terms of Sony s agreement to make the $150 million good faith non-refundable deposit and to resolve all other outstanding issues in the revised documents. In the morning, we were advised by the Sony consortium that Comcast

Corporation could become an investor in LOC and part of the Sony consortium. In addition, Tracinda and 250 Rodeo indicated to Mr. Yemenidjian and the Sony consortium that Tracinda and 250 Rodeo would not be willing to enter into the voting and support agreement with LOC unless Tracinda, 250 Rodeo and Mr. Kerkorian (in his capacity as a stockholder) were indemnified against liabilities in connection with any actual or threatened action, suit or proceeding relating to the voting and support agreement and the resulting transaction to the same extent that our board members were indemnified.

Table of Contents

Early in the morning on September 13, we reached an agreement in principle with respect to the Sony consortium transaction and entered into a deposit agreement with Sony. Pursuant to the deposit agreement, Sony wired $150 million to our bank account on Monday morning, September 13, 2004. Under the deposit agreement, we were required to keep the deposit in a segregated bank account until 5:00 p.m. on September 27 or, if we entered into final agreements with the Sony consortium prior to such time, until those agreements were terminated prior to completion of the merger. We also agreed that the merger documentation we received from the Sony consortium on September 12 was, subject to our negotiations on September 12 and 13, substantially complete and that we would negotiate with Sony and the other equity investors in good faith and respond to their due diligence requests. See Deposit Agreement.

Shortly thereafter on the morning of September 13, Mr. Yemenidjian informed representatives of Time Warner that we had in hand a firm alternative offer at $12.00 per share. Time Warner indicated that they would not match the $12.00 per share price. Later that day, Time Warner issued a press release to the effect that it had abandoned discussions for an acquisition of MGM. Later the same day, we issued a press release announcing that we had reached an agreement in principle with the Sony consortium for its acquisition of MGM in a cash merger for consideration of $12.00 per MGM share.

On September 14, at a special meeting of our board of directors, Mr. Yemenidjian updated the board with respect to the events of the prior two days and representatives of Latham & Watkins described the terms of the deposit agreement for the $150 million good faith deposit and the significant changes that had been made to the other terms and conditions of the Sony consortium s proposal in the prior 4 days.

From September 14 through September 23, the Sony consortium completed its due diligence review of MGM and representatives of MGM and the Sony consortium proceeded to finalize the merger agreement, the equity commitment letters and the letters of credit. In addition, representatives of MGM, the Sony consortium, Tracinda and 250 Rodeo proceeded to finalize the other transaction documents, including the voting and support agreement with Tracinda and 250 Rodeo, the indemnity agreement with Tracinda, 250 Rodeo and Mr. Kerkorian. During these negotiations, the Sony consortium indicated that it was unwilling to agree to directly indemnify Tracinda, 250 Rodeo and Mr. Kerkorian in the voting and support agreement, but indicated that they would consent to an indemnity by MGM that survived their acquisition of MGM in the merger.

On September 23, 2004, approximately 90 minutes prior to the board meeting scheduled to consider the merger agreement and related documents with the Sony consortium, representatives of Time Warner called Mr. Yemenidjian and indicated that Time Warner was in discussions with other parties to join with it in acquiring MGM and expected to be in a position to present a revised proposal to acquire us at a price per share in excess of the $12.00 per share being paid by the Sony consortium. However, the representatives of Time Warner also indicated that they could not make a binding commitment to MGM until they concluded negotiations with the potential parties, which they expected to take two to three days, and discussed the matter further with the Time Warner board of directors. Mr. Yemenidjian advised Time Warner that our board was scheduled to meet to consider approving a merger agreement with the Sony consortium later that morning. Mr. Yemenidjian asked if Time Warner would be in a position to make an unconditional non-refundable $150 million deposit to an MGM bank account that afternoon in conjunction with an offer that was meaningfully higher than $12.00 per share, but Time Warner indicated that it would not be able to do so for at least two to three days. Time Warner representatives again called Goldman Sachs and MGM and requested that we delay signing the agreements with the Sony consortium for at least 24 hours, but again declined to make a firm offer or to agree to post a $150 million non-refundable deposit.

Later that morning, at a meeting of our board of directors, Mr. Yemenidjian informed the board of the contacts from Time Warner. The board discussed the implications of the contacts with Mr. Yemenidjian, representatives of Latham & Watkins and representatives of Richards Layton & Finger and determined that it was advisable to proceed with its consideration of the Sony consortium transaction. See Our Reasons for the Merger; Recommendation of the MGM Board.

Table of Contents

Representatives of Latham & Watkins then described for the members of the board the terms and conditions of the Sony consortium merger agreement and related ancillary documents, including the voting and support agreement with Tracinda and 250 Rodeo and an amendment to the deposit agreement, copies of which had been provided to the board in advance. Representatives of Goldman Sachs and Morgan Stanley then delivered their oral opinions, which were subsequently confirmed in writing, that, as of September 23, 2004 and based upon and subject to the factors and assumptions set forth in their opinions, the merger consideration to be received by the holders of MGM common stock (other than Tracinda, 250 Rodeo and their principal stockholder) is fair from a financial point of view to such holders. The full text of the written opinion of Goldman Sachs, dated September 23, 2004, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Appendix B. The full text of the written opinion of Morgan Stanley, dated September 23, 2004, which sets forth the assumptions made, procedures followed, matters considered and limitations on review undertaken in connection with the opinion is attached as Appendix C. Goldman Sachs and Morgan Stanley provided their opinions for the information and assistance of MGM s board in connection with the merger. The Goldman Sachs and Morgan Stanley opinions do not in any respect address MGM s underlying business decision to engage in the merger and are not a recommendation as to how any holder of MGM common stock should vote with respect to the merger.

After due consideration, the board voted unanimously (with one director absent) to approve the Sony consortium merger agreement and the transactions contemplated thereby, including the voting and support agreement with Tracinda and 250 Rodeo, and determined that they were advisable, fair and in the best interests of our stockholders. Our board subsequently ratified these actions by unanimous written consent.

Following adoption of these resolutions, all of the directors other than Mr. Mancuso, Dr. Mosich, Mr. Winterstern and Mr. York left the meeting. Latham & Watkins and Richards Layton & Finger then discussed the indemnity agreement, a copy of which had previously been circulated to the members of the board, with the remaining directors, each of whom is independent of Tracinda, 250 Rodeo and their affiliates and who together constituted a majority of our independent directors. Following an extensive discussion regarding the terms of the indemnity agreement and the reasons why Mr. Kerkorian, Tracinda and 250 Rodeo requested that we enter into the indemnity agreement, these directors unanimously concluded that it was appropriate for us to enter into the indemnity agreement in order to induce Tracinda and 250 Rodeo to enter into, and Mr. Kerkorian to cause Tracinda and 250 Rodeo to enter into, the voting and support agreement and thereby to facilitate the merger, which our board had already determined was in the best interests of our stockholders and in recognition of the substantial benefits which our board believed will inure to our stockholders by reason of the merger. A number of additional directors then rejoined the meeting so that a majority of all directors were present, at which time all of the directors present, constituting a majority of the full board of directors, approved the indemnity agreement. See Interests of Certain Persons in the Merger.

Later on September 23, the parties executed the definitive merger agreement and the other definitive documents relating to the merger.

Our Reasons for the Merger; Recommendation of the MGM Board

Our board has unanimously determined that the merger is advisable and fair to, and in the best interests of, our stockholders. ***Accordingly, our board unanimously recommends that our stockholders vote FOR adoption of the merger agreement at the special meeting.*** In reaching its determination, our board consulted with our senior management, legal counsel and financial advisors and considered the following material factors:

- The board s determination that, to maximize stockholder value, MGM should grow into, or become part of, a larger, vertically integrated organization through business combinations or other strategic alternatives.

We believe that finding acceptable strategic alternatives has been made more difficult during recent years because many companies in the entertainment industry are already part of larger, diversified organizations. In an effort to achieve our goal of growing into a larger, vertically integrated

Table of Contents

organization, we have had discussions over the last several years with potential combination partners and owners of potential acquisition targets. However, we were not able to reach agreement as to the price or structure of any transaction which we believed would best help us achieve our goals. For example, in July 2003, we submitted to Vivendi Universal an offer valued at $11.5 billion to purchase Vivendi Universal Entertainment, its motion picture/television/theme park subsidiary. However, Vivendi Universal rejected our offer as insufficient. Following this rejection, we withdrew from that auction process because we did not believe the price the seller was seeking was consistent with our valuation of the assets being offered.

After considering this and other acquisition opportunities, it became apparent to us that no major motion picture companies or other companies that would meet our objectives were, or were likely to become, available for acquisition in the foreseeable future.

While we considered other alternatives available to MGM, such as continuing to operate as an independent public company, we concluded that MGM, with its large library of feature films, represented a unique strategic opportunity for combination with a larger motion picture company or vertically integrated entertainment company. We believed that this would provide the opportunity to unlock greater value from our library assets through increased opportunities to exploit our library and overhead savings. Since we had been unable to unlock this value for our stockholders through acquisition opportunities, we decided to explore a sale of MGM.

Expressions of interest in the acquisition of MGM by the Sony consortium and Time Warner presented our board with an opportunity to further our goal of maximizing stockholder value by pursuing the sale of MGM.

As described above under Background of the Merger, the terms of the proposals of both the Sony consortium and Time Warner were extensively negotiated before we reached an agreement in principle with the Sony consortium. In reaching its determination to approve the merger agreement with the Sony consortium, our board considered a number of factors, including the following:

The merger consideration of $12.00 per share represents a substantial premium to the historic trading prices of our common stock after adjusting for our one-time special dividend of $8.00 per share paid on May 17, 2004. The merger consideration represents a premium of 8.0% over the closing price of our common stock on September 10, 2004 (the trading day immediately preceding the announcement that we had reached an agreement in principle with the Sony consortium). The merger consideration represents a premium of 79.1% over the 52-week low closing price of our common stock as of September 10, 2004, and a premium of 21.9% over the one-year average closing price of our common stock as of September 10, 2004, in each case after adjusting for the $8.00 cash dividend by subtracting $8.00 from all closing prices prior to the ex-dividend date of the dividend. The merger consideration represents a premium of 35.5% over the 52-week low closing price of our common stock as of September 10, 2004, and a premium of 11.8% over the one-year average closing price of our common stock as of September 10, 2004, in each case after adjusting for the $8.00 cash dividend by subtracting $8.00 from the closing price on the day before the ex-dividend date of the dividend and then adjusting all prior closing prices to reflect the same historical daily percentage change in closing price from such adjusted closing price.

The debt commitment letter obtained by LOC indicated a strong commitment on the part of the lenders with few conditions that would permit the lenders to terminate their commitment.

The merger consideration consists solely of cash, which provides certainty of value to our stockholders.

Sony agreed to a $150 million good faith deposit, which is refundable only under limited circumstances. See Deposit Agreement below. As a result, we believe that Sony has a significant incentive to ensure the merger is consummated, even though Sony and the other equity investors are not directly parties to the merger agreement.

Table of Contents

In connection with the execution of the merger agreement, the equity investors other than Sony delivered to us letters of credit in an aggregate amount of $100 million and we may draw upon the letters of credit for damages in excess of the deposit if we obtain a final binding judicial determination either that LOC willfully and materially breached the merger agreement or that one of the equity investors willfully and materially breached its obligation to make its equity investment in LOC.

There was no certainty that Time Warner would in fact be able to conclude arrangements with its partners or make a more favorable offer than the $12.00 per share being offered by the Sony consortium. In addition, the agreements with the Sony consortium were fully negotiated and ready for signature and there was no basis on which MGM could delay signature without running a substantial risk that the Sony consortium would withdraw its offer and without risking possible legal exposure for breach of MGM s agreement to negotiate in good faith to conclude the merger agreement.

Time Warner was not prepared to post a non-refundable $150 million deposit as the Sony consortium had done.

The general terms and conditions of the merger agreement with the Sony consortium and related documents, including the parties representations, warranties and covenants, the conditions to their respective obligations and the likelihood of consummation of the merger.

The Sony consortium substantially improved the terms of its initial proposal, including, among other things:

- The definition of company material adverse effect in the merger agreement was made more favorable to MGM by including exceptions relating to the possible impact on our business of the negotiation, public announcement and pendency of the merger and our compliance with the restrictions on our operations contained in the merger agreement;

- The conditions in the debt commitment letter obtained by LOC were made substantially consistent with the conditions contained in the merger agreement;

- The restrictions on our operations prior to closing provided more flexibility to continue to run our business in the ordinary course than in earlier drafts of the merger agreement; and

- The number of circumstances under which we might be required to pay the termination fee to the Sony consortium were reduced.

Our ability to provide information to, or negotiate with, a third party in response to unsolicited proposals that our board concludes could reasonably be expected to lead to a superior proposal, and, subject to payment of a $135 million termination fee, our ability to terminate the merger agreement to enter into an agreement for a superior proposal.

The presentations of Goldman Sachs and Morgan Stanley and their opinions that, as of September 23, 2004 and based upon and subject to the factors and assumptions set forth in their opinions, the $12.00 per share in cash to be received by the holders of MGM common stock pursuant to the merger agreement, other than Tracinda, 250 Rodeo and their principal stockholder, is fair from a financial point of view to such holders. The full text of the written opinions of Goldman Sachs and Morgan Stanley, each dated September 23, 2004, which set forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinions, are attached as Appendix B and Appendix C, respectively. Goldman Sachs and Morgan Stanley provided their

Table of Contents

opinions for the information and assistance of MGM s board of directors in connection with the merger. The Goldman Sachs and Morgan Stanley opinions do not in any respect address MGM s underlying business decision to engage in the merger and are not a recommendation as to how any holder of MGM common stock should vote with respect to the merger.

The board was also aware of and considered potential risks relating to the consummation of the merger and other potentially negative factors, including:

The obligation of LOC to complete the merger is subject to its obtaining debt financing and it is possible that if the financing contemplated by the debt commitment letter is not obtained, the merger will not occur.

The obligations of each of Sony, Comcast and the other equity investors to make their equity contributions to LOC is subject to each of the other equity investors making its equity contribution to LOC, and the merger agreement and other transaction documents do not provide a mandatory procedure for any of the equity investors to make up the difference if any of the other investors fails to make its equity contribution.

If LOC breaches the merger agreement or if any of the equity investors breaches its obligation to make its equity contribution to LOC, our damages will be limited to $250 million. In addition, in order to recover damages in excess of the $150 million deposit, we will need to obtain a final binding judicial determination that LOC willfully and materially breached the merger agreement or that one of the equity investors willfully and materially breached its obligation to make its equity investment in LOC.

Potential regulatory risks related to the transaction.

The Sony consortium is not required to agree with any antitrust authority with respect to certain divestitures from the MGM library or to other restrictions on LOC s or the equity investors businesses, except in limited circumstances.

The merger agreement precludes us from actively soliciting alternative proposals to acquire MGM.

We are required to pay a $135 million break-up fee if we terminate the merger agreement under certain circumstances. It is possible that these provisions could discourage a third party, including Time Warner, from making a competing proposal to acquire us or reduce the price that a third party would pay for MGM in an alternative transaction.

Time Warner asked us to delay our consideration of the merger agreement in order to provide it with additional time to submit an improved offer. For the reasons noted above and under Background of the Merger, our board believed that there were significant risks in extending the sale process and that to do so would not be in the best interests of our stockholders.

The merger consideration consists of cash and will therefore be taxable to our stockholders for U.S. federal income tax purposes.

After the merger, our stockholders will not participate in the future earnings of MGM or the benefits of any synergies that may result from the merger.

We may incur significant risks and costs if the merger is not completed, including the diversion of management, potential employee attrition and potential loss of opportunities to develop, produce or acquire films.

The foregoing discussion addresses certain material information and factors considered by our board in its consideration of the merger, including factors that support the merger as well as those that may weigh against it. In view of the variety of factors and the quality and amount of information considered, our board did not find it practicable to, and did not, make specific assessments of, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination. In addition, our board did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or

Table of Contents

unfavorable to its ultimate determination. The determination to approve the merger was made after consideration of all of the factors in the aggregate. In addition, individual members of our board may have given different weights to different factors. The foregoing explanation of our board s reasoning and other information presented in this section is forward-looking and, therefore, should be read in light of the factors discussed under the heading Forward-Looking Statements.

Opinions of Financial Advisors

Goldman, Sachs & Co.

Goldman Sachs rendered its opinion to MGM s board of directors that, as of September 23, 2004 and based upon and subject to the factors and assumptions set forth in the opinion, the $12.00 per share in cash to be received by the holders of our common stock (other than Tracinda, 250 Rodeo and their principal stockholder) pursuant to the merger agreement is fair from a financial point of view to such holders.

The full text of the written opinion of Goldman Sachs, dated September 23, 2004, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Appendix B to this proxy statement and is incorporated herein by reference. Goldman Sachs provided its opinion for the information and assistance of MGM s board of directors in connection with its consideration of the merger. The Goldman Sachs opinion does not in any respect address MGM s underlying business decision to engage in the merger and is not a recommendation as to how any holder of our common stock should vote with respect to the merger. The Goldman Sachs opinion is necessarily based upon information available to Goldman Sachs and financial, economic, market and other conditions as they existed and could be evaluated as of the date of the opinion.

In connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

- the merger agreement (including the exhibits thereto);
- the deposit agreement, dated September 13, 2004, and as amended on September 23, 2004, between Sony and MGM;
- the equity commitment letters, each dated September 23, 2004, from Sony, Comcast, Providence, TPG and the DLJ Funds;
- the debt commitment letter, dated September 12, 2004, from J.P. Morgan Securities Inc., JPMorgan Chase Bank and Credit Suisse First Boston and its affiliates to LOC;
- a letter agreement, dated as of September 23, 2004, among LOC, Providence Equity Partners Inc., TPG, DLJ Merchant Banking Partners, Sony, Comcast and MGM relating to antitrust matters;
- a letter agreement, dated as of September 23, 2004, between MGM and Sony relating to our operations prior to the merger;

annual reports to stockholders and Annual Reports on Form 10-K of MGM for the five years ended December 31, 2003;

certain Quarterly Reports on Form 10-Q of MGM;

certain other communications from MGM to its stockholders; and

certain internal financial analyses and forecasts for MGM prepared by its management.

Goldman Sachs also held discussions with members of the senior management of MGM regarding their assessment of the past and current business operations, financial condition and future prospects of MGM. In addition, Goldman Sachs reviewed the reported price and trading activity for MGM common stock, compared

certain financial and stock market information for MGM with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations and performed such other studies and analyses, and considered such other factors, as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting, legal, tax and other information discussed with or reviewed by it and assumed such accuracy and completeness for purposes of rendering the opinion described above. In that regard, Goldman Sachs assumed with MGM s consent that the internal financial forecasts prepared by the management of MGM were reasonably prepared on a basis reflecting the best currently available estimates and judgments of MGM. In addition, Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities) of MGM or any of its subsidiaries. No evaluation or appraisal of the assets or liabilities of MGM or any of its subsidiaries was furnished to Goldman Sachs. The opinion described above also does not address the underlying business decision of MGM to engage in the merger.

The following is a summary of the material financial analyses used by Goldman Sachs in connection with rendering the opinion described above. The following summary, however, does not purport to be a complete description of the financial analyses performed by Goldman Sachs. The order of analyses described does not represent relative importance or weight given to those analyses by Goldman Sachs. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Goldman Sachs financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before September 10, 2004 and is not necessarily indicative of current market conditions.

Historical Stock Trading Analysis. Goldman Sachs reviewed the historical trading prices for MGM common stock since its initial public offering on November 13, 1997. Goldman Sachs analyzed the consideration to be received by holders of MGM common stock pursuant to the merger agreement in relation to the closing market prices on September 10, 2004 and April 20, 2004 (the day before the rumor of Sony s interest in acquiring MGM was publicly reported), the fifty-two week high and low market prices and the last one and three year average market prices of MGM common stock. Historical prices for MGM common stock were adjusted for the $8.00 per share special dividend paid on May 17, 2004 using two different methodologies.

Under the first methodology, $8.00 was subtracted from the closing market price of MGM common stock on May 17, 2004, the day before the ex-dividend date of the $8.00 per share special dividend. All prior closing market prices were then adjusted to reflect the same historical daily percentage change in closing market price from such adjusted closing market price. Using this methodology, the analysis indicated that the price per share to be paid to MGM stockholders pursuant to the merger agreement represented:

a premium of 8.0% based on the September 10, 2004 closing market price of $11.11 per share;

a premium of 12.9% based on the April 20, 2004 adjusted closing market price of $10.63 per share;

a discount of 6.7% based on the 52-week high adjusted closing market price of $12.86 per share;

a premium of 35.5% based on the 52-week low adjusted closing market price of $8.86 per share;

a premium of 11.8% based on the one-year average adjusted closing market price of $10.74 per share; and

a premium of 29.7% based on the three-year average adjusted closing market price of $9.25 per share.

Under the second methodology, $8.00 was subtracted from the closing market price of MGM common stock for all periods prior to May 18, 2004, the ex-dividend date of the $8.00 per share special dividend. Using this

Table of Contents

methodology, the analysis indicated that the price per share to be paid to MGM stockholders pursuant to the merger agreement represented:

- a premium of 8.0% based on the September 10, 2004 closing market price of $11.11 per share;
- a premium of 24.4% based on the April 20, 2004 adjusted closing market price of $9.65 per share;
- a discount of 8.1% based on the 52-week high adjusted closing market price of $13.06 per share;
- a premium of 79.1% based on the 52-week low adjusted closing market price of $6.70 per share;
- a premium of 21.9% based on the one-year average adjusted closing market price of $9.85 per share; and
- a premium of 62.9% based on the three-year average adjusted closing market price of $7.37 per share.

Selected Companies Analysis. Goldman Sachs reviewed certain financial information for MGM and compared it to corresponding financial information, ratios and public market multiples for the following publicly traded corporations in the entertainment industry:

- Fox Entertainment Group, Inc.
- The News Corporation Limited
- Time Warner Inc.
- Viacom Inc.
- The Walt Disney Company

Although none of the selected companies is directly comparable to MGM, the companies included were chosen because they are publicly traded companies with operations that for purposes of analysis may be considered similar to certain operations of MGM or its subsidiaries.

Goldman Sachs also calculated and compared various financial multiples and ratios based on information provided by MGM s management, information obtained from SEC filings, I/B/E/S International Inc. (IBES), estimates and investment research reports. The multiples and ratios of MGM and the selected companies were calculated using their respective closing market prices as of September 10, 2004 and, in the case of MGM, the price per share to be paid to MGM stockholders pursuant to the merger agreement. The multiples and ratios for MGM were based on information provided by MGM s management and IBES estimates. The multiples and ratios for each of the selected companies were based on information obtained from SEC filings, IBES estimates and investment research reports. With respect to MGM and the selected companies, Goldman Sachs calculated:

the closing market price on September 10, 2004 and, in the case of MGM, the price per share to be paid to MGM stockholders pursuant to the merger agreement as a percentage of the prior 52-week high closing market price;

equity market capitalization, which is the market value of common equity on a fully diluted basis;

enterprise value, which is the equity market capitalization plus the book value of debt less cash;

adjusted enterprise value, which is enterprise value less the equity value of consolidated assets which do not generate positive earnings before interest, taxes and depreciation and amortization, or EBITDA, the equity value of consolidated non-core assets and the net debt attributable to consolidated non-core assets;

adjusted enterprise value as a multiple of estimated calendar years 2004 and 2005 adjusted EBITDA, which is EBITDA less EBITDA attributable to consolidated non-core assets and assets which do not generate positive EBITDA; and

Table of Contents

enterprise value as a multiple of estimated calendar year 2004 EBITDA.

The results of these analyses are summarized as follows:

	% of 52-Week High	Adjusted Enterprise Value as a Multiple of Adjusted EBITDA		Enterprise Value as a Multiple of EBITDA
		CY2004	CY2005	CY2004
Selected Companies Range*	79.1%-86.6%	8.4x-11.4x	7.5x-10.5x	10.3-15.2x
Selected Companies Median*	85.4%	10.3x	9.2x	11.6x
MGM (at September 10, 2004 closing market price; based on management estimates)	86.4%	129.2x	29.2x	129.2x
MGM (at $12.00; based on management estimates)	93.3%	135.5x	30.6x	135.5x
MGM (at September 10, 2004 closing market price; based on IBES median estimates)	86.4%	341.0x	97.3x	341.0x
MGM (at $12.00; based on IBES median estimates)	93.3%	357.7x	102.1x	357.7x

* EBITDA estimates are based on IBES median estimates and have been calendarized for companies with non-December fiscal year ends. The Selected Companies Range and Selected Companies Median each exclude MGM.

Goldman Sachs also calculated the selected companies estimated calendar years 2004 and 2005 price to earnings ratios and compared these ratios to the results for MGM.

The following table presents the results of this analysis:

Price/Earnings Ratio:	Selected Companies*		MGM**
	Range	Median	
CY2004	18.6x-25.8x	21.6x	NM
CY2005	16.9x-22.6x	19.1x	NM

* Earnings per share estimates are based on IBES median estimates and have been calendarized for companies with non-December fiscal year ends.

** The results for MGM were not meaningful using either management estimates or IBES estimates.

Discounted Cash Flow Analysis. Goldman Sachs performed a discounted cash flow analysis on MGM using MGM management projections. Goldman Sachs calculated illustrative implied net present values of projected free cash flows for MGM for the period from the second half of 2004 through 2008 using discount rates ranging from 7.0% to 9.0%. Goldman Sachs calculated illustrative enterprise values for MGM using MGM management projections and illustrative implied terminal value indications in the year 2008 based on perpetuity growth rates ranging

from 0.0% to 2.0% and discounting these implied terminal values to illustrative implied present values using discount rates ranging from 7.0% to 9.0%. This analysis indicated illustrative enterprise values for MGM ranging from $3,278 million to $5,141 million.

Goldman Sachs also calculated illustrative values per share of MGM common stock using MGM management projections and illustrative implied terminal value indications in the year 2008 based on perpetuity growth rates ranging from 0.0% to 2.0% and discounting these implied terminal values to illustrative implied present values using discount rates ranging from 7.0% to 9.0%. This analysis indicated illustrative values per share of MGM common stock ranging from $5.40 to $13.03.

Table of Contents

Sum-of-the-Parts Analysis. Goldman Sachs performed a sum-of-the parts analysis on MGM s business segments using certain financial projections for MGM prepared by the management of MGM and by applying the methodologies described below.

With respect to each of MGM s pre-1998 film library, post-1998 film library and television programming business segments (in each case, excluding cash flows from ancillary products), Goldman Sachs calculated illustrative implied net present values of free cash flows for each of these business segments for the period from the second half of 2004 through 2008 using MGM management projections and illustrative implied terminal value indications in the year 2008 based on perpetuity growth rates ranging from (1.0)% to 1.0% and discounting these implied terminal values to illustrative implied present values using discount rates ranging from 7.0% to 9.0%.

With respect to future projected film and television production, which includes unreleased films that MGM has committed to make plus a portfolio of future unspecified films based on MGM s projected production budget and future committed television programs, Goldman Sachs calculated illustrative implied net present values for this business segment using a book value provided by MGM management of $321.1 million multiplied by percentages of book value ranging from 50.0% to 125.0%.

With respect to MGM s other business segments, Goldman Sachs calculated illustrative implied net present values of free cash flows for these business segments for the period from the second half of 2004 through 2008 using MGM management projections and illustrative implied terminal value indications in the year 2008 based on perpetuity growth rates ranging from 0.0% to 2.0% and discounting these implied terminal values to illustrative implied present values using discount rates ranging from 7.5% to 8.5%.

With respect to MGM s projected tax attributes after 2008, Goldman Sachs calculated illustrative implied net present values for these tax attributes using MGM management projections and information provided by MGM with regard to its existing tax attributes and based on projected annual cash flows ranging from $300 million to $380 million and discount rates ranging from 7.0% to 9.0%.

With respect to MGM s overhead, which includes corporate, distribution and production overhead, Goldman Sachs calculated illustrative implied net present costs of overhead for the period from the second half of 2004 through 2008 using MGM management projections and illustrative implied terminal value indications in the year 2008 based on perpetuity growth rates ranging from 0.0% to 2.0% and discounting these implied terminal values to illustrative implied present values using discount rates ranging from 7.5% to 8.5%.

With respect to MGM s equity interest in its foreign cable investments, Goldman Sachs calculated illustrative implied net present values for these investments using a valuation of $5.00 to $10.00 per subscriber multiplied by 12.3 million total subscribers as provided by MGM management.

Based upon these analyses, Goldman Sachs derived illustrative values for each of MGM s business segments. Aggregating the low and high indications of value resulting from each of these analyses results in illustrative equity values ranging from $1,032 million to $2,614 million, or $4.34 to $10.73 per share.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Goldman Sachs made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No

company or transaction used in the above analyses as a comparison is directly comparable to MGM or the contemplated merger.

Table of Contents

Goldman Sachs prepared these analyses for purposes of Goldman Sachs providing its opinion to MGM s board of directors as to the fairness from a financial point of view to the holders of MGM common stock (other than Tracinda, 250 Rodeo and their principal stockholder) of the $12.00 per share in cash to be received by such holders pursuant to the merger agreement. These analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of MGM, LOC, Goldman Sachs, their respective affiliates or any other person assumes responsibility if future results are materially different from those forecast.

As described above, Goldman Sachs opinion to MGM s board of directors was one of many factors taken into consideration by MGM s board of directors in making its determination to approve the merger agreement. The foregoing summary does not purport to be a complete description of the analyses performed by Goldman Sachs in connection with the fairness opinion and is qualified in its entirety by reference to the written opinion of Goldman Sachs attached as Appendix B to this proxy statement.

Goldman Sachs and its affiliates, as part of their investment banking business, are continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and other transactions as well as for estate, corporate and other purposes. Goldman Sachs has acted as financial advisor to MGM in connection with, and has participated in certain of the negotiations leading to, the transaction contemplated by the merger agreement. In addition, Goldman Sachs has provided certain investment banking services to MGM from time to time, including having acted as:

- lead manager to MGM in its public offering of 10.55 million shares of MGM common stock in March 2002;
- financial advisor to MGM in its divestiture of certain cable assets to Cablevision Systems Corporation in May 2003; and
- financial advisor to MGM in connection with its $8.00 per share special dividend in May 2004.

Goldman Sachs also has provided certain investment banking services to Sony Corporation, Comcast Corporation, Providence Equity Partners Inc. and Texas Pacific Group, affiliates of which are stockholders of LOC, and their respective affiliates from time to time, including having acted as:

- co-manager with respect to the offering of Sony Corporation s 0.640% bonds due September 2006 (aggregate principal amount ¥100 billion) in September 2001;
- co-manager with respect to the offering of Sony Corporation s 1.520% bonds due September 2011 (aggregate principal amount ¥50 billion) in September 2001;
- joint lead manager with respect to the offering of Sony Corporation s 4.950% medium term notes due November 2006 (aggregate principal amount $500 million) in November 2001;
- joint lead manager with respect to the offering of Sony Corporation s zero-coupon convertible bonds due December 2008 (aggregate principal amount ¥220 billion) in December 2003;

financial advisor to Texas Pacific Group in its acquisition of Burger King Corporation in December 2002;

sole manager with respect to the offering of floating (at rates of LIBOR + 4.000%, LIBOR + 3.500% and LIBOR + 2.800%) asset-backed bonds due March 2020, September 2031 and September 2033 (aggregate principal amount £132.5 million) of Spirit Funding Ltd., a portfolio company of Texas Pacific Group, in August 2003;

financial advisor to Hotwire, a portfolio company of Texas Pacific Group, in its sale to IAC/InterActiveCorp in November 2003;

joint book-running manager with respect to the offering of 8.125% senior subordinated notes due December 2014 (aggregate principal amount $200 million) and joint lead arranger and syndication agent with respect to the associated bank financing (aggregate principal amount $420 million) of Kraton Polymers, a portfolio company of Texas Pacific Group, in December 2003;

sole manager with respect to the offering of 12 million shares of common stock of Del Monte Foods Company, a former portfolio company of Texas Pacific Group, in January 2004;

co-manager with respect to the financing for Texas Pacific Group s acquisition of Iasis Healthcare (the offering of 8.750% senior subordinated notes due June 2014 (aggregate principal amount $475 million)) in June 2004;

co-advisor to Providence Equity Partners Inc., a member of the Valentia Group, in its acquisition of Eircom PLC (Eircom) in December 2001;

financial advisor to Providence Equity Partners Inc. in its acquisition of six regional cable broadcasting companies from Deutsche Telekom in March 2003;

co-manager with respect to the offerings of 8.250% senior subordinated notes due August 2013 (aggregate principal amounts $250 million and 285 million) and 7.250% bonds due August 2013 (aggregate principal amount $550 million) of Eircom in July 2003;

joint lead manager with respect to the bank financing (aggregate principal amount 150 million) of Eircom in July 2003;

co-manager with respect to Comcast Corporation s bank financing (aggregate principal amount $12.5 billion) in June 2002;

co-manager with respect to the offering of Comcast Corporation s 5.850% notes due January 2010 (aggregate principal amount $600 million) in January 2003;

co-manager with respect to the offering of Comcast Corporation s 6.500% notes due January 2015 (aggregate principal amount $900 million) in January 2003;

co-manager with respect to the offering of Comcast Corporation s 5.500% notes due December 2011 (aggregate principal amount $750 million) in March 2003;

co-manager with respect to the offering of Comcast Corporation s 7.050% notes due March 2033 (aggregate principal amount $750 million) in March 2003; and

lead manager with respect to the block trade of 85 million shares of common stock of Liberty Media Corporation by Comcast Corporation in December 2003.

Goldman Sachs also may provide investment banking services to MGM, Sony Corporation, Texas Pacific Group, Providence Equity Partners Inc., DLJ Merchant Banking Partners and Comcast Corporation and their respective affiliates in the future, and have invested, and may invest in

the future, with Sony Corporation, Texas Pacific Group, Providence Equity Partners Inc., DLJ Merchant Banking Partners and Comcast Corporation and their affiliates in various enterprises. In connection with the above-described investment banking services Goldman Sachs has received, and may receive, compensation.

Goldman, Sachs & Co. is a full service securities firm engaged, either directly or through its affiliates, in securities trading, investment management, financial planning and benefits counseling, risk management, hedging,

Table of Contents

financing and brokerage activities for both companies and individuals. In the ordinary course of these activities, Goldman, Sachs & Co. and its affiliates may provide such services to MGM, the stockholders of LOC and the affiliates of such stockholders, may actively trade the debt and equity securities (or related derivative securities and limited partnership interests) of MGM, Sony Corporation, Comcast Corporation and their affiliates and affiliates of the Texas Pacific Group, Providence Equity Partners Inc. and DLJ Merchant Banking Partners for their own account and for the accounts of their customers and may at any time hold long and short positions of such securities.

Our board of directors selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the merger. Pursuant to a letter agreement, dated April 26, 2004, MGM engaged Goldman Sachs to act as its financial advisor in connection with the possible sale of all or a portion of MGM. Pursuant to the terms of this engagement letter, upon consummation of the merger, MGM will pay Goldman Sachs a transaction fee currently calculated to be approximately $19 million. In addition, MGM has agreed to reimburse Goldman Sachs for its reasonable expenses, including attorneys fees and disbursements, and to indemnify Goldman Sachs and related persons against various liabilities, including certain liabilities under the federal securities laws.

Morgan Stanley & Co. Incorporated

MGM retained Morgan Stanley to provide a financial fairness opinion to the board of directors of MGM in connection with the merger. Our board of directors selected Morgan Stanley to act as its financial advisor based on Morgan Stanley s qualifications, expertise, reputation and its knowledge of the business of MGM. At the meeting of the MGM board of directors on September 23, 2004, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing, that as of September 23, 2004, and based upon and subject to the assumptions, qualifications and limitations set forth therein, the $12.00 per share cash price to be received by the holders of shares of MGM common stock pursuant to the merger agreement was fair from a financial point of view to such holders (other than Tracinda, 250 Rodeo and their principal stockholder).

The full text of Morgan Stanley s opinion, dated September 23, 2004, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations of the reviews undertaken in rendering its opinion is attached as Appendix C to this document. The summary of Morgan Stanley s fairness opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion. Stockholders should read this opinion carefully and in its entirety. Morgan Stanley s opinion is directed to the board of directors of MGM, addresses only the fairness from a financial point of the merger consideration to be received by holders of MGM common stock pursuant to the merger agreement (other than Tracinda, 250 Rodeo and their principal stockholder), and does not address any other aspect of the merger including the relative merits of the merger compared to other strategic alternatives potentially available to MGM nor does it address the relative effects of any potential alternative transaction in which MGM might have engaged nor the board s decision to proceed with the merger. Morgan Stanley s opinion does not constitute a recommendation to any shareholder of MGM as to how such stockholder should vote with respect to the proposed transaction and should not be relied upon by any stockholder as such.

In connection with rendering its opinion, Morgan Stanley, among other things:

i) reviewed certain publicly available financial statements and other information of MGM;

ii) reviewed certain internal financial statements and other financial and operating data concerning MGM prepared by the management of MGM;

iii) reviewed certain financial forecasts of MGM, including certain sensitivity cases, prepared by management of MGM;

Table of Contents

iv) discussed the past and current operations and financial condition and the prospects of MGM with senior executives of MGM;

v) reviewed the reported prices and trading activity for the MGM common stock;

vi) compared the financial performance of MGM and the prices and trading activity of the MGM common stock with that of certain other comparable publicly-traded companies and their securities;

vii) reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

viii) reviewed copies of the draft equity commitment letters, dated September 23, 2004, of each of the equity investors, and, if applicable, any associated letters of credit;

ix) reviewed copies of LOC s debt financing commitment letters, dated September 12, 2004, from JPMorgan Chase Bank, J.P. Morgan Securities Inc. and Credit Suisse First Boston;

x) reviewed drafts of the merger agreement, the voting and support agreement and certain related documents; and

xi) performed such other analyses and considered such other factors as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by it for the purposes of its opinion. With respect to the financial forecasts, Morgan Stanley assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of MGM. Morgan Stanley did not have access to the management of LOC or the equity investors or any internal financial information or forecasts of LOC or the equity investors in connection with the delivery of its opinion. In addition, Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of MGM or LOC, nor had it been furnished with any such appraisals. Furthermore, Morgan Stanley is not a regulatory, legal or tax expert and with MGM s consent it relied upon the assessments of MGM s legal and other advisors with respect to such issues. Morgan Stanley assumed that the merger and the arrangements with Tracinda and 250 Rodeo would be consummated in accordance with the terms set forth in the merger agreement and the voting and support agreement without material modification or waiver. Morgan Stanley also assumed that the equity and debt financing for LOC and the merger would be consummated in accordance with the terms set forth in the equity and debt financing commitment letters reviewed by it without material modification or waiver. Morgan Stanley s opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, September 23, 2004.

The following is a summary of the financial analyses performed by Morgan Stanley in connection with its oral opinion and the preparation of its written opinion, dated September 23, 2004. Some of these summaries include information in tabular format. In order to understand fully the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analyses.

Historical Share Price Analysis. Morgan Stanley reviewed the historical trading prices and daily trading volume for the common stock of MGM, including for the 12 months ended April 20, 2004 (the day prior to the date that multiple press reports stated that MGM was rumored to be in discussions with the Sony consortium) and the period from April 20, 2004 to September 13, 2004. Morgan Stanley also compared the merger consideration relative to the MGM common stock price over the periods referenced above. In addition, Morgan Stanley also compared the trading performance of MGM relative to the performance of other comparable publicly traded corporations and major market indices. The tables below present (i) the merger consideration relative to the absolute share prices of MGM common stock over the periods referenced above, and (ii) the percentage change from April 20, 2004 to September 13, 2004 for MGM and other comparable publicly traded corporations and

Table of Contents

major market indices. For all trading days prior to May 18, 2004, Morgan Stanley noted that all listed prices of the common stock of MGM were reduced by the $8.00 special dividend which was payable to all holders of MGM common stock on May 17, 2004.

Metric	Period or Date	MGM Common Stock Price
Merger Consideration	9/13/2004	$ 12.00
Price on April 20, 2004	4/20/2004	$ 9.65
Price on September 13, 2004	9/13/2004	$ 11.55
Twelve Month High Prior to April 20, 2004	4/20/2003 4/20/2004	$ 10.15
Twelve Month Low Prior to April 20, 2004	4/20/2003 4/20/2004	$ 2.94

Company / Market Index	Relative Price Change from April 20, 2004 to September 13, 2004
MGM	19.7%
Standard & Poors 500 Index	0.7%
Dow Jones Industrial Average Index	0.0%
Fox Entertainment Group, Inc.	(3.2%)
The News Corporation Limited	(16.1%)
Time Warner Inc.	(1.8%)
Viacom Inc.	(13.4%)
The Walt Disney Company	(6.0%)

Comparable Company Analysis. Morgan Stanley reviewed and analyzed certain public market trading multiples for public companies similar to MGM from a size and business mix perspective. The multiples analyzed for these comparable companies included adjusted aggregate market value (defined as public equity market value plus total book value of debt, total book value of preferred stock and minority interest less cash and other short term investments) divided by 2005 estimated EBITDA, and adjusted common stock price divided by estimated 2005 free cash flow per share ratios. For purposes of calculating these multiples, Morgan Stanley adjusted the aggregate market value and common stock price of each of the companies to exclude the value of certain of such company s non-operating assets, based on public market trading values or Wall Street equity research. Morgan Stanley calculated financial multiples and ratios based on publicly available financial data as of September 13, 2004. The estimates of 2005 EBITDA and 2005 free cash flow per share for the comparable companies were based on selected Wall Street equity research estimates. For purposes of its analysis, Morgan Stanley identified the following five publicly traded corporations in the media and motion picture industry:

Fox Entertainment Group, Inc.;

The News Corporation Limited;

Time Warner Inc.;

Viacom Inc.; and

The Walt Disney Company

A summary of the reference range of market trading multiples that Morgan Stanley derived are set forth below:

	Reference Range of Multiples
Adjusted Aggregate Value / 2005E EBITDA	9.0x 10.0x
Adjusted Price / 2005E Free Cash Flow Per Share	14.5x 18.5x

41

Table of Contents

Using these derived reference ranges of multiples, Morgan Stanley calculated an implied valuation range for MGM by applying the reference ranges of multiples to the applicable MGM operating statistic based on information provided by management and other publicly available data. In addition, Morgan Stanley included the estimated value of MGM s unconsolidated cable assets and the present value of MGM s future tax savings due to its net operating loss carryforwards and excess tax basis in its operating assets in its comparable company valuation of MGM. Based upon and subject to the foregoing, Morgan Stanley calculated an implied valuation range for MGM common stock of $6.24 to $7.46 per share.

Although the foregoing media conglomerate and motion picture companies were compared to MGM for purposes of this and the foregoing analysis, Morgan Stanley noted that no company utilized in this analysis is identical to MGM because of differences between the business mix, operations and other characteristics of MGM and the comparable companies. In evaluating the comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of MGM, such as the impact of competition on the business of MGM and the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of MGM or the industry or in the markets in general. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company data.

Discounted Analyst Price Targets. Morgan Stanley reviewed published estimates by Wall Street equity research analysts for the following periods: (i) prior to April 20, 2004 and (ii) from April 21 to September 13, 2004. Morgan Stanley discounted the Wall Street analyst price targets for one year at MGM s estimated cost of equity capital of approximately 8%, based on the capital asset pricing model, a theoretical financial model that estimates the cost of equity capital of a particular company based on such company s Beta. A company s Beta is a metric designed to represent the systemic business risk and financial risk of such company versus the overall market. For reports issued prior to April 20, 2004, Wall Street analyst price targets yielded an implied valuation of MGM common stock of $8.63 to $10.57. For reports issued from April 21, 2004 to September 13, 2004, the Wall Street analyst price targets yielded an implied valuation of MGM common stock of $10.30 to $13.58. For all analyst price targets issued prior to May 18, 2004, Morgan Stanley noted that all prices of the common stock of MGM were reduced by the $8.00 special dividend which was payable to all holders of MGM common stock on that date.

Precedent Transactions Analysis. Morgan Stanley reviewed and analyzed selected precedent transactions involving other companies in the media and motion picture industry and calculated the forward EBITDA multiples paid in the selected transactions based on the transaction values and the forward EBITDA estimates for the next 12-month period, and other available information as of September 13, 2004. The following table sets forth the acquisition transactions that were reviewed in connection with this analysis:

Lions Gate / Artisan;

NBC / Vivendi Universal;

Vivendi / Seagram PLC;

Time Warner Inc. / Turner Broadcasting Systems Inc.;

Seagram / MCA (Matsushita);

Viacom / Paramount;

Turner Broadcasting / New Line Cinema;

Matsushita / MCA;

Time Inc. / Warner Communications, Inc.; and

Sony Corp. / Columbia Pictures

Table of Contents

Based on the business mix of MGM, Morgan Stanley then derived from these selected transactions a reference range of forward 2005 EBITDA multiples of 17.0x to 20.0x, and applying this range of multiples to the estimate of forward MGM 2005 EBITDA based on information provided by MGM s management, Morgan Stanley calculated an implied valuation range for MGM common stock of $4.93 to $6.90 per share. Morgan Stanley noted that it included the estimated value of MGM s unconsolidated cable assets and the present value of MGM s future tax savings due to its net operating loss carryforwards and excess tax basis in its operating assets in its precedent transaction valuation of MGM.

Morgan Stanley noted that the merger and acquisition transaction environment varies over time because of macroeconomic factors such as interest rate and equity market fluctuations and microeconomic factors such as industry results and growth expectations. Morgan Stanley noted that no company or transaction reviewed was identical to the proposed transactions and that, accordingly, these analyses involve complex considerations and judgments concerning differences in financial and operating characteristics of MGM and other factors that would affect the acquisition values in the comparable transactions, including the size and demographic and economic characteristics of the markets of each company and the competitive environment in which it operates. Mathematical analysis (such as determining the average or median) are not themselves meaningful methods of using comparable transaction data.

Discounted Cash Flow Analysis. Morgan Stanley performed a five year discounted cash flow analysis, calculated as of September 13, 2004, of the after-tax unlevered free cash flows for fiscal years 2005 through 2009, based on financial forecasts and estimates provided by MGM s management, excluding the effect of any strategic, financial and operational benefits from the proposed transactions. Morgan Stanley estimated a range of terminal values calculated in 2009 based on a perpetual growth rate of 0.0% to 2.0%. Morgan Stanley discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a range of discount rates from 7.0% to 9.0%. The discount rates utilized in this analysis were chosen based upon an analysis of the weighted average cost of capital of MGM and other comparable companies as well as selected Wall Street equity research. In addition, Morgan Stanley included the estimated value of MGM s unconsolidated cable assets and the present value of MGM s future tax savings due to its net operating loss carryforwards and excess tax basis in its operating assets in its discounted cash flow valuation of MGM.

Based on the projections and assumptions set forth above, the discounted cash flow analysis of MGM yielded an implied valuation range of MGM common stock of $5.65 to $13.48 per share.

In connection with review of the transaction by our board of directors, Morgan Stanley performed a variety of financial and comparable analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not susceptible to partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered. Furthermore, Morgan Stanley believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of the analyses, without considering all of them, would create an incomplete view of the process underlying Morgan Stanley s analyses and opinion. As a result, the ranges of valuations resulting from any particular analysis or combination of analyses described above should not be taken to be the view of Morgan Stanley with respect to the actual value of MGM common stock.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Morgan Stanley or MGM. Any estimates contained in the analyses of Morgan Stanley are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. The analyses performed were prepared solely as part of the analyses of Morgan Stanley of the fairness of the consideration to be received by holders of shares of MGM common stock (other than the Tracinda, 250 Rodeo and their principal stockholder), pursuant to the merger agreement from a financial point of view, and were prepared in connection with the delivery by Morgan Stanley of its opinion, dated September 23, 2004, to our board of directors.

43

Table of Contents

The opinion of Morgan Stanley was one of many factors taken into consideration by the MGM board of directors in making its determination to approve the proposed transaction. The foregoing summary does not purport to be a complete description of the analyses performed by Morgan Stanley.

Our board of directors selected Morgan Stanley as its financial advisor because of its reputation as an internationally recognized investment banking and advisory firm with substantial experience in transactions similar to this proposed transaction and because Morgan Stanley is familiar with MGM and its business. As part of its investment banking and financial advisory business, Morgan Stanley is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Morgan Stanley provides a full range of financial advisory and securities services and in the past, has provided financial advisory and financing services to MGM and the equity investors and their respective affiliates and has received fees for the rendering of such services and also may provide such services to the equity investors and their respective affiliates in the future for which it would expect to receive fees. In addition, in the course of its business, Morgan Stanley may actively trade the debt and equity securities of the respective affiliates of the equity investors for its own accounts or for the accounts of its customers and, accordingly, may at any time hold long or short positions in such securities.

Pursuant to an engagement letter dated August 30, 2004, we have agreed to pay Morgan Stanley customary fees in connection with the merger, a portion of which is contingent upon the consummation of the merger. We have also agreed to reimburse Morgan Stanley for its fees and expenses incurred in performing its services. In addition, we have agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley s engagement and any related transactions.

Material Federal Income Tax Consequences

The following is a discussion of the material U.S. federal income tax consequences of the merger to holders of our common stock. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), the Treasury Regulations promulgated under the Code, and judicial and administrative rulings and decisions in effect on the date hereof. These authorities may change at any time, possibly retroactively, and any such change could affect the continuing validity of this discussion. We have not requested a ruling from the Internal Revenue Service (the IRS) with respect to the U.S. federal income tax consequences described in this proxy statement and accordingly, we cannot assure you that the IRS will agree with the discussion in this proxy statement. This discussion does not address any tax consequences arising under the laws of any state, locality or foreign jurisdiction, and accordingly, is not a comprehensive description of all of the tax consequences that may be relevant to any particular holder of our common stock.

This discussion assumes that holders hold shares of our common stock as capital assets and does not address the tax consequences that may be relevant to a particular holder subject to special treatment under U.S. federal income tax law, including but not limited to:

- foreign persons;
- financial institutions;

tax-exempt organizations;

insurance companies;

traders in securities that elect mark-to-market;

- dealers in securities or foreign currencies;
- persons who received their shares of common stock through the exercise of employee stock options or otherwise as compensation;
- persons who hold shares of common stock as part of a hedge, straddle or conversion transaction;
- persons who exercise their appraisal rights under Delaware law; and
- partnerships or other entities treated as partnerships for U.S. federal income tax purposes and partners in such partnerships.

Characterization of the Merger

For U.S. federal income tax purposes, LOC should be disregarded as a transitory entity, and the merger of LOC with and into MGM should be treated as a taxable transaction to holders of our common stock and should not be treated as a taxable transaction to MGM.

We intend to take the position that, as a result of the merger, holders of our common stock should be treated for U.S. federal income tax purposes as if they (1) sold a portion of their stock for cash and (2) had a portion of their stock redeemed by MGM for cash.

Due to the lack of legislative, judicial or other interpretive authority on this matter, it is unclear how the allocation of proceeds between the deemed sale and deemed redemption portions of the transaction should be determined. We intend to take the position that (1) the portion of our common stock that is converted, by reason of the merger, into the cash proceeds contributed by the equity investors is being sold for cash and (2) we are redeeming that portion of our common stock that is converted, by reason of the merger, into the cash proceeds of indebtedness incurred by LOC and assumed by us in connection with the merger. There can be no assurance, however, that the IRS will agree with such allocation.

Holders of MGM common stock are urged to consult their own tax advisors regarding the determination and allocation of their tax basis in their stock surrendered in the merger.

Sale of MGM Common Stock

To the extent that a holder is considered to have sold MGM common stock, a holder will recognize capital gain or loss equal to the difference between the amount realized on the deemed sale of stock (that is, the cash proceeds properly allocated to such sale) and the holder s adjusted tax basis allocated to such stock. Such gain or loss will be long-term capital gain or loss if at the time of the deemed sale the holder had held its MGM common stock for more than one year. Gain or loss recognized on a sale of MGM common stock must generally be determined separately for each block of MGM common stock (*i.e.*, stock acquired at the same cost in a single transaction).

Redemption of MGM Common Stock

Holders who surrender all of their MGM common stock for cash in the merger, and who do not own, actually or constructively, any interest in the surviving corporation following the merger, should have their redemption of MGM common stock treated as a sale or exchange, subject to the same treatment as set forth above under the caption Sale of MGM Common Stock.

Under Section 302 of the Code, holders who will own, actually or constructively, an interest in the surviving corporation following the merger (for example, holders who own an interest in Providence, TPG or the DLJ funds) should in most cases have their redemption of MGM common stock treated as a sale of stock, but could under certain circumstances be treated as having received a dividend. Even if treated as a dividend, however, a

Table of Contents

holder s tax treatment would be the same as that of a sale of stock if we do not have any current or accumulated earnings and profits, which we believe to be the case. Due to the fact-intensive nature of the determination of tax consequences under Section 302 of the Code, holders of our common stock are advised to consult with their tax advisers concerning the tax consequences of their particular circumstances.

Information Reporting and Backup Withholding

Certain noncorporate holders of our common stock may be subject to information reporting and backup withholding, at applicable rates (currently 28%), on cash payments received pursuant to the merger. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number and certifies that the holder is not subject to backup withholding on IRS Form W-9 or a substantially similar form or is otherwise exempt from backup withholding. If a holder does not provide its correct taxpayer identification number or fails to provide the certification described above, the IRS may impose a penalty on the holder, and amounts received by the holder pursuant to the merger may be subject to backup withholding. Amounts withheld, if any, under the backup withholding rules are generally not an additional tax and may be refunded or credited against the holder s U.S. federal income tax liability, provided that the holder furnishes the required information to the IRS.

ALTHOUGH THE FOREGOING ARE THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES GENERALLY APPLICABLE TO THE MERGER, THIS DISCUSSION DOES NOT ADDRESS EVERY U.S. FEDERAL INCOME TAX CONCERN WHICH MAY BE APPLICABLE TO A PARTICULAR HOLDER OF OUR COMMON STOCK. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR TO DETERMINE THE TAX CONSEQUENCES TO YOU, IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES, OF THE DISPOSITION OF OUR COMMON STOCK PURSUANT TO THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL, FOREIGN OR OTHER TAX LAWS.

Governmental and Regulatory Matters

Antitrust

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the HSR Act, we may not complete the merger unless required filings have been submitted to the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice and certain waiting period requirements have been satisfied. The parties have been informed that the merger will be reviewed by the Antitrust Division of the U.S. Department of Justice and in late September 2004, MGM, Tracinda and the equity investors received requests for the voluntary submission of documents and information from the Antitrust Division of the U.S. Department of Justice.

The HSR Act provides for an initial 30 calendar day waiting period following the necessary filings by the parties to the merger. LOC and Mr. Kerkorian anticipate filing Notification and Report Forms with the Federal Trade Commission and the Antitrust Division before the end of 2004 for review in connection with the merger. The associated initial waiting period will expire 30 days after such filings are made, unless a request is made for additional information or documentary material or the waiting period is earlier terminated. If the Antitrust Division makes a request for additional information or documentary materials, the waiting period will expire 30 days after substantial compliance with the request.

Under Council Regulation (EC) No. 139/2004, we may not complete the merger unless the required filing has been submitted to, and the transaction cleared by, the European Commission. The Council Regulation provides for an initial Phase I waiting period of 25 working days

following the filing of a complete notification to the European Commission, which can be extended to 35 working days, in particular if the parties offer remedies. We currently anticipate that this notification will be filed with the European Commission in January 2005. The

Table of Contents

European Commission s review will end at the expiration of the Phase I waiting period, unless the European Commission launches an in-depth investigation into the merger, referred to as a Phase II investigation. If the European Commission initiates a Phase II investigation, the waiting period will expire 90 working days from the date the European Commission initiates this Phase II investigation. The 90 working day waiting period can be extended by 15 working days if the notifying parties offer remedies more than 54 working days after the initiation of the Phase II investigation. The total waiting period of the Phase II investigation can be extended by a further period of up to 20 working days if the European Commission and the notifying parties agree.

The Federal Trade Commission, the Antitrust Division, the European Commission or others could take action under the antitrust laws with respect to the merger, including seeking to enjoin or prohibiting the completion of the merger, seeking the divestiture of assets or businesses by us or the other parties, or seeking to subject us or the other parties to operating conditions, before or after we complete the merger. There can be no assurance that a challenge to the merger on antitrust grounds will not be made, or, if such a challenge is made, what the result will be.

The parties will also be required to notify and secure antitrust clearance in other countries before the merger can be completed.

Other Regulatory Matters

We and our subsidiaries have obtained from various regulatory authorities franchises, permits and licenses which may need to be renewed, replaced or transferred as a result of the merger. Approvals, consents or notifications may be required in connection with these renewals, replacements or transfers.

General

Under the merger agreement, LOC and MGM have both agreed to use reasonable best efforts, and LOC has agreed to cause each of its equity investors to use its reasonable best efforts, to take all actions to obtain all necessary regulatory and government approvals to complete the merger. If LOC or its equity investors fail to agree to undertake any actions or enter into any agreements required by governmental entities in connection with obtaining regulatory approval of the transactions contemplated by the merger agreement (or take, or fail to take, any other action which causes a condition to the closing of the merger not to be satisfied) and MGM obtains a final and binding judicial determination that LOC willfully and materially breached the merger agreement, MGM will be entitled to recover from LOC actual damages up to an aggregate maximum amount of $250 million (offset by the $150 million deposit). For purposes of the merger agreement, the failure by LOC to cause the equity investors to take an action, where such failure would have been a willful material breach of the merger agreement were LOC required to take such action, shall be deemed a willful and material breach of the merger agreement by LOC. The Sony consortium has advised MGM that Sony would be responsible for up to $130 million of this amount and that the other equity investors would be responsible for agreed portions of the remaining $120 million. However, LOC and MGM are not required to take any action or enter into any agreement with respect to any of their assets, business or operations if, in the aggregate, such actions would have a material adverse effect on the business, properties, assets, financial condition or results of operations of MGM or LOC and its respective subsidiaries, taken as a whole, or on the ability of MGM or LOC to perform its obligations under the merger agreement or, in the case of LOC, to complete the debt financing and other transactions to be consummated in connection with the merger.

In addition, in connection with the merger agreement, MGM entered into a letter agreement with LOC and the equity investors in which the parties agreed that:

Providence, TPG and the DLJ funds will not be required to agree to any divestitures or conduct restrictions in order to obtain regulatory approval for the merger;

LOC will not be required to agree to any divestiture of MGM library catalog content if, individually or in the aggregate, the assets to be divested generated more than $15 million of operating cash flow during the prior fiscal year or if the divestiture involved library catalog content or development projects involving the *James Bond*, *Pink Panther* or *Rocky* franchises; and

Table of Contents

LOC will not be required to agree to any restriction or limitation on MGM s business after the merger other than implementing information barriers between MGM, on the one hand, and film and television companies in which Providence, TPG or the DLJ funds have ownership interests, on the other hand, and offering MGM content to competitors of cable television channels owned by MGM in Europe on non-discriminatory terms.

Interests of Certain Persons in the Merger

In considering the recommendation of our board of directors that you vote in favor of adoption of the merger agreement, you should be aware that some of our executive officers and directors may have interests in the merger that may be different from, or in addition to, their interests as stockholders of MGM.

These interests relate to or arise from, among other things:

- the continued indemnification of current directors and officers of MGM under the merger agreement and providing these individuals with directors and officers insurance;
- the potential receipt of severance and retention payments; and
- the conversion, acceleration and cancellation of stock options.

Our board of directors was aware of these interests and considered them, among other matters, in making its recommendation.

Indemnification; Directors and Officers Insurance

As permitted by applicable provisions of the Delaware General Corporation Law, our certificate of incorporation, as amended to date, contains a provision under which we will indemnify each of our officers and directors (or their estates, if applicable), and may indemnify any of our employees or agents (or their estates, if applicable), to the fullest extent permitted by Delaware law as it exists or may in the future be amended. In addition, we have entered into indemnification agreements with our directors, executive officers and certain other officers providing for indemnification by MGM, including under circumstances in which indemnification is otherwise discretionary under Delaware law. These agreements constitute binding agreements between MGM and each of the other parties thereto, thus preventing MGM from modifying its indemnification policy in a way that is adverse to any person who is a party to such an agreement.

Under the merger agreement, LOC has agreed that the surviving corporation will indemnify all present and former directors and officers of MGM and its subsidiaries, acting in such capacities, to the fullest extent permitted by law, against any expenses or losses incurred in connection with any claim, action, suit, proceeding or investigation arising out of or pertaining to matters pending, existing or occurring at or prior to the merger. LOC has also agreed that the surviving corporation will cause to be maintained, for six years after the effective date, charter and bylaw provisions with respect to elimination of liability of directors, and indemnification of officers, directors, employees and agents, that are no less favorable to the intended beneficiaries than those contained in our certificate of incorporation and bylaws or the certificate of incorporation and bylaws of the relevant subsidiary as in effect on the date the merger agreement was signed. LOC has also agreed that the surviving corporation will honor all indemnification agreements entered into by MGM or any of its subsidiaries.

In addition, LOC has agreed that the surviving corporation will provide or, in the alternative, MGM has the right to acquire, for six years after the merger, directors and officers liability insurance in respect of acts or omissions occurring at or prior to the merger covering each person currently covered by our directors and officers liability insurance policy on terms and in amounts no less favorable than those of our policy in effect on the date the merger agreement was signed, provided that the surviving corporation will not be required to pay annual premiums for such insurance in excess of 300% of our annual premium in effect on the date the merger

Table of Contents

agreement was signed and if MGM acquires the insurance prior to the closing of the merger, it may not pay a one time premium in excess of 300% of our annual premium in effect on the date the merger agreement was signed.

Employment Agreements

Alex Yemenidjian. We entered into an employment agreement with Mr. Yemenidjian effective as of April 26, 1999, as amended March 25, 2002, which provides that he will serve as chairman of our board and chief executive officer for a term that ends on April 30, 2007. Pursuant to the agreement, Mr. Yemenidjian is entitled to a current annual salary of $2,500,000 and an annual performance-based bonus determined in accordance with MGM s Amended and Restated 2000 Employee Incentive Plan, which we refer to as the Employee Incentive Plan. Mr. Yemenidjian holds options under MGM s Amended and Restated 1996 Stock Incentive Plan, which we refer to as the Stock Incentive Plan, to purchase 5,000,000 shares of MGM common stock with an exercise price of $14.90 per share and 5,000,000 shares with an exercise price of $30.00 per share. Mr. Yemenidjian also holds options to purchase 1,500,000 shares of MGM common stock at an exercise price of $16.02 per share. If Mr. Yemenidjian s employment is terminated without cause or if he terminates the agreement for good reason, which includes a Designated Change in Control, he will be entitled to continue to receive his annual salary and certain other benefits for the remainder of the term of the employment agreement (subject to termination of such benefits if Mr. Yemenidjian receives them from a subsequent employer) and, in either such event, or in the event of a Designated Change in Control, his unvested stock options under the Stock Incentive Plan will vest immediately.

Christopher J. McGurk. We entered into an employment agreement with Mr. McGurk effective as of April 28, 1999, as amended March 25, 2002, which provides that he will serve as Vice Chairman of the Board and Chief Operating Officer for a term which ends on April 30, 2007. Pursuant to the agreement, Mr. McGurk is entitled to a current annual salary of $2,300,000 through the remainder of the term and an annual performance-based bonus determined in accordance with the Employee Incentive Plan. Mr. McGurk holds options under the Stock Incentive Plan to purchase 1,500,000 shares of MGM common stock with an exercise price of $14.90 per share, 1,500,000 shares with an exercise price of $30.00 per share and 150,000 shares with an exercise price of $23.19 per share. Mr. McGurk also holds options to purchase 900,000 shares of MGM common stock at an exercise price of $16.02 per share. If Mr. McGurk s employment is terminated without cause or if he terminates the agreement for good reason, which includes a Designated Change in Control, he will be entitled to continue to receive his annual salary and certain other benefits for the remainder of the term of the employment agreement (subject to termination of such benefits if Mr. McGurk receives them from a subsequent employer) and, in either such event, or in the event of a Designated Change in Control, his unvested stock options under the Stock Incentive Plan will vest immediately.

William A. Jones. We entered into an employment agreement with Mr. Jones effective as of October 10, 1996, as amended as of July 16, 1999 and October 10, 2003, which provides that he will serve as Senior Executive Vice President for a term which ends on October 9, 2006, subject to our option to extend the term for two additional years at a salary at least ten percent higher than Mr. Jones salary immediately prior thereto. Pursuant to the agreement, as amended, Mr. Jones is entitled to a current annual salary of $700,000, subject to adjustment as determined by MGM. Mr. Jones also received 74,209 Bonus Interests under the Senior Management Bonus Plan and holds options under the Stock Incentive Plan to purchase 289,584 shares of MGM common stock with an exercise price of $14.90 per share and 10,416 shares with an exercise price of $23.19 per share. MGM is also obligated to maintain a term life insurance policy in the face amount of $2,000,000 on Mr. Jones life for his benefit. If Mr. Jones employment is terminated without cause or if he terminates the agreement for good reason, he will be entitled to continue to receive his annual salary and certain other benefits for the remainder of the term of the employment agreement (subject to termination of such benefits if Mr. Jones receives them from a subsequent employer) and, in either such event, or in the event of a Designated Change in Control, his unvested stock options under the Stock Incentive Plan will vest immediately.

Jay Rakow. We entered into an employment agreement with Mr. Rakow effective as of August 7, 2000, as amended as of March 1, 2001 and March 15, 2003, which provides that he will serve as Senior Executive Vice President and General Counsel for an initial term which ends on March 14, 2006, subject to MGM s option to extend the term for two additional years at a salary at least ten percent higher than Mr. Rakow s salary immediately prior thereto. Pursuant to the agreement, as amended, Mr. Rakow is entitled to a current annual salary of $750,000, subject to adjustment as determined by MGM, and participation in the Employee Incentive Plan at a level commensurate with his position and title. Mr. Rakow holds options under the Stock Incentive Plan to purchase 250,000 shares of MGM common stock with an exercise price of $16.74 per share and 250,000 shares at an exercise price of $16.02 per share. If Mr. Rakow s employment is terminated without cause or if he terminates the agreement for good reason, he will be entitled to continue to receive his annual salary and certain other benefits for the remainder of the term of the employment agreement (subject to termination of such benefits if Mr. Rakow receives them from a subsequent employer) and, in either such event, or in the event of a Designated Change in Control, his unvested stock options under the Stock Incentive Plan will vest immediately.

Daniel J. Taylor. We entered into an employment agreement with Mr. Taylor effective as of August 1, 1997, as amended as of June 15, 1998, November 1, 2000 and March 15, 2003, which provides that he will serve as Senior Executive Vice President and Chief Financial Officer for a term which ends on June 14, 2006, subject to MGM s option to extend the term for two additional years at a salary at least ten percent higher than Mr. Taylor s salary immediately prior thereto. Pursuant to the agreement, as amended, Mr. Taylor is entitled to a current annual salary of $950,000, subject to adjustment as determined by MGM and an annual performance-based bonus determined in accordance with the Employee Incentive Plan. Mr. Taylor also received 54,042 Bonus Interests under the Senior Management Bonus Plan and holds options under the Stock Incentive Plan to purchase 179,168 shares of MGM common stock with an exercise price of $14.90 per share, 320,832 shares with an exercise price of $19.19 per share and 250,000 shares at an exercise price of $11.35 per share. If Mr. Taylor s employment is terminated without cause or if he terminates the agreement for good reason, he will be entitled to continue to receive his annual salary and certain other benefits for the remainder of the term of the employment agreement (subject to termination of such benefits if Mr. Taylor receives them from a subsequent employer) and, in either such event, or in the event of a Designated Change in Control, his unvested stock options under the Stock Incentive Plan will vest immediately.

In the case of each of the above-named executives, the merger would constitute a Designated Change in Control.

The employment agreements of each of the above-named executives also contain: (a) certain nondisclosure provisions which are effective for the term of such individual s employment with MGM and for an indefinite period thereafter and (b) a provision prohibiting the solicitation for employment and employment of certain MGM employees, or making derogatory public statements concerning MGM, for a period of one year following termination of employment.

Employee Security Plan for Named Executive Officers

Pursuant to our Employee Security Plan for Named Executive Officers dated as of May 14, 2004, (which we refer to as the Security Plan), if the employment of any of the above-named executives is terminated by MGM without cause or by such executive for good reason, in either event within one year following a change in control, he will be entitled to receive, at his election and in lieu of any severance benefits or other rights available to him pursuant to his employment contract or otherwise, a lump-sum cash payment equal to either (i) the base salary and other contractual monetary payments, collectively referred to as, the Base Salary) that he would have received over the remainder of the term of his employment agreement or (ii) thirty months of his then-current Base Salary. In addition, pursuant to the Security Plan, MGM is required, if necessary, to make an additional gross-up payment to a participant in the Security Plan to offset fully the effect of any excise tax imposed by Section 4999 of the Internal Revenue Code on any excess parachute payment, whether made to the participant

pursuant to the Security Plan, his employment agreement or otherwise. In general, Section 4999 imposes an excise tax on the recipient of any excess parachute payment equal to 20% of such payment. Under Section 280G of the Internal Revenue Code, a parachute payment is any payment that is contingent upon a change in control. Excess parachute payments consist of the excess of parachute payments over an individual s average taxable compensation received by him from the employer during the five taxable years (or if less, the entire period of employment) preceding the year in which the change in control occurs.

The merger will constitute a change in control under the Security Plan and Section 280G of the Internal Revenue Code. Assuming current compensation information remains in effect, that the merger is consummated on June 30, 2005, that a termination by MGM without cause or by the executive for good reason occurs immediately thereafter and that the executive elects to receive a lump-sum payment under the Security Plan, the approximate value of the cash payments due under the Security Plan to each of the executive officers, not including any payments that may be made with respect to any excise tax, would be: Mr. Yemenidjian, $6,250,000; Mr. McGurk, $5,750,000; Mr. Jones, $1,802,500; Mr. Rakow, $1,931,250; and Mr. Taylor, $2,466,250.

Retention Bonus Plan

Under the merger agreement, we may grant or pay retention bonuses pursuant to MGM s Retention Bonus Plan up to an aggregate maximum amount not to exceed $5 million. Under the Retention Bonus Plan, MGM may make retention bonus payments to any employees of MGM, including Messrs. Yemenidjian, McGurk, Jones, Rakow and Taylor. Any such amounts have not yet been determined.

Employee Incentive Plan

Under the merger agreement, we may grant or pay bonuses for calendar year 2004 and pro-rated bonuses for the portion of calendar year 2005 for the period beginning January 1, 2005 through the closing date of the merger, in each case in accordance with the performance measures and bonus targets (as such terms are defined in MGM s Amended and Restated 2000 Employee Incentive Plan) established for the 2004 performance period (as such term is defined in the Employee Incentive Plan), provided that the methodology for determining the performance goals established for the 2005 performance period is no more favorable to employees than the methodology for determining the performance goals established for the 2004 performance period.

Option Payments

In connection with the merger, except as described in the following paragraph, we will cash out and cancel all options to purchase shares of our common stock at a price equal to the excess, or spread, if any, of $20.00 per share over the per share exercise price of each option. The $20.00 amount was determined by adding $8.00 to the merger consideration of $12.00 per share to take into account the $8.00 per share dividend paid to holders of MGM common stock on May 17, 2004. However, if the exercise price of an option has already been adjusted as a result of the $8.00 per share dividend paid on May 17, 2004 or if such option was granted after May 17, 2004, then the holder of such option will receive a payment equal to the excess, or spread, if any, of $12.00 per share over the per-share exercise price of the option.

With respect to options granted to persons whose options are subject to laws outside the United States and options granted to specified individuals identified in the merger agreement, including, among others, some of our directors and Messrs. Yemenidjian, McGurk, Jones, Rakow and Taylor, such options will become fully exercisable and vested at the effective time of the merger and be adjusted to entitle the

holder, upon exercise, to receive only the option consideration, subject to any applicable withholding or other taxes required to be withheld, without paying the exercise price. We must use commercially reasonable efforts to obtain the consent of the holder of each of these options to the cancellation of such options upon receipt of the relevant consideration as soon as practicable following the merger.

Table of Contents

As of the record date, our executive officers and directors held options with a positive spread (after giving effect to the $8.00 per share dividend) to purchase a total of 12,635,264 shares of common stock, all of which were granted prior to May 17, 2004. The aggregate spread for these options is approximately $60,297,977.

Deferred Compensation Plan

Our Deferred Compensation Plan provides for certain portions of participants accounts under the plan to be paid a lump sum upon a Change in Control (as defined in the plan). A participant earns hypothetical rates of return on his account based upon the actual investment performance of funds chosen by the participant from a list made available by MGM. Upon a Change in Control, all amounts credited to a participant s account that are attributable to bonuses payable in shares of MGM common stock pursuant to the MGM Senior Management Bonus Plan will be distributed to the participant in a lump sum cash payment as soon as practicable after the Change in Control, unless the participant has previously made an election within a prescribed time period to receive the distribution in quarterly installments over a period of between one and fifteen years. The merger would constitute a Change in Control for these purposes. Mr. Jones account includes shares of MGM common stock that are attributable to bonuses pursuant to the Senior Management Bonus Plan, and, since he has not made an election to defer the distribution of such amounts, he will receive a lump sum payment in respect of such amounts as soon as practicable after the closing of the merger. All other amounts credited to a participant s account that are not attributable to deferrals of bonuses payable in shares of MGM common stock pursuant to the Senior Management Bonus Plan will be distributed to the participant in accordance with the otherwise applicable provisions of the Deferred Compensation Plan.

Indemnity Agreement with Tracinda, 250 Rodeo and Mr. Kerkorian

Concurrently with the execution of the merger agreement, as an inducement to Tracinda and 250 Rodeo to enter into, and to Mr. Kerkorian to cause Tracinda and 250 Rodeo to enter into, the voting and support agreement and thereby to facilitate the merger, which our board of directors, as well as a majority of our independent directors, determined is in the best interests of the our stockholders, and in recognition of the substantial benefits which our board of directors believes will inure to our stockholders by reason of the merger, our board of directors determined to enter into an indemnity agreement with Tracinda, 250 Rodeo and Mr. Kerkorian. Pursuant to the indemnity agreement, subject to limited exceptions, we agreed to indemnify Tracinda, 250 Rodeo and Mr. Kerkorian against liabilities in connection with any actual or threatened action, suit or proceeding based upon, arising from, relating to or by reason of the execution, delivery and/or performance of the merger agreement and/or the voting and support agreement and the transactions contemplated by those agreements. LOC has agreed that the surviving corporation will honor the obligations of the company under the indemnity agreement after the effective time of the merger. For a more complete description of the indemnity agreement, you should refer to the indemnity agreement attached as Appendix D to this statement.

Exemption from Section 16

Under the merger agreement, our board, or a duly authorized committee, will adopt resolutions exempting our directors and executive officers from all liability under Section 16(b) of the Securities Exchange Act of 1934 related to the cancellation of their outstanding stock options in exchange for the payments described above under Option Payments and the disposition of their shares of MGM common stock in exchange for the right to receive the merger consideration.

Financing; Source of Funds

In connection with entering into the merger agreement, LOC obtained a commitment letter from J.P. Morgan Securities Inc., JPMorgan Chase Bank and Credit Suisse First Boston. Under this commitment letter, J.P. Morgan Securities Inc., JPMorgan Chase Bank and Credit Suisse First Boston agreed to provide LOC with

52

Table of Contents

up to $4.25 billion in debt financing in connection with the merger. The obligations of the lenders under this commitment letter are subject to customary conditions, including:

- the satisfaction of the conditions to the merger contained in the merger agreement, such as the absence of a company material adverse effect;
- the contribution of approximately $1.1 billion in equity financing to LOC by the equity investors; and
- negotiation of mutually satisfactory definitive documentation.

In addition, each of the equity investors has delivered a commitment letter to LOC. We refer to these letters as the equity commitment letters. Under their equity commitment letters, Sony, Comcast, Providence, TPG and the DLJ funds have each agreed to make equity contributions to LOC in the amounts of $300 million, $300 million, $525 million, $350 million and $125 million, respectively. The obligations of each equity investor under its equity commitment letter may be satisfied directly or through one of its affiliates and are subject to each other equity investor making its equity contribution to LOC and to the satisfaction of the conditions to the merger contained in the merger agreement.

Deposit Agreement

We have entered into a deposit agreement with Sony Corporation of America, which deposited $150 million into a bank account designated by us pursuant thereto. We must return the deposit to Sony Corporation of America at the effective time of the merger. Otherwise, the deposit is nonrefundable unless:

- the merger agreement is terminated under circumstances where we are required to pay the termination fee, provided that if the merger agreement is terminated by LOC because (a) our board withdraws, or modifies in a manner adverse to LOC, its recommendation that MGM s stockholders adopt the merger agreement or recommends, approves or adopts a takeover proposal or (b) we fail to include in this proxy statement (or any amendment) the recommendation of our board that you vote in favor of the merger or (c) a third party commences a tender or exchange offer for MGM and our board does not recommend rejection of the offer within 10 business days or (d) our board approves or recommends a takeover proposal or approves or recommends that our stockholders tender their shares in any tender or exchange offer, the deposit is only refundable if we enter into a binding agreement with a third party with respect to an alternative takeover proposal within nine months of such termination; or
- a court has determined that there has been company material adverse effect.

In addition, if LOC terminates the merger agreement because we have breached any of our covenants such that the conditions to closing cannot be satisfied and there is a final binding judgment of a court that we willfully and materially breached the merger agreement (as to which all rights of appeal or other avenues of review have been exhausted or lapsed), then the amount of the deposit shall be taken into account in determining the damages resulting from our willful and material breach.

Letters of Credit

In connection with the execution of the merger agreement, we received letters of credit from Comcast, Providence, TPG and the DLJ funds in an aggregate amount of $100 million. If we terminate the merger agreement because LOC breaches any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied and we obtain a final, binding judicial determination that LOC willfully and materially breached any covenant under the merger agreement or any equity investor willfully and materially breached its obligations under its equity commitment letter then we will be able to draw under these letters of credit to the extent that the court awards us damages in excess of $150 million up to a maximum amount of $100 million.

Table of Contents

Delisting and Deregistration of MGM Common Stock

Our common stock is currently listed on the NYSE under the symbol MGM. Following the merger, our common stock will no longer will be traded on the NYSE, price quotations no longer will be available and the registration of our common stock under the Securities Exchange Act of 1934, as amended, will be terminated.

Appraisal or Dissenters Rights

Under Section 262 of the Delaware General Corporation Law (the DGCL), any holder of our common stock who does not wish to accept the $12.00 per share merger consideration may dissent from the merger and elect to exercise appraisal rights. A stockholder who exercises appraisal rights may ask the Delaware Court of Chancery to determine the fair value of his or her shares (exclusive of any element of value arising from the accomplishment or expectation of the merger), and receive payment of fair value in cash, together with a fair rate of interest, if any, provided that the stockholder complies with the provisions of Section 262 of the DGCL.

The following discussion is not a complete statement of the law pertaining to appraisal rights under the DGCL, and is qualified in its entirety by the full text of Section 262 of the DGCL, the full text of which is attached to this proxy statement as Appendix F. All references in Section 262 of the DGCL or in this summary to a stockholder are to the record holder of the shares of our common stock who asserts appraisal rights.

Under Section 262 of the DGCL, when a merger agreement is submitted for adoption at a meeting of stockholders, as in the case of the merger agreement, the corporation, not less than 20 days prior to the meeting, must notify each of its stockholders that appraisal rights are available and include in the notice a copy of Section 262 of the DGCL. This proxy statement constitutes MGM s notice, and we have attached Section 262 of the DGCL to this proxy statement as Appendix F. Any holder of our common stock who wishes to exercise appraisal rights or who wishes to preserve the right to do so, should review the following discussion and Appendix F carefully. Failure to comply with the procedures of Section 262 of the DGCL, in a timely and proper manner, will result in the loss of appraisal rights.

Stockholders wishing to exercise the right to dissent from the merger and seek an appraisal of their shares must do **ALL** of the following:

- The stockholder must NOT vote in favor of adoption of the merger agreement. A proxy that does not contain voting instructions will, unless revoked, be voted in favor of the merger agreement, therefore a stockholder who votes by proxy and who wishes to exercise appraisal rights must vote AGAINST the merger agreement or ABSTAIN. A vote in favor of the adoption of the merger agreement, by proxy or in person, will constitute a waiver of your appraisal rights in respect to MGM common stock so voted and will nullify any previously filed written demands for appraisal.

- The stockholder must deliver to us a written demand for appraisal of his or her MGM common stock BEFORE the vote on the adoption of the merger agreement at the special meeting.

- The stockholder must continuously hold the shares from the date of making the demand through the effective date of the merger. A stockholder will lose appraisal rights if the stockholder transfers the shares before the effective date of the merger.

The stockholder must file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares within 120 days after the effective date of the merger.

Neither voting (in person or by proxy) against, abstaining from voting on or failing to vote on the proposal to adopt the merger agreement will constitute a written demand for appraisal within the meaning of Section 262 of the DGCL. The written demand for appraisal must be in addition to and separate from any proxy or vote. A stockholder who elects to exercise appraisal rights under Section 262 of the DGCL should mail or deliver a written demand fulfilling all the requirements of Section 262 of the DGCL to: Metro-Goldwyn-Mayer Inc., 10250 Constellation Boulevard, Los Angeles, California 90067, Attention: Secretary.

Only a holder of record of shares of our common stock issued and outstanding immediately prior to the effective date of the merger may assert appraisal rights for the shares of stock registered in that holder s name. A demand for appraisal must be executed by or on behalf of the stockholder of record, fully and correctly, as the stockholder s name appears on the stock certificates. The demand must specify the stockholder s name and mailing address, the number of shares of common stock owned and that the stockholder intends to demand appraisal of his or her common stock. Stockholders who hold their shares in brokerage accounts or other nominee forms, and who wish to exercise appraisal rights, should consult with their brokers to determine the appropriate procedures for the nominee holder to make a demand for appraisal of those shares. A person having a beneficial interest in shares held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow properly and in a timely manner the steps necessary to perfect appraisal rights.

Upon completion of the merger, we will give written notice of the effective date of the merger within 10 days of such time to each of our former stockholders who did not vote in favor of adoption of the merger agreement and who made a written demand for appraisal in accordance with Section 262 of the DGCL. Within 120 days after the effective date of the merger, but not later, either the Company or any dissenting stockholder who has complied with the requirements of Section 262 of the DGCL may file a petition in the Delaware Court of Chancery demanding a determination of the value of the shares of our common stock held by all dissenting stockholders entitled to appraisal. The surviving corporation is under no obligation to and has no present intention to file a petition. Stockholders who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262 of the DGCL. Failure to file such a petition within the specified period could nullify previously written demands for appraisal.

Under the merger agreement, we have agreed to give LOC prompt notice of any demands for appraisal that the Company receives. LOC will have the opportunity to participate at its own expense in all proceedings with respect to demands for appraisal under the DGCL. We will not, without the prior written consent of LOC, settle, compromise or make any payment with respect to any demands for appraisal prior to completion of the merger.

Within 120 days after the effective date of the merger, any stockholder who has complied with the provisions of Section 262 of the DGCL to that point in time may receive from the Company, upon written request, a statement setting forth the aggregate number of shares not voted in favor of adoption of the merger agreement and with respect to which we have received demands for appraisal, and the aggregate number of holders of those shares. The Company must mail this statement to the stockholder within 10 days of receipt of the request or within 10 days after expiration of the period for delivery of demands for appraisals under Section 262 of the DGCL, whichever is later.

If any party files a petition for appraisal in a timely manner, the surviving corporation will then be obligated within 20 days after receiving a copy of the petition to file with the Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares and with whom an agreement as to the value of their shares has not been reached. The Delaware Court of Chancery will then determine through a hearing which stockholders are entitled to appraisal rights and may require the stockholders demanding appraisal who hold certificated shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings. If the stockholder fails to comply with the court s direction, the court may dismiss the proceeding as to the stockholder. The Delaware Court of Chancery will thereafter determine through a hearing the fair value of the shares of our common stock formerly held by dissenting stockholders, exclusive of any element of value arising from the accomplishment or expectation of the merger, but together with a fair rate of interest, if any, to be paid on the amount determined to be fair value upon surrender by such holders of the certificates representing those shares of MGM common stock.

In determining the fair value, the Delaware Court of Chancery will take into account all relevant factors. The Delaware Supreme Court has stated that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered in the

appraisal proceedings. In addition, Delaware courts have decided that the statutory appraisal remedy, in cases of unfair dealing, may or may not be a dissenter s exclusive remedy. The Delaware Court of Chancery may determine the fair value to be more than, less than or equal to the consideration that the dissenting stockholder would otherwise receive under the merger agreement. If no party files a petition for appraisal in a timely manner, then stockholders will lose the right to an appraisal.

The Delaware Court of Chancery will determine the costs of the appraisal proceeding and will allocate those costs to the Company and the stockholders participating in the appraisal proceeding as the Delaware Court of Chancery determines to be equitable under the circumstances. Upon the application of a stockholder, the Delaware Court of Chancery may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including reasonable attorneys fees and the fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal.

Stockholders should be aware that the fair value of their shares as determined under Section 262 of the DGCL could be greater than, the same as, or less than the $12.00 per share merger consideration. The fairness opinions of Goldman Sachs and Morgan Stanley delivered to our board do not in any manner address fair value under Section 262 of the DGCL.

Any stockholder who has duly demanded an appraisal in compliance with Section 262 of the DGCL may not, after the effective date of the merger, vote the shares subject to the demand for any purpose or receive any dividends or other distributions on those shares (except dividends or other distributions payable to holders of record of shares as of a record date prior to the effective date of the merger).

Any stockholder may withdraw a demand for appraisal and accept the merger consideration by delivering to the Company a written withdrawal of the demand for appraisal and acceptance of the merger, except that (1) any attempt to withdraw made more than 60 days after the effective date of the merger will require written approval of the Company and must, to be effective, be made within 120 days after the effective date and (2) no appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, and may be subject to such conditions as the Delaware Court of Chancery deems just. If the stockholder fails to perfect, successfully withdraws or loses the appraisal right, the stockholder s shares will be converted into the right to receive the merger consideration.

Under the merger agreement, LOC is not required to complete the merger if holders of 10% or more of our outstanding common stock as of the date of the merger agreement demand appraisal of their shares in accordance with Delaware law.

Voting and Support Agreement

Concurrently with the execution of the merger agreement, Tracinda and 250 Rodeo entered into the voting and support agreement with LOC. Tracinda and 250 Rodeo have agreed, among other things and subject to certain exceptions:

- to vote their shares of MGM common stock, including shares acquired after execution of the voting and support agreement, in favor of adoption of the merger agreement and against any alternative takeover proposal;
- not to enter into any agreement or understanding that would reasonably be expected to violate, conflict or interfere with the provisions of the voting and support agreement or adversely affect the timely consummation of the merger;

not to transfer, sell, assign, pledge, encumber or dispose of any of their shares of MGM common stock (other than by operation of the merger);

not to grant any proxies, options or rights of first offer or refusal with respect to any of their shares of MGM common stock or permit any of their shares to become subject to any pledges, liens, preemptive rights, security interests, claims, charges or other encumbrances or arrangements; and

Table of Contents

not to enter into any voting agreement, voting trust or other voting arrangement with respect to any of their shares of MGM common stock.

In addition, subject to certain exceptions, each of Tracinda and 250 Rodeo have also agreed not to, and not to permit any person controlling it or under its control, including Mr. Kerkorian, to:

directly or indirectly solicit, initiate, propose or take any other action to facilitate any alternative takeover proposal or enter into any agreement, arrangement or understanding with respect to any alternative takeover proposal;

initiate or participate in any way in any negotiations or discussions regarding an alternative takeover proposal or furnish or disclose to any third party any information with respect to, or which would be reasonably expected to lead to, any alternative takeover proposal;

solicit proxies or become a participant in or otherwise assist a solicitation that would reasonably be expected to compete with or adversely affect the timely consummation of the merger or result in the termination of, or failure to consummate, the merger;

otherwise encourage or assist any person in taking or planning any action which would reasonably be expected to compete with or adversely affect the timely consummation of the merger or result in the abandonment or termination of, or failure to consummate, the merger; and

directly or indirectly encourage, initiate or cooperate in a stockholders vote or action by written consent of our stockholders that would reasonably be expected to compete with or adversely affect the timely consummation of the merger or result in the termination of, or failure to consummate, the merger.

In connection with the execution of the voting and support agreement, Tracinda and 250 Rodeo have each agreed to execute and deliver to LOC upon request an irrevocable proxy to vote their shares of MGM common stock, including shares acquired after execution of the voting and support agreement, in a manner consistent with the voting and support agreement and the merger agreement.

The voting and support agreement does not limit or affect the ability of Tracinda, 250 Rodeo or any person or entity controlling or under the control of either of them, including Mr. Kerkorian, from taking certain actions in response to an unsolicited bona fide takeover proposal to the extent the company is permitted to take such actions under the merger agreement. See The Merger Agreement No Solicitation.

The voting and support agreement will terminate upon the earliest of:

the mutual agreement of LOC, Tracinda and 250 Rodeo;

the effective time of the merger;

the termination of the merger agreement pursuant to its terms; or

our execution of any amendment, supplement, waiver or modification to the merger agreement that has not previously been approved in writing by Tracinda and 250 Rodeo.

For a more complete description of the voting and support agreement, you should refer to the voting and support agreement attached as Appendix E to this proxy statement.

Table of Contents

The Merger Agreement

The following is a summary of certain provisions of the merger agreement. The summary is not a complete description of the terms and conditions of the merger agreement, a copy of which is attached to this proxy statement as Appendix A. We urge you to read the merger agreement and the other appendices attached to this proxy statement carefully and in its entirety.

Structure and Effective Time

If all of the conditions to the merger are satisfied or waived in accordance with the merger agreement, LOC will be merged with and into MGM and MGM will continue as the surviving corporation. As a result of the merger, we will cease to be a publicly traded company and will be owned by Sony, Comcast and affiliates of Providence, TPG and DLJ Merchant Banking Partners.

The merger shall become effective at such time as the certificate of merger is filed with the Secretary of State of Delaware in accordance with the merger agreement. We intend to file the certificate of merger as promptly as practicable following satisfaction or waiver of the conditions to the merger in accordance with the merger agreement, including the adoption of the merger agreement by our stockholders and receipt of all regulatory clearances. See The Merger Agreement Conditions to the Consummation of the Merger, The Merger Governmental and Regulatory Matters and The Merger Agreement Agreement to Obtain Clearance from Regulatory Authorities.

Board of Directors and Officers of MGM Following the Merger

The directors of LOC immediately prior to the effective time shall be the directors of MGM after the merger. The officers of LOC immediately prior to the effective time shall be the officers of MGM after the merger.

Merger Consideration

Upon completion of the merger, each share of MGM common stock issued and outstanding immediately prior to the effective time (other than shares held by MGM or LOC and other than shares held by stockholders who have properly demanded appraisal rights) will be converted into the right to receive $12.00 in cash, without interest, and canceled and retired and cease to exist.

Payment Procedures

No later than the effective time of the merger, LOC will designate a paying agent reasonably acceptable to us to make payments of the merger consideration under the merger agreement upon surrender of certificates representing MGM common stock and deposit an amount of cash with the paying agent sufficient to pay the merger consideration to each of our stockholders.

As soon as practicable after completion of the merger, the paying agent will mail a letter of transmittal and instructions to you advising you how to surrender your stock certificates in exchange for the merger consideration.

You should NOT return your stock certificates with the enclosed proxy card, and you should NOT forward your stock certificates to the paying agent without an executed letter of transmittal.

You will not be entitled to receive the merger consideration until you surrender your stock certificates to the paying agent, together with a duly completed and executed letter of transmittal and any other documents the paying agent requires in accordance with the instructions sent by the paying agent. The surviving corporation will reduce the amount of any merger consideration paid to you by any applicable withholding taxes.

Table of Contents

No interest will be paid or will accrue on the cash payable upon surrender of the stock certificates.

At the effective time of the merger, we will close our stock ledger. After that time, if you present common stock certificates to the surviving corporation, the surviving corporation will cancel them in exchange for cash as described in this section.

The transmittal instructions will tell you what to do if you have lost your stock certificate, or if it has been stolen or destroyed.

After completion of the merger, subject to the exceptions in the next sentence, you will cease to have any rights as an MGM stockholder. The exceptions include the right to receive dividends or other distributions with respect to your common stock with a record date before the effective time of the merger, the right to surrender your stock certificate in exchange for payment of the merger consideration or, if you exercise your appraisal rights, the right to perfect your right to receive payment for your shares pursuant to Delaware law.

Twelve months after the merger occurs, the paying agent will return to the surviving corporation all funds in its possession that constitute any portion of the merger consideration, and the paying agent s duties will terminate. After that time, stockholders may surrender their certificates to the surviving corporation and, subject to applicable abandoned property laws, escheat and similar laws, will be entitled to receive the merger consideration without interest. None of LOC, MGM or the paying agent will be liable to stockholders for any merger consideration delivered to a public official pursuant to applicable abandoned property laws, escheat and similar laws.

Treatment of MGM Stock Options and Equity Plans

In connection with the merger, except as described in the following paragraph, we will cash out all options to purchase shares of our common stock at a price equal to the excess, or spread, if any, of $20.00 per share over the per share exercise price of each option. The $20.00 amount was determined by adding $8.00 to the merger consideration of $12.00 per share to give effect to the $8.00 per share dividend paid to holders of MGM common stock on May 17, 2004. However, if the exercise price of an option has already been adjusted as a result of the $8.00 per share dividend paid on May 17, 2004 or if such option was granted after May 17, 2004, then the holder of such option will receive a payment equal to the excess or spread, if any, of $12.00 per share over the per share exercise price of the option.

Solely with respect to options granted to persons whose options are subject to laws outside the United States and options granted to specified individuals identified in the merger agreement, including, among others, some of our directors and Messrs. Yemenidjian, McGurk, Jones, Rakow and Taylor, such options will become fully exercisable and vested at the effective time of the merger and be adjusted to entitle the holder, upon exercise, to receive only the option consideration, subject to any applicable withholding or other taxes required to be withheld, without paying the exercise price. We must use commercially reasonable efforts to obtain the consent of the holder of each of these options to the cancellation of such options upon receipt of the relevant consideration as soon as practicable following the merger.

No Solicitation

The merger agreement provides that neither we nor our affiliates, nor our representatives (including our executive officers, directors, investment bankers, attorneys, consultants and other representatives) will:

- directly or indirectly solicit, initiate, propose or take any other action that could be reasonably expected to facilitate a takeover proposal;
- enter into any agreement, arrangement or understanding with respect to any takeover proposal;
- initiate or participate in discussions relating to a takeover proposal;

Table of Contents

- provide any information to a third party with respect to, or which would be reasonably expected to lead to, a takeover proposal; or
- grant any waiver or release under any standstill or similar agreement relating our equity securities.

We must promptly inform LOC of any request for information relating to a takeover proposal, any takeover proposal or any inquiry with respect to any takeover proposal and keep LOC reasonably informed as to the status and material details of any such request.

For purposes of the merger agreement, a takeover proposal means any third party inquiry, proposal or offer relating to:

- the acquisition of 20% or more of our outstanding voting securities;
- a merger, consolidation, business combination, reorganization, share exchange, sale of substantially all assets, recapitalization, liquidation, dissolution or similar transaction which would result in any third party acquiring 20% or more of the fair market value of our assets (including capital stock of subsidiaries);
- any other transaction which would result, directly or indirectly, in a third party acquiring 20% or more of the fair market value of our assets (including capital stock of subsidiaries);
- a merger, consolidation, business combination, reorganization, share exchange, recapitalization, liquidation, dissolution or similar transaction involving us or any of our subsidiaries which would result in any third party owning 20% or more of the outstanding capital stock (or voting securities) of us or the resulting parent entity; provided that, in the case of a transaction involving only our subsidiaries, such subsidiaries constitute 20% or more of the fair market value of our assets; and
- any combination of the foregoing.

However, prior to the adoption of the merger agreement by our stockholders, if we receive an unsolicited *bona fide* takeover proposal that our board of directors determines in good faith (after consultation with outside counsel and a financial advisor of nationally recognized reputation) constitutes, or could be reasonably expected to lead to a superior proposal, we may:

- furnish information regarding MGM to the person who has made the takeover proposal (provided that such person enters into a confidentiality agreement that is no less restrictive than our confidentiality agreements with the equity investors); and
- participate in discussions or negotiations regarding the takeover proposal.

For purposes of the merger agreement, superior proposal means a *bona fide* unsolicited written takeover proposal (with the threshold used in the definition of takeover proposal increased to 100% rather than 20%) that our board of directors determines in good faith (after consultation with our financial advisors) to be (i) reasonably likely to be consummated and (ii) superior to our stockholders as compared to the merger and any alternative proposed in writing by LOC, taking into account the person making the proposal and all legal, financial, regulatory, fiduciary and other aspects of the merger agreement and the takeover proposal, including conditions relating to financing, regulatory approvals or other events or circumstances beyond the control of the parties.

Access to Information

We have agreed to provide LOC and its financing sources, as well as their respective officers, directors, employees, consultants and other advisors, representatives and agents with reasonable access during normal business hours to our properties, personnel, books and records. Any information we provide will be subject to the terms of our confidentiality agreements with the equity investors.

Table of Contents

Stockholder Approval; MGM Board Recommendation

We have agreed to call and hold the special meeting described in this proxy statement and to recommend through our board of directors that our stockholders vote to adopt the merger agreement at the special meeting. We also agreed to include our board s recommendation in this proxy statement.

We agreed to provide LOC and the equity investors with a reasonable opportunity to review and comment on any amendment or supplement to the proxy statement prior to filing it with the SEC and to promptly notify LOC of the receipt of any comments or requests for amendments or supplements to this proxy statement by the SEC and to provide LOC with copies of all correspondence between us or any of our representatives, on the one hand, and the SEC or its staff, on the other hand, with respect to the proxy statement.

We agreed in the merger agreement that neither our board of directors or any committee will:

- withdraw or modify in a manner adverse to LOC our board s recommendation of the merger;
- publicly propose to withdraw or modify in a manner adverse to LOC our board s recommendation of the merger; or
- recommend, adopt or approve, or publicly propose to recommend, adopt or approve, any takeover proposal.

However, prior to adoption of the merger agreement by our stockholders, our board of directors, or a committee of the board may take such action if (i) in response to a superior proposal, our board of directors determines in good faith (after consultation with outside counsel and a financial advisor of nationally recognized reputation) that taking such action is required for the members of our board of directors to comply with their fiduciary duties to our stockholders under applicable law, (ii) we provide LOC written notice that our board of directors intends to take such action, specifying the reasons for taking such action and describing the material terms of the superior proposal that is the basis for taking such action, and (iii) we negotiate in good faith with LOC for five business days to modify the terms and conditions of the merger agreement such that the revised terms and conditions would enable our board of directors to proceed with its recommendation of the merger.

In addition, prior to the adoption of the merger agreement by our stockholders, if MGM receives a superior proposal and the MGM board determines in good faith (after consultation with outside counsel and a nationally recognized financial advisor) that taking such actions are necessary to comply with the board s fiduciary duties, the board may terminate the merger agreement, so long as on the date of such termination MGM enters into an agreement for, or consummates the transaction contemplated by, the superior proposal and pays to LOC the termination fee described under The Merger Agreement Termination Fee if Merger is Not Consummated so long as MGM first provides to LOC (i) written notice advising LOC that MGM s board of directors intends to take such action and specifying the reasons for taking such action and describing the material terms of the superior proposal and (ii) five business days following LOC s receipt of such written notice from MGM in which to negotiate in good faith to modify the terms and conditions of the merger agreement such that the revised terms and conditions would be at least as favorable as those provided in the superior proposal and enable MGM to proceed with the consummation of the merger with LOC.

Representations and Warranties

In the merger agreement, we made certain customary representations and warranties, subject to exceptions disclosed to LOC and to customary qualifications for materiality. The representations we made to LOC relate to, among other things:

- our and our subsidiaries proper organization, good standing and power and authority to operate our respective businesses;

our capitalization, including, in particular, the number of shares of MGM common stock and stock options outstanding;

our corporate power and authority to enter into the merger agreement and to complete the transactions contemplated by the merger agreement;

the absence of any violation of, or conflict with, our organizational documents, applicable law or any of our contracts as a result of entering into the merger agreement and completing the merger;

the required consents and approvals of governmental entities relating to the merger;

our SEC filings since January 1, 2001 and the financial statements contained in those filings;

subject to matters disclosed in our SEC filings filed after January 1, 2001 and prior to the date of the merger agreement, the absence of any event that has had or would be reasonably expected to have, individually or in the aggregate, a company material adverse effect, as described below;

employment and labor matters affecting us, including matters relating to our employee benefit plans;

our material contracts;

our insurance policies;

the absence of litigation or outstanding court orders against us;

our compliance with applicable laws and our possession of licenses and permits necessary to carry on our business;

tax matters;

environmental matters;

our intellectual property and ownership of films and film elements included in our library;

our receipt of fairness opinions from Goldman Sachs and Morgan Stanley;

the inapplicability of state takeover statutes to the merger;

our board s approval of the merger agreement and the transactions provided for in the merger agreement;

the vote of our stockholders being the only vote required to adopt the merger agreement;

the absence of undisclosed investment banking fees related to the merger;

the accuracy and completeness of information supplied by us in this proxy statement; and

our owned and leased real property.

For purposes of the merger agreement a company material adverse effect means a material adverse effect on (i) the business, properties, assets, results of operations or financial condition of MGM and its subsidiaries taken as a whole or (ii) the ability of MGM and its subsidiaries to perform the obligations of MGM pursuant to the merger agreement, other than (a) any change in any law or GAAP (or any interpretation thereof), (b) economic or financial market conditions affecting the U.S. economy, any non-U.S. economy or the global economy generally, (c) any impact of piracy on the business of MGM and its subsidiaries, (d) or other changes generally affecting the industries in which MGM operates; provided that such changes do not disproportionately affect in a material manner the relevant segment or segments of our business when compared with the effect of such changes on comparable businesses of other entertainment companies, (e) any reduction or slowdown in the production or distribution of films by MGM, (f) the box office performance of any theatrical motion picture produced or distributed by MGM and (g) the negotiation, execution, delivery or public announcement of the merger agreement or the transactions provided for in the merger agreement.

Table of Contents

In the merger agreement, LOC made certain customary representations and warranties, subject to exceptions disclosed to us, and to customary qualifications for materiality. The representations LOC made to us relate to, among other things:

- LOC s proper organization, good standing and power and authority to operate its business;
- LOC s corporate power and authority to enter into the merger agreement and to complete the transactions contemplated by the merger agreement;
- the absence of any violation of, or conflict with, LOC s organizational documents, applicable law or any of its contracts as a result of entering into the merger agreement and completing the merger;
- the required consents and approvals of governmental entities relating to the merger;
- the debt commitment letter, the equity commitment letters and the financing arrangements relating to the merger;
- the absence of undisclosed investment banking fees related to the merger;
- the accuracy and completeness of information supplied by LOC in this proxy statement;
- the absence of ownership of MGM common stock by LOC and the equity investors; and
- the solvency of the surviving corporation in the merger, taking into account the financing transactions to be consummated in connection with the merger.

Covenants; Conduct of the Business of MGM Prior to the Merger

The merger agreement provides that, with certain exceptions, prior to the effective time, we shall (i) conduct our business in the ordinary course consistent with past practices, (ii) use reasonable efforts to preserve intact our business organization and (iii) use reasonable efforts to keep available the services of our officers and employees, and preserve our business relationships.

The merger agreement also provides that, with certain exceptions, prior to the effective time, we will not take, and will prevent our subsidiaries from taking, any of the following actions without the prior consent of LOC (which consent may not be unreasonably withheld or delayed):

- declare or pay dividends, make distributions, split, combine or reclassify stock or redeem or repurchase stock;

issue, sell, pledge or encumber any stock or securities exercisable for stock other than upon exercise of outstanding stock options and other rights that were outstanding on the date of the merger agreement;

amend our certificate of incorporation or bylaws;

acquire (by merger, consolidation, acquisition of stock or assets or otherwise) any assets or businesses other than in the ordinary course of business;

other than in the ordinary course of business, sell, lease, encumber or otherwise transfer assets that in the aggregate have a purchase price of $15 million or greater;

except for certain franchise pictures, exceed certain levels of expenditures for new motion pictures, television programs and development projects, consistent with MGM s pre-existing budgetary parameters;

enter into, terminate or materially amend any material contracts provided that MGM s ability to enter into or engage in contracts in connection with the development, preparation, production or exploitation of films in the ordinary course of business is not limited;

enter into film distribution agreements that require upfront payments to MGM exceeding certain parameters;

make any loans, advances, capital contributions or investments, other than those made in the ordinary course of business up to $25 million or those made to wholly-owned subsidiaries of MGM, or incur or assume any indebtedness or guarantees other than to fund MGM operations in the ordinary course of business as permitted under MGM s existing credit facilities;

change our methods of accounting other than as may be required by GAAP or regulatory accounting requirements;

incur capital expenditures for any calendar year in excess of $5 million individually or $30 million in the aggregate, or which is payable after September 27, 2005, other than in the ordinary course of business not exceeding $30 million dollars in any 12 month period, except for entering into contracts with talent, financiers, exhibitors, distributors or other parties relating to the development, production or exploitation of films;

take, or fail to take, any action likely to materially delay the consummation of the merger or result in a material adverse effect to MGM;

settle or discharge any claims, liabilities or obligations except in the ordinary course of business;

except in the ordinary course of business or in connection with certain permitted liens, sell, assign, license, pledge or encumber any MGM intellectual property;

enter into, amend, terminate or extend or waive or release any claim under a material contract;

grant increases in compensation or employment benefits other than in the ordinary course of business or as may be contractually required, subject to certain specified limitations;

effect any layoffs or plant closings not in compliance with the Worker Adjustment and Retraining Act of 1988;

amend or implement any personnel, manuals, handbooks, policies, rules or procedures that impose any obligations on MGM materially greater than those in effect on the date of the merger agreement;

fail to timely file all tax returns, amend any tax return, change any material tax election, settle any material claim related to taxes or consent to any claim or audit relating to taxes or any waiver of the statute of limitations for any claim or audit;

enter into any transactions with Tracinda or 250 Rodeo;

enter into or adopt a plan of liquidation, dissolution, merger, consolidation or other reorganization of MGM; or

take any action which would result in any of MGM s representations and warranties contained in the merger agreement becoming untrue in any material respect.

In addition, the merger agreement provides that, with certain exceptions, prior to the effective time, MGM will consult with LOC prior to entering into multiple-film licenses covering more than 100 films or exceeding certain durational parameters consistent with customary practices.

Agreement To Obtain Clearance From Regulatory Authorities

MGM and LOC have agreed to use their reasonable best efforts, and LOC has agreed to cause each of its equity investors to use reasonable best efforts, to take all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations (including the HSR Act and Council Regulation (EC) No. 139/2004) to consummate and make effective the transactions contemplated by the merger agreement.

Among other things, each party has agreed to use such efforts to:

- obtain all necessary waivers, consents or approvals from any governmental entities and to make all registrations and filings as may be necessary to consummate the merger agreement;

Table of Contents

- defend all lawsuits or other legal proceedings challenging the merger agreement and any related transactions; and
- commit to any and all divestitures necessary to avoid any action or proceeding by any governmental entity in order to consummate and make effective the merger.

However, LOC and MGM are not required to take any action or enter into any agreement with respect to any of their assets, business or operations if, in the aggregate, such actions would have a material adverse effect on the business, properties, assets, financial condition or results of operations of MGM or LOC and its respective subsidiaries, taken as a whole, or on the ability of MGM or LOC to perform its obligations under the merger agreement or, in the case of LOC, to complete the debt financing and other transactions to be consummated in connection with the merger.

If LOC or its equity investors fail to agree to undertake any actions or enter into any agreements required by governmental entities in connection with obtaining regulatory approval of the transactions contemplated by the merger agreement (or take, or fail to take, any other action which causes a condition to the closing of the merger not to be satisfied) and MGM obtains a final and binding judicial determination that LOC willfully and materially breached the merger agreement, MGM will be entitled to recover from LOC actual damages up to an aggregate maximum amount of $250 million (including the deposit). For purposes of the merger agreement, the failure by LOC to cause the equity investors to take an action, where such failure would have been willful material breach of the merger agreement were LOC required to take such action, shall be deemed a willful and material breach of the merger agreement by LOC. The Sony consortium has advised MGM that Sony would be responsible for up to $130 million of this amount and that the other equity investors would be responsible for agreed portions of the remaining $120 million.

In addition, in connection with the merger agreement, MGM entered into a letter agreement with LOC and the equity investors in which the parties agreed that:

- Providence, TPG and the DLJ funds will not be required to agree to any divestitures or conduct restrictions in order to obtain regulatory approval for the merger;
- LOC will not be required to agree to any divestiture of MGM library catalog content if, individually or in the aggregate, the assets to be divested generated more than $15 million of operating cash flow during the prior fiscal year or if the divestiture involved library catalog content or development projects involving the *James Bond*, *Pink Panther* or *Rocky* franchises; and
- LOC will not be required to agree to any restriction or limitation on MGM s or LOC s business after the merger other than implementing information barriers between LOC and MGM, on the one hand, and film and television companies in which Providence, TPG or the DLJ funds have ownership interests, on the other hand, and offering MGM content not subject to exclusivity agreements to competitors of cable television channels owned by MGM in Europe on non-discriminatory terms.

In addition, subject to the terms and conditions of the merger agreement, neither of the parties is permitted to knowingly take or cause to be taken any action which would reasonably be expected to materially delay or prevent the consummation of the merger.

The merger agreement further provides that MGM and LOC must:

file as soon as practicable a Notification and Report Form under the HSR Act with the Federal Trade Commission and the Antitrust Division of the Department of Justice, and a Form CO under Council Regulation (EC) No. 139/2004 with the European Commission; and

respond, as promptly as practicable under the circumstances, to any inquiries received from the U.S. antitrust authorities or the European Commission for additional information or documentation and to any other governmental entity in connection with antitrust matters, and not extend any waiting period under the HSR Act or Council Regulation (EC) No. 139/2004 without the prior written consent of the other party which shall not be unreasonably withheld or delayed.

Table of Contents

Additionally, MGM and LOC have agreed, subject to applicable law and the limitations set forth in the merger agreement and except as prohibited by any applicable governmental entity:

- to promptly notify the other party of any written communication from the U.S. antitrust authorities, the European Commission or any other governmental entity, and to permit the other party to review in advance any proposed written communication to any of the foregoing;

- not to participate in any substantive meeting or discussion with any governmental entity in connection with any filings, investigation or inquiry concerning the merger agreement or the merger unless it consults with the other party in advance and, to the extent permitted by such governmental entity, gives the other party the opportunity to attend and participate; and

- to furnish the other party with copies of all correspondence, filings, and written communications between them and its affiliates and their respective representatives on the one hand, and any government entities or members or their respective staffs on the other hand with respect to the merger agreement and the merger.

Indemnification and Insurance

Under the merger agreement, LOC has agreed that the surviving corporation will indemnify all present and former directors and officers of MGM and its subsidiaries, acting in such capacities, to the fullest extent permitted by law, against any expenses or losses incurred in connection with any claim, action, suit, proceeding or investigation arising out of or pertaining to matters pending, existing or occurring at or prior to the merger. LOC has agreed that the surviving corporation will cause to be maintained charter and bylaw provisions with respect to elimination of liability of directors, and indemnification of officers, directors, employees and agents, that are no less favorable to the intended beneficiaries than those contained our certificate of incorporation and bylaws or the certificate of incorporation and bylaws of the relevant subsidiary as in effect on the date the merger agreement was signed. LOC has also agreed that the surviving corporation honor all indemnification agreements entered into by MGM or any of its subsidiaries.

In addition, LOC has agreed that the surviving corporation will provide or, in the alternative, MGM has the right to acquire, for six years after the merger, directors and officers liability insurance in respect of acts or omissions occurring at or prior to the merger covering each person currently covered by our directors and officers liability insurance policy on terms and in amounts no less favorable than those of our policy in effect on the date the merger agreement was signed, provided that the surviving corporation will not be required to pay annual premiums for such insurance in excess of 300% of our annual premium in effect on the date the merger agreement was signed or, if MGM acquires the insurance prior to closing, it may not pay a one-time premium that exceeds 300% of our annual premium in effect on the date the merger agreement was signed.

Tax Matters

We agreed that we would timely file (or cause to be filed) all income tax returns of MGM and its subsidiaries and would not amend any material tax returns or make any material election relating to taxes prior to the merger. We also agreed that we will coordinate with LOC regarding developments in tax law and actions that would minimize tax exposure to MGM and we will certify to each of the equity investors that interests in the MGM are not real property interests within the meaning of the Internal Revenue Code of 1986, as amended.

Employee Benefit Plans

MGM will provide, for at least one year following completion of the merger, to persons who continue to be employed by MGM, benefits during their employment (other than equity-based benefits) that are substantially comparable in the aggregate to the benefits provided to those employees as of the date of the merger agreement, but MGM will not be required to retain the services of MGM s current employees after the merger.

For purposes of eligibility and vesting under any employee benefit plan of MGM after the completion of the merger, persons who continue to be employed by MGM and its subsidiaries shall receive credit for prior service

Table of Contents

with MGM to the extent that such service was recognized under any analogous employee benefit plan of MGM prior to the effective time, subject to certain limitations. After the consummation of the merger, MGM shall honor all employment, severance, termination, retention agreements, plans, programs or arrangements of MGM that were in effect prior to the effective time, subject to the terms of the Employee Security Plan.

Other than pursuant to the Employee Security Plan or other benefit plans or employment agreements existing as of the date the merger agreement was signed, MGM shall not make any change of control, retention or other similar payments other than pursuant to the retention bonus payments described under The Merger Interests of Certain Persons in the Merger Retention Bonus Plan.

Termination of the Merger Agreement

The merger agreement may be terminated:

- if both we and LOC agree to do so;
- by either us or LOC, if:
  - our stockholders fail to approve the merger at the special meeting or any adjournment of the special meeting;
  - the merger is not completed on or before September 27, 2005, except that either of the parties may extend this date until December 27, 2005 if all closing conditions have been satisfied other than the conditions relating to (1) expiration of waiting periods under antitrust laws and obtaining regulatory approvals, and (2) absence of laws or orders prohibiting completion of the merger; we refer to this date, as it may be extended, as the termination date ; or
  - there is any final and nonappealable governmental order, decree or ruling that prevents completion of the merger;
- by us if:
  - LOC breaches any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied which is not cured prior to the earlier of 20 business days after LOC receives written notice of the breach or the termination date;
  - any of the equity investors fails to make its equity contribution to LOC in accordance with the terms of the equity commitment letter it has delivered to LOC and the breach is not cured prior to the earlier of 10 business days after LOC receives written notice of the breach or the termination date. See The Merger Financing; Source of Funds.
  - prior to adoption of the merger agreement by our stockholders, in order to enter into an agreement with respect to a superior proposal (i) our board of directors determines in good faith (after consultation with outside counsel and a financial advisor of nationally recognized reputation) that taking such action is required for the members of our board of directors to comply with

their fiduciary duties to our stockholders under applicable law, (ii) we provide LOC written notice that our board of directors intends to take such action, specifying the reasons for taking such action and describing the material terms of the superior proposal; (iii) we negotiate in good faith with LOC for 5 business days to modify the terms and conditions of the merger agreement such that the revised terms and conditions would be at least as favorable as those provided in the superior proposal and enable us to proceed with the consummation of the merger and (iv) we pay the termination fee described below under Termination Fee if Merger is Not Consummated ; or

the debt commitment letter that LOC has received in connection with the merger expires prior to consummation; the debt commitment letter is currently scheduled to expire on December 12, 2005;

by LOC if:

- we breach any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied which is not cured prior to the earlier of 20 business days after we receive written notice of the breach or the termination date;
- our board withdraws or modifies in a manner adverse to LOC its recommendation that MGM s stockholders adopt the merger agreement or recommends, approves or adopts a takeover proposal;
- we fail to include in this proxy statement (or any amendment) the recommendation of our board that you vote in favor of the merger;
- a third party commences a tender or exchange offer for MGM and our board does not recommend rejection of the offer within 10 business days;
- our board approves or recommends a takeover proposal or approves or recommends that our stockholders tender their shares in any tender or exchange offer; or
- we materially breach our covenant not to solicit alternative takeover proposals or to hold the special meeting.

Termination Fee if Merger is Not Consummated

We agreed to pay LOC a $135 million termination fee if:

- we terminate the merger agreement in order to enter into an agreement with respect to a superior proposal;
- LOC terminates the merger agreement because, prior to obtaining MGM stockholder approval:
  - our board withdraws or modifies in a manner adverse to LOC its recommendation that MGM s stockholders adopt the merger agreement or recommends, approves or adopts a takeover proposal;
  - we fail to include in this proxy statement (or any amendment) the recommendation of our board that you vote in favor of the merger;
  - a third party commences a tender or exchange offer for MGM and our board does not recommend rejection of the offer within 10 business days of commencement of the offer; or
  - our board approves or recommends a takeover proposal or approves or recommends that our stockholders tender their shares in any tender or exchange offer.

the merger agreement is terminated by us or LOC because (i) our stockholders fail to approve the merger at the special meeting or any adjournment of the special meeting or (ii) the merger is not consummated prior to the termination date (unless the conditions that have not been satisfied at such time are solely within the control of LOC) or by LOC because (i) we breach any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied, or (ii) we breach our obligation not to solicit takeover proposals or fail to recommend that you vote in favor of adoption of the merger agreement, and*:*

prior to termination of the merger agreement, a third party shall have publicly made, proposed, communicated or disclosed an intention to make a takeover proposal (with all percentages in the definition of takeover proposal increased to 50%) for MGM; and

within nine months following termination of the merger agreement, we enter into a definitive agreement with a third party with respect to a takeover proposal or any takeover proposal is consummated (with all percentages in the definition of takeover proposal increased to 50%).

Notwithstanding the foregoing, if the merger agreement is terminated, we may not be required to pay the termination fee to LOC in connection with certain going private or similar transactions with Tracinda.

Table of Contents

Damages if Merger Agreement is Terminated

If we terminate the merger agreement because LOC breaches any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied and we obtain a final, binding judicial determination that LOC willfully and materially breached any covenant under the merger agreement or that any equity investor willfully and materially breached its obligations under its equity commitment letter, then we will keep the $150 million deposit and be entitled to recover from LOC the amount of our actual damages in excess of $150 million up to an additional $100 million, for an aggregate amount of damages not to exceed $250 million. Subject to the terms of the letters of credit delivered to us in connection with the signing or the merger agreement, we may be able to satisfy actual damages awards in excess of $150 million with funds drawable under the letter of credit. See Letters of Credit and Deposit Agreement for additional information.

If LOC terminates the merger agreement because we breach any representation, warranty, covenant or agreement that would result in the failure of a condition to the merger agreement to be satisfied and LOC obtains a final, binding judicial determination that we willfully and materially breached any covenant under the merger agreement and that LOC suffered actual damages resulting from such willful and material breach, then under the merger agreement, LOC will be entitled to recover from us the amount of its actual damages up to $135 million.

Conditions to the Consummation of the Merger

MGM and LOC are not required to consummate the merger unless a number of conditions are satisfied or waived, including:

- adoption of the merger agreement by our stockholders;
- the waiting periods under the Hart-Scott-Rodino Act and Council Regulation (EC) No. 139/2004 have expired or been terminated and all other material regulatory consents or approvals necessary for the closing of the merger and the other transactions to be consummated in connection with the merger have been obtained;
- no law or court order is in effect prohibiting the completion of the merger; and
- MGM and LOC shall have received a solvency opinion from Houlihan Lokey Howard & Zukin.

Furthermore, LOC is not required to consummate the merger unless the following additional conditions are satisfied