MGM HOLDINGS INC.

For the quarter ended June 30, 2020

Delaware
(State or other jurisdiction of incorporation or organization)

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

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Forward-Looking Statements and Risk Factors

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

- our ability to predict the performance of our film and television content, or predict consumer tastes;
- our ability to maintain and renew affiliation agreements and content licensing agreements for EPIX and our other channels;
- our ability to predict the extent of the impact of the COVID-19 pandemic on our businesses, operations and financial results;
- our ability to realize the anticipated benefit from acquisitions, business combinations, joint ventures and other similar transactions. No assurance can be given that such transactions will be successfully integrated and/or operated by us to the extent required, or that we will realize potential revenue enhancements, cost savings, operational efficiencies or other benefits. Additionally, there can be no assurance that such transactions will not adversely affect our results of operations, cash flows or financial condition, and any such transaction could result in an impairment of our investment, goodwill and/or other intangible assets;
- our ability to exploit emerging and evolving technologies, including alternative forms of content and delivery, and the storage of content;
- our ability to finance and produce film and television content, and to do so in accordance with the anticipated schedule or budget, or with the creative talent anticipated to be included in the projects;
- our ability to complete and release or deliver, as applicable, feature film and television content in accordance with our anticipated release schedule;
- increasing costs for producing and marketing feature films and television content;
- our ability to acquire film and television content on favorable terms;
- our ability to exploit our library of film and television content;
- our ability to successfully operate our businesses in highly competitive industries in which our competitors may be larger and/or more diversified;
- our available liquidity and access to capital;
- our ability to attract, retain and successfully replace senior management personnel and other key employees;
- uncertainty from the expected discontinuance of LIBOR and transition to another interest rate benchmark;
- piracy of film and television content;
- the need to protect and defend against intellectual property claims;
- potential risks of liability claims for our content;
- the impact of strikes or other union job actions;
- risks of doing business internationally;
- inflation, deflation, and volatility in interest rates, foreign exchange rates, or other rates or prices; and
- the impact of anticipated and unanticipated global events, geopolitical situations and entertainment-industry specific events.

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

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

Company Background and Business Overview

Overview

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

We have historically generated revenue from the exploitation of our content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets. We also generate revenue from the licensing of our content and intellectual property rights for use in consumer products and interactive games, as well as various other licensing activities. Our operations include the development, production and financing of feature films and television content and the worldwide distribution of entertainment content primarily through television and digital distribution.

We also own EPIX Entertainment LLC which operates EPIX, a premium pay television network delivering a lineup of original programming and blockbuster movies. EPIX is available through cable, satellite, telecommunications and streaming TV providers as a linear television, video-on-demand, 'TV Everywhere' and over-the-top (OTT) service and is currently available in the United States (“U.S.”) and Puerto Rico. EPIX also licenses content to subscription video-on-demand operators. In addition, we currently own or hold interests in MGM-branded channels in the U.S., as well as interests in pay television networks in the U.S. and Brazil.

We control one of the world’s deepest libraries of premium film and television content. Our film content library includes approximately 4,000 titles, including the *James Bond*, *The Hobbit*, *Rocky/Creed*, *RoboCop* and *Pink Panther* franchises, as well as *The Silence of the Lambs, The Magnificent Seven, Four Weddings and a Funeral* and many other highly recognizable titles. Our film content library also includes rights to films that have received more than 180 Academy Awards, including 12 Best Picture Awards. Our television content library includes approximately 17,000 episodes of programming, including *Stargate SG-1*, which was one of the longest running science fiction series in U.S. television history, *Stargate Atlantis, Stargate Universe, Vikings, Fargo, The Handmaid’s Tale*, *Get Shorty*, *Condor*, *Fame*, *American Gladiators*, *Teen Wolf* and *In the Heat of the Night,* as well as our rights to or income from prominent unscripted shows including *The Voice*, *Survivor*, *Shark Tank*, *Live PD* and *Live Rescue*, *Eco-Challenge*, *Are You Smarter Than a 5th Grader*, *Beat Shazam*, *The Real Housewives of Beverly Hills, The Hills*, and other titles.

Business

Potential impacts of the COVID-19 pandemic

Our business has been negatively affected by the COVID-19 pandemic and measures to prevent its spread, including, among other things, the closure of theaters, suspension of content production activities and increased costs necessary to resume production activities. We expect this business disruption to have a materially negative effect on our results of operations, which increased in significance in the second quarter of 2020, and is expected to continue to impact our financial results over the near to medium term. This could lead to impairments of our assets, including film and television content, investments, goodwill and/or non-content related intangible assets.

With many movie theaters being closed worldwide, we have delayed the theatrical distribution for certain of our films, both domestically and internationally, and we could be required to alter our distribution strategy for some of our films. The ultimate profitability of any film subject to an alternative distribution strategy could materially differ from the expected profitability previously forecasted from historical distribution windows.

The COVID-19-related disruption to the global economy and the entertainment industry in particular could cause some of our vendors to go out of business. In addition, due to the delay in content production activities, the future demand for production crews, talent and other production-related vendors could increase substantially when it is safe to resume production activities. The resulting supply constraints could (a) significantly increase costs and/or

further delay our productions, (b) result in content asset impairments and other charges, and (c) will change the timing and amount of cash flows and future earnings associated with content production activity.

The COVID-19 pandemic has also caused significant disruption in the capital markets, which could, among other things, impair our ability to obtain additional financing and/or refinance our existing credit facilities on terms that are acceptable to us or at all. In addition, the disruption to the capital markets could result in the inability of lenders in our existing credit facilities and counterparties to our hedging activities to honor their commitments to us.

Production of film and television content

Film Content. We are involved in the development, production and acquisition of film content, and for certain films, we participate with third parties through co-production arrangements to produce, co-finance and distribute our content, as well as content developed by our partners. We have several feature films in various stages of development, production and post-production, including, but not limited to, the 25th installment of the *James Bond* franchise *No Time to Die*, *13 Lives*, *Addams Family 2*, the Aretha Franklin biopic *Respect*, *Bill and Ted Face the Music*, *Boys in the Boat*, *Candyman*, *Casa*, *Creed III*, *Dark Harvest*, *Dog*, *Fiddler on the Roof,* the third installment in the *G.I. Joe* franchise *Snake Eyes*, *Samaritan*, an untitled *Gucci* project, *Legally Blonde 3*, *Porgy and Bess*, *RoboCop Returns*, *Sesame Street*, *Thomas Crown Affair*, *Three Thousand Years of Longing*, *Tomb Raider 2*, an untitled Russo Brothers family film and an untitled Paul Thomas Anderson film.

In March 2020, we announced our decision to delay the worldwide theatrical release of *No Time To Die*, the 25th installment in the *James Bond* franchise, due to the COVID-19 pandemic and measures to prevent its spread, including, among other things, the closure of theaters. We moved the release date from April 2020 to November 2020 after careful consideration and thorough evaluation of the global theatrical marketplace and the significant downturn of business in key markets including China, Korea, Japan and Italy. We believe that this move will best position the film and the *James Bond* franchise for success worldwide, although we will likely incur higher marketing costs as a result of the move.

Television Content. We have numerous successful scripted television series and unscripted television shows that we are producing and/or distributing, as well as a deep pipeline of new scripted and unscripted content. We are focused on continuing to make strategic investments in our creative and production capabilities to meaningfully grow our television content pipeline. As a result, we have successfully increased the aggregate number of scripted and unscripted shows delivered in the past several years from 21 shows in 2017, to 31 shows in 2018 and 42 shows in 2019. This reflects a substantial increase in the total number of episodes delivered in each year, from 496 episodes in 2017, to 792 episodes in 2018 and 981 episodes in 2019. We began 2020 in an excellent position to achieve another year of growth in television content deliveries. However, television content deliveries for 2020 will be negatively impacted by production and delivery delays stemming from the COVID-19 pandemic and the global measures to prevent its spread.

Scripted series. We control distribution rights on a worldwide basis (excluding Canada) to the award-winning television series *Vikings*. The first half of the 20-episode sixth season of *Vikings* premiered on History in December 2019. We also announced the creation of a new *Vikings* series, entitled *Vikings: Valhalla*, which we will produce for Netflix.

The Handmaid's Tale continues to be a huge success, having received an incredible 14 Emmy Awards including Outstanding Drama Series, two Golden Globe awards including Best Television Series Drama, plus the Peabody Award, a BAFTA award and many other distinguished awards. Based on its continued success, Hulu renewed *The Handmaid's Tale* for a fourth season.

Fargo has completed three seasons on FX and has received a total of 54 Emmy nominations (winning six) and eleven Golden Globe nominations (winning three). The fourth season of *Fargo* is anticipated to premiere on FX later in 2020.

We recently produced *Perpetual Grace, LTD* and season 3 of *Get Shorty* for EPIX, as well as season 2 of *Condor* and season 1 of *Four Weddings and a Funeral* for Hulu. Additionally, MGM Television was involved in an executive producer capacity on season 1 of *Messiah* for Netflix. We are also producing season 2 of *Luis Miguel: La Serie* for Netflix. We have several other internally-developed scripted television series in advanced stages of development and production, including *Clarice* for CBS, that we expect to deliver in future periods.

Unscripted shows. We have numerous successful and enduring unscripted television shows that we are currently producing. *The Voice* premiered its 18th season on NBC in February 2020. *The Voice* won the Emmy Award for Outstanding Reality Competition Program for three consecutive years from 2015 through 2017 and was nominated for seven Emmy Awards in 2019, including Outstanding Reality Competition Program. *Survivor* season 40 premiered on CBS in February 2020. *Shark Tank* recently completed its 11th season on ABC and was nominated for three Emmy Awards in 2019. We also produce many other unscripted television shows, including *Beat Shazam* for FOX, the endurance race *World's Toughest Race: Eco-Challenge* with Bear Grylls for Amazon Prime, and *Are You Smarter Than a 5th Grader* for Nickelodeon. In addition, we produced several nationally syndicated daytime courtroom shows, *Couples Court with The Cutlers*, *Personal Injury Court*, and *Lauren Lake's Paternity Court*, which won the 2019 Daytime Emmy Award for Outstanding Legal/Courtroom Program.

In July 2017, we acquired the assets of Evolution Film & Tape, Inc. ("Evolution"), which includes successful unscripted shows such as *The Real Housewives of Orange County*, which recently completed its 14th season, *The Real Housewives of Beverly Hills*, in its 10th season, and *Vanderpump Rules*, in its 8th season. In addition, we also produce *Botched* for the E! network, *The Hills: New Beginnings* for MTV, *The Big Shot With Bethenny*, starring Bethenny Frankel, for HBO Max, and *Unprotected Sets* for EPIX.

In June 2018, we acquired Big Fish Entertainment LLC ("Big Fish") further augmenting our television content segment with a slate of successful unscripted shows including popular live reality shows such as *Live Rescue*, which we produce for A&E and *Animal ER Live*, which we produce for National Geographic. In addition, we produced *Black Ink Crew New York*, *Black Ink Crew Chicago* and *Girls Cruise* for VH1, *Amy Schumer Learns to Cook* for Food Network, *Martha Knows Best* for HGTV and *Hustle & Soul* for WE tv.

We also have a robust slate of unscripted television content in various stages of development and production that we expect to deliver in future periods.

<u>*EPIX*</u>. We are developing, producing and acquiring original programming for EPIX, including targeted scripted series, unscripted shows and docuseries. We are focused on investing in compelling content to create a consistent presence of original programming for EPIX that augments the strong pipeline of theatrical releases and library content that currently exist on the platform. During 2019, EPIX premiered several new original series, including: *Perpetual Grace, LTD* starring Sir Ben Kingsley and produced by MGM Television; *Pennyworth*, a dark telling of the superhero origins of Batman's legendary butler, Alfred Pennyworth, from Warner Bros. and DC Comics; *NFL: The Grind*, produced by NFL Films; and *Godfather of Harlem*, a 10-episode gangster crime drama starring Forest Whitaker. In addition, we have a robust pipeline of original programming for 2020, including our scripted series *Belgravia*, *War of the Worlds*, and season 2 of *Pennyworth*, as well as season 2 of *NFL: The Grind* and our new shows, *Helter Skelter*, *Slow Burn* and *Laurel Canyon*, among several other shows. We also anticipate season 1 of *Chapelwaite* from EPIX Productions to premiere in 2021.

<u>*Digital Content*</u>. We have an in-house digital studio that produces premium original content sourced from MGM's significant library of IP and original IP for distribution across digital platforms. As audiences migrate their viewing towards web, mobile first and OTT environments, our digital studio is focused on delivering content to these viewers through the production of short-form, mid-form and traditional length content. We are particularly focused on producing premium content for brands, cost-effective programming solutions for emerging platforms and leveraging a pool of diverse and exciting new talent to deliver next-generation IP for our partners. We have a development pipeline with several projects currently in development or production. We produced *Stargate Origins*, originally comprised of 10 mid-form episodes and later re-formatted into a feature length program; *The Baxters*, which includes 36 half-hour episodes; and we co-developed the interactive digital series entitled *#WarGames*, which was produced with Eko. We also have a programming agreement with the streaming service Vudu in which MGM is creating original series based on original ideas and franchises from our extensive library and television catalogue including *Mr. Mom* which debuted on the Vudu platform in 2019.

Distribution of film and television content

Theatrical Distribution

In October 2017, together with Annapurna Releasing, LLC ("Annapurna"), we formed a joint venture that controls and finances the U.S. theatrical marketing and distribution of certain MGM and Annapurna films. Beginning in March 2019, films from MGM, Orion Pictures and Annapurna are being distributed under each partner's respective banner and the "United Artists Releasing" banner. Refer to *Joint Ventures* below for further discussion. During 2018, the joint venture released three MGM films, including *Death Wish*, *Operation Finale*, and our successful franchise film, *Creed II*, which achieved the highest ever opening U.S. box office for a live-action film released during Thanksgiving. During 2019, the joint venture released three MGM films; *Fighting with My Family*, *The Hustle* and *The Addams Family*. In addition, the joint venture released one film from Orion Pictures, *Child's Play*. To date, the joint venture has released two films in 2020, Orion Pictures' supernatural horror film *Gretel & Hansel*, which opened in U.S. theaters on January 31, 2020, and *Valley Girl*, which opened in a very limited number of U.S. theaters on May 8, 2020.

Orion Pictures is our in-house creative team focused on a targeted slate of modestly budgeted internally produced and acquired films. Orion Classics is our in-house distribution company focused on multiplatform and specialized releases, as well as acquisitions.

For films that are theatrically distributed in the U.S. under the MGM, United Artists Releasing, Orion Pictures or Orion Classics banners, we will utilize the services of other distributors to theatrically release our films outside of the U.S. These arrangements allow us to distribute new releases by utilizing third parties to book theaters and execute marketing campaigns and promotions in certain international markets in return for distribution fees. While third parties provide theatrical distribution services in such territories on a film-by-film basis, we often have significant involvement in the decision process regarding key elements of distribution, such as the creation of marketing campaigns and the timing of the film release schedule, allowing our experienced management team to provide key input in the critical marketing and distribution strategies while avoiding the high fixed-cost infrastructure required for physical distribution. For our co-produced films, our co-production partner generally provides worldwide theatrical distribution services for the applicable film, though for certain films in certain territories (including the U.S.) we may distribute the film under the MGM banner and/or utilize the services of other distributors. We released five co-produced films theatrically during 2018. We released *Tomb Raider* in March 2018 with our co-production partner Warner Bros. Pictures; *Sherlock Gnomes* in March 2018 with our co-production partner Paramount; *Overboard* in May 2018 with our co-production partner Pantelion Films; *A Star is Born* in October 2018 with our co-production partner Warner Bros. Pictures; and *The Girl in the Spider's Web* in November 2018 with our co-production partner Sony Pictures. In May 2019, we released *The Sun is Also a Star* with our co-production partner Warner Bros. Pictures. In October 2020, we expect to release *Snake Eyes* with our co-production partner Paramount Pictures.

In addition, we have a multi-year, multi-picture co-financing arrangement with BRON Studios ("BRON"), whereby BRON will co-finance certain films from MGM and Orion Pictures, including titles from our 2019 (*Child's Play* and *The Addams Family*) and our 2020 (*Gretel & Hansel*, *Candyman* and *Respect*) theatrical film slates, as well as certain other films that may be released in future years. For all films co-financed by BRON, MGM controls worldwide distribution rights in all markets.

Television Distribution

MGM has an in-house television licensing and distribution organization. Our feature film (recently theatrically released and library) and television content are licensed globally on an individual basis and through output agreements. Output agreements require the licensee to license the Company's recently released film content for a defined period of time with license fees that are typically based on U.S. or international theatrical box office performance metrics. We license our film and television content to premium pay, basic cable and free television channels, as well as digitally to (i) subscription-on-demand ("SVOD") platforms such as Amazon, Hulu and Netflix, (ii) advertiser-supported video-on-demand ("AVOD") services such as YouTube and Roku, and (iii) transactional video-on-demand ("TVOD") providers such as iTunes that allow consumers to rent our content on a per exhibition basis. We believe that increased broadband penetration, shifting consumer preferences to viewing content on-

demand (targeted content at no scheduled time) and on the go (via mobile devices) as well as the continued global expansion of on-demand platforms will provide continued revenue growth for MGM in this sector.

To support MGM's global distribution business and the content needs of its licensees, MGM has an in-house feature film and television content acquisition team that opportunistically acquires distribution rights from third party production companies. In addition, we have an international co-production team that selectively partners with third party production companies to co-produce and finance certain film and television content and retain key distribution rights. These complementary businesses provide us with strategic distribution rights to new content that further bolsters our global film and television content distribution activity.

Home Entertainment Distribution

Home entertainment distribution includes the sales, marketing and promotion of content for physical distribution (DVD, Blu-ray and 4K Blu-ray discs) and marketing and promotion in connection with electronic sell-through ("EST"). Through June 30, 2020, Twentieth Century Fox Home Entertainment ("Fox"), a subsidiary of The Walt Disney Company ("Disney"), provided our physical home entertainment distribution on a worldwide basis (excluding certain territories) for a substantial number of our feature films and television series, including *Spectre*, *Skyfall*, *Death Wish*, *RoboCop*, *Child's Play*, *The Prodigy*, *Vikings*, *The Handmaid's Tale*, *Teen Wolf* and other titles. Our physical home entertainment distribution agreement with Fox expired on June 30, 2020 and on July 1, 2020, Warner Bros. Home Entertainment ("Warner Bros.") became our physical home entertainment distributor on a worldwide basis (excluding certain territories). Universal Home Entertainment ("Universal") provides our physical home entertainment distribution on a worldwide basis (excluding certain territories) on certain recently released films, including *Operation Finale*, *Fighting With My Family*, *The Hustle*, *The Addams Family* and *Gretel & Hansel*. In addition, for certain films, our co-production partners control physical home entertainment distribution rights. For example, Sony Pictures Entertainment, Inc. ("Sony") is the physical home entertainment distributor for films in the *21 Jump Street* franchise, *The Magnificent Seven* and *The Girl in the Spider's Web*; Lions Gate Entertainment Corp ("Lionsgate") is the physical home entertainment distributor for *Overboard*; Warner Bros. Entertainment Inc. is the physical home entertainment distributor for *A Star is Born*, *Barbershop: The Next Cut, The Hobbit* trilogy, the *Creed* franchise, *Everything, Everything*, *How to be Single*, *Max*, *Me Before You*, *The Sun is Also a Star* and *Tomb Raider*; Twentieth Century Fox, a subsidiary of Disney, is the physical home entertainment distributor for *Poltergeist*; and Paramount Pictures Corporation ("Paramount") is the physical home entertainment distributor for *Hercules, Sherlock Gnomes* and *Ben-Hur*. EST distribution rights for these and other co-financed films may be controlled by us or our partners depending on the terms of the applicable co-financing and distribution agreement.

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

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

Ancillary Businesses

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

We also control music publishing rights to various compositions featured in our film and television content, as well as the soundtrack, master use and synchronization licensing rights to many properties. We exploit these rights through third-party licensing of publishing, soundtrack, master use and synchronization rights. Beginning March 31, 2019, we have an agreement with Universal Music Publishing Group ("UMPG") under which UMPG administers much of this licensing.

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

Media Networks

We distribute feature films and television content to audiences in the U.S. and certain international territories through our wholly-owned and joint venture television channels. Currently, we own and operate EPIX, a premium pay television network delivering a lineup of original programming and blockbuster movies. EPIX is available through cable, satellite, telecommunications and streaming TV providers as a linear television, video-on-demand and 'TV Everywhere' service and is currently available in the U.S. and Puerto Rico. EPIX also licenses content to SVOD operators.

We also own and operate an MGM-branded channel in the U.S., MGM HD, as well as certain multicast and digital networks including ThisTV, LightTV and MGM Sci-Fi. ThisTV is a top performing free multicast movie and general entertainment network cleared in 63% of the U.S. and reaching approximately 75 million households. LightTV is a multicast network focused on faith and family-oriented content that is cleared in 66% of the country and reaches approximately 79 million households. MGM Sci-Fi is a newly launched digital network currently distributed on ROKU. In addition, we also operate several leading international SVOD services in Germany, France, the United Kingdom, Mexico and Canada.

Joint Ventures

U.S. Theatrical Distribution Joint Venture. In October 2017, together with Annapurna, we formed a joint venture that controls and finances the U.S. theatrical marketing and distribution of certain MGM and Annapurna films. Beginning in March 2019, films from MGM, Orion Pictures and Annapurna are being distributed under each partner's respective banner and the "United Artists Releasing" banner. Based on the underlying terms of the joint venture arrangement, we account for our share of certain profits and losses of the joint venture using the equity method of accounting and account for the U.S. theatrical marketing and distribution results for MGM and Orion Pictures films distributed by the joint venture on a net basis similar to our accounting for co-produced film content (refer to *Critical Accounting Policies and Estimates – Revenue Recognition* below for further discussion). We also make monthly capital contributions to the joint venture to fund our equitable share of overhead and other operating expenses. For the six month periods ended June 30, 2020 and 2019, our total capital contributions including accruals amounted to $7.1 million and $5.6 million, respectively.

Telecine Programacao de Filmes Ltda. We have an equity investment in Telecine Programacao de Filmes Ltda. ("Telecine"), a joint venture with Globo Comunicacao e Participacoes S.A. ("Globo"), Paramount, 20th Century Fox and NBC Universal, Inc. that operates a pay television network in Brazil. Telecine is not consolidated in our financial statements and we do not record our share of the net income of Telecine in our financial statements since our investment is less than 20% and we do not exercise significant influence over Telecine's operating or financial policies. As there is no readily determinable fair value, our investment is accounted for at cost less impairment, if any, and adjusted for any observable price changes. We recognize income from our investment in Telecine when we receive dividends. In addition, we recognize television licensing revenue from content that we license to Telecine under a multi-year licensing agreement.

Non-Equity Method Investments. Equity in net earnings (losses) of affiliates in our consolidated statements of income included $1.1 million of dividend income from non-equity method investments for each of the six month periods ended June 30, 2020 and 2019.

Corporate Information

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

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

At June 30, 2020, our consolidated balance sheet reflected 43,102,397 shares of Class A common stock, par value $0.01 per share (or 43,246,305 outstanding shares less 143,908 shares subject to repurchase commitments). The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust, located at 1 State Street, 30th Floor, New York, New York 10004-1561. Contact and additional information regarding Continental Stock Transfer & Trust can be found at www.continentalstock.com.

Facilities

We lease approximately 151,000 square feet of office space, plus related parking and storage facilities, for our corporate headquarters in Beverly Hills, California under a lease that expires in 2026. We also lease approximately 50,500 square feet of office space in New York, New York that is primarily used for EPIX; 63,632 square feet of office space in New York, New York that is used for Big Fish; 25,883 square feet of office space in West Hollywood, California that is licensed to our U.S. theatrical distribution joint venture; 26,000 square feet of office space in Burbank, California that is used for Evolution; and additional office space in Beverly Hills and Culver City, California. In addition, we have television production/distribution offices in Miami, London, Munich, Sydney and Toronto. On occasion, we may lease studio facilities, stages and other space from unaffiliated parties. Such leases are generally on an as-needed basis in connection with the production of various film, television and other projects.

Board of Directors and Office of the CEO

The members of the Board of Directors of MGM Holdings (the "Board") are Kevin Ulrich (Chairman), James Dondero, David Krane, Amy Pascal, Fredric Reynolds and Nancy Tellem. As of June 30, 2020, Anchorage Capital Partners, Highland Capital Partners ("Highland"), Davidson, Kempner Capital Management and Owl Creek Investments each individually, or together with their respective affiliated entities, owned more than 10% of the issued and outstanding shares of common stock of MGM Holdings. Effective March 19, 2018 and following the exit of our former Chief Executive Officer ("CEO"), the Board established an Office of the CEO, comprised of a group of the Company's senior leaders and division heads.

Affiliation with a Broker-Dealer

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

MGM Holdings Inc.

Consolidated Balance Sheets
(Unaudited, in thousands, except share data)

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 790,553**	$ 243,189
Accounts receivable, net	**533,826**	609,170
Current income taxes receivable	**–**	1,040
Other current assets and prepaid program rights	**40,325**	30,468
Program rights, net	**144,123**	147,001
Total current assets	**1,508,827**	1,030,868
Noncurrent assets:		
Accounts receivable, net	**211,246**	140,099
Other assets and prepaid program rights	**103,918**	42,683
Film and television costs and program rights, net	**1,704,563**	1,863,882
Investments in affiliates	**68,671**	64,061
Property and equipment, net	**34,006**	36,183
Goodwill	**534,424**	534,424
Other non-content intangible assets, net	**329,709**	346,939
Total noncurrent assets	**2,986,537**	3,028,271
Total assets	**$ 4,495,364**	$ 4,059,139
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 232,214**	$ 344,903
Accrued participants' share	**98,092**	69,766
Current income taxes payable	**18,363**	9,892
Program obligations	**63,558**	61,675
Corporate debt	**5,144**	4,000
Advances and deferred revenue	**92,304**	108,702
Other current liabilities	**56,286**	22,512
Total current liabilities	**565,961**	621,450
Noncurrent liabilities:		
Accrued liabilities	**151,479**	142,180
Accrued participants' share	**131,634**	174,960
Deferred income taxes payable	**19,896**	32,645
Corporate debt	**2,297,757**	1,822,648
Advances and deferred revenue	**12,540**	5,485
Other liabilities and program obligations	**106,573**	28,584
Total noncurrent liabilities	**2,719,879**	2,206,502
Total liabilities	**3,285,840**	2,827,952
Commitments and contingencies		
Equity:		
Class A common stock, $0.01 par value, 110,000,000 shares authorized, 79,137,489 and 79,046,798 shares issued, respectively, and 43,102,397 and 43,195,048 shares outstanding, respectively	**791**	790
Additional paid-in capital	**2,147,578**	2,141,650
Retained earnings	**1,067,210**	1,067,232
Accumulated other comprehensive loss	**(39,891)**	(26,540)
Treasury stock, at cost, 36,035,092 and 35,851,750 shares, respectively	**(1,967,154)**	(1,953,328)
Total MGM Holdings Inc. stockholders' equity	**1,208,534**	1,229,804
Noncontrolling interests	**990**	1,383
Total equity	**1,209,524**	1,231,187
Total liabilities and equity	**$ 4,495,364**	$ 4,059,139

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

MGM Holdings Inc.

Consolidated Statements of Operations
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Revenue	**$ 349,782**	$ 406,568	**$ 753,143**	$ 723,672
Expenses:				
Operating	**264,314**	262,108	**502,837**	467,673
Distribution and marketing	**13,313**	45,641	**45,944**	69,765
General and administrative	**68,111**	58,024	**134,765**	114,023
Depreciation and non-content amortization	**13,697**	16,332	**26,084**	32,247
Impairment of non-content intangible assets	**1,300**	–	**1,300**	–
Total expenses	**360,735**	382,105	**710,930**	683,708
Operating income (loss)	**(10,953)**	24,463	**42,213**	39,964
Equity in net earnings (losses) of affiliates	**2,059**	1,260	**8,219**	(6,842)
Loss on extinguishment of debt	**–**	–	**–**	–
Interest expense:				
Contractual interest expense	**(20,426)**	(21,443)	**(42,140)**	(41,823)
Amortization of deferred financing costs, original issue discount and other interest costs	**(1,787)**	(2,098)	**(3,483)**	(3,683)
Interest income	**1,129**	2,089	**2,354**	3,262
Other income (expense), net	**(79)**	725	**(61)**	403
Income (loss) before income taxes	**(30,057)**	4,996	**7,102**	(8,719)
Income tax benefit (provision)	**5,569**	(714)	**(2,334)**	874
Net income (loss)	**(24,488)**	4,282	**4,768**	(7,845)
Less: Net income (loss) attributable to noncontrolling interests	**173**	(483)	**(393)**	(742)
Net income (loss) attributable to MGM Holdings Inc.	**$ (24,661)**	$ 4,765	**$ 5,161**	$ (7,103)

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

MGM Holdings Inc.

Consolidated Statements of Comprehensive Income (Loss)
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Net income (loss)	**$ (24,488)**	$ 4,282	**$ 4,768**	$ (7,845)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities	**9**	21	**(58)**	78
Unrealized gain (loss) on derivative instruments	**2,108**	(10,641)	**(13,572)**	(15,981)
Retirement plan adjustments	**53**	70	**106**	140
Foreign currency translation adjustments	**1,148**	70	**173**	368
Other comprehensive income (loss)	**3,318**	(10,480)	**(13,351)**	(15,395)
Less: Comprehensive income (loss) attributable to noncontrolling interests	**173**	(483)	**(393)**	(742)
Comprehensive loss attributable to MGM Holdings Inc.	**$ (21,343)**	$ (5,715)	**$ (8,190)**	$ (22,498)

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

MGM Holdings Inc.

Consolidated Statement of Equity

(Unaudited, in thousands, except share data)

	MGM Holdings Inc. Stockholders' Equity								
	Common Stock Class A Number of Shares	Common Stock Class A Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	MGM Holdings Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2020	43,195,048	$ 790	$ 2,141,650	$ 1,067,232	$ (26,540)	$ (1,953,328)	$ 1,229,804	$ 1,383	$ 1,231,187
Cumulative effect of accounting changes	–	–	–	**(5,183)**	–	–	**(5,183)**	–	**(5,183)**
Purchase of treasury stock	**(183,342)**	–	–	–	–	**(13,826)**	**(13,826)**	–	**(13,826)**
Issuance of common stock	**90,691**	**1**	–	–	–	–	**1**	–	**1**
Stock-based compensation expense	–	–	**5,928**	–	–	–	**5,928**	–	**5,928**
Net income (loss)	–	–	–	**5,161**	–	–	**5,161**	**(393)**	**4,768**
Other comprehensive loss	–	–	–	–	**(13,351)**	–	**(13,351)**	–	**(13,351)**
Balance, June 30, 2020	**43,102,397**	**$ 791**	**$ 2,147,578**	**$ 1,067,210**	**$ (39,891)**	**$ (1,967,154)**	**$ 1,208,534**	**$ 990**	**$ 1,209,524**

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

MGM Holdings Inc.

Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Six Months Ended June 30,	
	2020	**2019**
Operating activities		
Net income (loss)	**$ 4,768**	$ (7,845)
Adjustments to reconcile net income to net cash provided by operating activities:		
Additions to film and television costs and program rights, net	**(187,215)**	(434,335)
Amortization of film and television costs and program rights	**348,860**	322,886
Depreciation and non-content amortization	**26,084**	32,247
Impairment of non-content intangible assets	**1,300**	–
Amortization of deferred financing costs and original issue discount	**3,459**	3,164
Stock-based compensation expense	**5,928**	7,776
Provision for doubtful accounts	**3,091**	912
Change in fair value of financial instruments	**–**	(830)
Undistributed net (earnings) losses of affiliates	**(8,219)**	7,925
Other non-cash expenses	**137**	290
Changes in operating assets and liabilities:		
Accounts receivable, net	**2,225**	(65,685)
Current income taxes receivable	**1,040**	22,560
Other assets and prepaid program rights	**22,490**	(38,019)
Accounts payable, accrued and other liabilities	**1,774**	68,105
Accrued participants' share	**(15,001)**	(26,496)
Current and deferred income taxes payable	**1,260**	(10,023)
Program obligations	**2,005**	(2,810)
Advances and deferred revenue	**(9,343)**	47,027
Net cash provided by (used in) operating activities	**204,643**	(73,151)
Investing activities		
Investments in affiliates	**(11,354)**	(8,266)
Sale of investment	**13,843**	125
Additions to property and equipment	**(5,318)**	(10,018)
Net cash used in investing activities	**(2,829)**	(18,159)
Financing activities		
Repayments of Term Loans	**(2,000)**	(2,000)
Borrowings from Revolving Credit Facility	**500,000**	370,000
Repayments of Revolving Credit Facility	**(25,000)**	(240,000)
Principal payments of Finance Leases	**(565)**	–
Assignment of Borrowings from Existing Lender	**–**	(35,000)
Assumption of Borrowings by New Lender	**–**	35,000
Issuance of common stock	**1**	1
Purchase of treasury stock	**(127,111)**	(7,388)
Net cash provided by financing activities	**345,325**	120,613
Net change in cash and cash equivalents from operating, investing and financing activities	**547,139**	29,303
Net change in cash due to foreign currency fluctuations	**225**	477
Net change in cash and cash equivalents	**547,364**	29,780
Cash and cash equivalents at beginning of year	**243,189**	216,386
Cash and cash equivalents at end of period	**$ 790,553**	$ 246,166

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

MGM Holdings Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Six Months Ended June 30, 2020 and 2019

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

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

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

The Company also owns EPIX Entertainment LLC, which operates EPIX, a premium pay television network delivering a lineup of original programming and blockbuster movies. EPIX is available through cable, satellite, telecommunications and streaming TV providers as a linear television, video-on-demand, "TV Everywhere" and over-the-top service, and is currently available in the United States ("U.S."), and Puerto Rico. EPIX also licenses content to subscription video-on-demand ("SVOD") operators. The Company also owns or holds interests in MGM-branded channels in the U.S., as well as interests in pay television networks in the U.S. and Brazil. In addition, the Company also operates several leading international SVOD services in Germany, France, the United Kingdom, Mexico and Canada.

The Company's business has been negatively affected by the COVID-19 pandemic and measures to prevent its spread, including, among other things, the closure of theaters, suspension of content production activities and increased costs necessary to resume production activities. The Company expects this business disruption to have a materially negative effect on its results of operations, which increased in significance during the three month period ended June 30, 2020, and is expected to continue to impact our financial results over the near to medium term. This could lead to impairments of the Company's assets, including film and television costs, investments in affiliates, goodwill and/or non-content intangible assets.

Basis of Presentation and Principles of Consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") for interim financial statements. Accordingly, these financial statements do not include certain information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments necessary for a fair presentation of these financial statements. The balance sheet at December 31, 2019 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. These interim financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2019. Certain reclassifications have been made between amounts reported in current and noncurrent accounts receivable on the consolidated balance sheet at December 31, 2019 to conform to current period presentation.

There have been no material changes in the Company's significant accounting policies as compared to the significant accounting policies described in the Company's audited financial statements and notes thereto for the year ended December 31, 2019.

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

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

In the ordinary course of business, the Company enters into various types of intercompany transactions including, but not limited to, the licensing of the Company's film and/or television content to the Company's media networks, including EPIX. Intercompany licensing revenue, programming cost amortization expense and the corresponding assets and liabilities recognized by the counterparties to these transactions are eliminated in consolidation and, therefore, do not affect the Company's unaudited condensed consolidated financial statements.

The Company's investments in affiliates, over which the Company has significant influence but not control, are accounted for using the equity method of accounting (see Note 7).

Allowance for Doubtful Accounts. The Company determines its allowance by monitoring its delinquent accounts and estimating a reserve based on contractual terms and other customer-specific issues. Additionally, the Company records a general reserve against all customer receivables not reviewed on a specific basis. The Company charges off its receivables against the allowance when the receivable is deemed uncollectible. At June 30, 2020 and December 31, 2019, allowance for doubtful accounts aggregated $11.0 million and $11.3 million, respectively.

Goodwill and Other Non-Content Intangible Assets. Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives, while intangible assets with indefinite lives, including goodwill, are not subject to amortization, but instead are tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not the asset is impaired. Goodwill and non-content intangible assets are evaluated for impairment on an annual basis or more frequently as needed, using a qualitative and/or quantitative analysis, as appropriate, in accordance with Accounting Standards Codification ("ASC") *Topic 350, Intangibles–Goodwill and Other*.

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

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

Subsequent Events. The Company evaluated, for potential recognition and disclosure, all activity and events that occurred through the date of issuance, August 13, 2020. Such review did not result in the identification of any subsequent events that would require recognition in the unaudited condensed consolidated financial statements or disclosure in the notes to these unaudited condensed consolidated financial statements.

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

New Accounting Pronouncements

Lease Accounting. On January 1, 2020, the Company adopted, on a modified retrospective basis, ASU 2016-02, *Leases (“ASC 842”)*, which supersedes the provisions of ASC Topic 840, *Leases*, to establish a new lease framework for all companies across all industries. The underlying principal of the new framework is to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. For all leases with a lease term greater than 12 months, companies will be required to measure and record, at lease inception, a lease liability equal to the present value of future lease payments. A corresponding right-of-use asset will be recorded based on the liability, subject to certain adjustments. In accordance with the modified retrospective approach, the Company began recognizing ROU assets and lease liabilities under the new framework beginning January 1, 2020, but prior periods have not been adjusted. Instead, the Company recorded operating and finance lease liabilities of $116.0 million and $2.7 million, respectively, and corresponding operating and finance lease right-of use assets of $94.8 million and $2.7 million, respectively. The difference in right-of-use operating assets and liabilities was due primarily to existing deferred rent. Adoption of this new standard did not have a material impact on the Company’s consolidated statement of operations.

The new lease standard also provides several optional practical expedients for companies to apply during transition. The Company elected the practical expedient not to separate lease components from non-lease components. Instead, each separate lease component and non-lease component is accounted for as a single lease component. The Company also elected to use the short-term lease exemption, which permits companies to not recognize leases with an expected term of 12 months or less on the balance sheet. As a private entity, the Company took the accounting policy election to use the risk-free rate for a borrowing term that approximates the term of the lease in lieu of the incremental borrowing rate when testing classification and measuring its lease liabilities.

Additionally, the Company did not apply the package-of-three practical expedient and therefore was required to reassess: (1) whether any expired or existing contracts previously determined not to contain a lease, contained or represented a lease in accordance with ASC 842; (2) the lease classification for any expired or existing leases; and (3) initial direct costs for any existing leases. As a result of reassessing the lease classification, certain leases that were treated as operating leases under ASC 840 are now treated as finance leases under ASC 842. ASC 842 also allows entities to elect a practical expedient to use hindsight in determining whether renewal or termination options should be factored into the lease term. As a result of applying the hindsight practical expedient and considering discrete events that occurred between the original lease commencement date and the date of adoption, the lease term for certain building and satellite leases increased. Such changes to lease classification and term resulted in a $5.2 million cumulative transition adjustment, net of tax, which the Company recorded to retained earnings at January 1, 2020 upon adoption.

Derivatives and Hedging. In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which amends the current hedge accounting guidance to make more financial and nonfinancial hedging strategies eligible for hedge accounting. The new guidance also amends certain presentation and disclosure requirements and changes how companies assess effectiveness by allowing a qualitative assessment, instead of quantitative analysis, for certain hedges. For such qualifying cash flow hedges, the entire change in fair value of the hedging instrument included in the assessment of hedge effectiveness will be recorded in other comprehensive income (“OCI”), and amounts deferred in OCI will be reclassified to earnings in the same income statement line item that is used to present the earnings effect of the hedged item when the hedged item affects earnings. An initial quantitative test to establish that the hedge relationship is highly effective at inception is still required. ASU 2017-12 will be effective for the Company for the annual period ended December 31, 2021 and for interim and annual periods thereafter, with early adoption permitted. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

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

Defined Benefit Plans. In August 2018, the FASB issued ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans,* which amends the current reporting guidance to remove various disclosure requirements no longer considered to be cost beneficial, such as the requirement to disclose amounts in accumulated other comprehensive income expected to be recognized into net periodic benefit cost. The new guidance also adds new disclosure requirements including an explanation of the reasons for significant gains and losses related to changes in the benefit obligation. ASU 2018-14 will be effective for the Company on January 1, 2021 and for interim and annual periods thereafter. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

Cloud Computing Arrangements. In September 2018, the FASB issued ASU 2018-15, *Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract,* which clarifies the current guidance to require customers in cloud computing arrangement that is a service contract to follow internal-use software guidance to determine which implementation costs to capitalize as assets or expense as incurred. Additionally, the guidance also specifies that any capitalized implementation costs will be amortized over the term of the hosting arrangement. ASU 2018-15 will be effective for the Company on January 1, 2021 and for interim and annual periods thereafter, with early adoption permitted. The Company is in the process of evaluating the impact that the new standard will have, however, it does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Production Cost Capitalization. In March 2019, the FASB issued ASU 2019-02, *Improvements to Accounting for Costs of Films and License Agreements for Program Materials*, which amends the current guidance to allow for costs to produce episodic television series to be capitalized as incurred, as is the case for production costs for films. The new guidance also introduces various new requirements, including that an entity test a film or license agreement for impairment at the film group level when the film or license agreement is predominantly monetized with other films/license agreements. Furthermore, any changes to estimates resulting from such a test must be amortized prospectively. ASU 2019-02 will be effective for the Company on January 1, 2021, and for interim and annual periods thereafter. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

Reference Rate Reform. In March 2020, the FASB issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which amends current contract modification and hedge accounting guidance to temporarily allow optional expedients and exceptions to ease the financial reporting burdens of the expected market transition to alternative reference rates, such as SOFR, from LIBOR and other interbank offered rates. ASU 2020-04 was effective upon issuance and can be applied through December 31, 2022. The Company is in the process of evaluating the impact that the new standard will have on its consolidated financial statements.

Note 2—Revenue

General. The Company’s principal sources of revenue include the exploitation of film and television content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets. In addition, the Company recognizes significant affiliate and SVOD distribution revenue from the distribution of EPIX.

Revenue is recognized upon transfer of control of promised services or goods to customers in an amount that reflects the consideration the Company expects to receive in exchange for those services or goods. Revenues do not include taxes collected from customers on behalf of taxing authorities such as sales tax and value-added tax.

Licensing Arrangements. The Company's content licensing arrangements include fixed fee and minimum guarantee arrangements, and sales or usage based royalties.

Note 2—Revenue (Continued)

Fixed Fee or Minimum Guarantees. The Company's fixed fee or minimum guarantee arrangements may, in some cases, include multiple titles, multiple license periods (windows) with a substantive period in between the windows, rights to exploitation in different media, or rights to exploitation in multiple territories, which may be considered distinct performance obligations. When these performance obligations are considered distinct, the fixed fee or minimum guarantee in the arrangement is allocated to the title, window, media right or territory as applicable, based on estimates of relative standalone selling prices. The amounts related to each performance obligation (i.e., title, window, media or territory) are recognized when the content has been delivered, and the window for the exploitation right in that territory has begun, which is the point in time at which the customer is able to begin to use and benefit from the content.

Sales or Usage Based Royalties. Sales or usage based royalties represent amounts due to the Company based on the "sale" or "usage" of the Company's content by the customer, and revenues are recognized at the later of when the subsequent sale or usage occurs, or the performance obligation to which some or all the sales or usage-based royalty has been allocated has been satisfied (or partially satisfied). Generally, when the Company licenses completed content (with standalone functionality, such as a movie, or television show), its performance obligation will be satisfied prior to the sale or usage. When the Company licenses intellectual property that does not have stand-alone functionality (e.g., brands, themes, logos, etc.), its performance obligation is generally satisfied in the same period as the sale or usage. The actual amounts due to the Company under these arrangements are generally not reported to the Company until after the close of the reporting period. The Company records revenue under these arrangements for the amounts due and not yet reported to the Company based on estimates of the sales or usage of these customers and pursuant to the terms of the contracts. Such estimates are based on information from the Company's customers, historical experience with similar titles and customers in that market or territory, the performance of the title in other markets, and/or data available to the Company.

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

Revenue is primarily comprised of the following: theatrical and ancillary revenues which are included in the Film Content segment; Television Licensing, Home Entertainment and Other are applicable to both the Film Content and Television Content segments; and EPIX and Other Channels which are included in the Media Networks Segment.

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

Television licensing. Revenue from television licensing, together with related costs, is typically recognized when the film or television content is initially available to the licensee for telecast. Revenue from transactional video-on-demand distribution is recognized in the period in which the sales transaction occurs. For scripted and unscripted television content, television licensing revenue is recognized ratably upon delivery of each episode to the licensee, even though the licensee may elect to delay the initial airing of each episode until a future date during the license period.

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

Note 2—Revenue (Continued)

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

Ancillary. Ancillary revenue primarily includes the licensing of film and television content and other intellectual property rights for use in interactive games and consumer products, as well as music revenue from the licensing of publishing, soundtrack, master use and synchronization rights to various compositions featured in film and television content. Revenue from the licensing of intellectual property rights for use in interactive games and consumer products is typically recognized ratably over the license period. Separately, the licensing of music rights to film and television content (with standalone functionality), is recognized at the beginning of the license period once the customer obtains and can benefit from such content.

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

Other channels. Other channels primarily include the Company's wholly-owned and joint venture broadcast and cable networks, which currently include an MGM-branded channel in the U.S., MGM HD and several multicast networks. Revenue for these broadcast and cable networks is primarily comprised of cable subscriber fees and advertising sales, which are recorded as revenue in the period during which the channel services are provided.

Note 2—Revenue (Continued)

The following table presents revenue by segment, market, or product line for the three and six month periods ended June 30, 2020 and 2019 (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Film Content				
Theatrical	$ (108)	$ 5,902	$ 1,802	$ 14,722
Television licensing	94,902	77,804	196,611	153,297
Home entertainment				
Electronic sell-through	17,366	9,399	28,902	30,088
Physical distribution	10,120	6,958	18,865	14,358
Other	7,627	19,908	16,935	35,401
Ancillary	4,495	6,928	9,593	26,093
Total Film Content revenue	**$ 134,402**	**$ 126,899**	**$ 272,708**	**$ 273,959**
Television Content				
Television licensing	$ 102,321	$ 148,521	$ 252,216	$ 193,684
Home entertainment				
Electronic sell-through	3,405	1,700	8,342	6,063
Physical distribution	2,277	2,810	5,234	6,267
Other	2,836	498	3,124	1,097
Total Television Content revenue	**$ 110,839**	**$ 153,529**	**$ 268,916**	**$ 207,111**
Media Networks				
EPIX	$ 96,508	$ 118,855	$ 194,310	$ 225,002
Other Channels	8,033	7,285	17,209	17,600
Total Media Networks revenue	**$ 104,541**	**$ 126,140**	**$ 211,519**	**$ 242,602**
Total Revenue	**$ 349,782**	**$ 406,568**	**$ 753,143**	**$ 723,672**

Accounts Receivable, Contract Assets and Deferred Revenue

At June 30, 2020 and December 31, 2019, accounts receivable and deferred revenue were as follows (in thousands):

	June 30, 2020	**December 31, 2019**	**Addition (Reduction)**
Accounts receivable, net - current	$ 533,826	$ 609,170	$ (75,344)
Accounts receivable, net - noncurrent	211,246	140,099	71,147
Deferred revenue - current	92,304	108,702	(16,398)
Deferred revenue - noncurrent	12,540	5,485	7,055

Included within accounts receivable are contract assets relating to the Company’s conditional right to consideration for completed performance under the contract (i.e. unbilled receivables). Amounts relate primarily to contractual payment holdbacks in cases in which the Company is generally required to deliver additional episodes or seasons of television content in order to receive payment. Contract assets were immaterial and included in current accounts receivable at June 30, 2020 and December 31, 2019.

Note 2—Revenue (Continued)

At June 30, 2020 and December 31, 2019, deferred revenue primarily consisted of advances related to the Company's television licensing contracts under which the related content will be available in future periods.

Note 3—Leases

Operating Leases. The Company has operating leases primarily for office space, datacenters, and production facilities. For operating leases, the Company recognizes rent expense on a straight-line basis over the lease term, which is included in general and administrative expenses in the unaudited condensed consolidated statements of operations. The Company also subleases office space to an affiliate at arms-length which is classified as an operating lease under both lessee and lessor accounting guidance. Sublease income is recorded over the term of the lease as an offset to lease expense.

Finance Leases. The Company has finance leases for a satellite transponder and copiers. For finance leases, the Company recognizes interest expense on its lease liabilities using the effective interest method, which is included in amortization of deferred financing costs, original issue discount and other interest costs in the unaudited condensed consolidated statement of operations for the three and six month periods ended June 30, 2020. ROU assets are amortized on a straight-line basis over the lease term and such amortization is included in depreciation and non-content amortization expense in the unaudited condensed consolidated statement of operations for the three and six month periods ended June 30, 2020.

Leases have initial non-cancelable lease terms ranging from one to 15 years. Some of these lease arrangements include options to extend the term of the leases for up to ten years. Judgment is required when determining the minimum non-cancellable term of the lease. The Company includes options to extend or terminate the lease term only if they are reasonably certain to be exercised.

The present value of future lease payments is calculated using the risk-free-rate for a borrowing term that approximates the term of the lease. Variable lease payments that are based on an index or rate are included in the measurement of ROU assets and lease liabilities at lease inception. All other variable lease payments are expensed as incurred and are not included in the measurement of ROU assets and lease liabilities.

Operating lease costs included costs capitalized during the period for leased assets used in the production of film and television content. Short-term lease costs primarily consist of leases for studio facilities and production equipment that have a lease term of 12 months or less. The components of lease cost were as follows for the three and six month periods ended June 30, 2020 (in thousands):

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Operating lease cost	$ 4,613	$ 9,225
Finance lease cost		
Amortization of right-of-use assets	272	545
Interest on lease liabilities	9	20
Total finance lease cost	281	565
Short-term lease cost	2,201	5,275
Sublease Income	(406)	(812)
Total lease cost	$ 6,689	$ 14,253

Note 3—Leases (Continued)

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 5,055	$ 9,667
Operating cash flows from financing leases	9	20
Financing cash flows from financing leases	283	565
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	$ –	$ –
Financing leases	–	–

Supplemental balance sheet information related to leases was as follows (in thousands):

Category	Balance Sheet Location	June 30, 2020
Operating right-of-use assets	Other assets and prepaid program rights	$ 86,613
Operating lease liabilities (current)	Other current liabilities	$ 18,944
Operating lease liabilities (noncurrent)	Other liabilities and program obligations	88,427
		$ 107,371
Finance right-of-use assets	Property and equipment, net	$ 2,115
Finance lease liabilities (current)	Corporate debt – current	$ 1,144
Finance lease liabilities (noncurrent)	Corporate debt – noncurrent	997
		$ 2,141

Lease liabilities for leases that have been entered into but not commenced were deemed immaterial at June 30, 2020. The weighted average remaining lease term was 5.96 years for operating leases and 1.95 years for finance leases at June 30, 2020. The weighted average discount rate was 1.88% and 1.69% for operating and financing leases, respectively.

Note 3—Leases (Continued)

The expected future payments relating to the Company's operating and finance lease liabilities at June 30, 2020 are as follows (in thousands):

	Operating Leases	Finance Leases
Six months ending December 31, 2020	$ 10,385	$ 585
Year ended December 31,		
2021	20,802	1,170
2022	19,553	419
2023	15,658	–
2024	14,918	–
Thereafter	32,067	–
Total lease payments	113,383	2,174
Less imputed interest	(6,012)	(33)
Total	$ 107,371	$ 2,141

The expected future cash receipts relating to the Company's sublease at June 30, 2020 are as follows (in thousands):

	Six Months Ended	Year Ended December 31,					
	December 31, 2020	2021	2022	2023	2024	Thereafter	Total
Operating Sublease	$ 789	$ 1,490	$ —	$ —	$ —	$ —	$ 2,279
	$ 789	$ 1,490	$ —	$ —	$ —	$ —	$ 2,279

The expected future payments relating to the Company's operating lease liabilities at December 31, 2019 were as follows (in thousands):

	Year Ended December 31,						
	2020	2021	2022	2023	2024	Thereafter	Total
Operating leases	$ 21,274	$ 22,042	$ 20,041	$ 15,728	$ 14,988	$ 32,135	$ 126,208
	$ 21,274	$ 22,042	$ 20,041	$ 15,728	$ 14,988	$ 32,135	$ 126,208

Note 4—Goodwill and Other Non-Content Intangible Assets

As of June 30, 2020, the Company performed a quantitative impairment test and recoverability analyses, as applicable, for the goodwill and certain non-content intangible assets associated with its television content reporting unit. During the three months ended June 30, 2020, certain of the Company's unscripted television shows were suspended and for certain other unscripted television shows, the Company's executive producer services were terminated. These events, combined with the incremental television production costs associated with the COVID-19 pandemic, constituted an impairment indicator under the applicable accounting rules and, as such, the Company performed additional analyses as of June 30, 2020, which is prior to the Company's annual impairment assessment that is typically performed as of December 31.

Note 4—Goodwill and Other Non-Content Intangible Assets (Continued)

The Company estimated the fair value of its television content reporting unit using a combination of methodologies, including a market approach and a discounted cash flow approach based on Level 3 inputs that reflect current operating cash flow assumptions, discount rates and expected growth rates. As a result of such analyses, the Company determined that the fair value of its television content reporting unit was greater than its carrying value as of June 30, 2020, and therefore, no goodwill impairment existed. Separately, the Company recorded a $1.3 million aggregate non-cash impairment of non-content intangible assets related to certain unscripted television shows for which the Company will no longer provide executive producer services. After recording this impairment, such non-content intangible assets had a remaining balance of $6.4 million as of June 30, 2020. All non-cash impairment expenses were included in impairment of non-content intangible assets in the unaudited condensed consolidated statements of operations for the three and six month periods ended June 30, 2020. The Company evaluated the other net assets in its television content reporting unit for impairment and concluded that no additional impairments were required. The Company will continue to evaluate the impact of these changes to its future television content slate, as well as the impact of COVID-19 to its businesses, which could result in the recognition of additional impairment charges in future periods.

As of June 30, 2020, the Company had goodwill of $534.4 million, which was entirely attributable to its television content reporting unit. The Company also had other non-content intangible assets totaling $329.7 million, net of accumulated amortization, inclusive of intangible assets from its prior acquisitions of EPIX, United Artists Media Group, Big Fish Entertainment and Evolution Media. Other non-content intangible assets of $281.2 million, net of accumulated amortization, are subject to amortization and consist primarily of certain carriage, licensing and production agreements with remaining useful lives ranging from less than one to 21.5 years. Additionally, aggregate trade name-related assets valued at $48.5 million were identified and determined to have indefinite lives. For the three month periods ended June 30, 2020 and 2019, the Company recorded amortization of identifiable intangible assets of $8.0 million and $12.8 million, respectively, and during the six month periods ended June 30, 2020 and 2019, the Company recorded amortization of identifiable intangible assets of $15.9 million and $25.6 million, respectively. Amortization expense for other intangible assets is included in depreciation and non-content amortization expense in the unaudited condensed consolidated statements of operations. As discussed above, during the three and six month periods ended June 30, 2020, the Company recorded non-cash impairments of non-content intangible assets of $1.3 million. No such impairments were recorded for the three and six months ended June 30, 2019.

Note 5—Film and Television Costs and Program Rights

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

	June 30, 2020	December 31, 2019
Theatrical productions:		
Released	**$ 649,418**	$ 726,387
Completed not released	**3,816**	3,763
In production	**416,017**	386,100
In development	**32,064**	26,289
Total theatrical productions	**1,101,315**	1,142,539
Television programs:		
Released	**217,301**	311,600
Completed not released	**10,586**	11,224
In production	**79,964**	95,431
In development	**42,233**	25,904
Total television programs	**350,084**	444,159
Media networks:		
Licensed program rights	**397,287**	424,014
In development	**–**	171
Total media networks	**397,287**	424,185
Film and television costs and program rights, net	**$ 1,848,686**	$ 2,010,883
Less: Current portion of licensed program rights	**(144,123)**	(147,001)
Noncurrent portion	**$ 1,704,563**	$ 1,863,882

Based on the Company's estimates of projected gross revenue as of June 30, 2020, approximately 22% of completed film and television costs, excluding licensed program rights, are expected to be amortized over the next 12 months. Approximately 89% of unamortized film and television costs for released titles, excluding costs accounted for as acquired film and television libraries and excluding licensed program rights, are expected to be amortized over the next three fiscal years.

As of June 30, 2020 and December 31, 2019, unamortized film and television costs accounted for as acquired film and television libraries were $0.5 billion and $0.6 billion, respectively. The Company's film and television costs accounted for as acquired film and television libraries are being amortized under the individual-film-forecast method in order to properly match the expected future revenue streams and have an average remaining life of approximately six years as of June 30, 2020.

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

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

During the six month periods ended June 30, 2020 and 2019, the Company recorded $2.9 million and $6.1 million of fair value adjustments, respectively, to certain titles included in film and television costs. These fair value adjustments were included in operating expenses in the unaudited condensed consolidated statements of operations. The estimated fair values were calculated using Level 3 inputs, as defined in the fair value hierarchy, including long-range projections of revenue, operating and distribution expenses, and a discounted cash flow methodology using discount rates based on a weighted-average cost of capital.

Note 6—Fair Value Measurements

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on: (i) observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), (ii) inputs other than quoted prices for similar assets or liabilities in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at June 30, 2020 (in thousands):

		Fair Value Measurements at June 30, 2020 using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Financial instruments	**$ 1,050**	**$ –**	**$ 1,050**	**$ –**
Liabilities:				
Financial instruments	**(37,342)**	**–**	**(37,342)**	**–**
Total	**$ (36,292)**	**$ –**	**$ (36,292)**	**$ –**

The following table presents information about the Company's financial assets and liabilities carried at fair value on a recurring basis at December 31, 2019 (in thousands):

		Fair Value Measurements at December 31, 2019 using		
Description	**Balance**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Investments	$ 837	$ 837	$ –	$ –
Liabilities:				
Deferred compensation plan	(837)	(837)	–	–
Financial instruments	(19,404)	–	(19,404)	
Total	$ (19,404)	$ –	$ (19,404)	$ –

Investments are included in other noncurrent assets in the unaudited condensed consolidated balance sheet at December 31, 2019 and are comprised of money market funds, mutual funds and other marketable securities that are held in deferred compensation plans. The related deferred compensation plan liabilities are included in noncurrent accrued liabilities in the unaudited condensed consolidated balance sheet at December 31, 2019. The fair value of these assets and the deferred compensation plan liabilities were determined based on quoted prices of identical assets that are trading in active markets. Such deferred compensation plans were fully liquidated and paid out to plan beneficiaries during the six month period ended June 30, 2020.

Note 6—Fair Value Measurements (Continued)

Financial instruments at June 30, 2020 and December 31, 2019 primarily reflect the fair value of outstanding interest rate swaps or similar arrangements with certain counterparties entered into by the Company to reduce its exposure to variable interest rates. The fair value of such interest rate swaps was included in other current liabilities in the unaudited condensed consolidated balance sheets at June 30, 2020 and December 31, 2019. The fair value of these contracts was determined using a market-based approach.

The Company also had certain outstanding foreign currency exchange forward contracts, which were included in other current assets in the unaudited condensed consolidated balance sheets at June 30, 2020. The fair value of these instruments was determined using a market-based approach. No such foreign currency exchange forward contracts were outstanding at December 31, 2019.

Note 7—Investments in Affiliates

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

	June 30, 2020	December 31, 2019
Non-equity method investments	**$ 46,021**	$ 44,074
Equity method investments:		
United Artists Releasing (formerly Mirror Releasing, LLC)	**20,122**	19,987
Audio Up Inc.	**2,528**	–
	$ 68,671	$ 64,061

United Artists Releasing (formerly Mirror Releasing, LLC). In October 2017, MGM formed a joint venture with Annapurna Pictures to control and finance the U.S. theatrical marketing and distribution of certain MGM, Annapurna and third party films. In 2018, qualifying films for MGM and Annapurna were distributed by the joint venture under the respective company banners, while third party films were distributed under the banner "Mirror Releasing." Starting in March 2019, films were distributed under each partner's respective banner and the "United Artists Releasing" banner, and films produced under the Orion Pictures banner were distributed by this joint venture. The Company owns less than 50% of this joint venture and its obligation to absorb potential losses of the joint venture is limited. Therefore, the Company accounts for its share of certain profits and losses of the joint venture under the equity method of accounting.

During the three and six month periods ended June 30, 2020, equity in net earnings (losses) of affiliates in the unaudited condensed consolidated statement of operations included $0.8 million of net gains and $6.9 million of net losses, respectively, from the Company's interest in the joint venture, net of intercompany eliminations. During the three and six month periods ended June 30, 2019, equity in net earnings (losses) of affiliates included $7.5 million and $15.6 million of net losses, respectively from the Company's interest in the joint venture, net of intercompany eliminations. Capital contributions to the joint venture including accruals totaled $3.5 million and $2.5 million, respectively, during the three month periods ended June 30, 2020 and 2019, and $7.1 and $5.6 million, respectively, during the six month periods ended June 30, 2020 and 2019.

Audio Up Inc. In May 2020, MGM Studios acquired less than 20% interest in Audio Up Inc., a podcast content production studio, platform, and network. The Company accounts for its investment in Audio Up under the equity method of accounting due to the Company's ability to exercise significant influence through its voting rights. During the three and six months ended June 30, 2020, equity in net earnings (losses) of affiliates included immaterial net losses from the Company's interest in Audio Up. Capital contributions during the three and six months ended June 30, 2020 included the Company's investment of $2.5 million.

Note 7—Investments in Affiliates (Continued)

Telecine Programacao de Filmes Ltda. MGM has an equity investment in Telecine Programacao de Filmes Ltda. ("Telecine"), a joint venture with Globo Comunicacao e Participacoes S.A., Paramount, Twentieth Century Fox and NBC Universal, Inc. that operates a pay television network in Brazil. The Company does not consolidate Telecine, but rather accounts for its investment in Telecine under the measurement alternative since there is no readily determinable fair value. Under the measurement alternative, the investment is accounted for at cost less impairment, if any, and adjusted for any observable price changes. As such, the Company's share of the net income of Telecine is not included in the Company's unaudited condensed consolidated statements of operations. However, the Company recognizes income from its investment in Telecine when it receives dividends.

Non-Equity Method Investments. Non-equity method investments generally include investments of 20% or less, over which the Company has no significant influence, that do not have a readily determinable fair value. Such investments are recorded at cost less impairment, if any, and adjusted for any observable price changes. During the three and six month periods ended June 30, 2020, the Company recognized a gain of $0.1 million and $13.4 million, respectively, related to the sale of one of its non-equity method investments, which was included in equity in net earnings (losses) of affiliates in the unaudited condensed consolidated statements of operations. During the three and six month periods ended June 30, 2019, the Company recognized an unrealized gain of $7.7 million related to observable prices changes in a separate non-equity method investment, which was included in equity in net earnings (losses) of affiliates in the unaudited condensed consolidated statements of operations.

During the three and six month periods ended June 30, 2020 and 2019, the Company recognized $1.1 million of dividend income from non-equity method investments. Such amounts were included in equity in net losses (earnings) of affiliates in the unaudited condensed consolidated statements of operations.

Note 8—Property and Equipment

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

	June 30, 2020	**December 31, 2019**
Furniture, fixtures and equipment	**$ 82,917**	$ 78,213
Leasehold improvements	**21,040**	20,619
Finance leases	**2,115**	–
	106,072	98,832
Less accumulated depreciation and non-content amortization	**(72,066)**	(62,649)
Property and equipment, net	**$ 34,006**	$ 36,183

Note 9—Corporate Debt

Corporate debt is summarized as follows (in thousands):

	June 30, 2020	December 31, 2019
Revolving credit facility	**$ 1,520,000**	$ 1,045,000
1L Term Loan, net of discount	**391,617**	393,471
2L Term Loan, net of discount	**396,997**	396,747
Finance lease obligations	**2,141**	–
Deferred financing costs	**(7,854)**	(8,570)
	$ 2,302,901	$ 1,826,648
Less: Current portion	**(5,144)**	(4,000)
Noncurrent portion	**$ 2,297,757**	$ 1,822,648

Amended Credit Facility. In July 2018, the Company entered into a seven-year $400.0 million first lien term loan (the "1L Term Loan") and an eight-year $400.0 million second lien term loan (the "2L Term Loan"). The 1L Term Loan was issued at a discount of 50 basis points, bears interest at 2.50% over London Interbank Offered Rate ("LIBOR") and matures on July 3, 2025. The 2L Term Loan was issued at a discount of 100 basis points, bears interest at 4.50% over LIBOR and matures on July 3, 2026. The face value of both the 1L and 2L Term Loans approximated fair value at June 30, 2020. In addition, the Company amended its prior senior secured revolving credit facility to, among other things, increase the total commitments, lower the interest rate and modify certain covenants and components of our borrowing base ("Amended Revolving Credit Facility"). The Company's Amended Revolving Credit Facility currently has $1.8 billion of total commitments, bears interest at 1.75% over LIBOR and matures on July 3, 2023 (all-in rate was 1.91% at June 30, 2020). Proceeds from the issuance of these term loans and the Amended Revolving Credit Facility were primarily used to prepay the Company's prior $850.0 million senior secured term loan. To reduce its exposure on variable interest rates, the Company had $760.0 million in interest rate swap contracts outstanding at June 30, 2020 that bore interest at a fixed blended rate of 2.25% (see Note 10). Interest expense for such swap contracts totaled $2.9 million and $4.0 million for the three and six month periods ended June 30, 2020. Interest income totaled $0.5 million and $1.1 million for the three and six months ended June 30, 2019, respectively. Such amounts were included in contractual interest expense in the unaudited condensed consolidated statements of operations.

Note 9—Corporate Debt (Continued)

The Company incurred $4.7 million and $5.5 million in fees and other costs related to the 1L and 2L Term Loans, respectively, which were deferred and presented as a direct deduction from the related debt liabilities in the unaudited condensed consolidated balance sheets. Aggregate deferred financing fees totaled $5.2 million for the 1L Term Loan. Deferred financing fees and accretion of the debt discounts are being amortized over the terms of the 1L and 2L Term Loans, respectively, using the effective-interest method. During both of the three month periods ended June 30, 2020 and 2019, the Company recorded interest expense for the amortization of the 1L Term Loan and 2L Term Loan deferred financing costs of $0.2 million each. Such amounts totaled $0.4 million and $0.3 million for the 1L Term Loan and 2L Term Loan, respectively, for the six month periods ended June 30, 2020 and 2019. Interest expense recorded for the accretion of the respective discounts for the 1L Term Loan and 2L Term Loan totaled $0.1 million each during the three month period ended June 30, 2020. For the six month period ended June 30, 2020, such amounts totaled $0.1 million and $0.3 million for the 1L Term Loan and 2L Term Loan, respectively. During the three month period ended June 30, 2019, the Company recorded interest expense for the accretion of the respective discounts for the 1L Term Loan and 2L Term Loan of $0.1 million each. Such amounts totaled $0.2 million and $0.3 million for the 1L Term Loan and 2L Term Loan, respectively, for the six month period ended June 30, 2019.

Separately, the Company incurred $6.9 million in fees and other costs related to the Amended Revolving Credit Facility, which were deferred and included in other assets in the unaudited condensed consolidated balance sheet. Aggregate deferred financing costs of $20.6 million are being amortized over the term of the Amended Revolving Credit Facility using the straight-line method. During the three month periods ended June 30, 2020 and 2019, the Company recorded interest expense for the amortization of deferred financing costs of $1.2 million and $1.0 million, respectively. Such amounts totaled $2.3 million and $2.0 million, respectively, for the six month periods ended June 30, 2020 and 2019.

The availability of funds under the Amended Revolving Credit Facility is limited by a borrowing base calculation and reduced by outstanding letters of credit, if any. As of June 30, 2020, there was $1,520.0 million drawn against the Amended Revolving Credit Facility and there were no outstanding letters of credit. Currently, the $280.0 million of remaining funds under our Amended Revolving Credit Facility are entirely available to the Company. Lenders under the Amended Revolving Credit Facility have a senior security interest in substantially all the assets of MGM, with certain exceptions. At June 30, 2020, the Company was in compliance with all applicable covenants and there were no events of default.

The Company incurs an annual commitment fee equal to 0.375% per annum. Payments are made quarterly based on the average daily amount undrawn during the period. During the three and six month periods ended June 30, 2020, the Company incurred commitment fees of $0.3 million and $0.9 million, respectively. Such amounts totaled $0.9 million and $1.9 million for the three and six month periods ended June 30, 2019. Separately, during the three and six month periods ended June 30, 2020, the Company recorded $8.6 million and $18.2 million of interest expense for borrowings under the Amended Revolving Credit Facility. During the three and six month periods ended June 30, 2019, such amounts totaled $8.9 million and $16.8 million, respectively. In addition, during the three month period ended June 30, 2020, the Company recorded $3.0 million and $5.6 million of interest expense for the 1L Term Loan and 2L Term Loan, respectively. Such amounts totaled $7.2 million and $11.8 million for the 1L Term Loan and 2L Term Loan, respectively, for the six months ended June 30, 2020. Interest expense for the 1L Term Loan and the 2L Term Loan totaled $5.0 million and $7.1 million, respectively, during the three month period ended June 30, 2019. For the six month period ended June 30, 2019, such amounts totaled $10.0 million and $14.1 million for the 1L Term Loan and 2L Term Loan, respectively. Commitment fees and interest expense are included in contractual interest expense in the unaudited condensed consolidated statements of operations.

Note 10—Financial Instruments

The Company transacts business globally and is subject to market risks resulting from fluctuations in foreign currency exchange rates. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to fluctuations in foreign currency exchange rates that affect certain anticipated foreign currency cash flows. Such contracts generally have maturities between three and 17 months. As of June 30, 2020, the Company had several outstanding foreign currency exchange forward contracts relating to anticipated production and distribution-related cash flows that qualified for hedge accounting. Such contracts were carried at fair value and included in other assets in the unaudited condensed consolidated balance sheet for the six months ended June 30, 2020. Separately, the Company may enter into interest rate swaps or similar arrangements with certain counterparties to reduce its exposure to variable interest rates. Such contracts generally have maturities between one and five years. As of June 30, 2020, the Company had several interest rate swap contracts outstanding, which were carried at fair value and included in other liabilities in the unaudited condensed consolidated balance sheet. All foreign currency exchange forward contracts and interest rate swap contracts designated for hedge accounting were deemed to be effective at March 31, 2020. As such, changes in the fair value of such contracts were included in accumulated other comprehensive loss in the unaudited condensed consolidated balance sheet.

During the three and six month periods ended June 30, 2020, the Company recorded $2.8 million and $13.0 million net unrealized gains and net unrealized losses (net of tax), respectively, relating to the change in fair value of such contracts in accumulated other comprehensive loss. At June 30, 2020, $4.0 million of net unrealized losses included in accumulated other comprehensive loss are expected to be recognized into earnings within the next 12 months. During the three and six month periods ended June 30, 2020, the Company reclassified $0.1 million and $0.2 million, respectively, net of tax, out of accumulated other comprehensive loss and into earnings. Such amounts were included in operating expenses with the related tax effect recorded in the income tax provision in the unaudited condensed consolidated statements of operations.

As of June 30, 2019, the Company had several foreign currency exchange forward contracts and interest rate swap contracts outstanding, which were carried at fair value and included in other liabilities in the unaudited condensed consolidated balance sheet. All foreign currency exchange forward contracts and interest rate swap contracts designated for hedge accounting were deemed effective at June 30, 2019 and as such, changes in the fair value of all other contracts were included in accumulated other comprehensive loss in the unaudited condensed consolidated balance sheet. During the three month period ended June 30, 2019, the Company recorded $8.3 million of net unrealized losses (net of tax) relating to the change in fair value of such contracts in accumulated other comprehensive loss. During the six month period ended June 30, 2019, the Company recorded $10.7 million of net unrealized losses (net of tax) relating to the change in fair value of such contracts in accumulated other comprehensive loss.

Note 11—MGM Holdings Inc. Stockholders' Equity

Common Stock. The Company is authorized to issue 110,000,000 shares of Class A common stock, $0.01 par value, and 110,000,000 shares of Class B common stock, $0.01 par value. As of June 30, 2020 and December 31, 2019, 79,137,489 and 79,046,798 aggregate shares of common stock were issued, respectively, and 43,102,397 and 43,195,048 aggregate shares of common stock were outstanding, all of which were Class A common stock.

Preferred Stock. The Company is authorized to issue up to 10,000,000 shares of Preferred Stock, $0.01 par value. As of June 30, 2020, no shares of Preferred Stock were issued or outstanding.

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

Treasury Stock. During the six months ended June 30, 2020, the Company completed repurchases of 1,739,434 shares of its Class A common stock at a weighted-average price of $73.08 per share for a total of $127.1 million, which included 1,700,000 shares that the Company committed to repurchasing from Highland at December 31, 2019. Excluding amounts committed at December 31, 2019, the Company repurchased 39,434 additional shares of its Class A common stock associated with executive stock option exercises at a weighted-average price of $90.32 per share for a total of $3.6 million. In addition, the Company committed to repurchase an additional 143,908 shares of its Class A common stock that are expected to be paid in the third quarter of 2020. In total, during the six months ended June 30, 2020, the Company repurchased or committed to repurchase 1,883,342 shares of its Class A commons stock at a weighted-average price of $72.94 per share for a total of $137.4 million.

During the six months ended June 30, 2019, the Company completed repurchases of 93,849 shares of its Class A common stock at a weighted-average price of $78.72 per share for a total of $7.4 million.

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

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

	Three Months Ended June 30, 2020		**Six Months Ended June 30, 2020**		**Three Months Ended June 30, 2019**		**Six Months Ended June 30, 2019**	
	Shares	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Options outstanding at beginning of period	**2,850,610**	**$ 85.42**	**2,844,020**	**$ 82.91**	2,911,845	$ 80.87	2,916,845	$ 80.94
Granted	**67,000**	**77.68**	**267,000**	**89.01**	100,000	69.00	110,000	70.91
Exercised	**(13,199)**	**51.54**	**(90,691)**	**54.36**	(70,423)	36.06	(70,423)	36.06
Canceled or expired	**(152,301)**	**85.68**	**(268,219)**	**72.35**	(82,697)	43.80	(97,697)	52.42
Options outstanding at end of period	**2,752,110**	**$ 85.81**	**2,752,110**	**$ 85.81**	2,858,725	$ 82.63	2,858,725	$ 82.63
Options exercisable at end of period	**1,517,110**	**$ 80.10**	**1,517,110**	**$ 80.10**	1,528,725	$ 69.49	1,528,725	$ 69.49

The fair value of option grants was estimated using the Black-Scholes option pricing model. Total stock-based compensation expense recorded under the Stock Incentive Plan was $2.6 million and $3.4 million during the three month periods ended June 30, 2020 and 2019, respectively, and $5.9 and $7.8 million during the six month periods ended June 30, 2020 and 2019. As of June 30, 2020, total stock-based compensation expense related to non-vested awards not yet recognized under the Stock Incentive Plan was $18.1 million, which is expected to be recognized over a weighted-average period 1.18 years.

Note 12—Income Taxes

The Company recorded an income tax benefit of $5.6 million and provision of $0.7 million during the three month periods ended June 30, 2020 and 2019, respectively, and a provision of $2.3 million and benefit of $0.9 million during the six month periods ended June 30, 2020 and 2019. At the end of each interim period, the Company computes the year-to-date tax provision by applying the estimated annual effective tax rate to year-to-date pretax book income.

Note 12—Income Taxes (Continued)

The income tax provision and/or benefit recorded during the three and six month periods ended June 30, 2020 and 2019 included a provision for federal and state income taxes that reflected standard United States statutory income tax rates, as well as foreign remittance taxes attributable to international distribution revenues. Foreign remittance taxes are creditable against U.S. federal income taxes.

At June 30, 2020, the Company and its subsidiaries had net operating loss carryforwards for United States federal tax purposes of $0.2 billion, which will be available to reduce future taxable income. The net operating loss carryforwards expire between the years ending December 31, 2029 and December 31, 2030 and are subject to limitation on use under Section 382 of the Internal Revenue Code. In addition, the Company has net operating loss carryforwards for California state tax purposes of $0.5 billion, which will expire between the years ending December 31, 2031 and December 31, 2033. As a result of the utilization of such net operating loss carryforwards, cash paid for income taxes was significantly lower than the Company's income tax provision.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Federal statutory tax rate on pre-tax book income	**21%**	21%	**21%**	21%
State taxes, net of federal income tax benefit	**2**	2	**2**	2
Changes in uncertain tax positions	**(1)**	5	**6**	(16)
Foreign taxes, net of federal income tax benefit	**–**	–	**–**	–
Change in valuation allowance	**(3)**	1	**15**	(3)
Net income attributable to noncontrolling interests	**–**	1	**2**	(1)
Other permanent differences	**–**	(16)	**(13)**	7
Effective tax rate	**19%**	14%	**33%**	10%

Changes in Uncertain Tax Positions. The Company accrued interest for the three and six month periods ended June 30, 2020 on prior year uncertain tax positions.

Foreign Taxes, Net of Federal Income Tax Benefit. The Company recognized an income tax benefit for foreign taxes for the three months ended June 30, 2020 and 2019. This income tax benefit resulted from filing an election for tax years beginning in 2011 to claim foreign tax credits against federal income taxes instead of recognizing a deduction for foreign taxes.

Change in Valuation Allowance. Change in valuation allowance for the three and six month periods ended June 30, 2020 in the federal tax rate reconciliation above primarily resulted in the California tax law change suspending the utilization of California net operating losses for the 2020 through 2022 tax years. Such tax law changes resulted in an immaterial increase to the Company's valuation allowance during the three and six month periods ended June 30, 2020.

Other Permanent Differences. Other permanent differences for the six month period ended June 30, 2020 in the federal tax rate reconciliation above primarily include the recording of excess tax benefits from share-based payments.

Note 12—Income Taxes (Continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. Several provisions of the CARES Act apply to the Company and we anticipate receiving material financial benefits, including, among other things, enhanced utilization of Federal net operating losses and payroll tax credits and deferrals.

Note 13—Retirement Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Interest cost on projected benefit obligation	**$ 144**	$ 161	**$ 288**	$ 322
Expected return on plan assets	**(98)**	(86)	**(196)**	(172)
Net actuarial loss	**23**	16	**46**	32
Net periodic pension expense	**$ 69**	$ 91	**$ 138**	$ 182

No contributions were made to the Plan during the three and six month periods ended June 30, 2020 and 2019. The Company does not expect to make any required or discretionary contributions to the Plan during the year ending December 31, 2020.

Note 14—Other Comprehensive Income (Loss)

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

	Unrealized Gain (Loss) on Securities	Unrealized Loss on Derivative Instruments	Retirement Plan Adjustments	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income
Balance, January 1, 2020	$ 58	$ (21,774)	$ (1,524)	$ (3,300)	$ (26,540)
Current period comprehensive income	**(79)**	**(17,625)**	**138**	**224**	**(17,342)**
Income tax effect	**21**	**4,053**	**(32)**	**(51)**	**3,991**
Balance, June 30, 2020	**$ –**	**$ (35,346)**	**$ (1,418)**	**$ (3,127)**	**$ (39,891)**

Note 15—Commitments and Contingencies

Litigation. Various legal proceedings involving alleged breaches of contract, copyright infringement and other claims are now pending, which the Company considers routine to its business activities. The Company has provided an accrual for pending litigation as of June 30, 2020, for which an outcome is probable and reasonably estimable. Management believes that the outcome of any pending claim or legal proceeding in which the Company is currently involved will not materially affect the Company's unaudited condensed consolidated financial statements.

Note 15—Commitments and Contingencies (Continued)

Other Commitments. The Company has various other commitments entered into in the ordinary course of business relating to corporate debt agreements, creative talent and employment agreements, non-cancelable operating leases, contractual marketing and other contractual obligations under co-production arrangements. Following its full acquisition of EPIX, the Company has commitments related to program rights, which represent contractual commitments under programming license agreements related to film and television content that is not available for exhibition until a future date. Where necessary, the Company has provided an accrual for such amounts as of June 30, 2020.

Note 16—Supplementary Cash Flow Information

The Company paid interest of $21.2 million and $21.5 million during the three month periods ended June 30, 2020 and 2019, respectively, and $42.9 million and $41.5 million during the six month periods ended June 30, 2020 and 2019, respectively.

The Company paid taxes, primarily foreign remittance taxes, of $3.8 million and $3.7 million during the three month periods ended June 30, 2020 and 2019, respectively, and $5.2 and $7.0 million during the six months periods ended June 30, 2020 and 2019, respectively. In addition, the Company received a net federal income tax refund of $5.5 million during the six months ended June 30, 2020. No such refund was received for the three month period ended June 30, 2020. For the three and six month periods ended June 30, 2019, such amounts totaled $21.8 million.

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

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

Sources of Revenue

Our principal sources of revenue include the exploitation of film and television content through traditional distribution platforms, including theatrical, home entertainment and television, with an increasing contribution from digital distribution platforms in existing and emerging markets. In addition, we recognize significant affiliate and SVOD distribution revenue from our distribution of EPIX.

Film and Television Content

Our film content is exploited through a series of domestic and international distribution platforms for periods of time, or windows, during which such exploitation is frequently exclusive against other distribution platforms for negotiated time periods. Historically, a film's release has begun with its theatrical exhibition window, which may run for a period of one to three months. Due the closure of theaters resulting from the COVID-19 pandemic, certain studios have released films using alternative distribution models, including premium VOD ("PVOD") distribution and direct sales to SVOD platforms. Typically, marketing costs are incurred prior to and during a film's initial distribution window in an effort to create public awareness of a film and to help generate consumer interest in the film's subsequent home entertainment and television windows. Following the initial distribution window, a film is generally first made available (i) for physical (DVD and Blu-ray discs) home entertainment and EST, and in some cases transactional VOD, approximately three to six months after initial theatrical release; (ii) for the first pay television window, including SVOD platforms, approximately nine to twelve months after initial theatrical release; and (iii) for basic cable and syndication, approximately 24 to 36 months after initial theatrical release, depending on the territory. We generally recognize an increase in revenue with respect to a film when it initially enters each of these windows. The foregoing release pattern may not be applicable to every film, and continues to change based on the COVID-19 pandemic, consumer preferences and the proliferation of digital distribution platforms.

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

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

Our film and television content is distributed worldwide. For the year ended December 31, 2019, we derived approximately 37% of our total consolidated revenue from international sources. Excluding our Media Networks segment, which is substantially comprised of EPIX, we derived approximately 53% of our total film and television content revenue from international sources. Revenue from international sources fluctuates year-to-year

and is dependent upon several variables including our release schedule, the timing of international theatrical and home entertainment release dates, the timing of television availabilities, the relative performance of individual feature films and television content and foreign exchange rates.

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

Media Networks

Our Media Networks segment consists of EPIX, our MGM-branded channel in the U.S., MGM HD, and certain multicast and digital networks including ThisTV, LightTV and MGM Sci-Fi. In addition, we also operate several leading international SVOD services in Germany, France, the United Kingdom, Mexico and Canada.

Revenue for EPIX is derived from affiliation agreements with U.S. multichannel video programming distributors ("MVPDs"), virtual MVPDs and OTT distribution through apps and online platforms, as well as fees associated with SVOD distribution arrangements. Affiliate revenue from cable television and satellite operators, telecommunication companies and online video distributors is recognized in the period during which the channel services are provided. Revenue from OTT distribution is recognized based on the number of subscribers reported to us. Fees associated with SVOD distribution are recognized upon the availability of programming to the distributor.

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

Cost Structure

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

Operating Expenses

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

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

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

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

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

Film and Television Costs. Film and television costs include the costs of acquiring rights to content, the costs associated with producers, directors, writers and actors, and the costs involved in producing the content, such

as studio rental, principal photography, sound and editing. Like film studios, we generally fund our film and television costs with cash flow from operating activities, and/or bank borrowings and other financing methods. From time to time, production overhead and related financing costs may be capitalized as part of film and television production costs.

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

Step-up Amortization Expense.   A significant portion of the carrying value of our film and television inventory consists of non-cash fair value adjustments. These fair value adjustments do not reflect a cash investment to produce or acquire content, but rather, fair value accounting adjustments recorded at the time of various company transactions and events. As such, our film and television inventory carrying value contains (a) unamortized cash investments to produce or acquire content and (b) unamortized non-cash fair value adjustments. We amortize our aggregate film and television inventory costs in accordance with the applicable accounting standards, and our aggregate amortization expense is higher than it otherwise would be had we not recorded non-cash fair value adjustments to "step-up" the carrying value of our film and television inventory costs. Unamortized fair value adjustments were approximately $409 million at June 30, 2020 and are expected to be amortized using the IFF method over an average amortization period of 5.6 years. We refer to the amortization of these fair value adjustments as "Step-up Amortization Expense" and disclose it separately to help the users of our financial statements better understand the components of our operating expenses.

Purchase Accounting Adjustments.   The accounting for business combinations required us to record fair value accounting adjustments to initially state the content assets of UAMG, LLC ("United Artists Media Group" or "UAMG"), Evolution and Big Fish at fair value as of January 2016, July 2017 and June 2018, respectively. As a result, the carrying value of our film and television inventory include fair value adjustments to the content assets of UAMG, Evolution and Big Fish that result in non-operational amortization expense that will temporarily cause higher film and television amortization expense than we would otherwise record. We separately record this non-operational amortization expense and include it within "Purchase Accounting Adjustments," which is added back in our calculation of Adjusted EBITDA to help the users of our financial statements better understand the fundamental operating performance of the Company. A substantial portion of the Purchase Accounting Adjustments for UAMG and Evolution had been expensed as of December 31, 2018, and amounts for years thereafter are primarily related to fair value accounting adjustments for Big Fish, which were substantially amortized as of December 31, 2019.

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

Distribution and Marketing Expenses

Distribution and marketing expenses generally consist of (i) advertising costs associated with the initial distribution of film content, (ii) marketing costs for other distribution windows for film and television content, (iii) advertising costs for our Media Networks segment, (iv) third party distribution services fees for various distribution activities (where applicable), (v) distribution expenses such as delivery costs, and (vi) other exploitation costs.

Advertising costs associated with the initial distribution of film content are typically significant and involve large scale media campaigns, the cost of developing and producing marketing materials, as well as various publicity activities to promote the film. These costs are largely incurred and expensed prior to and during the initial release of a feature film. As a result, we could recognize a significant amount of expenses with respect to a particular film before we recognize most of the revenue to be produced by that film. For films distributed by our U.S. theatrical distribution joint venture, theatrical distribution and marketing expenses will be included in the net income (loss) of the joint venture, and we will account for our share of such expenses (and related revenues) using the equity method of accounting.

Marketing expenses for our Media Networks substantially consist of advertising costs for original content on EPIX and marketing spend to promote the EPIX service. Marketing expenses may fluctuate from period to period based on the timing and number of original content premiering on EPIX, as well as the timing of marketing campaigns to promote EPIX and drive additional awareness. Marketing expenses are typically higher during periods in which original content initially premieres or EPIX launches on new platforms. For marketing costs that are contractually required to be spent on a customer's service or platform and primarily target that customer's subscribers, we record such costs as contra-revenue against the revenue from the respective customer.

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

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

General and Administrative Expenses

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

Foreign Currency Transactions

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

Library

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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP") requires us to make estimates, judgments and assumptions that affect the reported amounts and classifications of assets and liabilities, revenue and expenses, and the related disclosures of contingent liabilities in our financial statements and accompanying notes. The following critical accounting policies and estimates, which are important to the portrayal of our financial condition and results of operations, require us to make subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. For a summary of our significant accounting policies, refer to Note 1 in our audited consolidated financial statements as of December 31, 2019. To the extent there are material differences between our estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions and judgments that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

Revenue Recognition

Film and Television Content

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

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

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

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

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

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

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

The accounting for our profit share from the distribution rights controlled by our co-production partner and our co-production partner's profit share from our distribution rights may differ from title to title. Typically, we classify our projected co-production partner's ultimate profit share from our distribution rights as P&R expense included within operating expenses and record it over the life of the film or television content using the IFF method. Separately, we account for our profit share from the distribution rights controlled by our co-production partner on a net basis in one of two ways: (i) if our projected ultimate profit share is expected to result in amounts due to us from our co-production partner, we classify this amount as revenue (net) and record it in each period in which an individual film's cumulative aggregate revenues exceed its cumulative aggregate distribution fees and expenses across all markets and territories controlled by our co-production partner; or (ii) if our projected ultimate profit share is expected to result in amounts due from us to our co-production partner, we either (a) classify this amount as a distribution expense included within distribution and marketing expenses and recognize it as incurred to the extent that there is a contractual true-up requirement, or (b) include this amount in our projected co-production partner's ultimate profit share from our distribution rights and record it as P&R expense over the life of the film or television content using the IFF method.

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

Media Networks

Revenue for Media Networks is primarily comprised of the following:

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

<u>Other channels</u>: We generate revenue from our wholly-owned and joint venture broadcast and cable networks, which currently include an MGM-branded channel in the U.S., MGM HD and certain multicast and digital networks including ThisTV, LightTV and MGM Sci-Fi. Revenue for these broadcast and cable networks is primarily comprised of cable subscriber fees and advertising sales, which are recorded as revenue in the period during which the channel services are provided. In addition, we also operate several leading international SVOD services in Germany, France, the United Kingdom, Mexico and Canada.

Intercompany Eliminations

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

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

Amortization of Film and Television Costs

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

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

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

Amortization of Programming Costs

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

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

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

Distribution and Marketing Costs

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

As discussed above under *Revenue Recognition*, when we account for our profit share from the distribution rights controlled by our co-production partner on a net basis: (i) if our projected ultimate profit share is expected to result in amounts due to us from our co-production partner, we classify this amount as revenue (net) and record it as such amounts become due and are reported to us by our co-production partner; or (ii) if our projected ultimate profit share is expected to result in amounts due from us to our co-production partner, and there is a contractual true-up requirement, we classify this amount as a distribution expense included within distribution and marketing expenses and record the corresponding liability in accounts payable and accrued liabilities in our consolidated balance sheets when incurred and reported to us by our co-production partner. Instead of a contractual true-up requirement, our co-production partner may participate in additional distribution proceeds from the title, in which case we will include this amount in our projected co-production partner's ultimate profit share from our distribution rights and record it as P&R expense over the life of the film or television content using the IFF method.

Income Taxes

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

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. Several provisions of the CARES Act apply to the Company and we anticipate receiving material financial benefits, including, among other things, enhanced utilization of Federal net operating losses and payroll tax credits and deferrals.

Use of Non-GAAP Financial Measures

We utilize adjusted earnings before interest, taxes and depreciation and non-content amortization ("Adjusted EBITDA") to evaluate the operating performance of our business.

Adjusted EBITDA reflects net income attributable to MGM Holdings Inc. (inclusive of equity in net earnings of affiliates) before interest expense, interest and other income (expense), income tax provision, depreciation of fixed assets, amortization of non-content intangible assets and non-recurring gains and losses, and excludes the impact of the following items: (i) Step-up Amortization Expense (refer to *Cost Structure –Operating Expenses* above for further discussion), (ii) Purchase Accounting Adjustments (refer to *Cost Structure –Operating Expenses* above for further discussion), (iii) Intercompany Programming Cost Amortization (refer to *Cost Structure –Operating Expenses* above for further discussion), (iv) stock-based compensation expense, (v) non-recurring costs and other expenses related to mergers, acquisitions, capital market transactions, restructurings and certain unusual and non-operational items, including costs related to the COVID-19 pandemic, to the extent that such amounts are expensed, and (vi) impairment of goodwill and other non-content intangible assets, if any.

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

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

Results of Operations

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

Overview of Financial Results

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2020	2019	Amount	Percent	2020	2019	Amount	Percent
Revenue:								
Film content	134,402	126,899	7,503	6%	272,708	273,959	(1,251)	(0%)
Television content	110,839	153,529	(42,690)	(28%)	268,916	207,111	61,805	30%
Media Networks	104,541	126,140	(21,599)	(17%)	211,519	242,602	(31,083)	(13%)
Total revenue	349,782	406,568	(56,786)	(14%)	753,143	723,672	29,471	4%
Contribution:								
Film content	41,479	26,838	14,641	55%	72,980	69,444	3,536	5%
Television content	24,638	47,820	(23,182)	(48%)	116,368	66,911	49,457	74%
Media Networks	6,038	24,161	(18,123)	(75%)	15,014	49,879	(34,865)	(70%)
Total contribution	72,155	98,819	(26,664)	(27%)	204,362	186,234	18,128	10%
General and administrative	68,111	58,024	10,087	17%	134,765	114,023	20,742	18%
Depreciation and non-content amortization	13,697	16,332	(2,635)	(16%)	26,084	32,247	(6,163)	(19%)
Impairment of non-content intangible assets	1,300	-	1,300	NA	1,300	-	1,300	NA
Operating income	(10,953)	24,463	(35,416)	(145%)	42,213	39,964	2,249	6%
Equity in net earnings (losses) of affiliates	2,059	1,260	799	63%	8,219	(6,842)	15,061	220%
Interest expense	(22,213)	(23,541)	1,328	6%	(45,623)	(45,506)	(117)	(0%)
Interest and other income, net	1,050	2,814	(1,764)	(63%)	2,293	3,665	(1,372)	(37%)
Income (loss) before income taxes	(30,057)	4,996	(35,053)	(702%)	7,102	(8,719)	15,821	181%
Income tax (provision) benefit	5,569	(714)	6,283	880%	(2,334)	874	(3,208)	(367%)
Net income (loss)	(24,488)	4,282	(28,770)	(672%)	4,768	(7,845)	12,613	161%
Less: Net loss attributable to noncontrolling interests	173	(483)	656	136%	(393)	(742)	349	47%
Net income (loss) attributable to MGM Holdings Inc.	$ (24,661)	$ 4,765	$ (29,426)	(618%)	$ 5,161	$ (7,103)	$ 12,264	173%

Adjusted EBITDA

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2020	2019	Amount	Percent	2020	2019	Amount	Percent
Net income (loss) attributable to MGM Holdings Inc.	$ (24,661)	$ 4,765	$ (29,426)	(618%)	$ 5,161	$ (7,103)	$ 12,264	173%
Interest expense	22,213	23,541	(1,328)	(6%)	45,623	45,506	117	(0%)
Interest income	(1,129)	(2,089)	960	46%	(2,354)	(3,262)	908	28%
Other (income) expense, net	79	(725)	804	111%	61	(403)	464	115%
Income tax provision (benefit)	(5,569)	714	(6,283)	(880%)	2,334	(874)	3,208	367%
Depreciation and non-content amortization	13,697	16,332	(2,635)	(16%)	26,084	32,247	(6,163)	(19%)
Impairment of non-content intangible assets	1,300	-	1,300	NA	1,300	-	1,300	NA
EBITDA	5,930	42,538	(36,608)	(86%)	78,209	66,111	12,098	18%
Step-up Amortization Expense (1)	15,494	10,830	4,664	43%	29,950	25,102	4,848	19%
Purchase Accounting Adjustments (2)	3,672	2,857	815	29%	8,033	8,126	(93)	(1%)
Intercompany Programming Cost Amortization (3)	146	1,865	(1,719)	(92%)	364	3,816	(3,452)	(90%)
Stock-based compensation expense	2,557	3,356	(799)	(24%)	5,928	7,777	(1,849)	(24%)
Non-recurring costs and expenses (4)	24,812	1,312	23,500	1,791%	28,215	2,541	25,674	1,010%
Adjusted EBITDA	$ 52,611	$ 62,758	$ (10,147)	(16%)	$ 150,699	$ 113,473	$ 37,226	33%

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

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

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

(4) Non-recurring costs and expenses for the three and six months ended June 30, 2020 primarily consisted of incremental expenses incurred as a direct result of the COVID-19 pandemic. This included (i) costs to suspend film and television productions, (ii) development abandonment expenses resulting from a change in the likelihood that certain projects will be set for production within the required timeframe, (iii) severance and other costs associated with organizational restructuring activities, (iv) sunk P&A costs for *Bad Trip* due to the change in distribution strategy resulting from the closure of theaters and (v) other costs. In future quarters, non-recurring costs are expected to include the EBITDA impact of sunk P&A costs for *No Time To Die* that will be incurred again in the future due to the delayed theatrical release date resulting from the global closure of theaters. Non-recurring costs and expenses for the three and six months ended June 30, 2020 also included severance and other restructuring costs not related to the COVID-19 pandemic. Non-recurring costs and expenses for the three and six months ended June 30, 2019 primarily consisted of severance expenses.

Adjusted EBITDA versus the Three and Six Month Periods Ended June 30, 2019

For the three months ended June 30, 2020, Adjusted EBITDA of $52.6 million declined $10.2 million as compared to $62.8 million for the three months ended June 30, 2019. As expected, the decrease was primarily driven by the business disruption caused by the COVID-19 global pandemic, including the delayed release and delivery of new film and television content due to the temporary suspension of production activities and closure of theaters around the world. Prior to the pandemic, we began 2020 in an excellent position to achieve another year of growth in television content deliveries. However, due to the suspension of production activities and resulting lack of deliveries of new content, Adjusted EBITDA (pre-G&A) from our Television Content segment declined $16.0 million against the prior year's second quarter. In addition, EPIX Adjusted EBITDA (pre-G&A) declined $20.5 million due to the timing of revenue recognition for our digital distribution agreements and higher programming amortization associated with original content. Overhead excluding non-recurring expenses, stock-based compensation and minority interests' share of G&A expenses for consolidated subsidiaries increased $4.9 million, consistent with our expectations and reflecting the run-rate impact of our targeted investments in personnel during 2019 and incremental additions in 2020 to drive future revenue growth in our core film and television content businesses. This was partially offset by $29.6 million of higher Adjusted EBITDA (pre-G&A) from film content, which reflected strong television licensing revenue for recently released titles and library content, plus lower marketing expenses.

For the six months ended June 30, 2020, Adjusted EBITDA of $150.7 million increased $37.2 million as compared to $113.5 million for the six months ended June 30, 2019. The increase was primarily driven by significant SVOD licensing revenue for our *Vikings* television franchise plus $19.3 million of higher Adjusted EBITDA (pre-G&A) from film content, which reflected strong television licensing revenue for recently released titles and library content, plus lower marketing expenses. This was partially offset by the business disruption caused by the COVID-19 global pandemic, including the delayed release and delivery of new film and television content due to the temporary suspension of production activities and closure of theaters around the world. Due to the suspension of production activities, we had fewer deliveries of new television content in the current year's second quarter than originally anticipated, as discussed above. In addition, EPIX Adjusted EBITDA (pre-G&A) declined $37.2 million due to the timing of revenue recognition for our digital distribution agreements and higher programming amortization associated original content. Overhead excluding non-recurring expenses, stock-based compensation and minority interests' share of G&A expenses for consolidated subsidiaries increased $15.1 million, consistent with our expectations and reflecting the run-rate impact of our targeted investments in personnel during 2019 and incremental additions in 2020 to drive future revenue growth in our core film and television content businesses.

Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

Film Content

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Change Amount	Change Percent
Revenue:				
Theatrical	(108)	5,902	(6,010)	(102%)
Television licensing	94,902	77,804	17,098	22%
Home entertainment	27,486	16,357	11,129	68%
Other revenue	7,627	19,908	(12,281)	(62%)
Ancillary	4,495	6,928	(2,433)	(35%)
Total revenue	134,402	126,899	7,503	6%
Expenses:				
Operating (5)	93,844	79,548	14,296	18%
Distribution and marketing	(921)	20,513	(21,434)	(104%)
Total expenses	92,923	100,061	(7,138)	(7%)
Contribution	$ 41,479	$ 26,838	$ 14,641	55%
Step-up Amortization Expense (5)	13,234	9,765	3,469	36%
Non-recurring costs and expenses (6)	11,455	-	11,455	NA
Adjusted EBITDA (pre-G&A)	**$ 66,168**	**$ 36,603**	**$ 29,565**	**81%**

(5) Operating expenses for film content for the three month periods ended June 30, 2020 and 2019 included $13.2 million and $9.8 million, respectively, of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

(6) Non-recurring costs and expenses for the three months ended June 30, 2020 primarily consisted of incremental expenses incurred as a direct result of the COVID-19 pandemic. This primarily included (i) development abandonment expenses resulting from a change in the likelihood that certain projects will be set for production within the required timeframe, (ii) costs to suspend film productions, and (iii) sunk P&A costs for *Bad Trip* due to the change in distribution strategy resulting from the closure of theaters. In future quarters, non-recurring costs are expected to include the EBITDA impact of sunk P&A costs for *No Time To Die* that will be incurred again in the future due to the delayed theatrical release date resulting from the global closure of theaters.

Film Content – Revenue

Theatrical. Worldwide theatrical revenue for film content was immaterial for the three months ended June 30, 2020 primarily due to the global closure of theaters as a result of the COVID-19 pandemic and measures to prevent its spread. Worldwide theatrical revenue was $5.9 million for the three months ended June 30, 2019 and primarily included international revenue for *Child's Play* in certain territories.

Television Licensing. Worldwide television licensing revenue for film content was $94.9 million for the three months ended June 30, 2020, an increase of $17.1 million as compared to $77.8 million for the three months ended June 30, 2019. Television licensing revenue for the current year's second quarter primarily included the initial international pay television and SVOD availabilities of *The Addams Family*, worldwide free television availabilities for *Tomb Raider* and *Death Wish*, ongoing worldwide VOD revenue for *The Addams Family* and other recently released films, plus strong library revenue. In comparison, television licensing revenue for the prior year's second quarter primarily included worldwide VOD and international SVOD revenue for *Creed II*, the U.S. free television availabilities for *Creed* and *Barbershop 3*, domestic VOD revenue for *Fighting With My Family*, and international revenue for several recently released titles, such as *Child's Play*, *Overboard*, *Tomb Raider* and *Death Wish*.

Home Entertainment. Worldwide home entertainment revenue for film content was $27.5 million for the three months ended June 30, 2020, an increase of $11.1 million as compared to $16.4 million for the three months ended June 30, 2019. Home entertainment revenue for the current year's second quarter primarily included worldwide EST revenue for several titles, including *Gretel & Hansel* and *The Addams Family*, plus our continued distribution of recently released titles, the *James Bond* library, *The Hobbit* trilogy internationally, and our deep catalog of library film content. In comparison, home entertainment revenue for the prior year's second quarter primarily included EST revenue for *Fighting with My Family*, our ongoing worldwide distribution of our franchise film, *Creed II*, plus our continued distribution of library film content.

Other Revenue. Other revenue for film content was $7.6 million for the three months ended June 30, 2020, a decrease of $12.3 million as compared to $19.9 million for the three months ended June 30, 2019. Net revenue from co-produced films for the current year's second quarter was primarily comprised of ongoing net revenue from *A Star is Born* and *The Addams Family*. In comparison, net revenue from co-produced films for the prior year's second quarter was primarily comprised of ongoing net revenue from the successful performance of *A Star is Born*, *Tomb Raider* and *Creed II*, as well as the initial net revenue recognition for *The Hustle*.

Ancillary. Ancillary revenue for film content, which includes consumer products, interactive gaming, music performance and other revenue, was $4.5 million for the three months ended June 30, 2020, a decrease of $2.4 million as compared to $6.9 million for the three months ended June 30, 2019. The decrease primarily reflected the upfront revenue recognition related to a new, long-term music licensing agreement in the prior year.

Film Content – Expenses

Operating Expenses. Operating expenses for film content were $93.8 million for the three months ended June 30, 2020, an increase of $14.3 million as compared to $79.5 million for the three months ended June 30, 2019. The increase in operating expenses reflected $15.0 million of higher aggregate film cost and P&R amortization expenses primarily due to $9.8 million of non-recurring expenses incurred as a direct result of the COVID-19 pandemic. This included development abandonment charges resulting from a change in the likelihood that certain projects will be set for production within the required timeframe and costs to suspend film productions. In addition, aggregate amortization expenses included *The Addams Family*, *Tomb Raider*, *Gretel & Hansel*, and library content. In comparison, aggregate amortization expenses for the prior year's second quarter primarily included *Creed II*, *Child's Play*, *Tomb Raider*, *Creed*, *The Hustle* and *Overboard*, plus $2.3 million of film impairment charges.

Distribution and Marketing Expenses. Distribution and marketing expenses for film content were ($0.9) million for the three months ended June 30, 2020, a decrease of $21.4 million as compared to $20.5 million for the three months ended June 30, 2019. Distribution and marketing expenses for the current year's second quarter primarily included $4.0 million of foreign currency gains primarily due to fluctuations of the U.S. Dollar against the British Pound and Euro. In addition, we incurred lower theatrical marketing expenses mainly due to our share of the theatrical marketing costs for *The Sun is Also a Star* in the prior year's second quarter. Marketing expenses associated with theatrical films released through our U.S. theatrical distribution joint venture, United Artists Releasing, are accounted for on an equity method basis through our equity in the net earnings (losses) of affiliates.

Television Content

	Three Months Ended June 30,		Change	
	2020	2019	Amount	Percent
Revenue:				
Television licensing	102,321	148,521	(46,200)	(31%)
Home entertainment and other	8,518	5,008	3,510	70%
Total revenue	110,839	153,529	(42,690)	(28%)
Expenses:				
Operating (7)	84,208	102,620	(18,412)	(18%)
Distribution and marketing	1,993	3,089	(1,096)	(35%)
Total expenses	86,201	105,709	(19,508)	(18%)
Contribution	$ 24,638	$ 47,820	$ (23,182)	(48%)
Purchase Accounting Adjustments (7)	3,672	2,857	815	29%
Step-up Amortization Expense (7)	2,260	1,065	1,195	112%
Non-recurring costs and expenses (8)	5,568	-	5,568	NA
Net loss attributable to noncontrolling interests	(351)	68	(419)	(616%)
Adjusted EBITDA (pre-G&A)	**$ 35,787**	**$ 51,810**	**$ (16,023)**	**(31%)**

(7) Operating expenses for television content for the three months ended June 30, 2020 included $3.7 million of Purchase Accounting Adjustments and $2.3 million of Step-up Amortization Expense. Operating expenses for television content for the three months ended June 30, 2019 included $2.9 million of Purchase Accounting Adjustments and $1.1 million of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

(8) Non-recurring costs and expenses for the three months ended June 30, 2020 primarily consisted of incremental expenses incurred as a direct result of the COVID-19 pandemic. This primarily included (i) costs to suspend television productions and (ii) development abandonment expenses resulting from a change in the likelihood that certain projects will be set for production within the required timeframe.

Television Content – Revenue

Television Licensing. Television licensing revenue for television content was $102.3 million for the three months ended June 30, 2020, a decrease of $46.2 million as compared to $148.5 million for the three months ended June 30, 2019. As expected, this decrease resulted from the business disruption caused by the COVID-19 global pandemic, including the delayed delivery of new content due to the temporary suspension of production activities. Prior to the pandemic, we began 2020 in an excellent position to achieve another year of growth in television content deliveries. However, due to the suspension of production activities and resulting lack of deliveries of new television content, revenue declined in the current year's second quarter and primarily included deliveries of new episodes of certain unscripted shows, such as *World's Toughest Race: Eco-Challenge* with Bear Grylls, *Live PD, The Voice* (season 18), *Survivor* (season 40), and *The Real Housewives of Beverly Hills* (season 10). Certain shows that we originally anticipated delivering in the current year's second quarter are now expected to be delivered in 2021, temporarily delaying our growth expectations. In comparison, revenue for the prior year's second quarter primarily reflected the strong performance of our premium scripted television content, including deliveries of new episodes of *The Handmaid's Tale* (season 3) to Hulu and *Vikings* (season 6) to History, as well as a high volume of unscripted content including *Are You Smarter Than a 5th Grader*, *The Voice* (season 16), *Live PD*, *Survivor* (season 38), *Live Rescue* (season 1), *Beat Shazam* (season 3), *The Real Housewives of Beverly Hills* (season 9) and many other shows.

Home Entertainment and Other. Home entertainment and other revenue for television content was $8.5 million for the three months ended June 30, 2020, an increase of $3.5 million as compared to $5.0 million for the three months ended June 30, 2019.

Television Content – Expenses

Operating Expenses. Operating expenses for television content were $84.2 million for the three months ended June 30, 2020, a decrease of $18.4 million as compared to $102.6 million for the three months ended June 30, 2019. The decrease in operating expenses was driven by the delayed delivery of new content following the temporary suspension of production activities due to the COVID-19 global pandemic, as discussed above. Operating expenses for the current year's second quarter primarily included aggregate amortization expenses for *World's Toughest Race: Eco-Challenge* with Bear Grylls and *Vikings* (season 6), plus $5.6 million of non-recurring expenses incurred as a direct result of the COVID-19 pandemic. This included costs to suspend television

productions and development abandonment charges resulting from a change in the likelihood that certain projects will be set for production within the required timeframe. In comparison, operating expenses for the prior year's second quarter primarily included television content cost and P&R amortization expenses for our premium scripted series *The Handmaid's Tale* (season 3) and *Vikings* (season 6), as well as *Are You Smarter Than a 5th Grader*. We do not record amortization expense for unscripted content that is recorded on a net basis.

Distribution and Marketing Expenses. Distribution and marketing expenses for television content were \$2.0 million and \$3.1 million for the three month periods ended June 30, 2020 and 2019, respectively.

Media Networks

	Three Months Ended June 30,		Change	
	2020	2019	Amount	Percent
Revenue				
EPIX	96,508	118,855	(22,347)	(19%)
Other Channels	8,033	7,285	748	10%
Total revenue	104,541	126,140	(21,599)	(17%)
Expenses:				
Operating (9)	86,262	79,940	6,322	8%
Distribution and marketing	12,241	22,039	(9,798)	(44%)
Total expenses	98,503	101,979	(3,476)	(3%)
Contribution	$ 6,038	$ 24,161	$ (18,123)	(75%)
Intercompany Programming Cost Amortization (9)	146	1,865	(1,719)	(92%)
Non-recurring costs and expenses	274	-	274	NM
Adjusted EBITDA (pre-G&A)	**$ 6,458**	**$ 26,026**	**$ (19,568)**	**(75%)**

(9) Operating expenses for Media Networks for the three months ended June 30, 2020 included \$0.1 million of Intercompany Programming Cost Amortization. Operating expenses for Media Networks for the three months ended June 30, 2019 included \$1.9 million of Intercompany Programming Cost Amortization. Refer to *Cost Structure –Operating Expenses* for additional information.

Media Networks – Revenue

Total revenue from our Media Networks segment, which includes EPIX and our other wholly-owned and joint venture broadcast and cable networks, was \$104.5 million for the three months ended June 30, 2020, a decrease of \$21.6 million as compared to \$126.1 million for the three months ended June 30, 2019. This decrease was primarily due to the accelerated revenue recognition in the prior year's second quarter associated with the delivery of recently released and library film content under EPIX's digital distribution agreements. This was partially offset by higher revenue from affiliate carriage agreements following EPIX's expanded carriage on Comcast beginning in December 2019, as well as subscriber-based revenue from our over-the-top distribution of EPIX through affiliate and our EPIX Now platforms.

Media Networks – Expenses

Operating Expenses. Operating expenses for our Media Networks segment were \$86.3 million for the three months ended June 30, 2020, an increase of \$6.4 million as compared to \$79.9 million for the three months ended June 30, 2019. This increase primarily reflected higher programming cost amortization expenses related to EPIX's recent original content, including *Pennyworth*, *Godfather of Harlem* and *Perpetual Grace, LTD*, as well as EPIX's strong pipeline of film content, including *Rocketman*, *Crawl*, *Pet Sematary*, *A Madea Family Funeral*, and many more titles.

Distribution and Marketing Expenses. Distribution and marketing expenses for our Media Networks segment were $12.2 million for the three months ended June 30, 2020, a decrease of $9.8 million as compared to $22.0 million for the three months ended June 30, 2019. This decrease primarily reflected lower marketing costs associated with the release timing of EPIX original content. The prior year's second quarter primarily included the initial spending on three original series, *Perpetual Grace, LTD*, *Pennyworth* and season 2 of *Deep State*. In comparison, the current year's second quarter primarily included marketing costs associated with one original series, *Belgravia*.

General and Administrative Expenses

	Three Months Ended June 30,		Change	
	2020	2019	Amount	Percent
Total G&A expenses	$ 68,111	$ 58,024	$ 10,087	17%
Less: Stock-based compensation expense	(2,557)	(3,356)	799	24%
Less: Non-recurring costs and expenses	(7,515)	(1,312)	(6,203)	(473%)
Less: Minority interests' share of G&A expenses	(178)	(415)	237	57%
G&A expenses excluding stock-based compensation, non-recurring costs and expenses and minority interests' share of G&A expenses	$ 57,861	$ 52,941	$ 4,920	9%

For the three months ended June 30, 2020, total G&A expenses were $68.1 million, an increase of $10.1 million as compared to $58.0 million for the three months ended June 30, 2019. Non-recurring expenses increased $6.2 million from the prior year's second quarter and primarily included severance and other costs associated with organizational restructuring activities, as well as one-time costs incurred as a direct result of the COVID-19 pandemic. Excluding stock-based compensation, non-recurring costs and expenses and minority interests' share of G&A expenses for consolidated subsidiaries, G&A expenses increased $4.9 million in the current year's second quarter, which was consistent with our expectations. This increase primarily reflected the run-rate impact of our targeted investments in personnel in the prior year to drive future revenue growth in our film and television content businesses. In April 2020, we implemented several cost savings initiatives that are anticipated to reduce 2020 G&A expenses by approximately $15.0 million.

Depreciation and non-content amortization

For the three months ended June 30, 2020, depreciation and non-content amortization was $13.7 million, a decrease of $2.6 million as compared to $16.3 million for the three months ended June 30, 2019. Amortization expense for identifiable non-content intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, totaled $8.0 million and $12.8 million for the three month periods ended June 30, 2020 and 2019, respectively. Depreciation expense for fixed assets was $5.5 million and $3.5 million for the three month periods ended June 30, 2020 and 2019, respectively. Amortization expense associated with finance leases was $0.2 million for the three months ended June 30, 2020. There was no amortization expense associated with finance leases for the three months ended June 30, 2019.

Impairment of non-content intangible assets

As of June 30, 2020, we performed a quantitative impairment test and recoverability analyses, as applicable, for the goodwill and non-content intangible assets associated with our television content reporting unit. During the three months ended June 30, 2020, certain of our unscripted television shows were suspended and for certain other unscripted television shows, our executive producer services were terminated. These events, combined with the incremental television productions costs associated with the COVID-19 pandemic, constituted an impairment indicator under the applicable accounting rules and, as such, we performed additional analyses during the current year's second quarter, which is prior to our annual impairment assessment that is typically performed as of December 31. As a result of these analyses, we determined that the fair value of the television content reporting unit was greater than its carrying value as of June 30, 2020, and therefore, no goodwill impairment existed. Separately, we recorded a $1.3 million aggregate non-cash impairment of non-content intangible assets related to

certain unscripted television shows for which we will no longer provide executive producer services. After recording this impairment, such non-content intangible assets had a remaining balance of $6.4 million as of June 30, 2020. We evaluated the other net assets of our television content reporting unit for impairment and concluded that no additional impairments were required. We will continue to evaluate the impact of these changes to our future television content slate, as well as the impact of the COVID-19 pandemic to our businesses, which could result in the recognition of additional impairment charges in future periods.

Equity in net earnings of affiliates

For the three months ended June 30, 2020, equity in net earnings of affiliates was $2.1 million and included our share of the net income of our U.S. theatrical distribution joint venture and dividend income. For the three months ended June 30, 2019, equity in net earnings of affiliates was $1.3 million and included a gain related to a non-equity method investment plus dividend income, which were partially offset by our share of the net loss of our U.S. theatrical distribution joint venture.

Interest expense

Interest expense is primarily comprised of contractual interest incurred under our $1.8 billion revolving credit facility, $400.0 million first lien term loan and $400.0 million second lien term loan, as well as the amortization of related deferred financing costs (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion) and interest expense associated with finance leases.

For the three months ended June 30, 2020, total interest expense was $22.2 million, a decrease of $1.3 million as compared to $23.5 million for the three months ended June 30, 2019. For the current year's second quarter, interest expense included $20.4 million of contractual interest and $1.8 million of other interest costs. For the prior year's second quarter, interest expense included $21.4 million of contractual interest and $2.1 million of other interest costs. Cash paid for interest was $21.2 million and $21.5 million for the three month periods ended June 30, 2020 and 2019, respectively. Our slightly lower interest expense and cash paid for interest in the current year's second quarter primarily reflected the impact of lower interest rates, which was partially offset by higher borrowings under our revolving credit facility to fund our investment spending on strategic growth initiatives and to provide readily available liquidity to meet the Company's capital needs for the foreseeable future.

Interest income

Interest income primarily includes the amortization of discounts recorded on long-term accounts and contracts receivable, as well as interest earned on short-term investments. For the three month periods ended June 30, 2020 and 2019, the amounts recorded as interest income were immaterial.

Other income (expense), net

For the three month periods ended June 30, 2020 and 2019, the amounts recorded as other income were immaterial.

Income tax (provision) benefit

For the three months ended June 30, 2020, we recorded an income tax benefit of $5.6 million. For the three months ended June 30, 2019, we recorded an income tax provision of $0.7 million. Based solely on our U.S. federal and state statutory income tax rates, our effective tax rate was 22% in the current year's second quarter and 23% in the prior year's second quarter. In addition, our cash paid for income taxes continues to benefit from significant deferred tax assets, primarily net operating loss carryforwards and foreign tax credits.

Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

Film Content

	Six Months Ended June 30,		Change	
	2020	2019	Amount	Percent
Revenue:				
Theatrical	1,802	14,722	(12,920)	(88%)
Television licensing	196,611	153,297	43,314	28%
Home entertainment	47,767	44,446	3,321	7%
Other revenue	16,935	35,401	(18,466)	(52%)
Ancillary	9,593	26,093	(16,500)	(63%)
Total revenue	272,708	273,959	(1,251)	(0%)
Expenses:				
Operating (10)	182,104	169,751	12,353	7%
Distribution and marketing	17,624	34,764	(17,140)	(49%)
Total expenses	199,728	204,515	(4,787)	(2%)
Contribution	$ 72,980	$ 69,444	$ 3,536	5%
Step-up Amortization Expense (10)	25,544	21,263	4,281	20%
Non-recurring costs and expenses (11)	11,455	-	11,455	NA
Adjusted EBITDA (pre-G&A)	**$ 109,979**	**$ 90,707**	**$ 19,272**	**21%**

(10) Operating expenses for film content for the six month periods ended June 30, 2020 and 2019 included $25.5 million and $21.3 million, respectively, of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

(11) Non-recurring costs and expenses for the six months ended June 30, 2020 primarily consisted of incremental expenses incurred as a direct result of the COVID-19 pandemic. This primarily included (i) development abandonment expenses resulting from a change in the likelihood that certain projects will be set for production within the required timeframe, (ii) sunk P&A costs for *Bad Trip* due to the change in distribution strategy resulting from the closure of theaters and (iii) costs to suspend film productions. In future quarters, non-recurring costs are expected to include sunk P&A costs for *No Time To Die* that will be incurred again in the future due to the delayed theatrical release date resulting from the global closure of theaters.

Film Content – Revenue

Theatrical. Worldwide theatrical revenue for film content was $1.8 million for the six months ended June 30, 2020, a decrease of $12.9 million as compared to $14.7 million for the six months ended June 30, 2019. Theatrical revenue for the first half of 2020 was negatively impacted by the global closure of theaters as a result of the COVID-19 pandemic and measures to prevent its spread, and primarily included international revenue from Orion Pictures' film, *Gretel & Hansel*, in certain territories during the current year's first quarter. In comparison, theatrical revenue for the first half of 2019 primarily included U.S. theatrical revenue from the release of the Orion Pictures' film, *The Prodigy*, in February 2019, plus international revenue for *Child's Play* in certain territories.

Television Licensing. Worldwide television licensing revenue for film content was $196.6 million for the six months ended June 30, 2020, an increase of $43.3 million as compared to $153.3 million for the six months ended June 30, 2019. Television licensing revenue for the first half of 2020 primarily included the initial international pay television and SVOD availabilities of *The Addams Family* and *The Hustle*, worldwide free television availabilities for *Tomb Raider* and *Death Wish*, ongoing worldwide VOD revenue for *The Addams Family*, *The Hustle* and other recently released films, the initial domestic free television availability of *Hercules*, plus strong library revenue. In comparison, television licensing revenue for the first half of 2019 primarily included worldwide VOD and international SVOD revenue for *Creed II*, the U.S. free television availabilities for *Creed* and *Barbershop 3*, worldwide free television availabilities for *The Magnificent Seven* and first cycle television windows for several other recently released films, including *Sherlock Gnomes*, *Tomb Raider*, *Overboard* and *Death Wish*.

Home Entertainment. Worldwide home entertainment revenue for film content was $47.8 million for the six months ended June 30, 2020, an increase of $3.4 million as compared to $44.4 million for the six months ended June 30, 2019. Home entertainment revenue for the first half of 2020 primarily included worldwide EST revenue for several titles, including *The Addams Family* and *Gretel & Hansel*, plus our continued distribution of recently released titles, the *James Bond* library, *The Hobbit* trilogy internationally, and our deep catalog of library film content. In comparison, home entertainment revenue for the prior year's second quarter primarily included strong

EST revenue and the ongoing worldwide physical distribution of our franchise film, *Creed II*, EST revenue for *Fighting With My Family*, plus our continued distribution of library film content.

Other Revenue. Other revenue for film content was $16.9 million for the six months ended June 30, 2020, a decrease of $18.5 million as compared to $35.4 million for the six months ended June 30, 2019. Net revenue from co-produced films for the first half of 2020 was primarily comprised of ongoing net revenue from *The Addams Family*, *A Star is Born* and *The Hustle*. In comparison, net revenue from co-produced films in the first half of 2019 was primarily comprised of net revenue from our franchise film, *Creed II*, plus ongoing net revenue from the successful performance of *A Star is Born*.

Ancillary. Ancillary revenue for film content, which includes consumer products, interactive gaming, music performance and other revenue, was $9.6 million for the six months ended June 30, 2020, a decrease of $16.5 million as compared to $26.1 million for the six months ended June 30, 2019. The decrease reflected the upfront revenue recognition related to a new, long-term music licensing agreement in the prior year.

Film Content – Expenses

Operating Expenses. Operating expenses for film content were $182.1 million for the six months ended June 30, 2020, an increase of $12.3 million as compared to $169.8 million for the six months ended June 30, 2019. The increase in operating expenses reflected $18.5 million of higher aggregate film cost and P&R amortization expenses primarily due to $9.8 million of non-recurring expenses incurred as a direct result of the COVID-19 pandemic. This included development abandonment charges resulting from a change in the likelihood that certain projects will be set for production within the required timeframe and costs to suspend film productions. In addition, aggregate amortization expenses included *The Addams Family*, *Gretel & Hansel*, *The Hustle*, *Tomb Raider* and library content. In comparison, aggregate amortization expenses for the first half of 2019 primarily included *Creed II*, *Child's Play*, *Tomb Raider*, *Fighting With My Family*, *The Magnificent Seven* and library content, plus $6.1 million of unanticipated film impairment charges. Higher amortization expenses in the first half of 2020 was partially offset by lower third party share expenses related to our ancillary businesses due to the upfront revenue recognition for a new, long-term music licensing agreement entered into during the prior year.

Distribution and Marketing Expenses. Distribution and marketing expenses for film content were $17.6 million for the six months ended June 30, 2020, a decrease of $17.2 million as compared to $34.8 million for the six months ended June 30, 2019. The decrease in distribution and marketing expenses for the first half of 2020 primarily included lower theatrical marketing expenses, mainly due to our share of the theatrical marketing costs for *The Sun is Also a Star* and U.S. marketing expenses for the Orion Pictures' film, *The Prodigy*. Marketing expenses associated with theatrical films released through our U.S. theatrical distribution joint venture, United Artists Releasing, are accounted for on an equity method basis through our equity in the net earnings (losses) of affiliates. Lower marketing expenses for the first half of 2020 was partially offset by $4.7 million of unanticipated foreign currency losses primarily due to the strengthening of the U.S. Dollar against the British Pound and Euro.

Television Content

	Six Months Ended June 30,		Change	
	2020	2019	Amount	Percent
Revenue:				
Television licensing	252,216	193,684	58,532	30%
Home entertainment and other	16,700	13,427	3,273	24%
Total revenue	268,916	207,111	61,805	30%
Expenses:				
Operating (12)	147,690	134,394	13,296	10%
Distribution and marketing	4,858	5,806	(948)	(16%)
Total expenses	152,548	140,200	12,348	9%
Contribution	$ 116,368	$ 66,911	$ 49,457	74%
Purchase Accounting Adjustments (12)	8,033	8,126	(93)	(1%)
Step-up Amortization Expense (12)	4,406	3,839	567	15%
Non-recurring costs and expenses (13)	5,568	-	5,568	NA
Net loss attributable to noncontrolling interests	(61)	227	(288)	(127%)
Adjusted EBITDA (pre-G&A)	**$ 134,314**	**$ 79,103**	**$ 55,211**	**70%**

(12) Operating expenses for television content for the six months ended June 30, 2020 included $8.0 million of Purchase Accounting Adjustments and $4.4 million of Step-up Amortization Expense. Operating expenses for television content for the six months ended June 30, 2019 included $8.1 million of Purchase Accounting Adjustments and $3.8 million of Step-up Amortization Expense. Refer to *Cost Structure –Operating Expenses* for additional information.

(13) Non-recurring costs and expenses for the six months ended June 30, 2020 primarily consisted of incremental expenses incurred as a direct result of the COVID-19 pandemic. This primarily included (i) costs to suspend television productions and (ii) development abandonment expenses resulting from a change in the likelihood that certain projects will be set for production within the required timeframe.

Television Content – Revenue

Television Licensing. Television licensing revenue for television content was $252.2 million for the six months ended June 30, 2020, an increase of $58.5 million as compared to $193.7 million for the six months ended June 30, 2019. This increase was driven by significant revenue from our worldwide SVOD licensing of all seasons of the *Vikings* franchise. However, this was partially offset by the business disruption caused by the COVID-19 global pandemic, including the delayed delivery of new content due to the temporary suspension of production activities. Prior to the pandemic, we began 2020 in an excellent position to achieve another year of growth in television content deliveries. However, due to the suspension of production activities, certain shows that we originally anticipated delivering in the current year are now expected to be delivered in 2021, temporarily delaying our growth expectations. Revenue from new television content in the first half of 2020 primarily included deliveries of new episodes of certain unscripted shows, such as *World's Toughest Race: Eco-Challenge* with Bear Grylls, *Live PD, Survivor* (season 40), *The Voice* (season 18), *Live Rescue* (season 2), *Vanderpump Rules* (season 8), *Botched* (season 6) and *Shark Tank* (season 11). In comparison, revenue for the first half of 2019 primarily reflected the strong performance of our premium scripted television content, including deliveries of *The Handmaid's Tale* (season 3) to Hulu and *Vikings* (season 6) to History, as well as a high volume of unscripted content including *Live PD*, *The Voice* (season 16), *Survivor* (season 38), *Are You Smarter Than a 5th Grader*, *The Real Housewives of Beverly Hills* (season 9), *Live Rescue* (season 1), *Beat Shazam* (season 3), *Shark Tank* (season 10), *Vanderpump Rules* (season 7) and many other shows.

Home Entertainment and Other. Home entertainment and other revenue for television content was $16.7 million for the six months ended June 30, 2020, an increase of $3.3 million as compared to $13.4 million for the six months ended June 30, 2019.

Television Content – Expenses

Operating Expenses. Operating expenses for television content were $147.7 million for the six months ended June 30, 2020, an increase of $13.3 million as compared to $134.4 million for the six months ended June 30, 2019. The increase in operating expenses was driven by higher television cost and P&R amortization expenses related to the *Vikings* franchise as a result of the significant licensing revenue discussed above, plus $5.6 million of non-recurring expenses incurred as a direct result of the COVID-19 pandemic. This included costs to suspend television productions and development abandonment charges resulting from a change in the likelihood that certain

projects will be set for production within the required timeframe. In comparison, operating expenses for the first half of 2019 primarily included television content cost and P&R amortization expenses for our premium scripted series *The Handmaid's Tale* (season 3) and *Vikings* (season 6), as well as *Are You Smarter Than a 5th Grader*. We do not record amortization expense for unscripted content that is recorded on a net basis.

Distribution and Marketing Expenses. Distribution and marketing expenses for television content were $4.9 million and $5.8 million for the six month periods ended June 30, 2020 and 2019, respectively.

Media Networks

	Six Months Ended June 30,		Change	
	2020	2019	Amount	Percent
Revenue				
EPIX	194,310	225,002	(30,692)	(14%)
Other Channels	17,209	17,600	(391)	(2%)
Total revenue	211,519	242,602	(31,083)	(13%)
Expenses:				
Operating (14)	173,043	163,528	9,515	6%
Distribution and marketing	23,462	29,195	(5,733)	(20%)
Total expenses	196,505	192,723	3,782	2%
Contribution	$ 15,014	$ 49,879	$ (34,865)	(70%)
Intercompany Programming Cost Amortization (14)	364	3,816	(3,452)	(90%)
Non-recurring costs and expenses	1,107	-	1,107	NM
Adjusted EBITDA (pre-G&A)	**$ 16,485**	**$ 53,695**	**$ (37,210)**	**(69%)**

(14) Operating expenses for Media Networks for the six months ended June 30, 2020 included $0.4 million of Intercompany Programming Cost Amortization. Operating expenses for Media Networks for the six months ended June 30, 2019 included $3.8 million of Intercompany Programming Cost Amortization. Refer to *Cost Structure –Operating Expenses* for additional information.

Media Networks – Revenue

Total revenue from our Media Networks segment, which includes EPIX and our other wholly-owned and joint venture broadcast and cable networks, was $211.5 million for the six months ended June 30, 2020, a decrease of $31.1 million as compared to $242.6 million for the six months ended June 30, 2019. This decrease was primarily due to the accelerated revenue recognition in the first half of 2019 associated with the delivery of recently released and library film content under EPIX's digital distribution agreements. This was partially offset by higher revenue from affiliate carriage agreements following EPIX's expanded carriage on Comcast beginning in December 2019, as well as subscriber-based revenue from our over-the-top distribution of EPIX through affiliate and our EPIX Now platforms.

Media Networks – Expenses

Operating Expenses. Operating expenses for our Media Networks segment were $173.0 million for the six months ended June 30, 2020, an increase of $9.5 million as compared to $163.5 million for the six months ended June 30, 2019. This increase primarily reflected higher programming cost amortization expenses related to EPIX original content, including *Pennyworth*, *Godfather of Harlem* and *Perpetual Grace, LTD*, as well as EPIX's strong pipeline of film content, including *Rocketman*, *Pet Sematary*, *A Madea Family Funeral* and many more titles.

Distribution and Marketing Expenses. Distribution and marketing expenses for our Media Networks segment were $23.5 million for the six months ended June 30, 2020, a decrease of $5.7 million as compared to $29.2 million for the six months ended June 30, 2019. This decrease primarily reflected lower marketing costs associated with the release timing of EPIX original content. The first half of 2019 primarily included the initial spending on three original series, *Perpetual Grace, LTD*, *Pennyworth* and season 2 of *Deep State*. In comparison, the first half of 2020 primarily included marketing costs associated with two original series, *War of the Worlds* and *Belgravia*, plus the docuseries, *Slow Burn*.

General and Administrative Expenses

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Change Amount	Change Percent
Total G&A expenses	$ 134,765	$ 114,023	$ 20,742	18%
Less: Stock-based compensation expense	(5,928)	(7,777)	1,849	24%
Less: Non-recurring costs and expenses	(10,085)	(2,541)	(7,544)	(297%)
Less: Minority interests' share of G&A expenses	(454)	(515)	61	12%
G&A expenses excluding stock-based compensation, non-recurring costs and expenses and minority interests' share of G&A expenses	$ 118,298	$ 103,190	$ 15,108	15%

For the six months ended June 30, 2020, total G&A expenses were $134.8 million, an increase of $20.8 million as compared to $114.0 million for the six months ended June 30, 2019. Non-recurring expenses increased $7.5 million in the first half of 2020 and primarily included severance and other costs associated with organizational restructuring activities, as well as one-time costs incurred as a direct result of the COVID-19 pandemic. Excluding stock-based compensation, non-recurring costs and expenses and minority interests' share of G&A expenses for consolidated subsidiaries, G&A expenses increased $15.1 million in the first half of 2020, which was consistent with our expectations. This increase primarily reflected the run-rate impact of our targeted investments in personnel in the prior year to drive future revenue growth in our film and television content businesses. In April 2020, we implemented several cost savings initiatives that are anticipated to reduce 2020 G&A expenses by approximately $15.0 million.

Depreciation and non-content amortization

For the six months ended June 30, 2020, depreciation and non-content amortization was $26.1 million, a decrease of $6.1 million as compared to $32.2 million for the six months ended June 30, 2019. Amortization expense for identifiable non-content intangible assets with definite lives, which is recorded on a straight-line basis over the estimated useful lives, totaled $15.9 million and $25.6 million for the six month periods ended June 30, 2020 and 2019, respectively. Depreciation expense for fixed assets was $9.6 million and $6.6 million for the six month periods ended June 30, 2020 and 2019, respectively. Amortization expense associated with finance leases was $0.6 million for the six months ended June 30, 2020. There was no amortization expense associated with finance leases for the six months ended June 30, 2019.

Impairment of non-content intangible assets

As of June 30, 2020, we performed a quantitative impairment test and recoverability analyses, as applicable, for the goodwill and non-content intangible assets associated with our television content reporting unit. During the three months ended June 30, 2020, certain of our unscripted television shows were suspended and for certain other unscripted television shows, our executive producer services were terminated. These events, combined with the incremental television productions costs associated with the COVID-19 pandemic, constituted an impairment indicator under the applicable accounting rules and, as such, we performed additional analyses during the current year's second quarter, which is prior to our annual impairment assessment that is typically performed as of December 31. As a result of these analyses, we determined that the fair value of the television content reporting unit was greater than its carrying value as of June 30, 2020, and therefore, no goodwill impairment existed. Separately, we recorded a $1.3 million aggregate non-cash impairment of non-content intangible assets related to certain unscripted television shows for which we will no longer provide executive producer services. After recording this impairment, such non-content intangible assets had a remaining balance of $6.4 million as of June 30, 2020. We evaluated the other net assets of our television content reporting unit for impairment and concluded that no additional impairments were required. We will continue to evaluate the impact of these changes to our future television content slate, as well as the impact of the COVID-19 pandemic to our businesses, which could result in the recognition of additional impairment charges in future periods.

Equity in net earnings (losses) of affiliates

For the six months ended June 30, 2020, equity in net earnings of affiliates was $8.2 million and included a gain related to the monetization of a non-core, non-equity method investment plus dividend income, which was partially offset by our share of the net loss of our U.S. theatrical distribution joint venture. For the six months ended June 30, 2019, equity in net losses of affiliates was $6.8 million and was primarily comprised of our share of the net loss of our U.S. theatrical distribution joint venture, which was partially offset by a gain associated with a non-equity method investment.

Interest expense

Interest expense is primarily comprised of contractual interest incurred under our $1.8 billion revolving credit facility, $400.0 million first lien term loan and $400.0 million second lien term loan, as well as the amortization of related deferred financing costs (refer to *Liquidity and Capital Resources –Bank Borrowings* for further discussion) and interest expense associated with finance leases.

For the six months ended June 30, 2020, total interest expense was $45.6 million, an increase of $0.1 million as compared to $45.5 million for the six months ended June 30, 2019. For the first half of 2020, interest expense included $42.2 million of contractual interest and $3.4 million of other interest costs. For the first half of 2019, interest expense included $41.8 million of contractual interest and $3.7 million of other interest costs. Cash paid for interest was $42.9 million and $41.5 million for the six month periods ended June 30, 2020 and 2019, respectively. Our slightly higher interest expense and cash paid for interest in the first half of 2020 primarily reflected higher borrowings under our revolving credit facility to fund our investment spending on strategic growth initiatives and to provide readily available liquidity to meet the Company's capital needs for the foreseeable future. This was partially offset by the impact of lower interest rates during the first half of 2020.

Interest income

Interest income primarily includes the amortization of discounts recorded on long-term accounts and contracts receivable, as well as interest earned on short-term investments. For the six month periods ended June 30, 2020 and 2019, the amounts recorded as interest income were immaterial.

Other income (expense), net

For the six month periods ended June 30, 2020 and 2019, the amounts recorded as other income were immaterial.

Income tax (provision) benefit

For the six months ended June 30, 2020, we recorded an income tax provision of $2.3 million. For the six months ended June 30, 2019, we recorded an income tax benefit of $0.9 million. Based solely on our U.S. federal and state statutory income tax rates, our effective tax rate was 24% in the first half of 2020 and 23% in the first half of 2019. In addition, our cash paid for income taxes continues to benefit from significant deferred tax assets, primarily net operating loss carryforwards and foreign tax credits.

Liquidity and Capital Resources

General

Our operations are capital intensive. In recent years we have funded our operations primarily with cash flow from operating activities, bank borrowings, and through co-production arrangements. In 2020 and beyond, we expect to fund our operations with (a) cash flow from the exploitation of our film and television content, (b) cash on hand, (c) co-production arrangements, and (d) funds available under our revolving credit facility. Although we expect our liquidity in 2020 to be negatively impacted by the COVID-19 pandemic and the measures to prevent its spread, including, among other things, the closure of theaters, suspension of content production activities and increased costs necessary to resume production activities, we expect that the operating cash flow generated by our businesses, together with our (i) existing cash on hand, (ii) availability under our existing credit facilities, and (iii) our ability to obtain additional external financing, will be sufficient for us to meet our current and long-term liquidity and capital requirements. However, we expect the timing of certain strategic priorities to be impacted, including the investment spending to grow our film and television content slate and the pace of our debt reduction efforts.

Bank Borrowings

In July 2018, we entered into a seven-year $400.0 million first lien term loan (the “1L Term Loan”) and an eight-year $400.0 million second lien term loan (the “2L Term Loan”). The 1L Term Loan was issued at a discount of 50 basis points, bears interest at 2.50% over LIBOR and matures on July 3, 2025. The 2L Term Loan was issued at a discount of 100 basis points, bears interest at 4.50% over LIBOR and matures on July 3, 2026. Proceeds from the issuance of these term loans were primarily used to prepay our prior $850.0 million senior secured term loan. In addition, we amended our senior secured revolving credit facility (the “Revolving Credit Facility”) to, among other things, increase the total commitments, lower the interest rate and modify certain covenants and components of our borrowing base. Our Revolving Credit Facility currently has $1.8 billion of total commitments, bears interest at 1.75% over LIBOR and matures on July 3, 2023. The availability of funds under the Revolving Credit Facility is limited by a borrowing base calculation. At June 30, 2020, we had $1.52 billion drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The $280.0 million of remaining funds were entirely available to us.

Per the New York Federal Reserve’s Alternative Reference Rates Committee, it is expected that the Secured Overnight Financing Rate (“SOFR”) will replace the London Inter-bank Offered Rate (“LIBOR”) as the primary index for USD floating rate debt at the end of 2021. As discussed above, we currently borrow under floating rate LIBOR contracts for our Revolving Credit Facility, 1L Term Loan and 2L Term Loan. Our existing credit agreements for our Revolving Credit Facility, 1L Term Loan and 2L Term Loan contain language that allow us, in consultation of the administrative agent, to transition to an alternative interest rate benchmark if and when LIBOR is discontinued and we currently anticipate transitioning to SOFR upon its full implementation. Since LIBOR and SOFR indices have historically similar rates, we do not expect a significant change in the interest we will incur following the transition.

The Revolving Credit Facility, 1L Term Loan and 2L Term Loan contain various affirmative and negative covenants and financial tests, including, as applicable, limitations on our ability to make certain expenditures, incur indebtedness, grant liens, dispose of property, merge, consolidate or undertake other fundamental changes, pay dividends and make distributions, make certain investments, enter into certain transactions, and pursue new lines of business outside of entertainment and/or media-related business activities. We were in compliance with all applicable covenants and there were no events of default at June 30, 2020.

Cash Provided By (Used In) Operating Activities

Cash provided by operating activities was $204.6 million for the six months ended June 30, 2020 and cash used in operating activities was $73.2 million for the six months ended June 30, 2019. The change in operating cash flow included $274.5 million of lower net cash investment in content during the first half of 2020 primarily due to the suspension of content production activities following the COVID-19 pandemic. Content investment primarily included the tail-end of costs for *Respect* and *Fargo* (season 4), the initial production costs for *Samaritan*, *The*

Handmaid's Tale (season 4) and *The Addams Family 2*, as well as recently released film content and original programming for EPIX. In addition, cash flow from operating activities reflected higher cash flow from EPIX due its expanded carriage on Comcast beginning in December 2019, as well as subscriber-based revenue from our over-the-top distribution of EPIX through affiliate and our EPIX Now platforms, plus lower marketing costs. This was partially offset by increased G&A costs, as discussed above, and lower cash flow from new content due to the delays associated with the COVID-19 pandemic.

Cash Used In Investing Activities

Cash used in investing activities was $2.8 million and $18.2 million for the six month periods ended June 30, 2020 and 2019, respectively. Cash used in investing activities for both periods was primarily comprised of capital expenditures on infrastructure and capital contributions to our U.S. theatrical distribution joint venture. In addition, the first half of 2020 included proceeds from the monetization of a non-core, non-equity method investment.

Cash Provided By Financing Activities

Cash provided by financing activities was $345.3 million for the six months ended June 30, 2020. This primarily included $475.0 million of net borrowings under our Revolving Credit Facility to finance our strategic investment spending on growth initiatives and to provide readily available liquidity to meet the Company's capital needs for the foreseeable future. This was partially offset by $127.1 million of aggregate repurchases of our Class A common stock. For the six months ended June 30, 2019, cash provided by financing activities was $120.6 million. This primarily included $130.0 million of net borrowings under our Revolving Credit Facility to finance our strategic investment spending on growth initiatives, including our planned increased content production activities.

Commitments

Future minimum commitments under corporate debt agreements, creative talent and employment agreements, non-cancelable finance and operating leases (net of sublease income), and other contractual obligations at June 30, 2020, were as follows (in thousands):

	Six Months Ended December 31,	**Year Ended December 31,**					
	2020	**2021**	**2022**	**2023**	**2024**	**Thereafter**	**Total**
Corporate debt (1)	$ 2,000	$ 4,000	$ 4,000	$ 1,524,000	$ 4,000	$ 775,000	$ 2,313,000
Program rights (2)	105,791	75,837	11,721	98	-	-	193,447
Creative talent and employment agreements (3)	179,507	90,639	28,279	3,281	888	-	302,594
Lease obligations	10,181	20,482	19,972	15,658	14,918	32,067	113,278
Other contractual obligations (4)	19,357	8,729	4,491	230	-	-	32,807
	$ 316,836	$ 199,687	$ 68,463	$ 1,543,267	$ 19,806	$ 807,067	$ 2,955,126

(1) Corporate debt does not include interest costs.

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

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

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

As discussed above under *Liquidity and Capital Resources –Bank Borrowings*, we have a $1.8 billion Revolving Credit Facility. At June 30, 2020, we had $1.52 billion drawn against the Revolving Credit Facility and there were no outstanding letters of credit. The $280.0 million of remaining funds were entirely available to us. Our future capital expenditure commitments are not significant.