METRO-GOLDWYN-MAYER INC
Form 10-K405/A
March 29, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 1

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

For the fiscal year ended December 31, 2001

Commission File No. 1-13481

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

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

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

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports

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

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

The aggregate market value of the voting stock (based on the last sale price of such stock as reported by the Dow Jones News Retrieval) held by non-affiliates of the Registrant as of February 6, 2002 was $856,005,439.

The number of shares of the Registrant's common stock outstanding as of February 6, 2002 was 240,707,584.

EXPLANATORY NOTE

The purpose of this amendment is to supplement Item 14(a) of Part IV.

PART IV

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

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

1. Consolidated Financial Statements

The financial statements listed in the accompanying Index to Financial Statements are filed as part of this Form 10-K/A at pages 53 to 99.

2. Financial Statement Schedules

The financial statement schedules listed in the accompanying Index to Financial Statements are filed as part of this Form 10-K/A at pages 100 to 107.

3. Exhibits

The exhibits listed in the accompanying Exhibit Index on pages 108 to 110 are filed as part of this Form 10-K/A.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter ended December 31, 2001.

SIGNATURES

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

March 28, 2002

METRO-GOLDWYN-MAYER INC.

By: /s/ Daniel J. Taylor

Daniel J. Taylor
Senior Executive Vice President
and
Chief Financial Officer

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Metro-Goldwyn-Mayer Inc.:

We have audited the accompanying consolidated balance sheets of Metro-Goldwyn-Mayer Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Metro-Goldwyn-Mayer Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

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

Arthur Andersen LLP

Los Angeles, California
February 4, 2002

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2001	December 31, 2000

ASSETS		
Cash and cash equivalents	$ 2,698	$ 77,140
Accounts and contracts receivable (net of allowance for doubtful accounts of $26,173 and $22,947, respectively)	458,010	416,084
Film and television costs, net	2,035,277	2,422,799
Investments in and advances to affiliates	845,042	12,403
Property and equipment, net	38,837	47,071
Excess of cost over net assets of acquired businesses, net	516,706	531,440
Other assets	26,594	41,253
	$ 3,923,164	$ 3,548,190

LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Bank and other debt	$ 836,186	$ 709,952
Accounts payable and accrued liabilities	198,520	168,144
Accrued participants' share	243,836	217,231
Income taxes payable	31,865	34,056
Advances and deferred revenues	82,156	92,137
Other liabilities	41,119	16,983
Total liabilities	1,433,682	1,238,503
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, none issued	--	--
Common stock, $.01 par value, 500,000,000 shares authorized, 239,629,500 and 207,217,585 shares issued and outstanding	2,396	2,072
Additional paid-in capital	3,717,767	3,072,611
Deficit	(1,203,565)	(765,507)
Accumulated other comprehensive income (loss)	(27,116)	511
Total stockholders' equity	2,489,482	2,309,687
	$ 3,923,164	$ 3,548,190

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

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Year Ended December 31,		
	2001	2000	1999
Revenues	$ 1,387,531	$ 1,237,447	$ 1,142,433
Expenses:			
Operating	766,330	771,811	957,754
Selling, general and administrative	585,255	339,458	291,176
Severance and related costs (recoveries)	--	(3,715)	76,158
Contract termination fee	--	--	225,000
Depreciation and non-film amortization	32,952	28,648	24,454
Total expenses	1,384,537	1,136,202	1,574,542
Operating income (loss)	2,994	101,245	(432,109)
Other income (expense):			
Equity in net earnings (losses) of affiliates	(2,421)	1,953	(6,325)
Interest expense, net of amounts capitalized	(51,494)	(51,425)	(86,445)
Interest and other income, net	9,478	12,706	3,770
Total other expenses	(44,437)	(36,766)	(89,000)
Income (loss) from operations before provision for income taxes	(41,443)	64,479	(521,109)
Income tax provision	(14,297)	(13,480)	(9,801)
Net income (loss) before cumulative effect of accounting change	(55,740)	50,999	(530,910)
Cumulative effect of accounting change	(382,318)	--	--
Net income (loss)	$ (438,058)	$ 50,999	$ (530,910)
Income (loss) per share:			
Basic			
Net income (loss) before cumulative effect of accounting change	$ (0.24)	$ 0.25	$ (3.36)
Cumulative effect of accounting change	(1.65)	--	--
Net income (loss)	$ (1.89)	$ 0.25	$ (3.36)
Diluted			
Net income (loss) before cumulative effect of accounting change	$ (0.24)	$ 0.24	$ (3.36)
Cumulative effect of accounting change	(1.65)	--	--
Net income (loss)	$ (1.89)	$ 0.24	$ (3.36)
Weighted average number of common shares outstanding:			
Basic	232,082,403	204,797,589	158,015,955
Diluted	232,082,403	210,313,274	158,015,955

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

METRO-GOLDWYN-MAYER INC.

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

	Preferred Stock		Common Stock					
	No. of Shares	Par Value	No. of Shares	Par Value	Add'l Paid-in Capital	Retained Earnings (Deficit)	Compre- hensive Income (Loss)	Accu Othe Compr hensi Inco
Balance December 31, 1998........	--	$ --	150,856,424	$1,509	$2,203,490	$ (285,596)	$ --	$
Acquisition of treasury stock, at cost.........	--	--	--	--	--	--	--	
Common stock issued in 1999 rights offering, net.............	--	--	49,714,554	497	714,741	--	--	
Common stock issued to directors, officers and employees, net..	--	--	848,353	8	11,408	--	--	
Amortization of deferred stock compensation....	--	--	--	--	1,365	--	--	
Comprehensive income (loss):								
Net loss........	--	--	--	--	--	(530,910)	(530,910)	
Foreign currency translation adjustment.....	--	--	--	--	--	--	62	
Comprehensive loss...........	--	--	--	--	--	--	(530,848)	
Balance December 31, 1999........	--	--	201,419,331	2,014	2,931,004	(816,506)	--	
Common stock issued to outside parties, net.............	--	--	5,363,800	54	133,330	--	--	
Common stock issued to directors, officers and employees, net..	--	--	434,454	4	8,277	--	--	
Comprehensive income (loss):								
Net income......	--	--	--	--	--	50,999	50,999	
Foreign currency translation adjustment.....	--	--	--	--	--	--	152	

Unrealized gains on securities..	--	--	--	--	--	--	43	
Comprehensive income.........	--	--	--	--	--	--	51,194	
Balance December 31, 2000........	--	--	207,217,585	2,072	3,072,611	(765,507)	--	
Preferred stock issued to Tracinda, net...	15,715,667	157	--	--	324,843	--	--	
Conversion of preferred stock into common stock...........	(15,715,667)	(157)	15,715,667	157	--	--	--	
Common stock issued to outside parties, net............	--	--	16,080,590	161	310,478	--	--	
Common stock issued to directors, officers and employees, net..	--	--	615,658	6	9,835	--	--	
Comprehensive income (loss):								
Net loss........	--	--	--	--	--	(438,058)	(438,058)	
Cumulative effect of accounting change.........	--	--	--	--	--	--	469	
Unrealized loss on derivative instruments....	--	--	--	--	--	--	(27,523)	(27,
Unrealized loss on securities..	--	--	--	--	--	--	(240)	(
Foreign currency translation adjustments....	--	--	--	--	--	--	(333)	(
Comprehensive loss...........	--	--	--	--	--	--	(465,685)	
Balance December 31, 2001........	--	$ --	239,629,500	$2,396	$3,717,767	$(1,203,565)	$ --	$(27,

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

METRO-GOLDWYN-MAYER INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Year Ended December 31,

	2001	2000	1999
Operating activities:			
Net income (loss)	$(438,058)	$ 50,999	$(530,910)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Cumulative effect of accounting change	382,318	--	--
Additions to film costs, net	(391,633)	(810,956)	(624,599)
Amortization of film and television costs and participants' share	548,742	665,148	853,411
Depreciation and amortization of property and equipment	18,218	13,913	9,601
Amortization of goodwill and deferred financing costs	21,439	20,994	20,742
Amortization of deferred executive compensation	--	--	1,365
Change in fair value of financial instruments	(292)	--	--
Stock contributions to employees, directors and employee savings plan	2,773	3,432	7,175
Provision for bad debt and other reserves	1,442	3,545	3,425
Loss on sale of marketable equity securities	--	1,265	--
(Gains) losses on equity investments, net	2,421	(1,953)	757
(Increase) decrease in accounts and contracts receivable and other assets	(35,739)	36,589	(73,245)
Decrease in accounts payable, accrued and other liabilities, accrued participants' share and taxes	(97,983)	(152,518)	(10,770)
Decrease in advances and deferred revenues	(9,981)	(20,052)	(18,944)
Foreign currency exchange loss	148	7,135	2,115
Net cash provided by (used in) operating activities	3,815	(182,459)	(359,877)
Investing activities:			
Investments in and advances to affiliates	(834,882)	(1,247)	(6,126)
Acquisition of PFE Libraries	--	--	(236,201)
Purchases of available-for-sale securities	--	(152,819)	--
Sales of available-for-sale securities	--	148,081	--
Additions to property and equipment	(9,905)	(12,259)	(14,883)
Net cash used in investing activities	(844,787)	(18,244)	(257,210)
Financing activities:			
Net proceeds from issuance of preferred stock to Tracinda	325,000	--	--
Net proceeds from issuance of equity securities to outside parties	310,639	133,384	73,184
Net proceeds from issuance of equity securities to related parties	7,068	4,849	646,291
Additions to borrowed funds	159,000	54,000	872,172
Repayments of borrowed funds	(34,766)	(63,121)	(876,420)
Financing costs and other	--	(3,267)	--
Net cash provided by financing activities	766,941	125,845	715,227
Net change in cash and cash equivalents from			

operating, investing and financing activities	(74,031)	(74,858)	98,140
Net decrease in cash due to foreign currency fluctuations	(411)	(215)	(766)
Net change in cash and cash equivalents	(74,442)	(75,073)	97,374
Cash and cash equivalents at beginning of the year	77,140	152,213	54,839
Cash and cash equivalents at end of the year	$ 2,698	$ 77,140	$ 152,213

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

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

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

Basis of Presentation. The accompanying consolidated financial statements include the accounts of Metro-Goldwyn-Mayer Inc. ("MGM"), Metro-Goldwyn-Mayer Studios Inc. and its majority owned subsidiaries ("MGM Studios") and Orion Pictures Corporation and its majority owned subsidiaries ("Orion") (collectively, the "Company"). MGM is a Delaware corporation formed on July 10, 1996 specifically to acquire MGM Studios, and is majority owned by an investor group comprised of Tracinda Corporation and a corporation that is principally owned by Tracinda (collectively, "Tracinda") and certain current and former executive officers of the Company. The acquisition of MGM Studios by MGM was completed on October 10, 1996, at which time MGM commenced principal operations. The acquisition of Orion was completed on July 10, 1997. The Company completed the acquisition of certain film libraries and film related rights that were previously owned by PolyGram N.V. and its subsidiaries ("PolyGram") on January 7, 1999.

As permitted by the American Institute of Certified Public Accountant's Statement of Position ("SOP") 00-2, "Accounting by Producers or Distributors of Films," the Company has presented unclassified consolidated balance sheets. Certain reclassifications have been made to amounts reported in prior periods to conform with current presentation. For the year ended December 31, 2001, exploitation costs are included in selling, general and administrative expenses. In prior years, the amortization of these costs are included in operating expenses, as these amounts were previously capitalized and amortized as part of film costs. See "New Accounting Pronouncements."

Business. The Company is engaged primarily in the development, production and worldwide distribution of theatrical motion pictures and television programs. The Company also distributes films produced or financed, in whole or in part, by third parties. Additionally, the Company holds equity interests in four domestic cable channels as well as various international cable channels. The Company's business units have been aggregated into four reportable operating segments: feature films, television programming, cable channels and other operating activities (see Note 13). Operating units included in the other operating segment include licensing and merchandising, interactive media

and music.

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

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

Principles of Consolidation. The consolidated financial statements include the accounts of MGM, MGM Studios, Orion and all of their majority-owned and controlled subsidiaries. The Company's investments in related companies which represent a 20% to 50% ownership interest over which the Company has significant influence but not control are accounted for using the equity method (see Note 5). All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents. The Company considers all highly liquid debt instruments, purchased with an initial maturity of three months or less, to be cash equivalents. Included in other assets at December 31, 2001 and 2000 is approximately $4,127,000 and $7,680,000, respectively, of cash restricted by various escrow agreements. The Company has reclassified a $25,312,000 bank overdraft to accounts payable at December 31, 2001. The carrying value of the Company's cash equivalents approximated cost at each balance sheet date.

Marketable Securities. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity. The Company has no investments in marketable securities as of December 31, 2001.

Revenue Recognition. All revenue is recognized upon meeting all recognition requirements of SOP 00-2. Revenues from theatrical distribution of feature films are recognized on the dates of exhibition. Revenues from direct home

video distribution are recognized, net of an allowance for estimated returns, together with related costs, in the period in which the product is available for sale by the Company's customers. Under revenue sharing arrangements, the Company also participates in consumer rental revenues generated in the home video market by rental establishments and records revenues as earned. Revenues from television licensing, together with related costs, are recognized when the feature film or television program is available to the licensee for telecast. Payments received in advance of availability are classified as deferred revenue until all SOP 00-2 revenue recognition requirements have been met. As of December 31, 2001, deferred revenue primarily consists of advances related to the Company's television licensing contracts under which the related product will become available in future periods. Long-term non-interest-bearing receivables arising from licensing agreements are discounted to present value in accordance with Accounting Principles Board ("APB") Opinion No. 21, "Interest on Receivables and Payables."

Film and Television Costs. Except for purchase accounting adjustments, film costs include the costs of production, capitalized overhead and interest. These costs, as well as participations and talent residuals, are charged against earnings on an individual film basis in the ratio that the current year's gross film revenues bear to management's estimate of total remaining ultimate gross film revenues as of the beginning of the current year from all sources (the "individual film forecast method"). The cost allocated to films revalued in purchase accounting (including the MGM, Orion and PolyGram film libraries) is being amortized over their estimated economic lives not to exceed 20 years.

Beginning January 1, 2001, under SOP 00-2 (see "New Accounting Pronouncements"), exploitation costs, including advertising and marketing costs, are being expensed as incurred. Theatrical print costs are being amortized over the periods of theatrical release of the respective territories. Under accounting rules in effect for periods prior to January 1, 2001, such costs were capitalized as a part of film costs and amortized over the life of the film using the individual film forecast method.

Capitalized film costs are stated at the lower of unamortized cost or estimated fair value on an individual film basis. Revenue and cost forecasts are continually reviewed by management and revised when warranted by changing conditions. When estimates of total revenues and costs indicate that a feature film or television program will result in an ultimate loss, additional amortization is recognized to the extent that capitalized film costs exceed estimated fair value.

Property and Equipment. Except for purchase accounting adjustments, property and equipment are stated at cost. Property and equipment acquired as part of the acquisitions of MGM Studios and Orion are stated at estimated fair market value at the date of acquisition. Depreciation of property and equipment is computed under the straight-line method over the expected useful lives of applicable assets, ranging from three to five years.

Leasehold improvements are amortized under the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the related leases. When property is sold or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts, and any resulting gain or loss is included in income. The costs of normal maintenance,

repairs and minor replacements are charged to expense when incurred.

Goodwill. The excess cost of acquisition over the fair market values of identifiable net assets acquired (goodwill) is amortized over an estimated useful life of 40 years using the straight-line method. As of December 31, 2001, the Company accounts for goodwill under Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. The carrying value of existing assets is reviewed when events or changes in circumstances indicate that an impairment test is necessary in order to determine if an impairment has occurred. The carrying value of assets are calculated at the lowest level for which there are identifiable cash flows, which include feature film operations, television programming operations, cable channels and other businesses (licensing and merchandising, music and interactive operations). When factors indicate that such assets should be evaluated for possible impairment, the Company estimates the future cash flows expected to result from the use of the assets and their eventual disposition, and compares the amounts to the carrying value of the assets to determine if an impairment loss has occurred. If an impairment exists, the amount of such impairment is calculated based on the estimated fair value of the asset. Accumulated amortization of goodwill was $71,037,000 and $56,303,000 as of December 31, 2001 and 2000, respectively. See "New Accounting Pronouncements."

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

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

Financial Instruments. The carrying values of short-term trade receivables and payables approximate their estimated fair values because of the short maturity of these instruments. The carrying values of receivables with maturities greater than one year have been discounted at LIBOR plus 2.50 percent (approximately five percent and nine percent at December 31, 2001 and 2000, respectively), which approximates the Company's current effective borrowing rates, in accordance with APB Opinion No. 21.

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined interest rate risks. The Company enters into interest rate swaps to lower funding costs, to diversify sources of funding, or to alter interest rate exposures arising from differences between assets and liabilities. Interest rate swaps allow the Company to raise long-term

borrowings at floating rates and effectively swap them into fixed rates that are lower than those available to the Company if fixed-rate borrowings were made directly. Under interest rate swaps, the Company agrees with other parties to

exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional principal amount. Additionally, in certain instances, we enter into foreign currency exchange forward contracts in order to reduce exposure to changes in foreign currency exchange rates that affect the value of our firm commitments and certain anticipated foreign currency cash flows. See "New Accounting Pronouncements."

Accounts and Contracts Receivable. At December 31, 2001, accounts and contracts receivable aggregated $484,183,000 (before allowance for doubtful accounts), of which approximately $350,885,000 is due within one year and $294,529,000 is unbilled. Concentration of credit and geographic risk with respect to accounts receivable is limited due to the large number and general dispersion of accounts which constitute the Company's customer base. The Company performs credit evaluations of its customers and in some instances requires collateral. At December 31, 2001 and 2000, there were no customers accounting for greater than ten percent of the Company's accounts and contracts receivable.

Earnings Per Share. The Company computes earnings per share in accordance with SFAS No. 128, "Earnings Per Share" ("EPS"). The weighted average number of shares used in computing basic earnings or loss per share was 232,082,403, 204,797,589 and 158,015,955 in the years ended December 31, 2001, 2000 and 1999, respectively. Dilutive securities of 5,515,685 related to stock options have been included in the calculation of diluted EPS for the year ended December 31, 2000. Dilutive securities of 3,248,176 and 2,220,972 are not included in the calculation of diluted EPS in the years ending December 31, 2001 and 1999, respectively, because they are antidilutive.

Comprehensive Income (Loss). The Company computes comprehensive income pursuant to SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for the reporting and display of comprehensive income and its components in financial statements and thereby reports a measure of all changes in equity of an enterprise that result from transactions and other economic events other than transactions with owners. Total comprehensive income (loss) for the Company includes net income (loss) and other comprehensive income items, including unrealized loss on derivative instruments, unrealized gain (loss) on securities and cumulative foreign currency translation adjustments. Components of other comprehensive income (loss) are shown below (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Net income (loss)	$(438,058)	$50,999	$(530,910)
Other comprehensive income (loss):			

Cumulative effect of accounting change for derivative instruments....................	469	--	--
Unrealized loss on derivative instruments...	(27,523)	--	--
Unrealized gain (loss) on securities........	(240)	43	--
Cumulative foreign currency translation adjustments................................	(333)	152	62
Total comprehensive income (loss).........	$(465,685)	$51,194	$(530,848)

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

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

	Unrealized loss on derivative instruments	Unrealized gain (loss) on securities	Cumulative translation adjustments	Accumulated other comprehensive income (loss)
Balance at December 31, 1999.....................	$ --	$ --	$ 316	$ 316
Current year change........	--	43	152	195
Balance at December 31, 2000.....................	--	43	468	511
Cumulative effect of accounting change.........	469	--	--	469
Current year change........	(27,523)	(240)	(333)	(28,096)
Balance at December 31, 2001.....................	$(27,054)	$(197)	$ 135	$(27,116)

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

New Accounting Pronouncements. In June 2000, the Financial Accounting Standards Board ("FASB") issued SFAS No. 139, "Rescission of FASB Statement No. 53 and Amendments to FASB Statements No. 63, 89 and 121," which, effective for financial statements for fiscal years beginning after December 15, 2000, rescinds SFAS No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films." The companies that were previously subject to the requirements of SFAS No. 53 now follow the guidance in SOP 00-2 issued in June 2000. SOP 00-2 establishes new accounting and reporting standards for all

producers and distributors that own or hold the rights to distribute or exploit films. SOP 00-2 provides that the cumulative effect of changes in accounting principles caused by its adoption should be included in the determination of net income in conformity with APB Opinion No. 20, "Accounting Changes." The Company adopted SOP 00-2 on January 1, 2001 and recorded a one-time, non-cash cumulative effect charge to earnings of $382,318,000, primarily to reduce the carrying value of its film and television costs. The new rules also require that advertising costs be expensed as incurred as opposed to the old rules which generally allowed advertising costs to be capitalized as part of film costs and amortized using the individual film forecast method. Due to the significant advertising costs incurred in the early stages of a film's release, the Company anticipates that the new rules will significantly impact its results of operations for the foreseeable future. Additionally, under SFAS No. 53, the Company classified additions to film costs as an investing activity in the Statements of Cash Flows. In accordance with SOP 00-2, the Company now classifies additions to film costs as an operating activity. For comparative purposes, the Company has revised its December 31, 2000 and 1999 Statements of Cash Flows to conform to this presentation in the current year.

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

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." This statement has eliminated the flexibility to account for some mergers and acquisitions as pooling of interests, and effective as of July 1, 2001, all business combinations are to be accounted for using the purchase method. The Company adopted SFAS No. 141 as of July 1, 2001, and the impact of such adoption did not have a material adverse impact on the Company's financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." According to this statement, goodwill and intangible assets with indefinite lives are no longer subject to amortization, but rather an annual assessment of impairment by applying a fair-value based test. The Company will adopt SFAS No. 142 beginning January 1, 2002, and upon adoption the Company does not currently anticipate any impairment of goodwill and other intangible assets already included in the financial statements. Under SFAS No. 142, the carrying value of assets are calculated at the lowest level for which there are identifiable cash flows, which include feature film operations, television programming operations, cable channels and other businesses (licensing and merchandising, music and interactive operations). The Company expects to receive future benefits from goodwill and other intangible assets over an indefinite period of time, and as such plans to forego all related amortization expense, which totaled $14,734,000 for the years ended December

31, 2001 and 2000, and $14,853,000 for the year ended December 31, 1999. Since the Company is recording their equity in net earnings of the Cable Channels (see Note 5) on a one-quarter lag, amortization of the excess of the cost over the net assets of the Cable Channels acquired ($19,050,000 for the six months ended September 30, 2001) will not be included in the calculation of the Company's equity in the net earnings in this investment beginning April 1, 2002.

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

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

Note 2--Restructuring and Other Charges

Restructuring and Other Charges. In June 1999, the Company incurred certain restructuring and other charges, in association with a change in senior management and a corresponding review of the Company's operations, aggregating $214,559,000, including (i) a $129,388,000 reserve for pre-release film cost write-downs and certain other charges regarding a re-evaluation of film properties in various stages of development and

production, which has been included as a charge in operating expenses, and (ii) $85,171,000 of severance and other related costs, of which $9,013,000 has been classified in selling, general and administrative expenses, as well as the estimated costs of withdrawing from the Company's arrangements with United International Pictures B.V. ("UIP") on November 1, 2000. The severance charge in 1999 included the termination of 46 employees, including the Company's former Chairman and Vice Chairman, across all divisions of the Company.

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

As of December 31, 2001, the Company has utilized all $129,388,000 of the pre-release film cost write-down reserves and has paid $54,844,000 of the severance and related costs. On January 1, 2002, subject to an agreement with a former senior executive of the Company (see Note 9), $13,049,000 of the severance and related costs were converted into 658,526 shares of the Common Stock of the Company.

Note 3--WHV Contract Settlement

On March 12, 1999, the Company agreed to accelerate the expiration of the right of Warner Home Video ("WHV") to distribute the Company's product in the home video marketplace under an agreement executed in 1990 (the "WHV Agreement"). In consideration for the early expiration of the WHV Agreement, the Company paid WHV $225,000,000 in 1999. The parties restructured the terms of the WHV Agreement, which functioned as an interim distribution agreement (the "Transitional Video Agreement"), under which WHV distributed certain of the Company's product in the home video marketplace. Additionally, the Company reconveyed to Turner Entertainment Co., Inc. ("Turner"), an affiliate of WHV, the right that the Company had to distribute in the home video markets worldwide until June 2001, 2,950 Turner titles that had been serviced under the WHV Agreement. The Transitional Video Agreement expired on January 31, 2000, at which time the Company commenced distribution of its home video product in the domestic market. The Company contracted with Twentieth Century Fox Home Entertainment, Inc. to distribute its home video product internationally beginning on February 1, 2000. The Company recorded a pre-tax contract termination charge for the year ended December 31, 1999 of $225,000,000 for costs in connection with the early expiration of WHV's rights under the WHV Agreement.

Note 4--Film and Television Costs

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

	December 31, 2001	December 31, 2000
Theatrical productions:		
Released	$ 3,515,842	$ 3,396,540
Less: accumulated amortization	(2,117,116)	(1,779,647)
Released, net	1,398,726	1,616,893
Completed not released	99,142	74,665
In production	242,621	393,615
In development	31,931	21,407

Subtotal: theatrical productions	1,772,420	2,106,580
Television programming:		
Released	861,826	786,574
Less: accumulated amortization	(626,686)	(498,005)
Released, net	235,140	288,569
In production	25,968	24,988
In development	1,749	2,662
Subtotal: television programming	262,857	316,219
	$ 2,035,277	$ 2,422,799

Interest costs capitalized to theatrical productions were $23,466,000, $15,453,000 and $15,845,000 during the years ended December 31, 2001, 2000 and 1999, respectively.

Based on the Company's estimates of projected gross revenues as of December 31, 2001, approximately 20 percent of completed film costs are expected to be amortized over the next twelve months, and approximately $140,000,000 of accrued participants' share as of December 31, 2001 will be paid in the next twelve months. Additionally, approximately 69 percent of unamortized film costs applicable to released theatrical films and television programs, excluding acquired film libraries, will be amortized during the three years ending December 31, 2004, and 80 percent will be amortized by December 31, 2006. For acquired film libraries, approximately $1.13 billion of net film costs as of December 31, 2001 remain to be amortized under the individual film forecast method over an average remaining life of 15.3 years.

Note 5--Investments In and Advances to Affiliates

Investments are summarized as follows (in thousands):

	December 31, 2001	December 31, 2000
Domestic cable channels	$822,502	$ --
Foreign cable channels	15,351	12,253
Joint venture	7,039	--
Others	150	150
	$845,042	$ 12,403

Domestic Cable Channels. On April 2, 2001, the Company invested $825,000,000 in cash for a 20 percent interest in two general partnerships which own and

operate the American Movie Channel, Bravo, the Independent Film Channel and WE: Women's Entertainment (formerly Romance Classics), collectively referred to as the "Cable Channels." These partnerships were wholly-owned by Rainbow Media Holdings, Inc., a 74 percent subsidiary of Cablevision Systems Corporation ("Rainbow Media"). The proceeds of the $825,000,000 investment were used as follows: (i) $365,000,000 was used to repay bank debt of the partnerships; (ii) $295,500,000 was used to repay intercompany loans from Cablevision and its affiliates; and (iii) $164,500,000 was added to the working capital of the partnerships. The Company financed the investment through the sale of equity securities (see Note 9), which provided aggregate net proceeds of approximately $635,600,000, and borrowings under the Company's credit facilities. Based upon currently available information and upon certain assumptions that management of the Company believes are reasonable, the Company's determination of the difference between the Company's cost basis in their investment in the Cable Channels and the Company's share of the underlying equity in net assets (referred to as "intangible assets") is approximately $762,000,000.

The Company is accounting for its investment in the Cable Channels in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." Pursuant to the requirements of APB No. 18, the Company is recording its share of the earnings and losses in the Cable Channels based on the most recently available financial statements received from the Cable Channels. Due to a lag in the receipt of the financial statements from the Cable Channels, the Company is reporting its interest in the Cable Channels on a one-quarter lag. Summarized financial information for the Cable Channels as of and for the period from the acquisition date to September 30, 2001 were as follows (in thousands):

Current assets	$373,934
Non-current assets	$428,188
Current liabilities	$113,921
Non-current liabilities	$251,815
Revenues, net	$214,343
Operating income	$ 73,887

In the year ended December 31, 2001, the Company's share of the Cable Channels' net operating results was a loss of $2,845,000, including amortization of intangible assets of $19,050,000.

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

The Company has the right to participate on a pro rata basis in any sale to a third party by Rainbow Media of its partnership interests, and Rainbow Media can require the Company to participate in any such sale. If a third party invests in either partnership, the Company's interest and that of Rainbow Media will be diluted on a pro rata basis. Neither the Company nor Rainbow Media will be required to make additional capital contributions to the

partnerships. However, if Rainbow Media makes an additional capital contribution and the Company does not, the Company's interest in the partnerships will be diluted accordingly. If the partnerships fail to attain certain financial projections provided to the Company by Rainbow Media for the years 2002 through 2005, inclusive,

the Company will be entitled, 30 days after receipt of partnership financial statements for 2005, to require Rainbow Media to acquire the Company's partnership interests for fair market value, as determined pursuant to the agreement. The Company formed a wholly-owned subsidiary, MGM Networks U.S. Inc., which made the above-described investment, serves as a general partner of the applicable Rainbow Media companies and is the MGM entity which holds the aforesaid partnership interests and rights attendant thereto.

Foreign Cable Channels. In May 1998, the Company acquired a 50 percent interest in a Latin American cable programming joint venture, MGM Networks Latin America ("MGM Latin America"), for certain assets contributed by the Company to the joint venture. The Company shares equally in the profits of the venture and is obligated to fund 50 percent of the joint venture's expenses up to a maximum of approximately $24,000,000, of which the Company had funded approximately $22,500,000 as of December 31, 2001. The Company's share of MGM Latin America's start-up losses in the years ended December 31, 2001, 2000 and 1999 were $1,592,000, $3,388,000 and $6,952,000, respectively.

Additionally, the Company holds minority equity interests in various television channels located in certain international territories for which the Company realized its share of profits aggregating $3,476,000, $5,341,000 and $627,000 in the years ended December 31, 2001, 2000 and 1999, respectively.

Joint Venture. On August 13, 2001, the Company, through its wholly-owned subsidiary, MGM On Demand Inc., acquired a 20 percent interest in a joint venture established to create an on-demand movie service to offer a broad selection of theatrically-released motion pictures via digital delivery for broadband internet users in the United States. Other partners in the joint venture include Sony Pictures Entertainment, Universal Studios, Warner Bros. and Paramount Pictures. The Company has funded $7,485,000 for its equity interest and its share of operating expenses of the joint venture as of December 31, 2001. The Company financed its investment through borrowings under its credit facilities. The Company is committed to fund its share of the operating expenses of the joint venture, as required. The Company is accounting for its interest in the joint venture under the equity method. In the year ended December 31, 2001, the Company recognized a net loss of $446,000 for its share in the results of the joint venture.

Other Investments. Until November 1, 2000, distribution in foreign theatrical and certain pay television markets was performed by United International Pictures ("UIP"), in which the Company had a one-third interest. The Company included in its financial statements the revenues and related costs associated with its films distributed by UIP. The distribution fees paid to UIP by the Company are included in film and television production and distribution expense. Due to timing differences there are no taxable earnings and, therefore, there is no tax provision on undistributed earnings. Due to the termination of the distribution arrangements with UIP on November 1, 2000, there were no earnings in UIP realized in the year ended December 31, 2000. The Company's share of the net earnings in UIP in the year ended December 31,

1999 were $5,568,000.

On November 1, 2000, the Company contracted with Twentieth Century Fox Film Corporation ("Fox") for distribution of the Company's film releases in international theatrical and non-theatrical markets in territories in which the Company owns or controls the right to perform distribution services in such territories. Under the terms of the agreement, the Company pays Fox a distribution fee based on gross film rentals. The Company has the option to terminate the agreement on January 31, 2003 for a fee ranging from $10,000,000 to $15,000,000, which includes any distribution fees owed to Fox for the year prior to the termination date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 6--Property and Equipment

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

	December 31, 2001	December 31, 2000
Leasehold improvements	$ 28,081	$ 25,877
Furniture, fixtures and equipment	68,115	60,414
	96,196	86,291
Less accumulated depreciation and amortization	(57,359)	(39,220)
	$ 38,837	$ 47,071

Note 7--Bank and Other Debt

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

	December 31, 2001	December 31, 2000
Revolving Facility	$ 159,000	$ --
Term Loans	668,500	700,000
Capitalized lease obligations and other borrowings	8,686	9,952
	$ 836,186	$709,952

On October 15, 1997, the Company entered into an amended and restated credit facility with a syndicate of banks aggregating $1.3 billion (the "Amended Credit Facility") consisting of a six year $600,000,000 revolving credit

facility (the "Revolving Facility"), a $400,000,000 seven and one-half year term loan ("Tranche A Loan") and a $300,000,000 eight and one-half year term loan ("Tranche B Loan") (collectively, the "Term Loans"). The Amended Credit Facility was subsequently amended and restated on July 21, 2000, with less restrictive operating and financial covenants. The Amended Credit Facility contains provisions allowing, with the consent of the requisite lenders and subject to syndication thereof, for an additional $200,000,000 tranche, raising the potential amount of Amended Credit Facility to $1.5 billion. The Revolving Facility and the Tranche A Loan bear interest at 2.50 percent over the adjusted LIBOR rate, as defined (4.37 percent at December 31, 2001). The Tranche B Loan bears interest at 2.75 percent over the Adjusted LIBOR rate (4.63 percent at December 31, 2001). Scheduled amortization of the Term Loans under the Amended Credit Facility is $73,000,000 in 2002, $103,000,000 in 2003, $103,000,000 in 2004 and $103,000,000 in 2005, with the remaining balance due at maturity. The Revolving Facility matures on September 30, 2003, subject to extension under certain conditions.

The Company's borrowings under the Amended Credit Facility are secured by substantially all the assets of the Company. The Amended Credit Facility contains various covenants including limitations on dividends, capital expenditures and indebtedness, and the maintenance of certain financial ratios. The Amended Credit Facility limits the amount of the investment in the Company which may be made by MGM Studios and Orion in the form of loans or advances, or purchases of capital stock of the Company, up to a maximum aggregate amount of $500,000,000. As of December 31, 2001, there are no outstanding loans or advances to the Company by such subsidiaries, nor have such subsidiaries purchased any capital stock of the Company. Restricted net assets of MGM Studios and Orion at December 31, 2001 are approximately $2.0 billion. As of December 31, 2001, the Company was in compliance with all applicable covenants.

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METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Lease and other borrowings. Capitalized lease and other borrowings relate principally to contractual liabilities and computer equipment financing at interest rates ranging from approximately ten to eleven percent.

Maturity schedule. See Note 14 for maturity schedule for credit facilities, lease and other borrowings as of December 31, 2001.

Note 8--Financial Instruments

The Company is exposed to the impact of interest rate changes as a result of its variable rate long-term debt. The Amended Credit Facility requires that the Company maintain interest rate swap agreements (the "Swap Agreements") or other appropriate hedging arrangements to convert to fixed rate or otherwise limit the floating interest rate risk on at least 66 2/3% of the Term Loans outstanding through July 2003. Accordingly, the Company has entered into several Swap Agreements whereby the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount. The Swap Agreements expire in July 2003. Based on scheduled loan amortization, the Company will be in compliance with the Amended Credit Facility's hedge provisions through that time.

The Company has entered into three year fixed interest rate Swap Agreements

in relation to a portion of the Amended Credit Facility for a notional value of $595,000,000 at an average rate of approximately 5.90 percent, which expire in various times no later than July 2003. The Company adopted SFAS No. 133 on January 1, 2001 and recorded a one-time, non-cash cumulative effect adjustment to stockholders' equity and other comprehensive income (loss) of $469,000. At December 31, 2001, the Company would be required to pay approximately $26,145,000 if all such Swap Agreements were terminated, and this amount has been included in other liabilities and other comprehensive income (loss) during the year ended December 31, 2001.

Additionally, because approximately 25 percent of the Company's revenues are denominated, and the Company incurs certain operating and production costs in foreign currencies, the Company is subject to market risks resulting from fluctuations in foreign currency exchange rates. In certain instances, the Company enters into foreign currency exchange forward contracts in order to reduce exposure to changes in foreign currency exchange rates that affect the value of the Company's firm commitments and certain anticipated foreign currency cash flows. The Company currently intends to continue to enter into such contracts to hedge against future material foreign currency exchange rate risks. As of December 31, 2001, the Company would be required to pay approximately $858,000 if all such foreign currency forward contracts were terminated, and this amount has been included in other comprehensive income (loss) during the year ended December 31, 2001.

Note 9--Stockholders' Equity

1999 Rights Offering. On October 15, 1999, the Company issued to its stockholders of record of the Common Stock, at no charge to such holders, transferable subscription rights (the "Rights") to subscribe for an aggregate of 49,714,554 shares (the "Shares") of the Common Stock for $14.50 per share (the "1999 Subscription Price") (the "1999 Rights Offering"). Holders of the Common Stock received 0.328 Rights for each share of the Common Stock held as of October 15, 1999. Rights holders were allowed to purchase one share of the Common Stock at the 1999 Subscription Price for each whole Right held. Rights holders who exercised their Rights also had the opportunity to purchase additional Shares at the 1999 Subscription Price pursuant to an Oversubscription Privilege, as defined. The Rights pursuant to the 1999 Rights Offering expired on November 8, 1999. The 1999 Rights Offering was fully subscribed (including shares issued pursuant to the Oversubscription Privilege), and the Company issued the Shares for total net proceeds of $715,238,000 (gross proceeds of $720,861,000 less applicable fees and expenses of $5,623,000). The net proceeds from the 1999

Rights Offering were used to repay in full the amounts outstanding under a bridge loan and the Revolving Facility, with the balance retained as cash for general operating purposes.

Private Placements. On May 26, 2000, pursuant to a Form S-3 shelf registration statement (the "Shelf Registration Statement") filed with the Securities and Exchange Commission, the Company completed the sale of 4,890,000 shares of the Common Stock at $25 per share to various third party investors for aggregate net proceeds of $121,539,000. On August 15, 2000, the Company, pursuant to the Shelf Registration Statement, issued an additional 473,800 shares of the Common Stock at $25 per share to third party investors for aggregate net proceeds of $11,845,000.

In February and March 2001, pursuant to the Shelf Registration Statement, the Company issued 16,080,590 shares of the Common Stock for aggregate net proceeds of $310,639,000. On April 2, 2001, the Company used the net proceeds from these sales to partially finance its investment in the Cable Channels (see Note 5).

Sale of Preferred Stock to Tracinda. On February 7, 2001, the Company sold 15,715,667 shares of Series B preferred stock ("Preferred Stock") to Tracinda for net proceeds of $325,000,000. On April 2, 2001, the Company used the net proceeds of this sale to partially finance its investment in the Cable Channels. On May 2, 2001, upon approval of the stockholders of the Company, the Preferred Stock was converted into 15,715,667 shares of the Common Stock of the Company. Tracinda currently beneficially owns approximately 81 percent of the Company's outstanding Common Stock.

1996 Incentive Plan. The Company has an Amended and Restated 1996 Stock Incentive Plan (the "1996 Incentive Plan"), which allows for the granting of stock awards aggregating not more than 30,000,000 shares. Awards under the 1996 Incentive Plan are generally not restricted to any specific form or structure and may include, without limitation, qualified or non-qualified stock options, incentive stock options, restricted stock awards and stock appreciation rights (collectively, "Awards"). Awards may be conditioned on continued employment, have various vesting schedules and accelerated vesting and exercisability provisions in the event of, among other things, a change in control of the Company. Outstanding stock options under the 1996 Incentive Plan generally vest over a period of five years and are not exercisable until vested.

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

	December 31, 2001		December 31, 2000		December 31, 1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year......	23,675,034	$21.01	21,396,307	$20.52	7,712,611	$17.25
Granted.................	3,423,100	$18.05	3,116,082	$22.92	16,198,950	$22.17
Exercised..............	(468,905)	$14.80	(330,802)	$14.66	(218,421)	$14.83
Cancelled or expired....	(1,465,811)	$28.66	(506,553)	$16.08	(2,296,833)	$15.60
Options outstanding at end of year...........	25,163,418	$20.30	23,675,034	$21.01	21,396,307	$20.52
Options exercisable at end of year...........	12,427,343	$19.83	9,457,039	$19.86	3,619,361	$15.77

In 1999 Tracinda exercised 156,251 options, not included in the 1996 Incentive Plan, at an exercise price of $6.41 per share. Additionally, Celsus Financial Corporation, an entity wholly-owned by a director of the Company, holds 177,814 options (as adjusted) at an exercise price of $5.63 per share (as adjusted). These options expire on October 10, 2002, and are fully vested and exercisable.

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following table summarizes information about the outstanding options as of December 31, 2001 under the 1996 Incentive Plan:

Exercise price	Outstanding Number of Options	Weighted Average Remaining Contractual Life
$11.38	121,640	6.96
$14.90	11,478,473	6.66
$15.19-$19.94	3,874,630	9.18
$20.00-$26.63	3,088,675	8.24
$30.00	6,600,000	7.35
	25,163,418	

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

	Year Ended December 31,		
	2001	2000	1999
Net income (loss):			
As reported	$(438,058)	$50,999	$(530,910)
Pro forma	$(479,245)	$16,721	$(547,304)
Basic earnings (loss) per share:			
As reported	$ (1.89)	$ 0.25	$ (3.36)
Pro forma	$ (2.06)	$ 0.08	$ (3.46)
Diluted earnings (loss) per share:			
As reported	$ (1.89)	$ 0.24	$ (3.36)
Pro forma	$ (2.06)	$ 0.08	$ (3.46)

The fair value of each option grant was estimated using the Black-Scholes model based on the following assumptions: the weighted average fair value of stock options granted in the year ended December 31, 2001, 2000 and 1999 was $9.26, $12.54 and $8.03, respectively. The dividend yield was 0 percent in all periods, and expected volatility was 53.5 percent, 56.3 percent and 59.5 percent for the years ended December 31, 2001, 2000 and 1999, respectively. Also, the calculation uses a weighted average expected life of 5.0 years in each year, and a weighted average assumed risk-free interest rate of 4.6

percent, 6.2 percent and 5.6 percent for the years ended December 31, 2001, 2000 and 1999, respectively.

Senior Management Bonus Plan and Other Options. The Company has a Senior Management Bonus Plan (the "Senior Management Bonus Plan") under which 2,420,685 bonus interests ("Bonus Interests") were granted to certain senior employees. Subject to certain vesting and other requirements, each Bonus Interest held by the Executive Repricing Participants entitles the holder to receive a cash payment if (a) the sum of the average closing price of Common Stock during the 20 trading days plus, in certain circumstances, per share distributions on the Common Stock (together, the "Price") preceding a Determination Date, as defined, is greater than (b) $14.90 and less than $29.80 (adjusted for stock splits, reverse stock splits and similar events). With respect to Bonus Interests held by all others, each Bonus Interest entitles the holder to receive a cash payment if the Price preceding a Determination Date, as defined, is greater than $24.00 and less than $48.00 (adjusted for stock splits, reverse stock splits and similar events). The cash payment will be equal to (i) the vested portion of the

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METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Bonus Interest at the Determination Date multiplied by (ii) the amount by which the Price at the Determination Date is less than $29.80, with respect to Executive Repricing Participants, or $48.00 with respect to all others, multiplied by (iii) 1.61, with respect to the Executive Repricing Participants only (in each case, a maximum of $24.00 per Bonus Interest). Once a payment is made in respect of the vested portion of a Bonus Interest, no further payment is due in respect of that portion. If at any Determination Date the Price equals or exceeds $29.80, with respect to Executive Repricing Participants, or $48.00, with respect to all others, no payments will thereafter be due in respect of any then-vested portion of a Bonus Interest. Bonus Interests vested 20 percent at October 1, 1997 and 1/60 each month thereafter.

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

At December 31, 2001, there were 2,293,634 Bonus Interests outstanding, of which 2,272,449 were vested.

Pursuant to an employment termination agreement, in August 1999 the Company repriced stock options of a former executive officer aggregating 1,745,680

shares. Such options were repriced to $14.90 and became fully vested and exercisable. These options are being accounted for as a variable option grant.

The Company has expensed $4,371,000, $2,650,000 and $25,328,000 for obligations under these plans for the years ended December 31, 2001, 2000 and 1999, respectively, of which $25,328,000 is included in restructuring and other charges related to employees terminated in 1999. At December 31, 2001, the Company has accrued $45,814,000 for these obligations, of which $40,104,000 is payable in 1,393,599 shares of the Common Stock of the Company, of which 1,042,466 shares were issued in January 2002, and $5,710,000 is payable in cash in April 2002.

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

of such goals (subject to the exercise of the negative discretion discussed above). The Company has expensed $13,335,000 and $14,000,000 for obligations under this plan for the years ended December 31, 2001 and 2000, respectively.

Additionally, the Company issued a stock bonus to certain employees aggregating $2,154,000 and $1,235,000 in the years ended December 31, 2000 and 1999, respectively.

Note 10--Income Taxes

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

	December 31, 2001	December 31 2000
Current	$31,865	$34,056
Deferred	--	--
	$31,865	$34,056

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

	December 31, 2001	December 31 2000
Deferred tax assets:		
Film and television costs	$ 289,621	$ 250,768
Participations and residuals payable	28,924	24,923
Reserves and investments	61,897	56,949
Net miscellaneous tax assets	48,281	43,691
Operating loss carryforwards	161,122	123,225
Subtotal, gross deferred tax assets	589,845	499,556
Valuation allowance	(372,542)	(396,362)
Total deferred tax assets	217,303	103,194
Deferred tax liabilities:		
Film revenue	(48,498)	(69,166)
Purchased film costs	(23,794)	(26,529)
Goodwill	(9,839)	(7,499)
Acquired partnership interests	(135,172)	--
Total deferred tax liabilities	(217,303)	(103,194)
Net deferred tax liability	$ --	$ --

At December 31, 2001, the Company and its subsidiaries for U.S. federal income tax purposes had a net operating loss carryforward of $413,134,000, which expires in various years between 2011 and 2021. Under U.S. tax rules enacted in 1997, net operating losses generated in tax years beginning before August 6, 1997 may be carried forward for 15 years while losses generated in subsequent tax years may be carried forward 20 years. Presently, there are no limitations on the use of these carryforwards.

At December 31, 2001, the Company has determined that deferred tax assets in the amount of $372,542,000 do not satisfy the recognition criteria set forth in SFAS No. 109, "Accounting for Income Taxes." Accordingly, a valuation allowance has been recorded by the Company for this amount.

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

Year Ended December 31,

	2001	2000	1999
Current taxes:			
Foreign taxes	$ 14,297	$ 12,480	$ 9,801
Federal and state taxes	--	1,000	--
Deferred taxes:			
Federal and state taxes	23,820	(27,734)	(140,584)
Adjustment for change in valuation allowance	(23,820)	27,734	140,584
Total tax provision	$ 14,297	$ 13,480	$ 9,801

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

	Year Ended December 31,		
	2001	2000	1999
Federal tax rate on pre-tax book income (loss)	(35)%	35 %	(35)%
Goodwill and other permanent differences	1	9	1
Foreign taxes, net of available federal tax benefit	2	14	2
Loss carryforward and other tax attributes (benefited) not benefited	35	(37)	34
Effective tax rate	3 %	21 %	2 %

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

Note 11--Retirement Plans

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

As of December 31, 2000, the Company has amended the Basic Plan to cease benefit accruals. This amendment resulted in a curtailment, the effect of which has been presented in the following tables. Reconciliation of the funded status of the plans and the amounts included in the Company's consolidated balance sheets are as follows (in thousands):

	December 31, 2001	December 31, 2000
Projected benefit obligations:		
Beginning obligations	$14,542	$13,840
Service cost	--	1,459
Interest cost	1,072	1,230
Actuarial loss	465	1,282
Curtailments	--	(2,770)
Benefits paid	(366)	(499)
Ending obligations	$15,713	$14,542
Fair value of plan assets (primarily debt securities):		
Beginning fair value	$14,688	$13,640
Actual return on plan assets	(174)	313
Employer contributions	617	1,234
Benefits paid	(366)	(499)
Ending fair value	$14,765	$14,688
Funded status of the plans:		
Projected benefit obligations	$15,713	$14,542
Plan assets at fair value	14,765	14,688
Projected benefit obligations in excess of (less than) plan assets	(948)	146
Unrecognized net asset as of beginning of year	(81)	(100)
Unrecognized net (gain) loss	2,095	(1,214)
Unrecognized prior service credit	(107)	(121)
Effect of curtailment	--	1,588
Net balance sheet asset	$ 959	$ 299

Key assumptions used in the actuarial computations were as follows:

	December 31, 2001	December 31, 2000
Discount rate	7.25%	7.50%
Long-term rate of return on assets	7.25%	7.25%
Rate of increase in future compensation levels	N/A	5.00%

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

METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Pension cost includes the following components (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Service cost	$ --	$ 1,459	$1,681
Interest cost on projected benefit obligation	1,072	1,230	1,070
Expected return on plan assets	(1,080)	(1,210)	(857)
Net amortization and deferral	(34)	(34)	43
Recognized curtailment gain	--	(1,588)	--
Net periodic pension (benefit) cost	$ (42)	$ (143)	$1,937

A significant number of the Company's production employees are covered by union sponsored, collectively bargained multi-employer pension plans. The Company contributed approximately $11,541,000, $11,577,000 and $6,884,000, respectively, for such plans for the years ended December 31, 2001, 2000 and 1999. Information from the plans' administrators is not sufficient to permit the Company to determine its share of unfunded vested benefits, if any.

The Company also provides each of its employees, including its officers, who have completed one year of service with the Company the opportunity to participate in the MGM Savings Plan (the "Savings Plan"). The Company contributed approximately $2,653,000, $1,285,000 and $1,350,000, respectively, to the Savings Plan in the years ended December 31, 2001, 2000 and 1999.

Note 12--Related Party Transactions

In February 1980, a predecessor-in-interest to the Company granted to a predecessor-in-interest to MGM Grand, Inc. an exclusive open-ended royalty-free license, which was amended in 1998. Pursuant to the license, as amended, MGM Grand Inc. (now known as "MGM MIRAGE") has the right to use certain trademarks that include the letters "MGM," as well as logos and names consisting of or related to stylized depictions of a lion, in its resort hotel and/or gaming businesses and other businesses that are not related to filmed entertainment. The Company did not receive any monetary compensation for this license. In June 2000, in consideration of the payment to the Company of an annual royalty of $1,000,000, such license was further amended to permit MGM Grand, Inc. to use the letters "MGM" combined with the name "Mirage" in the same manner and to the same extent that it was permitted theretofore to use the name "MGM Grand." Tracinda owns a majority of the outstanding common stock of MGM MIRAGE, the parent of MGM Grand Hotel, Inc. ("Grand Hotel"). In consideration of this further grant of rights, MGM MIRAGE paid the Company $1,000,000 in each of the years ended December 31, 2001 and 2000. Subsequent annual payments are due on each anniversary date thereafter. Additionally, the Company and affiliates of Tracinda occasionally conduct cross-promotional campaigns, in which the Company's motion pictures and the affiliates' hotels are promoted together; however, the Company believes that the amounts involved are immaterial.

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

The Company periodically sells to Grand Hotel and certain of its affiliates, on a wholesale basis, videocassettes and other merchandise such as baseball caps, clothing, keychains and watches bearing the Company's trademarks and logos for resale to consumers in retail shops located within Grand Hotel's hotels. In December 2000, pursuant to a Merchandise License Agreement, the Company granted a subsidiary of MGM MIRAGE the right to use certain of the Company's trademarks and logos in connection with the retail sale of merchandise at MGM MIRAGE's properties. The Company receives royalties based on retail sales of the licensed merchandise. The agreement has a term of five years, subject to the MGM MIRAGE's right to extend the term for one additional five-year period and its option to terminate the agreement at any time upon 60 days'

notice. During the years ended December 31, 2001, 2000 and 1999, the Company recognized licensing and royalty revenues of $9,000, $6,000 and $17,000, respectively.

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

From time to time, the Company charters airplanes from MGM MIRAGE and Tracinda for use in the Company's business. The Company believes that the terms of the charter arrangements are no less favorable to the Company than those that could be obtained from unrelated third parties. During the years ended December 31, 2001, 2000 and 1999, the aggregate of the payments made to MGM MIRAGE and/or Tracinda for such charters were approximately $271,000, $98,000 and $149,000, respectively.

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

In 1994, in connection with the formation of Movie Network Channels, a joint venture in which the Company has a non-controlling interest, the Company licensed to the joint venture certain of its current theatrical and television motion pictures, as well as a number of its library pictures, for distribution on Australian pay television. The agreement expires on June 30, 2005, with all motion pictures covered by the agreement reverting to the Company within one year after that date, but both the Company and Movie Network Channels have the right to extend the license for a further four years. The Company receives a license fee for each picture that is based on the number of Movie Network Channel's subscribers. The Company recognized such license fee revenues of $3,249,000, $3,273,000 and $3,261,000 during the years ended December 31, 2001, 2000 and 1999, respectively. The Company believes that the terms of the agreement are no less favorable to the Company than those contained in its licenses with unaffiliated licensees.

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

The Company has equity interests ranging from five percent to 50 percent in certain television channels located in various international territories, in which the Company licenses certain library pictures and theatrical motion pictures and television series, miniseries and made-for-television movies produced or distributed by the Company during the terms of the agreements. The Company recognized aggregate license fees under these agreements of $24,107,000, $23,861,000 and $12,072,000 during the years ended December 31, 2001, 2000 and 1999, respectively.

The Company had an exclusive producer overhead arrangement with FGM Entertainment for the services of Frank Mancuso, Jr., the son of the Company's former Chairman of the Board and Chief Executive Officer, which was terminated on August 2, 1999. FGM Entertainment, a company wholly owned by Mr. Mancuso, Jr., received $400,000 each year, subject to five to ten percent annual increases, for overhead expenses, as well as a development fund and a production fund to pay for the costs of developing and producing projects. Pursuant to this arrangement, the Company paid Mr. Mancuso, Jr. approximately $1,043,000 during the year ended December 31, 1999. Pursuant to the termination agreement, the Company's obligation to fund overhead ceased, Mr. Mancuso Jr. acquired a feature film produced by the Company for $3,000,000, and Mr. Mancuso Jr. obtained the right to acquire certain projects developed by him pursuant to a turnaround arrangement.

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

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

Note 13--Segment Information

The Company applies the disclosure provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The Company's business units have been aggregated into four reportable operating segments: feature films, television programming, cable channels and other (see Note 1). Due to the significant acquisitions of cable channels in 2001, the Company has separated cable channels as a reportable operating segment, and reclassified such amounts from the other operating segment in prior years. The factors for determining the reportable segments were based on the distinct nature of their operations. They are managed as separate business units because each requires and is responsible for executing a unique business strategy. Income or losses of industry segments and geographic areas, other than those accounted for under the equity method, exclude interest income, interest expense, goodwill amortization, income taxes and other unallocated corporate expenses. Identifiable assets are those assets used in the operations of the segments. Corporate assets consist of cash, certain corporate receivables and intangibles. Summarized financial information concerning the Company's reportable segments is shown in the following tables (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Revenues			
Feature films	$1,217,969	$1,058,296	$ 888,303
Television programs	137,967	139,229	205,719
Cable channels	77,674	32,744	15,205
Other	31,595	39,922	48,411
Subtotal	1,465,205	1,270,191	1,157,638
Less: unconsolidated companies	(77,674)	(32,744)	(15,205)
Consolidated revenues	$1,387,531	$1,237,447	$1,142,433

	Year Ended December 31,		
	2001	2000	1999
Segment Income (Loss)			
Feature films	$ 101,842	$ 200,478	$ (77,590)
Television programs	12,715	(2,649)	27,602
Cable channels	(2,421)	1,953	(6,325)
Other	14,081	17,768	26,006
Subtotal	126,217	217,550	(30,307)
Less: unconsolidated companies	2,421	(1,953)	6,325

Consolidated segment income (loss)	$ 128,638	$ 215,597	$ (23,982)
Identifiable Assets			
Feature films	$2,183,488	$2,479,639	$2,255,693
Television programs	334,886	401,776	423,204
Cable channels	845,042	12,403	9,203
Other	9,857	14,772	18,104
Consolidated segment assets	$3,373,273	$2,908,590	$2,706,204
Capital Expenditures			
Feature films	$ 8,554	$ 10,493	$ 12,691
Television programs	1,312	1,700	2,102
Other	39	66	90
Consolidated capital expenditures	$ 9,905	$ 12,259	$ 14,883
Depreciation Expense			
Feature films	$ 15,733	$ 11,909	$ 8,187
Television programs	2,414	1,930	1,356
Cable channels	1,115	311	296
Other	71	74	58
Subtotal	19,333	14,224	9,897
Less: unconsolidated companies	(1,115)	(311)	(296)
Consolidated segment depreciation	$ 18,218	$ 13,913	$ 9,601

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

	Year Ended December 31,		
	2001	2000	1999
Licensing and merchandising	$ 6,460	$ 5,666	$ 4,763
Interactive media	3,586	9,381	1,309
Music	7,593	6,111	7,202
Other	(3,558)	(3,390)	12,732
	$ 14,081	$ 17,768	$ 26,006

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

	Year Ended December 31,		
	2001	2000	1999
Segment income (loss)........................	$128,638	$215,597	$ (23,982)
General and administrative expenses..........	(92,692)	(89,419)	(82,515)
Severance and related (costs) recoveries.....	--	3,715	(76,158)
Contract termination fee.....................	--	--	(225,000)
Depreciation and non-film amortization.......	(32,952)	(28,648)	(24,454)
Operating income (loss)...................	2,994	101,245	(432,109)
Equity in net earnings (losses) of affiliates................................	(2,421)	1,953	(6,325)
Interest expense, net of amounts capitalized.	(51,494)	(51,425)	(86,445)
Interest and other income, net...............	9,478	12,706	3,770
Income (loss) from operations before provision for income taxes...............	$(41,443)	$ 64,479	$(521,109)

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

	Year Ended December 31,		
	2001	2000	1999
Total assets for reportable segments.......	$3,373,273	$2,908,590	$2,706,204
Goodwill not allocated to segments.........	516,706	531,440	546,173
Other unallocated amounts	33,185	108,160	171,984
Consolidated total assets................	$3,923,164	$3,548,190	$3,424,361

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

	Year Ended December 31,		
	2001	2000	1999
United States and Canada...................	$ 872,056	$ 669,158	$ 648,857
Europe.....................................	364,663	372,308	338,811
Asia and Australia.........................	97,925	138,672	106,965
Other......................................	52,887	57,309	47,800
	$1,387,531	$1,237,447	$1,142,433

Note 14--Commitments and Contingencies

Leases. The Company has operating leases for offices and equipment. Certain property leases include provisions for increases over base year rents as well as for escalation clauses for maintenance and other building operations. Rent expense was approximately $18,499,000, $17,264,000 and $16,528,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

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

Creative Talent Agreements. The Company has entered into contractual agreements for creative talent related to future film production. Such amounts are scheduled to be paid through 2004.

Future minimum annual commitments under bank and other debt agreements, non-cancelable operating leases, employment agreements, creative talent agreements and letters of credit as of December 31, 2001 are as follows (in thousands):

	2002	2003	2004	2005	2006	There-after	Total
Bank and other debt.....	$234,331	$108,689	$103,666	$103,000	$286,500	$ --	$ 836,186
Operating leases........	10,976	14,826	16,394	16,455	17,042	238,931	314,624
Employment agreements...	36,485	24,852	9,484	18	2	--	70,841
Creative talent agreements............	21,761	3,956	688	--	--	--	26,405
Letters of credit.......	20,038	90	--	--	--	--	20,128
Total..................	$323,591	$152,413	$130,232	$119,473	$303,544	$238,931	$1,268,184

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

The Company has provided an accrual for pending litigation as of December 31, 2001 in accordance with SFAS No. 5, "Accounting for Contingencies." In the opinion of Company management, any liability under pending litigation is not expected to be material in relation to the Company's financial condition or results of operations.

Note 15--Supplementary Cash Flow Information

The Company paid interest, net of capitalized interest, of $43,833,000, $43,936,000 and $74,054,000 during the years ended December 31, 2001, 2000 and 1999, respectively. The Company paid income taxes of $14,751,000, $12,829,000 and $13,037,000 during the years ended December 31, 2001, 2000 and 1999, respectively.

During the year ended December 31, 2000, the Company issued to certain employees a stock grant of 47,300 shares of common stock valued at $2,154,000. During the year ended December 31, 1999, the Company issued to certain employees a stock grant of 42,300 shares of common stock valued at $1,235,000.

Net cash provided by operating activities for the year ended December 31, 1999 reflects a $225,000,000 payment to WHV representing the consideration paid by the Company for the early expiration of the WHV Agreement (see Note 3).

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METRO-GOLDWYN-MAYER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 16--Quarterly Financial Data (Unaudited)

Certain quarterly information is presented below (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001:				
Revenues	$ 343,896	$ 274,859	$393,310	$375,466
Operating income (loss)	$ (9,321)	$ (43,946)	$ 969	$ 55,292
Interest expense, net of amounts capitalized	$ (9,453)	$ (13,475)	$(14,287)	$(14,279)
Cumulative effect of accounting change	$(382,318)	$ --	$ --	$ --
Net income (loss)	$(399,839)	$ (61,305)	$(15,975)	$ 39,061
Basic and diluted income (loss) per share, before cumulative effect of accounting change	$ (0.08)	$ (0.26)	$ (0.07)	$ 0.16
Basic and diluted income (loss) per share	$ (1.86)	$ (0.26)	$ (0.07)	$ 0.16
2000:				
Revenues	$ 338,995	$ 294,486	$311,777	$292,189
Operating income	$ 19,917	$ 18,169	$ 36,669	$ 28,443
Interest expense, net of amounts capitalized	$ (14,893)	$ (14,722)	$(12,583)	$ (9,227)
Net income	$ 5,215	$ 6,294	$ 27,115	$ 12,375
Basic and diluted income per share	$ .03	$ .03	$ .13	$ .06
1999:				
Revenues	$ 258,643	$ 212,274	$299,310	$372,206
Operating income (loss)	$(286,163)	$(227,463)	$ 34,378	$ 40,814
Interest expense, net of amounts capitalized	$ (19,019)	$ (22,219)	$(22,807)	$(22,400)
Net income (loss)	$(306,621)	$(249,807)	$ 10,344	$ 15,174

Basic and diluted income (loss) per share	$ (2.03)	$ (1.65)	$ .07	$ .08

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

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

INDEPENDENT AUDITORS' REPORT

The Partners
American Movie Classics Company and Bravo Company:

We have audited the accompanying combined balance sheets of American Movie Classics Company (a general partnership) and subsidiaries and Bravo Company (a general partnership) and subsidiaries (collectively, the "Partnerships"), as of December 31, 2001 and 2000, and the related combined statements of income, partners' capital (deficiency) and cash flows for each of the years in the three-year period ended December 31, 2001. These combined financial statements are the responsibility of the Partnerships' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Partnerships at December 31, 2001 and 2000, and the combined results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

March 11, 2002
Melville, New York

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES

(General Partnerships)

COMBINED BALANCE SHEETS

DECEMBER 31, 2001 and 2000
(in thousands)

ASSETS	2001	2000
Current assets:		
Cash	$ 49,740	$ 28
Trade accounts receivable (less allowance for doubtful accounts of $5,289 and $3,227)	83,574	56,106
Trade accounts receivable-affiliates, net of allowance for doubtful accounts	1,028	17,420
Other receivables-affiliates, net of allowance for doubtful accounts	76,625	5,904
Note receivable	--	4,000
Prepaid expenses and other current assets	8,387	5,955
Current feature film inventory, net	71,077	61,017
Total current assets	290,431	150,430
Long-term feature film inventory, net	338,751	278,502
Plant and equipment, net	25,854	28,490
Deferred carriage fees, net	158,328	18,914
Deferred costs, net of accumulated amortization of $3,131 and $2,095	1,152	2,629
Intangible assets, net of accumulated amortization of $111,250 and $96,210	39,165	54,205
	$853,681	$533,170

LIABILITIES AND PARTNERS' DEFICIENCY	2001	2000
Current liabilities:		
Accounts payable	$ 24,398	$ 37,131
Accrued payroll and related costs	14,707	8,079
Other accrued expenses	10,530	14,289
Accounts payable-affiliates, net	7,720	17,744
Feature film rights payable, current	57,115	50,946
Deferred carriage fees payable	13,306	7,081
Bank debt, current	--	31,322
Capital lease obligations, current	4,415	3,961
Total current liabilities	132,191	170,553
Bank debt, long-term	--	328,000
Feature film rights payable, long-term	250,352	197,021
Capital lease obligations, long-term	12,829	17,008
Total liabilities	395,372	712,582
Commitments and contingencies		
Partners' capital (deficiency)	458,309	(179,412)

$853,681	$533,170

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES

(General Partnerships)

COMBINED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2001, 2000 and 1999
(in thousands)

	2001	2000	1999
Revenues, net (including affiliate amounts of $89,853, $68,708, and $62,570)	$435,129	$362,366	$297,251
Operating expenses:			
Technical and operating (including affiliate amounts of $14,931, $13,728, and $12,854)	156,923	125,816	120,279
Selling, general and administrative (including affiliate amounts of $27,411, $38,744, and $30,411)	132,694	143,278	112,287
Depreciation and amortization	22,462	25,244	27,700
	312,079	294,338	260,266
Operating income	123,050	68,028	36,985
Other income (expense):			
Interest expense, net	(4,056)	(30,324)	(21,352)
Gain on sale of programming division	--	5,716	--
Miscellaneous, net	86	(206)	(210)
Write-off of deferred financing costs	(1,053)	--	(1,413)
	(5,023)	(24,814)	(22,975)
Net income	$118,027	$ 43,214	$ 14,010

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND

BRAVO COMPANY AND SUBSIDIARIES

(General Partnerships)

COMBINED STATEMENTS OF PARTNERS' CAPITAL (DEFICIENCY)

YEARS ENDED DECEMBER 31, 2001, 2000 and 1999
(in thousands)

	RMH	MGM	Total
Balance, December 31, 1998	$ (60,924)	$ --	$ (60,924)
Contributions	10,495	--	10,495
Net income	14,010	--	14,010
Distributions	(125,000)	--	(125,000)
Balance, December 31, 1999	(161,419)	--	(161,419)
Contributions	12,785	--	12,785
Net income	43,214	--	43,214
Distributions	(73,992)	--	(73,992)
Balance, December 31, 2000	(179,412)	--	(179,412)
Contributions	21,299	--	21,299
Acquisition of partnership interests	--	825,000	825,000
Net income	100,191	17,836	118,027
Adjustment of partnership capital	751,174	(751,174)	--
Distributions	(326,605)	--	(326,605)
Balance, December 31, 2001	$ 366,647	$ 91,662	$ 458,309

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES

(General Partnerships)

COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001, 2000 and 1999
(in thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 118,027	$ 43,214	$ 14,010
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			

Depreciation and amortization................	22,462	25,244	27,700
CSC stock appreciation rights and other incentive plan (benefit) expense allocations.	(9,162)	12,785	10,495
Amortization of feature film inventory........	69,329	53,398	42,936
Amortization of deferred carriage fees........	5,923	6,849	4,606
Amortization and write-off of deferred costs..	1,477	675	1,922
Gain on sale of programming division..........	--	(5,716)	--
Changes in assets and liabilities, net of effect of disposition:			
Trade accounts receivable, net..............	(27,468)	(17,101)	(10,839)
Trade accounts receivable-affiliates, net....	16,392	(4,812)	(1,231)
Other receivables-affiliates, net...........	5,804	(5,832)	270
Prepaid expenses and other current assets....	(3,829)	(4,781)	3,520
Feature film inventory......................	(140,009)	(66,510)	(113,050)
Deferred carriage fees......................	(145,337)	(4,435)	(24,362)
Accounts payable and accrued expenses........	(8,465)	(177)	4,120
Accounts payable-affiliates, net............	(5,576)	(1,986)	6,945
Deferred carriage fees payable..............	6,225	3,694	3,387
Feature film rights payable.................	59,650	(15,420)	52,173
Net cash (used in) provided by operating activities...............................	(34,557)	19,089	22,602
Cash flows (used in) provided by investing activities:			
Capital expenditures.........................	(4,588)	(3,695)	(5,088)
Loan to affiliate............................	(74,630)	--	--
Net proceeds from sale of programming division.	4,000	8,828	--
Net cash (used in) provided by investing activities...............................	(75,218)	5,133	(5,088)
Cash flows provided by (used in) financing activities:			
Proceeds from bank debt......................	425,000	114,225	383,208
Repayment of bank debt.......................	(784,322)	(64,359)	(269,292)
Acquisition of partnership interests..........	825,000	--	--
Distributions to partners, net................	(302,195)	(70,000)	(125,000)
Principal payments on capital lease obligation.	(3,996)	(4,133)	(3,732)
Financing costs on bank debt..................	--	(9)	(2,715)
Net cash provided by (used in) financing activities...............................	159,487	(24,276)	(17,531)
Net increase (decrease) in cash................	49,712	(54)	(17)
Cash at beginning of year......................	28	82	99
Cash at end of year...........................	$ 49,740	$ 28	$ 82

See accompanying notes to combined financial statements.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

NOTES TO COMBINED FINANCIAL STATEMENTS

(dollars in thousands)

1. Summary of Significant Accounting Policies

Description of Business

American Movie Classics Company ("AMCC") and Bravo Company ("Bravo") are general partnerships organized as of January 1, 1987, and January 1, 1980, respectively, under the provisions of New York State Partnership Law. AMCC and subsidiaries and Bravo and subsidiaries (collectively, the "Partnerships") are operated as an integral part of Rainbow Media Holdings, Inc. ("RMH"). RMH is a 77.1% owned indirect subsidiary of Cablevision Systems Corporation ("CSC").

The Partnerships produce, market and distribute the American Movie Classics ("AMC"), WE: Women's Entertainment (formerly Romance Classics) ("WE"), Bravo and Independent Film Channel services to the pay television industry located throughout the United States. Accordingly, the Partnerships consider themselves to be operating in a single industry segment.

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

Principles of Combination and Basis of Presentation

The accompanying combined financial statements include the accounts of AMCC and its wholly-owned subsidiaries and the accounts of Bravo and its wholly-owned subsidiaries. These combined financial statements of AMCC and Bravo have been prepared to reflect those entities in which MGM holds a minority interest. All significant intercompany transactions and balances are eliminated in combination.

Revenue Recognition

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

Costs of Revenue

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

Advertising Expenses

Advertising costs are charged to expense when incurred. Advertising costs were $58,954, $61,074 and $42,939 for the years ended December 31, 2001, 2000 and 1999, respectively.

AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Feature Film Inventory

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

Amounts payable subsequent to December 31, 2001, relating to feature film telecast rights, which are reflected on the accompanying combined balance sheet, amount to $57,115 in 2002, $57,553 in 2003, $58,159 in 2004, $41,481 in 2005, $32,460 in 2006 and $60,699 thereafter. During 1999, the Partnerships reduced feature film inventory and rights payable by approximately $27,000 in connection with an amendment to an existing film license agreement (see Note 6).

Plant and Equipment

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

Deferred Carriage Fees

Deferred carriage fees primarily represent payments to multiple systems operators to guarantee carriage of the Partnerships' programming services and are amortized to technical and operating expense over the period of the related guarantee (3 to 11 years).

Deferred Costs

Deferred costs consist of costs incurred to obtain debt (deferred financing costs) and costs that represent prepayments to secure transponder space on a satellite (deferred transmission costs). Deferred financing costs are amortized into interest expense over the life of the related debt. Deferred transmission costs are amortized to technical expense over the projected life (12 years) of the satellite.

Intangible Assets

Intangible assets established in connection with the acquisition of interests in the Partnerships in 1994 and 1995 consist of affiliation agreements, feature film intangibles and excess costs over fair value of net assets acquired. Affiliation agreements represent the value assigned to agreements with cable systems to carry the AMC

service, and are amortized over a 10-year period on the straight-line basis. Feature film intangibles represent the value assigned to agreements with film distributors for the rights to exhibit films on the AMC service, and are amortized over a 6-year period on the straight-line basis. Feature film intangibles were fully amortized during 2000. Excess costs over fair value of net assets acquired are being amortized over a 10-year period on the straight-line basis.

Income Taxes

AMCC and Bravo operate as general partnerships; accordingly, their taxable income or loss is included in the tax returns of the individual partners, and the Partnerships make no provision for income taxes.

Supplemental Cash Flow Information

During the years ended December 31, 2001, 2000 and 1999, the Partnerships paid cash interest expense of $10,609, $31,116, and $20,785, respectively. In connection with the January 4, 2001 assignment of certain subsidiaries to RMH, the Partnerships had non-cash operating and financing activities of ($17,462) representing the net liabilities of the assigned entities and the offsetting contribution of capital. Also during 2001, the Partnerships had non-cash financing activities that included a net capital distribution of $11,411. In addition, for each of the years ended December 31, 2001, 2000 and 1999, the Partnerships recorded non-cash operating and financing activities related to the recognition of CSC Stock Appreciation Rights ("CSC SAR Plan") and other incentive plans expense (benefit) allocations of ($9,162), $12,785 and $10,495, respectively. Proceeds from the sale of the Partnerships' Bravo Latin America ("BLA") division during 2000 included $4,000 in the form of a note receivable (see Note 2), which was collected in 2001. In 2000, the Partnerships had non-cash operating and financing activities of $3,992 related to the assignment of the net book value of film assets and the related obligation, which was recorded as a distribution of capital.

Use of Estimates

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

for doubtful accounts receivable and the net realizable value of feature film inventory.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

The Partnerships account for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Commitments and Contingencies

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

Impact of New Accounting Standards

In January 2001, the Partnerships adopted Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended by SFAS 138, which was effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 establishes comprehensive standards for the recognition and measurement of derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The adoption of SFAS No. 133 did not have a material effect on the Partnerships' combined results of operations or financial position.

In June 2001, the FASB issued SFAS No. 141, Business Combinations, ("SFAS No. 141") and SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and establishes criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill.

SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but, instead, tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived

Assets to Be Disposed Of" ("SFAS No. 121") and subsequently, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" after its adoption.

The Partnerships adopted the provisions of SFAS No. 141 as of July 1, 2001, which had no effect on the combined financial position or results of operations of the Partnerships. SFAS No. 142 will be effective for the Partnerships on January 1, 2002 at which time the Partnerships will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations and make necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Partnerships will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period. Amortization expense related to goodwill was $496 for each of the years in the three-year period ended December 31, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS No. 142, it is not practicable to reasonably estimate the impact of adopting this Statement on the Partnerships' combined financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In August, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which supercedes both SFAS No. 121 and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"

("APB 30"), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Partnerships are required to adopt SFAS No. 144 on January 1, 2002. Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Partnerships' combined financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121.

In November 2001, the Financial Accounting Standards Board's ("FASB")

Emerging Issues Task Force ("EITF") issued EITF No. 01-09, "Accounting for the Consideration Given by a Vendor to a Customer or a Reseller of the Vendors' Products." This EITF, among other things, codified the issues and examples of EITF No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." EITF No. 01-09 stipulates the criteria to be met in determining the financial statement classification of customer incentives (which includes deferred carriage fees) as either a reduction of revenue or an operating expense. As required, effective January 1, 2002, the Partnerships will generally reclassify the amortization of its deferred carriage fees as a reduction to revenue, net. All comparative periods will be restated. Based upon historical pro forma information, management believes that revenues, net, when restated for the years ended 2001, 2000 and 1999 could be reduced by up to 4%. The amortization of deferred carriage fees shown on the balance sheet is currently included in technical and operating expenses and would correspondingly be reduced such that operating income and net income would not be affected.

Reclassifications

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

2. Disposition

On October 31, 2000 the Partnerships completed the sale of its BLA division for gross proceeds of $13,496, of which $4,000 was in the form of a note receivable. The note receivable, bearing interest at 8.5%, was paid in full in January 2001. In conjunction with the sale, the Partnerships entered into an agreement to cancel both its capital and operating leases on transponders covering this geographic region in 2001. As a result of these cancellations, during 2000, the Partnerships recognized a loss of approximately $2,686, representing lease termination penalties of $2,562 and periodic rental payments for the period the transponders will not be used. Total payments due for these leases of $3,182, which were paid in full in 2001, were included in accrued expenses in the accompanying combined balance sheet at December 31, 2000. For the year ended December 31, 2000, after adjusting for the cost of the net assets sold and for the expenses associated with the divestiture, including accrued employee termination benefits of approximately $700 for eight employees, the Partnerships realized a gain of approximately $5,716.

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AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

3. Plant and Equipment

Plant and equipment consist of the following:

	December 31,		Estimated
	2001	2000	useful lives

Program, service and test equipment..........	$16,970	$13,908	5 to 8 years
Origination equipment.......................	34,230	33,950	8 to 12 years
Furniture and fixtures......................	7,560	6,157	5 to 8 years
Leasehold improvements......................	3,137	3,134	Life of lease
	61,897	57,149	
Accumulated depreciation and amortization....	(36,043)	(28,659)	
	$25,854	$28,490	

4. Intangible Assets

Intangible assets consist of the following:

	December 31, 2001	December 31, 2000
Affiliation agreements, net of accumulated amortization of $107,855 and $93,311....................................	$37,591	$52,135
Excess costs over fair value of net assets acquired, net of accumulated amortization of $3,395 and $2,899.............	1,574	2,070
	$39,165	$54,205

5. Bank Debt

AMCC has a Credit Agreement that matures on March 31, 2006 and consisted of a term loan and a revolving loan with available borrowings of $225,000 and $200,000, respectively. On April 2, 2001, all outstanding debt was repaid and the term loan was cancelled. The terms of the revolving loan remain unchanged. Borrowings under the Credit Agreement bear interest at varying rates based upon the banks' Base Rate or Eurodollar Rate plus a spread which varies, depending on the ratio of debt to cash flow, as defined. As of December 31, 2001, no amounts are outstanding under the revolving loan.

On November 8, 1999, AMCC entered into an interest rate cap agreement with CSC on a notional amount of $105,000, which was to mature on May 13, 2002 whereby AMCC's LIBOR interest rate was capped at 7.0% through May 8, 2001 and 7.5% from May 8, 2001 through May 13, 2002, in exchange for an upfront payment of $441. AMCC entered into this interest rate cap agreement to hedge against interest rate risk, as required by its Credit Agreement, and therefore had accounted for these agreements as hedges of floating rate debt, whereby interest expense was recorded using the revised rate, with any fees or other payments amortized as yield adjustments. On April 2, 2001, the interest rate cap agreement was cancelled as all outstanding debt under the Credit Agreement was repaid. The loss of approximately $182 realized in conjunction with the cancellation of the interest rate cap agreement was recorded as a component of the write-off of deferred financing costs in the Partnerships' combined statement of income for the year ended December 31, 2001.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES

AND
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(General Partnerships)

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

At December 31, 2000, the weighted-average interest rate on bank indebtedness approximated 7.9%. The revolving loan does not start to reduce until June 30, 2004. On December 31, 2000, $225,000 was outstanding under the term loan and $130,000 was outstanding under the revolving loan. As of December 31, 2001, no amounts were outstanding under the Credit Agreement. Unrestricted and undrawn funds under the Credit Agreement at December 31, 2001 and 2000 amounted to $200,000 and $70,000, respectively.

Substantially all of the assets of AMCC have been pledged to secure the borrowings under the Credit Agreement. The Credit Agreement contains various restrictive covenants with which AMCC was in compliance at December 31, 2001. AMCC must pay an annual commitment fee of 0.625% on the aggregate unborrowed balance of the revolving loan, which was $1,013 and $469, at December 31, 2001 and 2000, respectively.

6. Allocations and Related-Party Transactions

Other Receivables--Affiliates

Other receivables--affiliates includes loans made by the Partnerships to a subsidiary of RMH. Such loans are due on the earlier of demand by the Partnerships or March 1, 2002 and bear interest at a rate of LIBOR plus 3% per annum. On February 28, 2002, these loans were amended to extend the due dates to the earlier of demand by the Partnerships or April 30, 2002.

Allocations

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

Corporate General and Administrative Costs

General and administrative costs, including costs of maintaining corporate headquarters, facilities and common support functions (such as human resources, legal, finance, accounting, tax, audit, treasury, strategy planning, information technology, creative and production services, etc.) have been allocated by CSC and RMH generally based upon specific usage measured by proportionate headcount or square footage. In addition, certain allocations are also based on revenues or expenses of the Partnerships in relation to consolidated CSC or consolidated RMH. The remaining overhead, principally salaries of corporate executives, is allocated based on management's estimate of the level of effort expended on each business unit based on historical trends. Such costs allocated to the Partnerships amounted to $23,286, $18,260 and $14,239 for the years ended December 31, 2001, 2000 and 1999, respectively, and have been included in selling, general and administrative expenses.

Related-Party Transactions

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

The Partnerships distribute programming to the pay television industry under contracts called affiliation agreements. Revenues earned under affiliation agreements with companies owned by or affiliated with CSC for the years ended December 31, 2001, 2000 and 1999 were approximately $88,868, $68,255 and $62,570, respectively.

RMH pays the Partnerships for advertising revenue earned in connection with an agreement between RMH and a third party entered into during 2000. Such revenues were $583 and $453 for the year ended December 31, 2001 and 2000, respectively. In addition, during 2001, the Partnerships earned $402 for advertising revenue earned from subsidiaries of RMH.

Rainbow Network Communications ("RNC"), an affiliate of the Partnerships, provides certain transmission and production services to the Partnerships. The Partnerships were charged approximately $13,309, $12,106 and $11,773 in 2001, 2000 and 1999, respectively, for these services. The Partnerships have entered into agreements that allow RNC to continue providing these services to the Partnerships through 2006. Future cash payments required under these agreements amount to $8,310 in 2002, $8,717 in 2003, $9,151 in 2004, $3,522 in 2005 and $3,671 in 2006.

CSC and the Partnerships may enter into agreements with third party service providers in which the amounts paid by CSC or the Partnerships may differ from the amounts that CSC or the Partnerships would otherwise pay if such arrangements were on an arm's-length basis. These arrangements are in return for the service provider's or its affiliate's agreement to make payments or provide services to CSC or the Partnerships on a basis more or less favorable than either CSC or the Partnerships would otherwise obtain. Where the Partnerships have received the benefits of CSC's negotiations in the form of increased affiliation payments or discounted license fees, CSC charges the Partnerships the amount of the benefit. In one such agreement, the Partnerships have recorded charges from CSC relating to increased affiliation payments amounting to $14,000 in 2001, 2000 and 1999, which has been reflected as a reduction of the Partnerships' affiliation revenue. In another such agreement, CSC entered into an affiliation agreement with a provider that resulted in higher rates per subscriber charged to CSC than those under a previous agreement. As part of the negotiations, the service provider agreed to amend the existing film license agreement with the Partnerships with both reduced license fees and a revised list of film titles licensed. Since the Partnerships received the benefit of CSC's negotiations in the form of discounted license fees, CSC charged the Partnerships $10,000, which was treated as a cost to acquire the rights to the revised list of film titles and was classified as feature film inventory. Amortization of this charge over the

remaining license period has been reflected as increased film licensing costs of $1,622 in 2001 and 2000, and $1,081 in 1999, respectively, which has been included in technical and operating expenses.

Under contractual agreements, CSC provides certain management services to the Partnerships. These agreements provide for payment, in addition to expense reimbursement, of an aggregate fee of 3.5% of AMCC's gross revenues, as defined. The agreements are automatically renewable every five years at the option of CSC. Pursuant to the terms of these agreements, the Partnerships were charged management fees of $9,207, $7,699 and $6,832 in 2001, 2000 and 1999, respectively.

During 1999, the Partnerships provided certain administrative, creative and production services to various affiliates. The affiliates were charged $1,155 for these services, which was recorded as a reduction to operating expenses.

CSC allocates to the Partnerships its proportionate share of expenses or benefits related to the CSC SAR Plan and other incentive plans. For the years ended December 31, 2001, 2000 and 1999, the Partnerships

recorded a net (benefit) expense of approximately ($5,082), $12,785 and $10,495, respectively, for its proportionate share of the CSC SAR Plan and other incentive plans (benefit) expense. Such amounts are recorded as administrative expenses in the accompanying combined statements of income.

Liabilities related to the grants under the CSC SAR Plan are funded by RMH and are reflected as either capital contributions from or (distributions to) RMH in the combined financial statements of the Partnerships. The other partner in the Partnerships does not share in the charge or benefit associated with the CSC SAR Plan. The other incentive plans are funded by both partners and liabilities of $4,080 related to these plans are reflected as accrued payroll and related costs at December 31, 2001.

7. Benefit Plans

CSC sponsors a cash balance pension plan and a 401(k) savings plan and during 2001, CSC sponsored an excess savings and excess cash balance plan, in which the Partnerships and its subsidiaries participate. In connection with the cash balance plan and excess cash plan, CSC charges the Partnerships for credits made into an account established for each participant. Such credits are based upon a percentage of eligible base pay and a market-based rate of return. The Partnerships also makes matching contributions for a portion of employee voluntary contributions to the 401(k) savings plan and the excess savings plan. Total expense related to these plans was approximately $1,499, $552 and $507 for the years ended December 31, 2001, 2000 and 1999, respectively. The Partnerships does not provide post retirement benefits for any of its employees.

8. Leases

The Partnerships lease transponder space on several satellites and certain facilities under operating lease agreements that expire at various dates

through 2006. Rent expense for operating leases amounted to approximately $4,336, $4,096 and $2,994 for the years ended December 31, 2001, 2000 and 1999, respectively. The following is a schedule of future minimum lease payments for operating leases as of December 31, 2001:

Year ending December 31,	
2002	$ 2,557
2003	2,134
2004	2,137
2005	1,903
2006	1,800
Thereafter	--
Total minimum lease payments	$10,531

The Partnerships lease transponder space on satellites under capital leases that expire at various dates through 2006. At December 31, 2001 and 2000, the gross amount of equipment and related accumulated amortization recorded under capital leases was as follows:

	2001	2000
Origination equipment	$33,499	$33,218
Accumulated amortization	(19,644)	(15,680)
	$13,855	$17,538

Future minimum capital lease payments as of December 31, 2001 are:

Year ending December 31,	
2002	$ 5,940
2003	5,940
2004	5,580
2005	1,620
2006	1,620
Thereafter	--

Total minimum lease payments	20,700
Less amount representing interest (10%)	3,456
Present value of net minimum capital lease payments	17,244
Less current installments	4,415
Obligations under capital leases, excluding current installments	$12,829

9. Commitments and Contingencies

The Partnerships have entered into various contracts with RMH subsidiaries to license films for pay television programming and to provide certain transmission and production services to the Partnerships. Maximum future cash payments required under these contracts as of December 31, 2001 are as follows:

Year ending December 31,	
2002	$17,450
2003	17,957
2004	18,391
2005	12,887
2006	4,786
Thereafter	1,440
	$72,911

During 2001, the Partnerships secured carriage commitments with certain multiple system operators under long-term affiliation agreements, in exchange for which the Partnerships agreed to make payments when certain launch thresholds are met conditioned upon continued carriage. The Partnerships are contingently liable through 2003 for payments of up to $12,850, which will be used by the operators to provide various marketing and promotional support for the Partnerships.

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

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

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

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

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

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

In addition, the Partnerships are a party to various lawsuits arising out of the ordinary conduct of its business.

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

10. Concentrations of Credit Risk

During 2001, the Partnerships had two customers that collectively accounted for 30% of net revenues. During 2000 and 1999, the Partnerships had three customers that collectively accounted for approximately 40% of net revenues in each year. At December 31, 2001 and 2000, the Partnerships had five customers and three customers totaling approximately 62% and 42% of the Partnerships' net trade receivable balances including those due from affiliates, respectively, which exposes the Partnerships to a concentration of credit risk.

11. Disclosures about the Fair Value of Financial Instruments

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of

significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

AMERICAN MOVIE CLASSICS COMPANY AND SUBSIDIARIES
AND
BRAVO COMPANY AND SUBSIDIARIES
(General Partnerships)

NOTES TO COMBINED FINANCIAL STATEMENTS--(Continued)

Cash, Trade Accounts Receivable, Trade Accounts Receivable-Affiliates, Other Receivables-Affiliates, Accounts Payable, Accrued Expenses, Accounts Payable-Affiliates

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

Bank Debt

The estimated fair value of the Partnerships' bank debt approximates its carrying value based on current rates offered to the Partnerships for instruments of the same remaining maturity.

Interest Rate Cap Agreement

At December 31, 2000, the fair value of the outstanding cap agreement was $840 (net receivable position). Fair value was obtained from a dealer quote. This value represents the estimated amount the Partnerships would receive to terminate the agreement, taking into consideration current interest rates and the current creditworthiness of the counterparty. As discussed in footnote 5, this agreement was cancelled on April 2, 2001 when all of the outstanding debt under the Credit Agreement was repaid.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Metro-Goldwyn-Mayer Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of Metro-Goldwyn-Mayer Inc. included in this Report on Form 10-K and have issued our report thereon dated February 4, 2002. Our report on the financial statements includes an explanatory paragraph with respect to the change in method of accounting for film and television costs and for derivative instruments and hedging activities in 2001 as discussed in Note 1 to the financial statements. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Arthur Andersen LLP

Los Angeles, California
February 4, 2002

SCHEDULE I: FINANCIAL INFORMATION OF REGISTRANT

METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

BALANCE SHEETS
(in thousands, except share data)

	December 31, 2001	December 31, 2000
ASSETS		
Investments and advances to affiliates	$ 2,489,482	$2,309,687
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities	$ --	$ --
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, none issued	--	--
Common stock, $.01 par value, 500,000,000 shares authorized, 239,629,500 and 207,217,585 shares issued and outstanding	2,396	2,072
Additional paid-in capital	3,717,767	3,072,611
Deficit	(1,203,565)	(765,507)
Accumulated other comprehensive income (loss)	(27,116)	511
Total stockholders' equity	2,489,482	2,309,687
	$ 2,489,482	$2,309,687

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

METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Year Ended December 31,		
	2001	2000	1999
Revenues	$ --	$ --	$ --
Expenses:			
Equity in net (profit) losses of subsidiaries	438,058	(50,999)	530,910
Total expenses	438,058	(50,999)	530,910
Net income (loss)	$ (438,058)	$ 50,999	$ (530,910)
Income (loss) per share:			
Basic	$ (1.89)	$ 0.25	$ (3.36)
Diluted	$ (1.89)	$ 0.24	$ (3.36)
Weighted average number of common shares outstanding:			
Basic	232,082,403	204,797,589	158,015,955
Diluted	232,082,403	210,313,274	158,015,955

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

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METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

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

	Preferred Stock		Common Stock					Accu Othe Compr hensi Inco
	No. of Shares	Par Value	No. of Shares	Par Value	Add'l Paid-in Capital	Retained Earnings (Deficit)	Compre-hensive Income (Loss)	
Balance December 31, 1998	--	$ --	150,856,424	$1,509	$2,203,490	$ (285,596)	$ --	$
Acquisition of treasury stock, at cost	--	--	--	--	--	--	--	
Common stock issued in 1999 rights offering, net	--	--	49,714,554	497	714,741	--	--	
Common stock issued to								

directors, officers and employees, net..	--	--	848,353	8	11,408	--	--	
Amortization of deferred stock compensation....	--	--	--	--	1,365	--	--	
Comprehensive income (loss):								
Net loss........	--	--	--	--	--	(530,910)	(530,910)	
Foreign currency translation adjustment.....	--	--	--	--	--	--	62	
Comprehensive loss..........	--	--	--	--	--	--	(530,848)	
Balance December 31, 1999........	--	--	201,419,331	2,014	2,931,004	(816,506)	--	
Common stock issued to outside parties, net............	--	--	5,363,800	54	133,330	--	--	
Common stock issued to directors, officers and employees, net..	--	--	434,454	4	8,277	--	--	
Comprehensive income (loss):								
Net income......	--	--	--	--	--	50,999	50,999	
Foreign currency translation adjustment.....	--	--	--	--	--	--	152	
Unrealized gains on securities..	--	--	--	--	--	--	43	
Comprehensive income.........	--	--	--	--	--	--	51,194	
Balance December 31, 2000........	--	--	207,217,585	2,072	3,072,611	(765,507)	--	$
Preferred stock issued to Tracinda, net...	15,715,667	157	--	--	324,843	--	--	
Conversion of preferred stock into common stock..........	(15,715,667)	(157)	15,715,667	157	--	--	--	
Common stock issued to outside parties, net............	--	--	16,080,590	161	310,478	--	--	
Common stock issued to directors, officers and employees, net..	--	--	615,658	6	9,835	--	--	
Comprehensive income (loss):								
Net loss........	--	--	--	--	--	(438,058)	(438,058)	
Cumulative effect of								

accounting change.........	--	--	--	--	--	--	469	
Unrealized loss on derivative instruments....	--	--	--	--	--	--	(27,523)	(27,
Unrealized loss on securities..	--	--	--	--	--	--	(240)	(
Foreign currency translation adjustments....	--	--	--	--	--	--	(333)	(
Comprehensive loss...........	--	--	--	--	--	--	(465,685)	
Balance December 31, 2001........	--	$ --	239,629,500	$2,396	$3,717,767	$(1,203,565)	$ --	$(27,

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

METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2001	2000	1999
Operating activities:			
Net income (loss).........................	$(438,058)	$ 50,999	$(530,910)
Adjustments to reconcile net income from operations to net cash used by operating activities:			
(Profit) losses on equity investments, net..................................	438,058	(50,999)	530,910
Net cash from operating activities........	--	--	--
Financing activities:			
Proceeds from issuance of preferred stock to Tracinda..................................	325,000	--	--
Proceeds from issuance of equity securities to outside parties........................	310,766	133,384	73,184
Proceeds from issuance of equity securities to related parties........................	6,941	4,849	646,291
Net intercompany advances..................	(642,707)	(138,233)	(719,475)
Net cash from financing activities........	--	--	--
Net change in cash and cash equivalents.......	--	--	--
Cash and cash equivalents at beginning of period......................................	--	--	--

Cash and cash equivalents at end of the period	$ --	$ --	$ --

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

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METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Note 1--Basis of Presentation and Comprehensive Income (Loss)

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

Comprehensive Income (Loss). The Company computes comprehensive income pursuant to SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for the reporting and display of comprehensive income and its components in financial statements and thereby reports a measure of all changes in equity of an enterprise that result from transactions and other economic events other than transactions with owners. Total comprehensive income (loss) for the Company includes net earnings (loss) and other comprehensive income items, including unrealized loss on derivative instruments, unrealized loss on securities and cumulative foreign currency translation adjustments. Components of other comprehensive income (loss) are shown below (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Net income (loss)	$(438,058)	$50,999	$(530,910)
Other comprehensive income (loss):			
Cumulative effect of accounting change for derivative instruments	469	--	--
Unrealized loss on derivative instruments	(27,523)	--	--
Unrealized gain (loss) on securities	(240)	43	--
Cumulative foreign currency translation adjustments	(333)	152	62
Total comprehensive income (loss)	$(465,685)	$51,194	$(530,848)

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

	Unrealized loss on derivative instruments	Unrealized gain (loss) on securities	Cumulative translation adjustments	Accumulated other comprehensive income (loss)
Balance at December 31, 1999	$ --	$ --	$ 316	$ 316
Current year change	--	43	152	195
Balance at December 31, 2000	--	43	468	511
Cumulative effect of accounting change	469	--	--	469
Current year change	(27,523)	(240)	(333)	(28,096)
Balance at December 31, 2001	$(27,054)	$(197)	$ 135	$(27,116)

METRO-GOLDWYN-MAYER INC.
(PARENT ONLY)

NOTES TO FINANCIAL STATEMENTS--(Continued)

Note 2--Bank Debt

On October 15, 1997, MGM Studios entered into an amended and restated credit facility with a syndicate of banks aggregating $1.3 billion (the "Amended Credit Facility"). Concurrent with the Amended Credit Facility, MGM Studios repaid $739,653,000 of bank debt and accrued interest on behalf of the Company. For additional information regarding the Registrant's borrowings under debt agreements and other borrowings, see Note 7 to the Consolidated Financial Statements.

METRO-GOLDWYN-MAYER INC.

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

	Additions			
Balance at	Charged to			Balance

	Beginning of Period	Costs and Expenses	Acquired	Deductions	at End of Period
Year Ended December 31, 2001:					
Reserve for allowances and doubtful accounts.	$22,947	1,442	--	1,784	$26,173
Reserve for home entertainment inventory obsolescence, shrinkage and reduplication.........	$ 8,920	5,406	--	--	$14,326
Reserve for severance and other costs under corporate restructuring program.	$26,715	4,109	--	(1,620)	$29,204
Reserve for contract termination costs.....	$ 2,000	--	--	(2,000)	$ --
Year Ended December 31, 2000:					
Reserve for allowances and doubtful accounts.	$20,985	3,545	--	(1,583)	$22,947
Reserve for home entertainment inventory obsolescence, shrinkage and reduplication.........	$ 6,795	8,920	--	(6,795)	$ 8,920
Reserve for severance and other costs under corporate restructuring program.	$32,912	1,285	--	(7,482)	$26,715
Reserve for contract termination costs.....	$32,100	(5,000)(1)	--	(25,100)	$ 2,000
Reserve for pre-release film inventory........	$69,629	--	--	(69,629)	$ --
Year Ended December 31, 1999:					
Reserve for allowances and doubtful accounts.	$23,220	3,425	5,125	(10,785)	$20,985
Reserve for home entertainment inventory obsolescence, shrinkage and reduplication.........	$ --	6,800	--	(5)	$ 6,795
Reserve for severance and other costs under corporate					

restructuring program.	$ 3,810	48,958	--	(19,856)	$32,912
	=======				=======
Reserve for contract termination costs.....	$ --	257,100	--	(225,000)	$32,100
	=======				=======
Reserve for pre-release film inventory........	$ --	129,388	--	(59,759)	$69,629
	=======				=======

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(1) Includes $5,000 recovery of prior year reserves for contract termination costs.

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EXHIBIT INDEX

Exhibit Number	Document Description
3.1(2)	Amended and Restated Certificate of Incorporation of the Company
3.2(7)	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company
3.3(2)	Amended and Restated Bylaws of the Company
10.1(2)	Amended and Restated Credit Agreement, dated as of October 15, 1997, among the Company, MGM Studios, Orion, certain lenders, Morgan Guaranty Trust Company of New York ("Morgan"), as agent and Bank of America ("B of A"), as syndication agent**
10.2(5)	Amendment I to Amended and Restated Credit Agreement, dated as of March 30, 1998, among the Company, MGM Studios, Orion, certain lenders, Morgan, as agent and B of A, as syndication agent
10.3(5)	Amendment II and Waiver I to Amended and Restated Credit Agreement; Amendment I to Amended and Restated Holdings Agreement dated as of September 9, 1998, among the Company, MGM Studios, Orion, certain lenders, Morgan, as agent and B of A, as syndication agent
10.4(8)	Amendment III and Waiver I to Amended and Restated Credit Agreement; Amendment II to Amended and Restated Holdings Agreement dated as of April 30, 1999, among the Company, MGM Studios, Orion, certain lenders, Morgan, as agent and B of A, as syndication agent
10.5(12)	Second Amended and Restated Credit Agreement, dated as of July 21, 2000, among MGM Studios, Orion, B of A, as agent, certain lenders and certain L/C issuers**
10.6(2)	Form of Modification and Cancellation Agreement, dated as of November 5, 1997
10.7(2)	Amended and Restated 1996 Stock Incentive Plan dated as of November 11, 1997 and form of related Stock Option Agreement*
10.8(7)	Amendment No. 1 to Amended and Restated 1996 Stock Incentive Plan*
10.9(6)	Form of Executive Option Exchange Agreement*
10.10(15)	Form of Director Stock Option Agreement Pursuant to the Amended and Restated 1996 Stock Incentive Plan*
10.11(2)	Senior Management Bonus Plan dated as of November 11, 1997 and form of related Bonus Interest Agreement*
10.12(6)	Bonus Interest Amendment*
10.13(11)	Form of 2000 Employee Incentive Plan*
10.14(2)	Amended and Restated Employment Agreement of Frank G. Mancuso dated as of August 4, 1997
10.15(10)	Consulting Agreement of Frank G. Mancuso dated as of August 12, 1999

10.16(2) Employment Agreement of William A. Jones dated as of October 10, 1996*
10.17(13) Amendment to Employment Agreement of William A. Jones dated as of July 16, 1999*
10.18(5) Employment Agreement of Daniel J. Taylor dated as of August 1, 1997*
10.19(5) Amendment to Employment Agreement of Daniel J. Taylor dated as of June 15, 1998*
10.20(13) Amendment to Employment Agreement of Daniel J. Taylor dated as of November 1, 2000*
10.21(9) Employment Agreement of Christopher J. McGurk dated as of April 28, 1999*
10.22(9) Letter Agreement between the Company and Christopher J. McGurk dated April 28, 1999*
10.23(9) Employment Agreement of Alex Yemenidjian dated as of April 28, 1999*

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Exhibit Number	Document Description
10.24(12)	Employment Agreement of Jay Rakow dated as of August 7, 2000*
10.25(12)	Addendum to Employment Agreement of Jay Rakow dated as of August 7, 2000*
10.26(12)	Employment Agreement of Michael R. Gleason dated August 22, 2000
10.27(2)	Indemnification Agreement dated as of October 10, 1996--Frank G. Mancuso
10.28(2)	Indemnification Agreement dated as of October 10, 1996--William A. Jones
10.29(2)	Indemnification Agreement dated as of October 10, 1996--James D. Aljian
10.30(2)	Indemnification Agreement dated as of October 10, 1996-- Michael R. Gleason
10.31(2)	Indemnification Agreement dated as of October 10, 1996--Kirk Kerkorian
10.32(2)	Indemnification Agreement dated as of October 10, 1996--Jerome B. York
10.33(3)	Indemnification Agreement dated as of November 7, 1997--Alex Yemenidjian
10.34(3)	Indemnification Agreement dated as of January 28, 1998--Francis Ford Coppola
10.35(5)	Indemnification Agreement dated as of June 15, 1998--Daniel J. Taylor
10.36(6)	Indemnification Agreement dated as of November 12, 1998--Alexander M. Haig, Jr.
10.37(6)	Indemnification Agreement dated as of November 12, 1998--Willie D. Davis
10.38(9)	Indemnification Agreement dated as of April 28, 1999--Christopher J. McGurk
10.39(12)	Indemnification Agreement dated as of August 2, 2000--Jay Rakow
10.40(12)	Indemnification Agreement dated as of September 7, 2000--Priscilla Presley
10.41(16)	Indemnification Agreement dated as of February 12, 2001--Henry Winterstern
10.42(2)	Form of Amended and Restated Shareholders Agreement dated as of August 4, 1997
10.43(5)	Form of Waiver and Amendment No. 1 to Amended and Restated Shareholders Agreement dated as of August 8, 1998

10.44(5) Form of Amendment No. 2 to Amended and Restated Shareholders Agreement dated September 1, 1998
10.45(6) Form of Waiver and Amendment No. 3 to Amended and Restated Shareholders Agreement
10.46(2) Form of Amended and Restated Stock Option Agreement between the Company and Celsus Financial Corp.
10.47(2) Form of Inducement Agreement dated as of November 5, 1997
10.48(2) Form of Investment Agreement dated November 12, 1997 between the Company and Tracinda
10.49(4) 1998 Non-Employee Director Stock Plan*
10.50(14) Agreement between Metro-Goldwyn-Mayer Inc. and Rainbow Media Holdings Inc. dated January 31, 2001
10.51(1) Bonus Payment Agreement effective as of November 21, 2001--Frank G. Mancuso*
10.52(1) Bonus Payment Agreement entered into as of October 23, 2001--William A. Jones*
21(16) List of Subsidiaries of Metro-Goldwyn-Mayer Inc.
23(1) Consent of Independent Public Accountants

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* Management contract or compensatory plan.

** Filed without Schedules.

(1) Filed herewith.

(2) Filed as an exhibit to the Company's Registration Statement on Form S-1, as amended (File No. 333-35411) and incorporated herein by reference.

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

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

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

(6) Filed as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 1998 (File No. 001-13481) and incorporated herein by reference.

(7) Filed as an exhibit to the Company's Registration on Form S-8 (File No. 333-83823) and incorporated herein by reference.

(8) Filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 1999 (File No. 001-13481) and incorporated herein by reference.

(9) Filed as an exhibit to the Company's Registration Statement on Form S-3 (File No. 333-82775) and incorporated herein by reference.

(10) Filed as an exhibit to the Company's Form 10-Q for the quarter ended September 30, 1999 (File No. 001-13481) and incorporated herein by reference.

(11) Filed as an appendix to the Company's Proxy Statement for the annual

meeting held on May 4, 2000 and incorporated herein by reference.

(12) Filed as an exhibit to the Company's Form 10-Q for the quarter ended September 30, 2000 (File No. 001-13481) and incorporated herein by reference.

(13) Filed as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 2000 (File No. 001-13481) and incorporated herein by reference.

(14) Filed as an exhibit to the Company's Form 8-K dated January 31, 2001 (File No. 001-13481) and incorporated herein by reference.

(15) Filed as an exhibit to the Company's Form 10-Q for the quarter ended June 30, 2001 (File No. 001-13481) and incorporated herein by reference.

(16) Filed as an exhibit to the Company's 10-K for the fiscal year ended December 31, 2001 (FileNo. 001-13481) and incorporated herein by reference.