METRO-GOLDWYN-MAYER FILM CO.

ANNUAL REPORT 1980

MGM

TABLE OF CONTENTS

Metro-Goldwyn-Mayer Film Co. and Subsidiaries

Financial Highlights

	1980	1979 As Reported	1979 Excluding "Gone With The Wind" License (1)
Operating revenues			
Feature films	$141,623,000	$159,247,000	$128,010,000
Television programs	39,554,000	33,721,000	33,721,000
Total	181,177,000	192,968,000	161,731,000
Operating income			
Feature films	34,032,000	57,185,000	29,061,000
Television programs	1,672,000	2,585,000	2,585,000
Total	35,704,000	59,770,000	31,646,000
Net income	16,457,000	29,422,000	13,500,000
Earnings per share	.51	.91	.42
Return on stockholders' equity	15.80%	40.29%	18.49%
Average common and common equivalent shares	32,439,361	32,353,603	32,353,603
Working capital	$ 43,787,000	$ 30,032,000	
Current ratio	1.7	1.5	
Additions to noncurrent film costs	68,617,000	39,542,000	
Additions to property, plant and equipment	16,745,000	6,571,000	
Total assets	280,822,000	236,346,000	
Long-term debt	59,751,000	34,991,000	
Stockholders' equity	122,212,000	104,187,000	
Stockholders' equity per share	3.76	3.43	
Shares outstanding at year end	32,519,550	30,331,176	

(1) In order to present 1979 and 1980 on a more comparable basis, 1979 results are shown both "As Reported" and excluding the amounts set forth below from licensing U.S. network television rights to "Gone With The Wind." The license fee was the largest ever paid for a single film in the history of television.

Operating revenues—feature films	$ 31,237,000
Operating income—feature films	28,124,000
Net income	15,922,000
Earnings per share	.49

CHAIRMAN'S REPORT

Fiscal 1980 was a landmark year for MGM, a period of fundamental change and growth in which major steps were taken which will make significant contributions to MGM's continuing success in the decade of the 1980s.

During fiscal 1980, noteworthy accomplishments included the following:

• Effective May 30, 1980, the operations of Metro-Goldwyn-Mayer Inc. were divided into two separate publicly-held corporations—Metro-Goldwyn-Mayer Film Co. ("MGM") and MGM Grand Hotels, Inc. MGM is now devoting its full energies and resources to filmed entertainment activities. The formation of MGM as a separate company has achieved its principal purposes of improving MGM's competitive position within the entertainment industry, contributed to the forging of stronger bonds with the creative community, facilitated the acquisition of key management personnel involved in film-making operations, and assisted in the financing of a greatly expanded film production program.

• David Begelman, who joined MGM in January 1980 and is serving as President and Chief Operating Officer, has been given the responsibility of supervising MGM's filmed entertainment program. MGM is now rapidly moving toward the accomplishment of a full release schedule of 12 to 15 feature films annually. We anticipate reaching this goal by 1982, thereby making possible the substantial additional earning power that the expanded production schedule is capable of generating. MGM has undertaken a feature film program which ranks as one of the most active and exciting in the entire motion picture industry with three films currently in post-production, three films in production and six additional films scheduled to commence shooting within the next 120 days.

• MGM has re-entered direct domestic television syndication of motion picture features and short subjects. They are now being licensed by the MGM Television Division directly to local television stations in the United States and Canada instead of through our former sub-distributor, United Artists Corporation. We expect to obtain substantially increased revenues from the greater control obtained through the direct syndication of our motion picture library. This is an important first step to the projected future return by MGM to direct theatrical distribution of MGM film product.

• In June 1980 MGM and CBS Inc. formed a joint venture, MGM/CBS

Home Video, to market video cassettes and videodiscs for the rapidly developing worldwide home video market. The venture joins the world's best known feature film library with the world's largest record manufacturing/distribution facilities in this newly emerging and vitally important area of operations.

• MGM Television was materially strengthened during the year. The TV Division is attracting some of the foremost producers, directors and writers in the industry. We expect that this infusion of talent will provide MGM with substantially more prime-time network programming in the very near future.

• Your Board of Directors declared a 1980 fiscal year-end stock dividend of 3% payable December 22, 1980 to stockholders of record on November 21, 1980. The stock dividend will result not only in the receipt of the dividend shares but also in a 3% effective cash dividend increase for stockholders since future cash dividends will be paid on an expanded share base as the result of the stock dividend.

• For fiscal 1980, MGM's net income was $16,457,000, or 51 cents per share, operating income was $35,704,000, and operating revenues were $181,177,000. For fiscal 1979, MGM's net income was $29,422,000, or 91 cents per share, including $15,922,000 of net income, equal to 49 cents per share, from the U.S. television licensing of "Gone With The Wind." The "Gone With The Wind" license fee is the largest ever paid for a single film. Excluding the "Gone With The Wind" results, net income in fiscal 1980 increased 22%, equal to 9 cents per share.

The expanded production schedule of new feature films is central to our stra-

FAME

RICH AND FAMOUS

tegy for the attaining of significantly higher future earnings for MGM. As a result of the growth of ancillary markets, it is our view that the economics of the motion picture industry today operate to significantly minimize the risk of loss on a film project without impairing in any way the ability to maximize profit potential.

It is now possible on a film of average cost and commercial acceptability to recover most costs of production from such ancillary markets as pay-television, network television and worldwide television syndication with additional revenues soon to be realized from the home video field. This development has given rise to the concept that motion picture companies are no longer in a business confined solely to making movies for theatrical exhibition but rather are engaged in the much broader field of "entertainment software." Accordingly, domestic and foreign theatrical box office rentals, which constitute the principal distribution market and primary source of revenues, can produce profits after recoupment of costs of distribution. In addition, film production produces important investment tax credits which reduce the effective income tax rate and thereby contribute to cash flow.

Furthermore, our expanded production schedule, resulting in significantly more product being offered, substantially increases the opportunity of achieving a profitable picture of major proportions. The successful film today produces rentals which far surpass the pictures of just a few years ago and this trend of ever larger box office grosses appears to be continuing. Of the current top 20 all-time film rental leaders, 18 were released during the decade of the 1970s ("Gone With The Wind" being one of only two exceptions). A highly successful picture in today's market place can generate such significantly large revenues as to have a major impact on the financial results of any motion picture company.

The strike against the motion picture production companies and television networks by the Screen Actors Guild, which lasted from July 21, 1980 to the third week in October, adversely impacted production activities of MGM

ALL THE MARBLES

during the fourth quarter of fiscal 1980 and the first quarter of fiscal 1981. The work stoppage, which was the most protracted in the history of the industry, halted filming then underway on the motion picture "Rich And Famous" and the television series "CHiPs." The strike also caused delays in commencement of photography on a number of additional pictures which were in an advanced stage of pre-production and resulted in a reduction of MGM Laboratory revenues and rentals from use of Studio facilities.

Initial financing for our expanded film production is being provided by a revolving bank line of credit which is being increased to permit unsecured borrowings of up to $75,000,000 at the prime interest rate, reflecting both the strength of the Company's financial position and the confidence of our bankers in MGM's program for the future. Such credit line may be further increased as our financing needs grow; alternative means of financing are also being actively explored.

Motion Picture Operations

For fiscal 1980, feature films had operating income of $34,032,000 on revenues of $141,623,000. For fiscal 1979, operating income was $57,185,000 on revenues of $159,247,000. Included in fiscal 1979 results was $28,124,000 of operating income and $31,237,000 of revenues from the "Gone With The Wind" license to network television.

During the year the motion picture management group was strengthened by the addition of new creative personnel, including David Chasman, formerly of Columbia Pictures, as Senior Vice President, Worldwide Head of Theatrical Production. Mr. Chasman brings a successful record of accomplishment to this position.

During fiscal 1980 the Company released six new features, the most successful being "Fame," the first American movie directed by England's distinguished filmmaker Alan Parker. Reinforced by excellent performances by its cast of newcomers as well as a soundtrack that is well on its way to becoming a platinum selling album, "Fame" opened in New York, Los Angeles and Toronto to strong business in May and went into broad national release in late June. The picture is presently demonstrating excellent boxoffice strength in the international territories.

Our 1979 release, "The Champ," continued to achieve extraordinary success in the international territories in fiscal 1980. As a result of its exceptional performance throughout the world, "The Champ" now ranks fourth among MGM's all-time leaders in inter-

THE FORMULA

SUNDAY LOVERS

national box office grosses, being surpassed only by "Gone With The Wind," "Dr. Zhivago" and "Ben Hur."

MGM's program of future releases represents the efforts of some of the industry's finest creative and artistic talents and should serve as a major step in restoring MGM to the position it held for many years as the industry's foremost supplier of theatrical features.

For Christmas 1980, MGM will present one of its most important films in years, "The Formula," starring George C. Scott, Marlon Brando and Marthe Keller. A mystery-thriller based on the best-selling novel by Steve Shagan, "The Formula" deals with documented facts about an international oil conspiracy and the search for the formula for synthetic fuel. The film was directed by Academy Award winner John G. Avildsen.

Now in post-production for February 1981 release is "Sunday Lovers," a ribald four-part comedy with an all-star international cast led by Gene Wilder, Roger Moore, Lynn Redgrave, Ugo Tognazzi and Lino Ventura.

In June, MGM will release the epic adventure film, "Clash Of The Titans." It is the Company's most ambitious visual effects film in over a decade and features an all-star cast headed by Laurence Olivier, Burgess Meredith, Maggie Smith, Claire Bloom and Ursula Andress. Produced by Charles H. Schneer and his long time collaborator Ray Harryhausen, and directed by Desmond Davis, it is now in final stages of post-production at the Pinewood Studios in England.

"Rich And Famous," which is now in production, stars two of the screen's most captivating actresses, Jacqueline Bisset and Candice Bergen, in this dramatic story produced by William Allyn from Gerald Ayres' screenplay. The picture traces a lasting but stormy relationship from college days in the 1960s to the present and marks the return of Academy Award-winning director George Cukor to MGM where he has been responsible for some of the Studio's most enduring films.

"...All The Marbles" is a no-holds-barred comedy about the manager of a women's wrestling team, starring Peter Falk and Burt Young. This film, which is also now in production, is being directed by Robert Aldrich and produced by William Aldrich from an original screenplay by Mel Frohman.

"Whose Life Is It Anyway?," based on the prize-winning Broadway play by Brian Clark, stars Richard Dreyfuss, an Academy Award winner as Best Actor in the MGM/Warner Bros. picture "The Goodbye Girl," and John Cassavetes. The new film, now in production, is being directed by John Badham and produced by Lawrence Bachmann from Clark's screenplay.

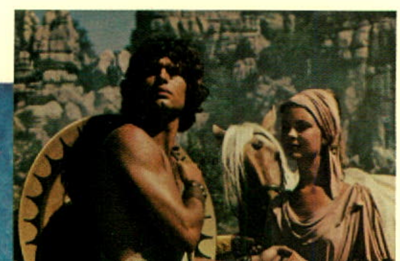
In December, production is scheduled for John Steinbeck's classic American comedy novel, "Cannery Row," starring Nick Nolte and Raquel Welch. David S. Ward wrote the screenplay and will direct for producer Michael Phillips.

Scheduled for production in January is "Tarzan, The Ape Man" starring Bo Derek as Jane, Richard Harris and John Phillip Law. From a screenplay by Thomas Rowe and Rod Browning, it will be directed by John Derek and produced by Bo Derek.

Also in January, filming is scheduled to begin on Francis Ford Coppola's "One From The Heart," in his first directorial effort since "Apocalypse Now." The romantic comedy will be presented in association with Zoetrope Studios and stars Frederic Forrest, Teri Garr, Raul Julia, Natassia Kinski, Harry Dean Stanton and Lainie Kazan. Gray Frederickson and Fred Roos will produce and Bernard Gersten will serve as executive producer on the film which was written by B. Armyan Bernstein.

Our third January start is "Pennies From Heaven," a spectacular musical comedy drama of the 30's starring Steve Martin and Bernadette Peters. It will be directed by Herbert Ross and produced by Nora Kaye from Dennis Potter's screenplay.

"Buddy, Buddy," scheduled for a February start, is a farcical comedy, starring Walter Matthau and Jack Lemmon, to be directed by Billy Wilder from the screenplay he co-authored with I. A. L. Diamond. Jay Weston will produce with Alain Bernheim as executive producer.



CLASH OF THE TITANS

CHiPs

Production activity in fiscal 1981 will also include "Trapdoor," a mystery thriller starring Christopher Reeve to be directed by Wim Wenders from a screenplay by Tim Hunter and Charlie Haas and produced by Jonathan Taplin; and "Weeds," a taut drama starring Robert DeNiro, to be directed by John Hancock from a screenplay he co-authored with Dorothy Tristan. It will be produced by Robert Chartoff and Irwin Winkler.

Fiscal 1981 will also see world-famed operatic tenor Luciano Pavarotti making his screen debut in "Yes, Giorgio" which we shall place before the cameras in the Spring. The screenplay is by Norman Steinberg and will be produced by Peter Fetterman with Alain Bernheim and Herbert Breslin serving as executive producers.

Additionally, we have approximately 40 other projects in various stages of preparation and development.

During the past year the Company has succeeded in creating an environment that has attracted the industry's top filmmakers. As a result, we have entered into a number of multi-feature arrangements with some of the industry's leading independent producers. Each of our filmmaker partners will represent major assets of the Company.

At work now, or soon to be, are Tamara Asseyev and Alex Rose, Mel Brooks, Freddie Fields, John Foreman, Lorne Michaels, Ibrahim Moussa, Julia Phillips, Michael Phillips, Martin Ritt, Richard Shepherd, Aaron Spelling, Steven Spielberg, David Susskind, Jerry Weintraub and many others.

Television Operations

For fiscal 1980, MGM Television had operating income of $1,672,000 on revenues of $39,554,000 in comparison with operating income of $2,585,000 on revenues of $33,721,000 a year ago.

We have now embarked upon a major expansion of and commitment to our Television Division which, in part, accounts for the fiscal 1980 reduction of operating income for the Division but is expected to result in significantly greater earnings for the future. Thomas Tannenbaum, who has been appointed President of the Division, is a dedicated and skilled executive who was formerly associated with Universal and Columbia Pictures. We intend, through creative effort and substantial investment in manpower, to achieve a major position in this medium for which we see very substantial profit opportunities.

"CHiPs," now in its fourth year on NBC, remains one of the most popular and highly successful shows on television. "CHiPs" is now being licensed for syndication to local stations for airing beginning in tne fall of 1982 and, as a result, will produce very significant additional profits for the Company. In the Los Angeles market alone, "CHiPs" has been licensed for a fee which represents a new record price, higher than that ever achieved by any one-hour program in any single U.S. television market.

The entertainment power of MGM's award-winning "Tom and Jerry" cartoons continues to grow, outscoring all rivals as the top-rated syndicated cartoon program, and, this fall, capturing a vast new audience on the CBS Network with a series of new productions in the high-impact Saturday morning timeslot.

As in the case of feature films, an important asset in any television department's *development* program is its roster of creative talent. In the past year, MGM Television has entered into working agreements with some of the industry's most proven professionals, including Eric Bercovici, Madeline David, Fred Freeman and Lawrence Cohen, Armand Grant, Stanley Greenberg, Jack Haley, Jr., Valerie Harper and Tony Cacciotti, Gerald Isenberg, Henry and Michael Jaffe, Edward A. Montanus, Paul Pompian, Diane Silver, David Susskind and Larry Wilcox.

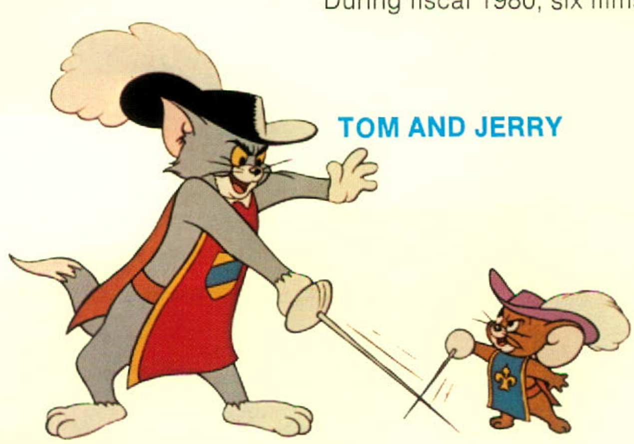
MGM Television presently has commitments on five pilot films. Four of these pilots are to be produced for NBC: "Fame," based on the hit MGM theatrical motion picture; "The Goodbye Girl"; an as yet untitled project created by Eric Bercovici, producer of the "Shogun" mini-series; and a spinoff of our highly successful "CHiPs." We also have a pilot commitment from CBS for "Fog."

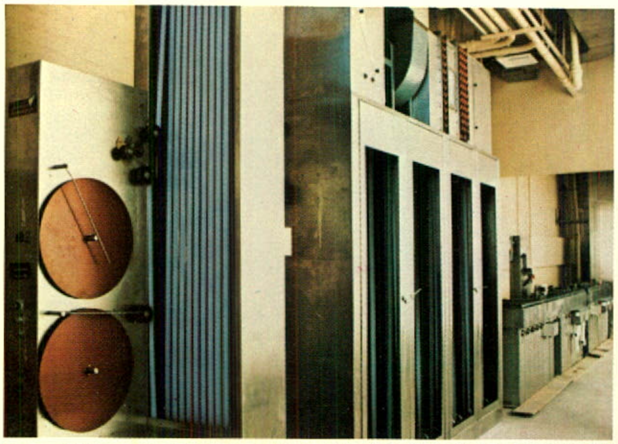
The 80's will also mark MGM Television's entry as a producer of original product for syndication. The first show will be the half-hour series, "Hollywood's Greatest Mysteries," which is presently in development.

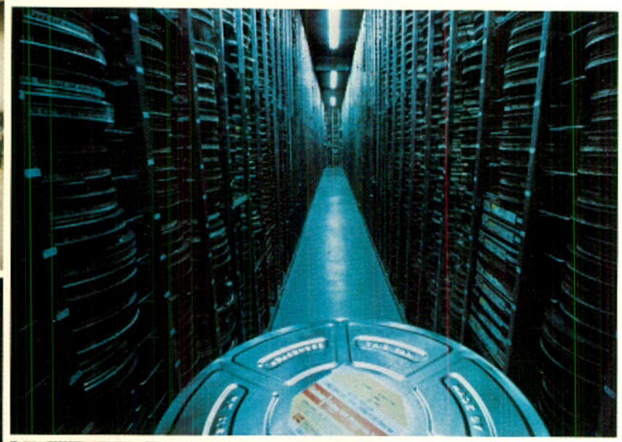
MGM/CBS HOME VIDEO

Ancillary Operations

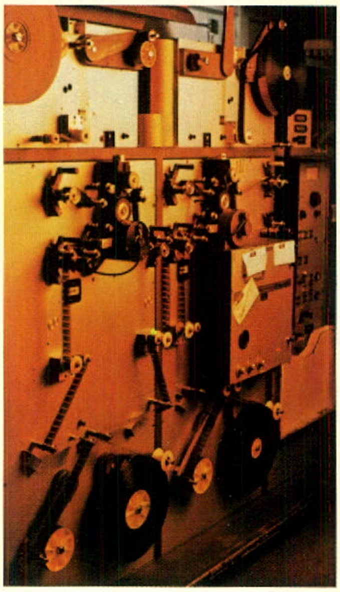
The MGM film library of approximately 1600 feature films continues to represent an important source of income from licensing to free television, theatrical re-release, and of growing importance, licensing to pay-television. During fiscal 1980, six films were


TOM AND JERRY





MGM is proud to offer state-of-the-art technology in film processing, printing, inspection and preservation as well as post-production services.



licensed to CBS for network broadcast for aggregate license fees of $22,000,000, most of which will be reported for financial statement purposes in future periods during fiscal 1981.

Pay-TV is anticipated to have close to 10 million subscribers by the end of the current calendar year and subscribers are growing at the rate of over three million per year. The success of pay-TV is traceable to the offering of a large diversity of motion picture entertainment for a low monthly fee. Films presently being licensed by MGM to pay-TV are typically receiving fees in the $1–2 million range, and even more is being received on films which perform exceptionally well in theatrical release. Since license fees in general increase with the number of subscribers, pay-TV should provide steadily increasing revenues in future years.

One of the most significant accomplishments of fiscal 1980 was the formation of MGM/CBS Home Video. This joint venture positions MGM in the forefront of the new video technology which permits the storage of both picture and sound on a cassette or disc for playback on a television set. Distribution of certain MGM classic and other films is now underway on video cassettes while sales of videodiscs will commence later in fiscal 1981. Films from the MGM library now available in the video cassette format include such all-time classics as "The Wizard Of Oz," "2001: A Space Odyssey," "Dr. Zhivago," "An American In

Paris," "That's Entertainment!," "Ben Hur" and "The Dirty Dozen." CBS Records Group arranges for the manufacture of the video cassettes and the videodiscs and physically distributes both discs and cassettes throughout the world. It is our belief that in the decade of the 1980s home video will develop into one of the most important markets not only for MGM's new productions, but also for our library of more than 1600 films.

Laboratory and Studio Operations

The MGM Laboratory, under the skilled leadership of Roger Mayer, is the industry's quality leader in film processing and printing. By virtue of aggressive marketing and judicious management, the MGM Laboratory had its most profitable year in history in fiscal 1980, substantially surpassing the record performance of the prior year. Despite the actors' strike which adversely affected results in the final quarter of the year, over 430 million feet of film was processed in fiscal 1980. Laboratory operations are being further enhanced with the installation of the latest, high-speed processing equipment to further increase production capacity.

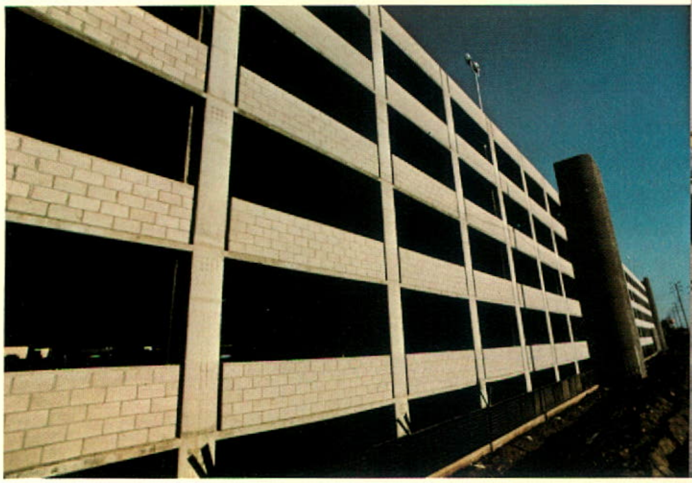
Work is nearing completion on MGM's new Studio complex, which has been designed primarily to meet the needs of the many independent producers now utilizing our Studio and Laboratory facilities. As a result of the steps we have taken, and the improvements made to our facilities, we believe the MGM Studio is unsurpassed as a production center for the film industry.

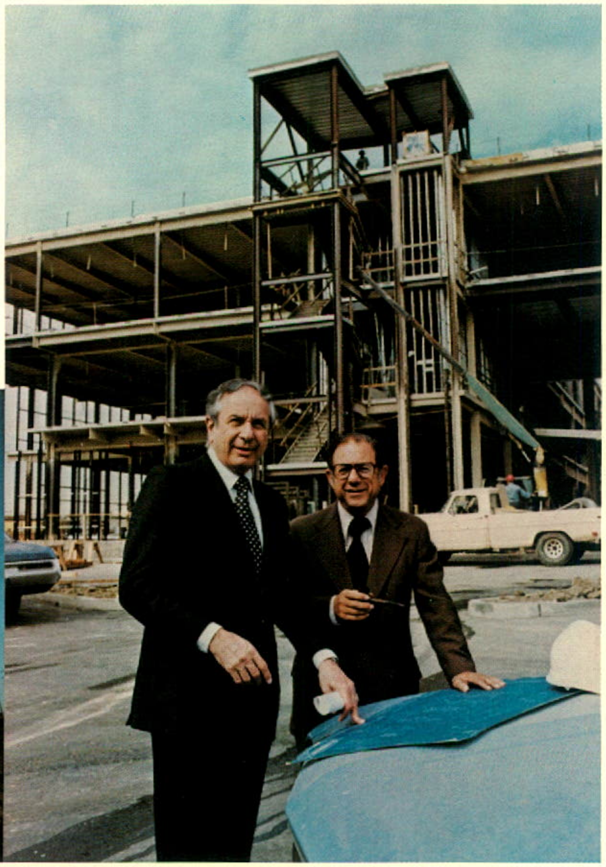
At this time we are embarking on what is undoubtedly the most ambitious film production and Studio expansion program in the recent history of MGM. We believe the timing is right to move forward aggressively to capitalize on the vast and growing opportunities present in the filmed entertainment industry. We have the management, the resources and the dedication to implement our program and to achieve new levels of profitability for the future. We look forward to the new decade confident that we have constructed a solid creative and financial foundation for a new era of innovation, expansion and success.

Frank E. Rosenfelt

FRANK E. ROSENFELT
Chairman of the Board
and Chief Executive Officer
November 14, 1980

Chairman Frank Rosenfelt (right) and President David Begelman check the progress of construction on MGM's new Producers Complex.





"MORE STARS THAN THERE ARE IN HEAVEN"

SOME OF THE TALENTED ARTISTS SOON TO APPEAR IN FILMS FROM MGM

IN ALPHABETICAL ORDER

1 Ursula Andress
2 Candice Bergen
3 Jacqueline Bisset
4 Judi Bowker
5 Marlon Brando
6 John Cassavetes
7 Robert DeNiro
8 Bo Derek
9 Richard Dreyfuss
10 Erik Estrada
11 Peter Falk
12 Frederic Forrest
13 Teri Garr
14 Harry Hamlin
15 Richard Harris
16 Deborah Harry
17 Marthe Keller
18 Jack Lemmon
19 Steve Martin
20 Walter Matthau
21 Burgess Meredith
22 Dudley Moore
23 Roger Moore
24 Paul Newman
25 Nick Nolte
26 Laurence Olivier
27 Luciano Pavarotti
28 Bernadette Peters
29 Kathleen Quinlan
30 Lynn Redgrave
31 Christopher Reeve
32 Burt Reynolds
33 George C. Scott
34 Maggie Smith
35 Barbra Streisand
36 Lily Tomlin
37 John Travolta
38 Raquel Welch
39 Gene Wilder
40 Burt Young

Metro-Goldwyn-Mayer Film Co. and Subsidiaries

Consolidated Statements of Income

For the years ended August 31, 1980 and 1979

	1980	1979
OPERATING REVENUES *(note 1)*	$181,177,000	$192,968,000
OPERATING EXPENSES	145,473,000	133,198,000
OPERATING INCOME	35,704,000	59,770,000
NONOPERATING INCOME AND EXPENSES		
Interest and other income, net	2,285,000	2,321,000
General corporate administration	(9,126,000)	(8,208,000)
Interest expense, net	(6,308,000)	(5,549,000)
Income before provision for income taxes	22,555,000	48,334,000
Provision for income taxes *(note 7)*	(6,098,000)	(18,912,000)
Net income *(note 1)*	**$ 16,457,000**	**$ 29,422,000**
EARNINGS PER SHARE *(notes 1 and 8)*	$ .51	$ .91

See accompanying notes to financial statements.

Metro-Goldwyn-Mayer Film Co. and Subsidiaries
Consolidated Statements of Changes in Financial Position
For the years ended August 31, 1980 and 1979

	1980	1979
SOURCES OF WORKING CAPITAL		
Net income	$ 16,457,000	$ 29,422,000
Items which did not affect working capital —		
Amortization, noncurrent film costs	16,145,000	12,213,000
Depreciation and amortization, plant and equipment	2,302,000	1,380,000
Deferred income taxes, noncurrent portion	(2,743,000)	5,365,000
Other	(501,000)	(401,000)
Working capital provided from operations	31,660,000	47,979,000
Noncurrent film costs transferred to current	28,416,000	16,581,000
Increase in long-term debt	39,790,000	—
Proceeds from stock options exercised *(note 2)*	1,336,000	1,095,000
Tax benefits related to stock options exercised *(note 2)*	6,051,000	336,000
Other	3,675,000	3,180,000
	110,928,000	69,171,000
UTILIZATION OF WORKING CAPITAL		
Additions to —		
Noncurrent film costs	68,617,000	39,542,000
Property, plant and equipment	16,745,000	6,571,000
Increase (decrease) in long-term receivables, net	(5,938,000)	13,018,000
Purchase of treasury stock *(note 2)*	—	526,000
Cash dividends *(note 2)*	5,762,000	8,376,000
Reduction in long-term debt	11,987,000	4,850,000
	97,173,000	72,883,000
Increase (Decrease) in Working Capital	**$ 13,755,000**	**($ 3,712,000)**
INCREASES (DECREASES) IN WORKING CAPITAL		
Cash and temporary investments	$ 21,000	($ 987,000)
Receivables	7,436,000	9,707,000
Film costs, net of amortization	4,181,000	4,221,000
Future tax benefits	—	(7,435,000)
Inventories and prepayments	116,000	1,460,000
Current portion of long-term debt	3,607,000	—
Other current liabilities	(1,606,000)	(10,678,000)
Increase (Decrease) in Working Capital	**$ 13,755,000**	**($ 3,712,000)**

See accompanying notes to financial statements.

Metro-Goldwyn-Mayer Film Co. and Subsidiaries
Consolidated Balance Sheets
August 31, 1980 and 1979

Assets	1980	1979
CURRENT ASSETS		
Cash	$ 2,899,000	$ 2,878,000
Receivables, net—		
Theatrical, television and other	59,354,000	52,284,000
Refundable Federal income taxes	6,171,000	5,805,000
Film costs, net of amortization *(notes 1 and 3)*	30,388,000	26,207,000
Inventories	3,078,000	3,045,000
Prepayments	1,489,000	1,406,000
Total current assets	**103,379,000**	**91,625,000**
NONCURRENT ASSETS *(note 1)*		
Film costs, net of amortization *(note 3)*	102,417,000	78,503,000
Receivables and other assets	44,522,000	50,100,000
Land held for sale, at the lower of cost or estimated realizable value	4,772,000	4,772,000
	151,711,000	133,375,000
PROPERTY, PLANT AND EQUIPMENT, AT COST *(note 1)*		
Land	1,236,000	1,236,000
Buildings	11,062,000	10,476,000
Equipment and leaseholds	28,946,000	22,578,000
Construction in progress	9,222,000	—
	50,466,000	34,290,000
Less reserves for depreciation and amortization	(24,734,000)	(22,944,000)
	25,732,000	11,346,000
	$280,822,000	**$236,346,000**

See accompanying notes to financial statements.

Liabilities and Stockholders' Equity	1980	1979
CURRENT LIABILITIES		
Current portion of long-term debt	$ 13,000	$ 3,620,000
Accounts payable and accrued liabilities	30,643,000	25,353,000
Participants' share and royalties payable	10,677,000	9,951,000
Accrued domestic and foreign taxes	18,259,000	22,669,000
Total current liabilities	**59,592,000**	**61,593,000**
LONG-TERM LIABILITIES		
Long-term debt, less current portion *(note 4)*	59,738,000	31,371,000
Participants' share	21,220,000	19,376,000
Other liabilities	5,544,000	4,752,000
	86,502,000	55,499,000
DEFERRED INCOME AND INCOME TAXES		
Deferred income taxes *(notes 1 and 7)*	8,297,000	11,040,000
Other deferred income	4,219,000	4,027,000
	12,516,000	15,067,000
STOCKHOLDERS' EQUITY *(notes 2, 6 and 11)*		
Investment by and advances from Metro-Goldwyn-Mayer Inc.	—	104,187,000
Common stock, $1.00 par value—		
Authorized—50,000,000 shares		
Issued—32,519,550 shares	32,520,000	—
Capital surplus	21,312,000	—
Retained earnings	68,380,000	—
Total stockholders' equity	122,212,000	104,187,000
	$280,822,000	**$236,346,000**

Metro-Goldwyn-Mayer Film Co. and Subsidiaries

Consolidated Statements of Stockholders' Equity

For the years ended August 31, 1980 and 1979

	Investment and Advances *(note 2)*		Common Stock				Total
	Advances	Investment In Retained Earnings	Number of Shares	Par Value	Capital Surplus	Retained Earnings	Stock-holders' Equity
			(in thousands)				
Balance August 31, 1978	$12,299	$60,725	—	$ —	$ —	$ —	$ 73,024
Net income for year	—	29,422	—	—	—	—	29,422
Cash dividends	—	(8,376)	—	—	—	—	(8,376)
5% stock dividend	9,745	(9,839)	—	—	—	—	(94)
Stock options exercised	1,095	—	—	—	—	—	1,095
Tax benefit related to exercise of certain stock options	336	—	—	—	—	—	336
Open-market common stock purchases	(526)	—	—	—	—	—	(526)
Other intercompany transactions, net	9,306	—	—	—	—	—	9,306
Balance August 31, 1979	32,255	71,932	—	—	—	—	104,187
Net income for nine months ended May 31, 1980	—	10,192	—	—	—	—	10,192
Cash dividends	—	(4,135)	—	—	—	—	(4,135)
6% stock dividend	14,190	(14,247)	—	—	—	—	(57)
Stock options exercised	1,336	—	—	—	—	—	1,336
Tax benefit related to exercise of certain stock options	6,051	—	—	—	—	—	6,051
Balances prior to distribution of Common Stock	53,832	63,742	—	—	—	—	117,574
Distribution of Common Stock as of May 30, 1980 *(note 2)*	(53,832)	(63,742)	32,520	32,520	21,312	63,742	—
Net income for three months ended August 31, 1980	—	—	—	—	—	6,265	6,265
Cash dividends	—	—	—	—	—	(1,627)	(1,627)
Balance August 31, 1980	**$ —**	**$ —**	**32,520**	**$32,520**	**$21,312**	**$68,380**	**$122,212**

See accompanying notes to financial statements.

1. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of all wholly and majority owned domestic (including Canadian) and foreign subsidiaries, except that blocked income from countries with severe exchange restrictions is not included in the consolidated statements of income until realizable. The Company had $3,309,000 and $2,837,000 included in its other deferred income account as of August 31, 1980 and 1979, respectively, relating to blocked income. Significant intercompany transactions have been eliminated.

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates except that historical rates are used for fixed assets and depreciation. Revenues and expenses (except depreciation) have been translated into U.S. dollars based generally on the average rate prevailing during the period. Gains and losses resulting from the translation of foreign currencies into U.S. dollars are credited or charged to income on a current basis and were not significant for 1980 and 1979.

Accounting for Television License Agreements

The Company is reporting revenue from television licensing agreements, along with related costs, in the accounting period in which the agreement is executed, provided certain conditions of sale have been met, including availability for broadcast.

Feature film operations for the fiscal year ended August 31, 1979 include $31,237,000 of Operating Revenues and $15,922,000 of Net Income ($.49 per share) recognized from the licensing of U.S. network television rights to "Gone With The Wind."

Accounting for Film Costs

The Company capitalizes the following as film costs: production, print, pre-release and national advertising. These costs are amortized on the basis of management's estimate of total gross revenues from all sources on an individual film basis. The cost of cooperative and other forms of local advertising are expensed as incurred. The Company charges theatrical and television participations to income in the ratio that current year's gross revenues bear to estimated total gross revenues from all sources.

Film costs are stated at the lower of cost or estimated realizable value. The Company estimates, on a picture by picture basis, the net realizable value of films by considering costs capitalized as inventory, participations and other direct distribution expenses (including cooperative and other forms of local advertising).

Discounting of Long-Term Receivables

The Company discounts to present value long-term noninterest-bearing receivables arising from television licensing agreements using an interest factor related to the prime rate at the date the licensed motion pictures become available for broadcast.

Depreciation, Amortization and Maintenance

In connection with buildings, fixtures and equipment, the Company generally uses the declining-balance method of depreciation. Annual depreciation is based on the estimated useful lives of the properties, reflected in percentages as follows:

Buildings	3-5%
Fixtures and Equipment	10-20%

Leasehold costs are amortized on a pro-rata basis over the periods of the leases.

Renewals and improvements are capitalized. Normal maintenance and repairs are charged to income as incurred.

Land Held for Sale

The Company has entered into contracts to sell the remainder of its land being held for sale at prices in excess of its carrying value. The purchaser is contractually obligated to close escrow no later than December 31, 1980.

Accounting for Income Taxes

The Company provides for estimated taxes applicable to income reflected in the consolidated financial statements and records investment tax credits as a reduction of the provision for income taxes using the flow-through method of accounting.

The consolidated balance sheets reflect net deferred income taxes which have been allocated between current and noncurrent on the basis of the related assets and liabilities. In the opinion of management the realization of such tax benefits is assured beyond any reasonable doubt.

2. COMPANY ORGANIZATION AND BASIS OF PRESENTATION

On April 22, 1980, the Board of Directors of Metro-Goldwyn-Mayer Inc. (which on May 30, 1980 changed its name to MGM Grand Hotels, Inc.) ("Metro") approved a plan to distribute to Metro stockholders as of May 30, 1980 the outstanding shares of the Company, a wholly-owned subsidiary which was organized in January 1980 for the purpose of receiving the assets and liabilities and conducting the operations related to Metro's filmed entertainment business formerly conducted by subsidiaries and divisions of Metro. The distribution plan was approved by the Company's stockholders at a special meeting held on May 30, 1980.

The accompanying Consolidated Statements of Income reflect (i) costs and expenses directly related to the filmed entertainment operations of Metro, (ii) interest expense on long-term debt which is an obligation of Metro but which is being reimbursed by the Company (see Note 4), (iii) interest income on intercompany transactions with Metro (based on the prime rate plus 1%) of $583,000 for the fiscal year ended August 31, 1979 (there have been no intercompany transactions between the Company and Metro subsequent to August 31, 1979 which were subject to interest charges) and (iv) an allocation of Metro's general corporate administration expenses. The Company's management believes that these charges and allocations produce a fair and reasonable allocation of expenses to the filmed entertainment operations.

Cash dividends paid and the cost of treasury stock purchased by Metro have been allocated to the Company in the same percentage as the net income contributed by the Company bore to Metro's consolidated net income in each period. Stock dividends have been similarly allocated except the proration has been based on net income for the fiscal year preceding declaration of the stock dividend. Proceeds from the exercise of stock options and the tax benefits derived therefrom have been credited to the company which employed the optionee.

The assets and liabilities are reflected at historical book value as included in the Metro consolidated financial statements. Various Metro investment, equity and advance accounts to the Company have been combined and classified as Investment by and Advances from Metro-Goldwyn-Mayer Inc. as of August 31, 1979. Such investments and advances as of May 30, 1980, amounting to $117,574,000, were transferred to the Company's Stockholders' Equity accounts to reflect the distribution of the Company's Common Stock to the Metro stockholders of record on that date.

3. FILM COSTS

Film costs, net of amortization (at the lower of cost or estimated realizable value) were comprised of the following (in thousands):

	1980		1979	
	Current Portion	Non-Current Portion	Current Portion	Non-Current Portion
Theatrical productions— Released, net of amortization	$25,313	$36,067	$13,313	$31,088
In process and other	—	42,604	—	28,129
Television programs, net of amortization	5,075	23,746	12,894	19,286
	$30,388	$102,417	$26,207	$78,503

The following film costs are classified as current assets: the unamortized cost of feature films in release, costs of completed features not released (reduced by the portion allocated to television) and television films, (reduced by the portion allocated to secondary markets). The cost of feature films allocated to television, feature films in production, television film costs allocated to secondary markets and all other costs related to film production are classified as noncurrent assets. Certain liabilities are classified in accordance with the classification of the related film costs.

4. LONG-TERM DEBT

The Company's long-term debt consisted of the following (in thousands):

	1980	1979
Term-loan agreements	$39,790	$14,480
Long-term liability to Metro, net of unamortized discount of $7,939 and $8,503	19,961	20,511
	59,751	34,991
Less—current portion	(13)	(3,620)
	$59,738	$31,371

Term-Loan Agreements

In October 1977, Metro entered into an unsecured bank loan agreement (which was assumed by the Company) to provide funds for motion picture and television financing and other general corporate purposes. As of August 31, 1979, $14,480,000 was outstanding under the agreement; the balance of $12,670,000 outstanding at May 31, 1980 was repaid by the Company with borrowings under the line of credit described below.

Metro guaranteed a bank loan (which guarantee has been assumed by the Company) of up to $12,790,000 for the production of a feature film (the "Film Loan"). The Film Loan bears interest at the prime rate plus ¼ % and is due December 31, 1981. As of August 31, 1980, the maximum of $12,790,000 had been borrowed under the Film Loan.

On May 30, 1980, the Company entered into a three-year unsecured revolving line of credit with a bank for up to $50,000,000 with interest at the prime rate for any borrowings thereunder and a commitment fee of ½ % per annum on unused amounts of the commitment. As of August 31, 1980, the Company had borrowed $27,000,000 under this line of credit with $12,670,000 being used to repay the October 1977 loan referred to above and the balance being used for general corporate purposes. Amounts outstanding under the Film Loan further reduce the available commitment; accordingly, as of August 31, 1980, borrowings under the line of credit aggregated $39,790,000. Amounts outstanding at the expiration of the line of credit may be converted into a term loan repayable over four years, with interest at the prime rate plus ¼ % during the first two years and at the prime rate plus ½ % thereafter. The line of credit and related loan agreement contain various restrictive covenants and require the Company to maintain compensating balances equal to the greater of 15% of amounts borrowed (with amounts outstanding under the Film Loan being treated as amounts borrowed) or 7½ % of the total available commitment. In addition, these covenants limit consolidated retained earnings available for payment of cash dividends, distributions on the Common Stock (other than stock dividends) or acquisitions of Common Stock to approximately $14,639,000 at August 31, 1980.

Long-Term Liability to Metro

Pursuant to 1974 exchange offers, Metro issued 10% Subordinated Debentures due 1993 and 1994 ("Subordinated Debentures"), of which an agregate principal amount of $19,961,000 and $20,511,000, net of unamortized discount of $7,939,000 and $8,503,000, were outstanding at August 31, 1980 and August 31, 1979, respectively. Although the Subordinated Debentures and accrued interest thereon remain obligations of Metro, the Company and Metro have entered into an agreement pursuant to which the Company is obligated to make payments to Metro equal to the payments that Metro is required to make with respect to the Subordinated Debentures over the period that the Subordinated Debentures and related interest are payable. Annual sinking fund payments of approximately $1,549,000 are required to retire 70% of the Subordinated Debentures prior to maturity and they are callable at the option of Metro at 100% of principal. The effective interest rates on the outstanding balances, net of unamortized discount, range from 14.8% to 17.5%.

5. CONTINGENT LIABILITIES

The Company, together with other major companies in the filmed entertainment industry, has been subject to numerous anti-trust suits (many of which have been settled) brought by various motion picture exhibitors, producers, and others. In addition, various legal proceedings involving alleged breaches of contract, copyright infringement and other claims, are now pending against the Company, which it considers routine to its business activities. In the opinion of management, the liability of the Company under such actions will not be material in relation to its financial position or results of operations. The Company has agreed to indemnify Metro from any liability in connection with the actions described hereunder and certain other claims and litigation.

6. STOCK OPTION AND INCENTIVE PROFIT-SHARING PLANS

Stock Option Plan

Under the terms of the Company's 1980 Employee Stock Option Plan, a maximum of 650,000 shares of Common Stock (subject to adjustment under certain circumstances) can be issued to officers and key employees. As of August 31, 1980, there were options outstanding to purchase 397,500 shares. On May 30, 1980, options were granted to purchase 385,000 shares at an exercise price of $3.88 per share and on August 14, 1980, to purchase 12,500 shares at an exercise price of $8.00 per share. The $3.88 per share exercise price was obtained by dividing the $125,000,000 "Fair Value" of the Company, as determined by the Metro Board of Directors on April 22, 1980, by the number of Metro shares outstanding on such date. The outstanding options are exercisable beginning two or more years after date of grant and expire ten years thereafter or earlier in the event of death or other termination of employment of the optionee. Each option is exercisable in four annual installments, with each of the first three installments exercisable as to 20%, and the last installment exercisable as to the balance, of the options granted. The plan provides that the exercise prices of options granted on and after June 2, 1980 shall not be less than the fair market value of the shares on the date of grant.

The Board of Directors has authorized purchases of the Company's Common Stock on the open market or through such other means as may be deemed appropriate, with the shares to be held as treasury stock and issued from time to time to meet contractual obligations to optionees under the Company's 1980 Employee Stock Option Plan. No such shares had been purchased through August 31, 1980.

Incentive Profit-Sharing Plan

The Company has a profit-sharing plan for its executives and employees in the United States. An aggregate of approximately $825,000 and $1,000,000 was charged to income for 1980 and 1979, respectively, to provide for distributions under the plan. The plan can be discontinued or modified at any time.

7. PROVISION FOR INCOME TAXES

The Company's operations have been and will be included in the consolidated income tax returns of Metro for all periods through May 31, 1980. The Company has entered into a tax sharing agreement with Metro providing for the allocation of income tax provisions and liabilities (and the future settlement of such liabilities) attributable to operations prior to May 31, 1980. In accordance with such agreement, income taxes have been provided on a separate return basis (i.e., at statutory rates) on the income of the Company with the exception of investment tax credits. Reductions of Metro's consolidated income taxes resulting from the utilization of investment tax credits of the Company have been reflected as income tax benefits (in the amount of the actual investment tax credits utilized or to be utilized by Metro) in the Company's provision for income taxes. Details of the provision for income taxes follow (in thousands):

	1980	1979
Current taxes paid or payable		
Federal (excluding investment tax credits)	$ 4,253	$ 7,544
Investment tax credits	(4,963)	(12,325)
Foreign	2,977	2,302
State	919	1,290
	3,186	(1,189)
Tax benefit related to exercise of stock options	1,744	336
Deferred tax expense (excluding investment tax credits)	1,626	12,660
Investment tax credits deferred	(458)	7,105
Total provision	$ 6,098	$18,912

The provision for income taxes for 1980 and 1979 resulted in effective tax rates of 27.0% and 39.1%, respectively. The primary reason for the effective tax rates being less than the assumed Federal tax rate was the utilization of investment tax credits.

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences, and the tax effect of each, were as follows (in thousands):

	1980	1979
Television and merchandising income recognized for financial statement purposes before it is reported for tax purposes, net	($ 2,479)	$ 9,571
Film cost realization reserves expensed on books in prior years but deducted currently for tax purposes	1,338	—
Differences in methods of amortizing film costs for financial statement purposes as compared to tax purposes	1,826	2,642
Miscellaneous other timing differences	941	447
Deferred tax expense	$ 1,626	$12,660

Federal income tax returns for the years 1976 and 1977 are currently being examined by the Internal Revenue Service. In the opinion of management, any adjustments which may result from these examinations (or any examinations of years through 1980) will not have a material effect on the Company's financial position or results of operations.

8. EARNINGS PER SHARE

The Company's stock was distributed as of May 30, 1980, on the basis of one share of the Company's stock for each share of Metro Common Stock held of record as of such date. Accordingly, earnings per share for fiscal 1979 and for the first three quarters of fiscal 1980 have been computed on the basis of the weighted average number of shares outstanding and Common Stock equivalents of Metro, after giving retroactive effect to a 6% stock dividend declared on November 6, 1979, and thereafter on the basis of the weighted average number of shares outstanding and Common Stock equivalents of the Company.

9. RETIREMENT PLAN

Substantially all of the assets of the Metro employees' retirement plan were transferred to a similar plan established by the Company on June 1, 1980. Participation in the prior Metro plan is counted as participation in the Company's plan in determining the rights and benefits of the participants. The Company's retirement plan covers employees other than employees rendering services of an artistic nature, such as actors and actresses, or those who are eligible for membership in union pension plans. The plan, which can be modified or discontinued by the Company at any time, provides for Company contributions and payment of expenses and also permits voluntary employee contributions. The Company's policy is to fund current service costs as required and prior service costs over a thirty-year period, after giving effect to actuarial gains or losses. The cost of the plan benefits for 1980 and 1979 was not significant. The actuarially computed value of vested benefits under the Company's plan approximates the value of the pension fund assets and amounts accrued.

10. SEGMENT INFORMATION AND FOREIGN OPERATIONS

The Company's activities consist of one business segment, filmed entertainment, which involves the production and worldwide distribution of theatrical motion pictures (with distribution being principally handled by outside distributors) and television series and features and the operation of a motion picture film laboratory which processes film for the Company as well as other producers and distributors. The operating revenues and operating income are reported in the consolidated statements of income on page 14 and in the five year summary of operations on pages 26 and 27.

Information relative to identifiable assets, depreciation and capital expenditures follows (in thousands):

	Identifiable Assets at end of Year	Depreciation for Year	Capital Expenditures for Year
1980			
Filmed entertainment	$269,879	$ 2,302	$16,745
Corporate assets	10,943	—	—
Totals	$280,822	$ 2,302	$16,745
1979			
Filmed entertainment	$225,408	$ 1,380	$ 6,571
Corporate assets	10,938	—	—
Totals	$236,346	$ 1,380	$ 6,571

Corporate assets principally consist of refundable Federal income taxes and land held for sale.

The major U.S. television networks are significant customers of the Company with revenues from these networks totalling $37,092,000 in 1980 and $61,131,000 in 1979. Net foreign assets and income from subsidiaries operating in foreign countries were not material in relation to consolidated assets or consolidated net income. Foreign revenues are primarily export revenues earned from motion picture and television films produced in the United States. Such export revenues by major geographic area were as follows (in thousands):

	1980	1979
Europe	$35,424	$23,811
Western Hemisphere (excluding United States and Canada)	10,353	8,856
Asia, Africa and Other	16,682	20,460
Total	$62,459	$53,127

11. SUBSEQUENT EVENT—CASH DIVIDEND

On October 7, 1980, the Company's Board of Directors declared a regular quarterly cash dividend of $0.05 per share (an aggregate of $1,626,000) payable on November 10, 1980, to stockholders of record on October 24, 1980.

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Certain quarterly financial information for the years ended August 31, 1980 and 1979 is presented on page 28. Operating revenues, operating income, net income and earnings per share amounts are incorporated by reference as a part of this note.

13. REPLACEMENT COST INFORMATION (UNAUDITED)

In response to Securities and Exchange Commission (SEC) requirements, the Company has included in its annual report to the SEC on Form 10-K (a copy of which is available on request) unaudited replacement cost information with respect to property, plant and equipment (productive capacity) at August 31, 1980 and 1979, and the estimated effect of such costs on depreciation for the years then ended.

Replacement cost information relative to the Company's motion picture and television film costs has not been provided since such costs have been exempted by the SEC due to their unique characteristics.

The information indicates that the replacement cost of the productive capacity of the Company exceeds the historical cost incurred to acquire such capacity, and that depreciation expense based upon the average cost of productive capacity is greater than the amount calculated based on historical cost under generally accepted accounting principles.

The replacement cost information disclosed in the Form 10-K is based on a large number of assumptions, involves substantial subjective judgments and may be affected by errors inherent in the estimation process. For the foregoing reasons, the Company believes that the replacement cost information is of limited value.

14. SUPPLEMENTARY INFORMATION ON INFLATION AND CHANGING PRICES (UNAUDITED)

In September 1979 the Financial Accounting Standards Board issued Statement No. 33—Financial Reporting and Changing Prices (the "Statement") which provides methods for presenting information to evaluate the impact of inflation on historical financial statements utilizing the Consumer Price Index for all Urban Consumers (CPI). Under the guidelines of the Statement, the only items of operating expense required to be restated by the Company were amortization of film costs and depreciation. These restatements were calculated based on historical costs of films, plant and equipment, as of August 31, 1980, as adjusted for the effects of inflation in constant dollars and are reflected below in the Statement of Income Adjusted for Changing Prices For the Year Ended August 31, 1980. Since only historical costs are deductible for income tax purposes, the provision for income taxes has not been adjusted.

The restated amounts are referred to as "Average Constant Dollars." Income determined on a constant dollar basis is an attempt to report financial statement elements in dollars having the same general purchasing power. The Company has no evidence that the information accurately reflects the impact of inflation on its business and cautions the reader to use care in its interpretation and use.

In addition to revenue and expense, inflation also affects the value of monetary assets and liabilities such as cash, receivables and payables. During a period of inflation, if monetary assets exceed monetary liabilities purchasing power is lost. If monetary liabilities exceed monetary assets, then purchasing power is gained. The effect of this calculation is reflected in the Statement of Income Adjusted For Changing Prices and also in the Five Year Comparison of Selected Supplementary Financial Data which follows:

Statement of Income Adjusted for Changing Prices for the Year Ended August 31, 1980 (in Thousands)

	As Reported	Average Constant Dollars
Operating revenues	$181,177	$181,177
Operating expenses:		
Amortization of film costs and depreciation of plant and equipment	57,899	68,117
Other operating expenses	87,574	87,574
Total operating expenses	145,473	155,691
Operating income	35,704	25,486
Nonoperating income and expenses	(13,149)	(13,149)
Income before taxes	22,555	12,337
Income taxes	(6,098)	(6,098)
Net income	$ 16,457	$ 6,239
Purchasing power gain on net monetary liabilities		$ 435

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (Constant Dollars) (in Thousands Except Per Share and Price Index Data)

	Years Ended August 31,				
	1980	1979	1978	1977	1976
Operating revenues —					
As reported	$181,177	$192,968	$182,583	$139,186	$123,895
As adjusted	181,177	219,097	228,037	185,869	175,317
Net income —					
As reported	16,457				
As adjusted	6,239				
Earnings per share —					
As reported	.51				
As adjusted	.19				
Purchasing power gain on net monetary liabilities	435				
Net assets at year-end —					
As reported	122,212				
As adjusted	153,258				
Cash dividends declared per common share	.05	(1)	(1)	(1)	(1)
Market price per common share at year-end	7.50	(1)	(1)	(1)	(1)
Average consumer price index (1967 = 100)	237.3	209.0	190.0	177.7	167.7

(1) The Company is the successor to the assets, liabilities and operations of the filmed entertainment business of Metro. Trading in the Common Stock of the Company began June 2, 1980; accordingly, any calculation of cash dividends per common share or market price per common share at year end for the indicated periods would not be meaningful.

Event Subsequent to Date of Auditors' Report

The Board of Directors on November 5, 1980, declared a year-end 3% stock dividend (approximately 975,000 shares) payable December 22, 1980, to stockholders of record November 21, 1980. The effect of the stock dividend, if retroactively applied in computing earnings per share, would be to decrease earnings per share by $0.02 in 1980 and $0.03 in 1979.

Auditors' Report

ARTHUR ANDERSEN & CO.

To the Stockholders and Board of Directors of Metro-Goldwyn-Mayer Film Co.:

We have examined the consolidated balance sheets of Metro-Goldwyn-Mayer Film Co. (a Delaware corporation) and subsidiaries as of August 31, 1980 and 1979, and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Metro-Goldwyn-Mayer Film Co. and subsidiaries as of August 31, 1980 and 1979, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

October 29, 1980
Los Angeles, California

Arthur Andersen & Co.

Management's Discussion of the Summary of Operations

To assist the reader in evaluating the Summary of Operations, a discussion of the principal variations in results for 1980 as compared to 1979, and for 1979 as compared to 1978, follows.

Operating Revenues and Operating Expenses

Operating revenues for fiscal 1980 decreased $11,791,000 (6%) from the prior year, whereas operating expenses increased $12,275,000 (9%). The decrease in operating revenues was attributable to revenues of $31,237,000 from the "Gone With The Wind" license discussed below which was recorded in fiscal 1979 with no comparable major revenues from television licenses reported in fiscal 1980. This decrease was partially offset by increases in revenues from television programs (one additional mini-series was produced in fiscal 1980 in comparison with the prior year) and from the Company's film laboratory which had increased revenues in fiscal 1980 from both its film processing activities for other producers and distributors and from sales of silver recovered from film processing. The increase in operating expenses for fiscal 1980 principally related to the increased television program and laboratory processing revenues mentioned above.

Operating revenues for fiscal 1979 increased $10,385,000 (6%) and operating expenses decreased $10,429,000 (7%) from fiscal 1978, resulting in improved operating income of $20,814,000 (53%). The increase in operating revenues was principally due to $31,237,000 in revenue recognized on a present-value basis from the licensing to network television of "Gone With The Wind." In addition, operating revenues from the Company's film laboratory showed improvement over fiscal 1978. Partially offsetting these increases were decreases in operating revenues from television series programming resulting from having one less network series in 1979 as compared to 1978, decreases in revenue from network licenses for features other than "Gone With The Wind" and decreases in revenue from domestic and foreign syndication of features. Operating expenses decreased as a result of the lower television program activity. Operating income from theatrical releases declined in fiscal 1979 in comparison with the prior year whereas operating income from television programming improved due to better profit margins on series.

General Corporate Administration

General corporate administration expenses in fiscal 1980 increased $918,000 (11%) as compared to fiscal 1979. This increase was due to increased compensation expense relating to the employee stock ownership plan referred to below, expenses of the spin-off of the Company from Metro-Goldwyn-Mayer Inc. and increased state and local taxes. These factors were partially offset by decreased provisions for incentive compensation.

General corporate administration expenses increased $2,834,000 (53%) in fiscal 1979 over 1978. A major portion of this increase related to provisions for compensation expense resulting from the adoption in May 1979 of an employee stock ownership plan pursuant to which cash resulting from the additional 1% investment tax credit made available under the Tax Reduction Act of 1975 is invested in stock for the benefit of qualified employees. (The increased provision for compensation expense was offset by an equal increase in investment tax credits made available by the Act.) Provisions for incentive compensation also increased in 1979 as a result of increased earnings and an increase in the maximum amounts available for distribution under the Company's profit-sharing plan as amended in November 1978.

Interest Expense

Interest expense increased $759,000 (14%) in fiscal 1980 over 1979 and $1,219,000 (28%) in fiscal 1979 over 1978. The increases were due to borrowings under a loan agreement to provide funds for expanded motion picture and television production activities and general corporate purposes.

Provision for Income Taxes

The provision for income taxes for fiscal 1980 decreased $12,814,000 from the prior year mainly due to a reduction in pre-tax income. The provision for income taxes increased $7,223,000 in fiscal 1979 over 1978 principally as a result of increased pre-tax income. In addition, the effective tax rate increased to 39% in 1979 from 37% in 1978 as a result of having a lesser amount of investment tax credits available to be utilized.

Metro-Goldwyn-Mayer Film Co. and Subsidiaries

Five Year Summary of Operations

(in thousands except per share amounts)

	1980	1979[3]
OPERATING REVENUES		
Filmed entertainment—		
Feature films	$ 141,623	$ 159,247
Television programs	39,554	33,721
Total operating revenues	$ 181,177	$ 192,968
OPERATING INCOME		
Filmed entertainment—		
Feature films	$ 34,032	$ 57,185
Television programs	1,672	2,585
Total operating income	35,704	59,770
NONOPERATING INCOME AND EXPENSES		
Interest and other income, net	2,285	2,321
General corporate administration	(9,126)	(8,208)
Interest expense	(6,308)	(5,549)
Income before provision for income taxes	22,555	48,334
Provision for income taxes	(6,098)	(18,912)
Income before extraordinary item	16,457	29,422
Extraordinary item, net of applicable income taxes	—	—
NET INCOME	$ 16,457	$ 29,422
Average number of common and common equivalent shares outstanding[2]	32,439,361	32,353,603
EARNINGS PER SHARE[2]		
Income before extraordinary item	$ .51	$ .91
Extraordinary item	—	—
NET INCOME[4]	$ .51	$ .91

[1] See note 2 to Financial Statements.

[2] Adjusted to reflect 6% stock dividend of record November 21, 1979.

[3] Feature film operations for fiscal 1979 include $31,237 of operating revenues and $15,922 of net income ($.49 per share), recognized from the licensing of network television rights to "Gone With The Wind."

[4] Per share amounts have not been adjusted to reflect the effect of a 3% stock dividend of record November 21, 1980. The effect on net income per share would be to reduce income per share by $0.02, $0.03, $0.02, $0.02 and $0.02 for 1980 through 1976, respectively.

For the Years Ended August 31,[1]

1978	1977	1976
$ 138,797	$ 110,682	$ 96,133
43,786	28,504	27,762
$ 182,583	$ 139,186	$ 123,895
$ 37,040	$ 24,677	$ 20,276
1,916	1,932	40
38,956	26,609	20,316
2,011	2,438	5,678
(5,374)	(5,524)	(4,723)
(4,330)	(4,839)	(5,468)
31,263	18,684	15,803
(11,689)	(1,981)	778
19,574	16,703	16,581
—	—	3,564
$ 19,574	$ 16,703	$ 20,145
32,385,739	32,981,219	33,328,659
$ .60	$ .51	$ .50
—	—	.11
$ .60	$ .51	$ .61

Metro-Goldwyn-Mayer Film Co. and Subsidiaries

Quarterly Financial Information

For the years ended August 31, 1980 and 1979

	Operating Revenues	Operating Income	Net Income	Per Share Earnings
	(In thousands except per share amounts)			
1979				
First Quarter	$ 66,307	$ 33,778	$ 17,443	$ .54
Second Quarter	42,282	10,337	4,641	.14
Third Quarter	46,007	4,812	2,246	.07
Fourth Quarter	38,372	10,843	5,092	.16
1980				
First Quarter	$ 50,996	$ 10,385	$ 5,030	$ .15
Second Quarter	40,671	8,048	3,367	.11
Third Quarter	39,222	5,826	1,795	.06
Fourth Quarter	50,288	11,445	6,265	.19

See note 2 to the Financial Statements

Metro-Goldwyn-Mayer Film Co. and Subsidiaries

Common Stock Prices and Cash Dividends per Share

For the fourth quarter ended August 31, 1980

	Common Stock Price High	Common Stock Price Low	Cash Dividends Paid Per Share
1980			
Fourth Quarter	$ 9.50	$ 6.75	$ .05

The principal market for the Common Stock of the Company is the New York Stock Exchange.
The Company's stock began trading on June 2, 1980; accordingly, cash dividends paid and market prices prior to that date are not available *(see note 2 to Financial Statements).*

AUDITORS

ARTHUR ANDERSEN & CO.
911 Wilshire Boulevard, Los Angeles, CA 90017

TRANSFER AGENTS

THE CHASE MANHATTAN BANK (N.A.)
1 New York Plaza, New York, NY 10015

BANK OF AMERICA (N.T. & S.A.)
111 West Seventh Street, Los Angeles, CA 90014

REGISTRARS

THE CHASE MANHATTAN BANK (N.A.)
1 New York Plaza, New York, NY 10015

BANK OF AMERICA (N.T. & S.A.)
111 West Seventh Street, Los Angeles, CA 90014

FORM 10-K

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge to any shareholder upon written request to Mr. Stanley B. Feuer, Vice President-General Counsel-Corporate and Secretary, Metro-Goldwyn-Mayer Film Co., 10202 West Washington Boulevard, Culver City, California 90230.

ANNUAL STOCKHOLDERS' MEETING

The Annual Meeting of Stockholders of Metro-Goldwyn-Mayer Film Co. will be held at 10:00 a.m. Saturday, January 10, 1981, at the offices of the Company, 10202 West Washington Boulevard, Culver City, California.

METRO-GOLDWYN-MAYER INC.

10202 West Washington Blvd., Culver City, California 90230

NOTICE OF ANNUAL MEETING TO BE HELD ON

January 5, 1980

To the Stockholders:

The Annual Meeting of Stockholders of Metro-Goldwyn-Mayer Inc. ("MGM"), a Delaware corporation, will be held at MGM's offices, 10202 West Washington Boulevard, Culver City, California on January 5, 1980 at 10:00 A.M., for the following purposes:

1. To elect a Board of Directors.
2. To consider and act upon the ratification of the selection of independent auditors.
3. To consider and act upon the ratification of the 1979 Employee Stock Option Plan. A copy of the option plan is annexed to the accompanying proxy statement as Exhibit A.
4. To consider and act upon a proposal of a stockholder relating to rotating the location of Annual Meetings of Stockholders.
5. To consider and act upon a proposal of stockholders relating to cumulative voting in the election of directors.
6. To transact such other business as may properly come before the meeting or any adjournments thereof.

Stockholders of record at the close of business on November 21, 1979, are entitled to notice of and to vote at the meeting. A list of such stockholders will be available for examination at MGM's offices, 10202 West Washington Boulevard, Culver City, California on and after December 17, 1979.

By order of the Board of Directors,

BERNARD SEGELIN,
Secretary

December 4, 1979

PLEASE DATE, SIGN AND MAIL THE ENCLOSED PROXY.

Use the enclosed envelope which requires no postage for mailing in the United States.

METRO-GOLDWYN-MAYER INC.

10202 West Washington Blvd., Culver City, California 90230

PROXY STATEMENT

December 4, 1979

The form of proxy accompanying this Proxy Statement and the persons named therein as proxies have been approved by the Board of Directors of Metro-Goldwyn-Mayer Inc. ("MGM"), and this solicitation is made on behalf of the management of MGM. Any proxy given pursuant to this solicitation is revocable at any time prior to the exercise thereof, and the persons executing the same, if in attendance at the meeting, may vote in person instead of by proxy. When proxies in the form accompanying this Proxy Statement are returned properly executed, the shares represented thereby will be voted as indicated therein and in this Proxy Statement, and where a choice has been specified by the stockholder on the proxy, the shares will be voted in accordance with the specification so made.

Matters to be considered and acted upon at the meeting are set forth in the Notice of Annual Meeting accompanying this Proxy Statement and are more fully outlined herein. This proxy material was first mailed to stockholders on or about December 4, 1979.

The authorized capital stock of MGM presently consists of 40,000,000 shares of Common Stock (without par value) and 1,000,000 shares of Cumulative Preferred Stock (without par value), none of said Preferred Stock having been issued. At the close of business on November 21, 1979, the record date for determining stockholders entitled to vote at the meeting, 30,333,107 shares of Common Stock were outstanding and entitled to be voted at the meeting. Each stockholder is entitled to one vote for each share held of record on that date on all matters which may come before the meeting. (References in this Proxy Statement to numbers of shares of Common Stock or per share prices of stock options do not give effect to a 6% stock dividend payable on December 21, 1979 to stockholders of record on November 21, 1979.)

Shown below is certain information as of October 26, 1979 with respect to beneficial ownership of shares of Common Stock by the only person or entity who is known to MGM to be the beneficial owner of more than five percent of MGM's Common Stock and by all directors and officers of MGM as a group.

Beneficial Owner	Amount Beneficially Owned	Nature of Beneficial Ownership(1)	Percent of Class
Kirk Kerkorian 4045 Spencer Street Las Vegas, Nevada	13,902,252(2)	Sole voting and investment power	45.8
All directors and officers as a group	803,244(3)	Sole voting and investment power	2.6

(1) Subject to applicable community property and similar statutes.

(2) Of these shares, 12,365,390 are held by Tracinda Investment Corporation ("Tracinda"), which is wholly-owned by Mr. Kerkorian. Tracinda has a bank lending agreement pursuant to which certain loans have been, and in the future may be, made to it. These loans, which bear interest payable quarterly at a rate slightly in excess of the bank's prime lending rate, are secured by a pledge of the 12,365,390 shares of MGM Common Stock owned by Tracinda, as well as 1,750,700 shares of Columbia Pictures Industries, Inc. Common Stock (approximately 18% of the outstanding). The pledged securities have a current market value substantially in excess of 200% of the amount of the loans. The loans are due on October 31, 1983, unless Tracinda prior thereto elects to have the loans repayable in 16 equal quarterly installments beginning after such election. The related loan agreement contains various covenants of Tracinda, including that the pledged collateral at all times have a market value equal to the greater of 155% of the amounts which have been and may be borrowed under the agreement and applicable margin requirements. Any event of default under the loan agreement which results in a foreclosure upon the pledged securities might result in a change in Mr. Kerkorian's control position with respect to MGM.

(3) The number of shares of Common Stock shown as beneficially owned includes 146,822 shares which persons in the group have the right to acquire within 60 days following October 26, 1979, through the exercise of stock options and includes 310 shares held of record as to which beneficial ownership is disclaimed.

As indicated above, Kirk Kerkorian owns beneficially 13,902,252 shares of MGM's Common Stock (over 45% of the presently outstanding shares). Mr. Kerkorian intends to vote his aforesaid MGM shares in favor of the nominees for the Board of Directors listed in the Proxy Statement. Since the holders of MGM's Common Stock do not have cumulative voting rights, if Mr. Kerkorian's shares represent more than 50% of the shares voted at the meeting (as is anticipated), Mr. Kerkorian will be able to elect the entire Board of Directors. Mr. Kerkorian also intends to vote his shares in favor of Items 2 and 3 and against Items 4 and 5 below, and Mr. Kerkorian's aforesaid votes will be sufficient (subject to the qualification stated above) to cause the adoption of Items 2 and 3 and the rejection of Items 4 and 5.

1. ELECTION OF DIRECTORS

One of the purposes of the meeting is to elect ten directors, each of whom will serve until the next annual meeting of the stockholders or until his respective successor shall have been elected and qualified or until his earlier resignation or removal.

The shares represented by the proxies solicited hereunder will be voted in favor of the election of the persons named below unless authorization to do so is withheld in the proxy. In the event any of said nominees should be unavailable to serve as a director, which contingency is not presently anticipated, it is the intention of the persons named in the proxies to select and cast their votes for the election of such other person or persons as the Board of Directors may designate.

The table set forth below names each nominee for director and gives information concerning his principal occupation for the past five years, his beneficial ownership of MGM Common Stock, and certain other matters.

Name	Principal Occupation for the Past 5 Years, Certain Other Directorships and Age	First Became an MGM Director	Common Stock of MGM Beneficially Owned October 26, 1979(1)	Percent of Class
James D. Aljian	President of Tracinda Investment Corporation, investment company, and Consultant to MGM since May 1979; previously Senior Vice President - Finance of MGM. Mr. Aljian also served as general manager of Tracinda Investment Company until January 1977. Also a director of Southwest Leasing Corporation; 46(2).	1969	94,352	(3)
Alvin Benedict	Chairman of the Board of Directors of MGM Grand Hotel, Inc. since July 1979 and Chairman of the Board of Directors of MGM Grand Hotel-Reno, Inc. since April 1979; previously President of MGM Grand Hotel, Inc. Also a director of Frontier Savings Assn., Las Vegas, Nevada; 55.	1972	61,514	(3)
Fred Benninger	Chairman of the Board of Directors of MGM and Chairman of the Executive Committee since April 1979; previously Chairman of the Board of Directors of MGM Grand Hotel, Inc. until July 1979; 62.	1969	2,496	(3)
Barrie K. Brunet	Executive Vice President of MGM and President of MGM Grand Hotel-Reno,	1973	125,578	(3)

Name	Principal Occupation for the Past 5 Years, Certain Other Directorships and Age	First Became an MGM Director	Common Stock of MGM Beneficially Owned October 26, 1979(1)	Percent of Class
	Inc. since April 1979; previously Chairman of the Board of Directors of MGM Grand Hotel-Reno, Inc. from January 1976; 54.			
Cary Grant	Executive and Director of Fabergé, Inc., cosmetics; motion picture actor-producer; 75.	1975	2,806(4)	(3)
Peter M. Kennedy	Chairman of the Board of Directors, Dominick International Corp., and Dominick & Dominick, Incorporated, investment banking and securities. Also a director of Unionmutual Company of New York, Harding Glass Industries, Inc., and Drexel Heritage Furnishings Inc.; 57.	1978	630	(3)
Arthur G. Linkletter	Lecturer, broadcaster and investor; Chairman of the Board, Linkletter Enterprises, Inc., investment and development company. Also a director of Western Air Lines, Inc., McMoRan Exploration Corp., National Liberty Corp.; 67.	1975	2,496	(3)
Frank E. Rosenfelt	President and Chief Executive Officer of MGM; 57.	1973	251,190	(3)
Walter M. Sharp	President, Community Bank, Huntington Park, California, banking; 63.	1970	9,372	(3)

Name	Principal Occupation for the Past 5 Years, Certain Other Directorships and Age	First Became an MGM Director	Common Stock of MGM Beneficially Owned October 26, 1979(1)	Percent of Class
Dr. Kenneth L. Trefftzs	Professor of Finance, School of Business Administration, University of Southern California. Also a director of The Colwell Company, a mortgage banking firm; Source Capital, Inc., a closed end investment company; American General Enterprise Fund, Inc., a mutual fund; American General Total Return Fund, a mutual fund; Comstock Fund, Inc., a mutual fund; Harbor Fund, Inc., a mutual fund; Pace Fund, Inc., a mutual fund and Fremont General Corporation, an insurance holding company; 67.	1979	500	(3)

(1) Except as otherwise indicated and subject to applicable community property and similar statutes, the persons listed as beneficial owners of the shares have sole voting and investment power with respect to said shares.

(2) Mr. Kerkorian is sole proprietor of Tracinda Investment Company and sole stockholder of Tracinda Investment Corporation.

(3) Less than 1%.

(4) Of these, 310 represent shares which Mr. Grant owns of record as custodian for a minor daughter. Mr. Grant disclaims beneficial ownership of said shares.

INFORMATION REGARDING MGM BOARD AND COMMITTEES

Committees: Functions, Membership and Meetings. The following is a brief description of the functions of certain Committees of the Board of Directors and the identity of their members.

The Executive Committee — During intervals between the meetings of the Board of Directors, the Executive Committee exercises all the powers of the Board (except those powers specifically reserved by Delaware law to the full Board of Directors) in the management and direction of the business and conduct of the affairs of MGM in all cases in which specific directions have not been given by the Board. This Committee's current members are Fred Benninger (Chairman), Alvin Benedict, Frank E. Rosenfelt and Walter M. Sharp. Five Executive Committee meetings were held in fiscal 1979.

The Audit Committee — The functions of the Audit Committee are to recommend an accounting firm to conduct an annual audit of MGM's books and to review with such firm the plan and scope of its audit for the year, the results of such audit when completed, and the fees for the services performed. The Committee also reviews with the independent and internal auditors the adequecy of internal control systems and receives reports from the internal audit department. The Committee reports its findings to the full Board of Directors. The Committee is composed exclusively of directors who are not salaried employees and who are, in the opinion of the Board of Directors, free from any relationship which would interfere with the exercise of independent judgment as a Committee member. Walter M. Sharp (Chairman) and Peter M. Kennedy are the current members of the Audit Committee. Two Audit Committee meetings were held in fiscal 1979.

MGM does not have a standing nominating or compensation committee of the Board of Directors.

Board Meetings. Nine meetings of the Board of Directors were held during fiscal 1979, with certain of such meetings held by unanimous written consent. The work of MGM directors is performed not only at meetings of the Board of Directors and its Committees but also in consideration of MGM matters and documents and in numerous communications among Board members and others wholly apart from meetings. During fiscal 1979 all incumbent directors attended more than 75% of the aggregate of (1) the total number of meetings of the Board of Directors (held during the period for which they were directors) and (2) the total number of meetings of all committees of the Board on which they served (during the periods that they served).

Fees for Board and Committee Service. MGM pays each non-employee director at the rate of $1,500 for each meeting attended of the Board of Directors with the total annual compensation to be a minimum of $6,000 and a maximum of $10,500. Each non-employee director who is a member of the Executive Committee receives an annual fee of $10,000. Each non-employee director who is a member of the Audit Committee is compensated at the rate of $1,500 for each meeting attended of the Audit Committee with the total annual compensation to be a maximum of $7,500. Directors are also reimbursed expenses of attendance at Board and Committee meetings.

REMUNERATION AND OTHER INFORMATION

The following table sets forth information concerning remuneration paid or accrued by MGM and its subsidiaries for services in all capacities during the portion of the fiscal year ended August 31, 1979, which the persons named below were directors or officers, to (1) each of the six highest paid executive officers or directors of MGM during such year, and (2) all persons, as a group, who at any time during such year were directors or officers of MGM.

Name of Individual or Group and Capacities in Which Remuneration Received	Cash and Cash Equivalent Forms of Remuneration: Salaries	Incentive Compensation (1)	Securities and Personal Benefits (2)	Aggregate of Contingent Forms of Remuneration (3)
Fred Benninger Chairman of the Board of Directors	$ 225,000	$ 161,300	$ 500	$ — (4)
Frank E. Rosenfelt President and Chief Executive Officer	193,700	125,000	4,870,000	—
Alvin Benedict President and, after July 16, 1979, Chairman of the Board of Directors of MGM Grand Hotel, Inc. and, after April 10, 1979, Chairman of the Board of Directors of MGM Grand Hotel-Reno, Inc.	213,000	159,760	360,000	450 (5)
Barrie K. Brunet Executive Vice President of MGM and, after April 10, 1979, President of MGM Grand Hotel-Reno, Inc. and, prior thereto, Chairman of the Board of Directors of MGM Grand Hotel-Reno, Inc.	121,300	23,500	2,330,000	—
James D. Aljian Senior Vice President — Finance, and after May 14, 1979, Consultant to MGM	59,700	47,500	1,780,500	—
Jason Rabinovitz Vice President — Finance	80,900	21,500	360,000	—
All officers and directors as a group (19 persons including those named above)	2,025,000	1,028,800	10,279,000	—

(1) Incentive awards are paid during the year succeeding the year to which they relate. Accordingly, awards relating to fiscal 1978 performance were paid in January 1979 and are reflected in the above table. See "Profit-Sharing Plans and Incentive Compensation Arrangements" described elsewhere herein. In December 1978, MGM entered into an agreement with Mr. Benninger providing that the incentive compensation which he earned in fiscal 1978 and may earn in subsequent fiscal years shall be paid in 60 equal monthly installments following termination of employment. The award accrued for Mr. Benninger for fiscal 1978 is reflected in the above table. The agreement may be terminated by either

party prior to the beginning of any fiscal year. As a condition to MGM's obligation to make such payments, Mr. Benninger must refrain from engaging in the operation or management of a hotel-casino business which competes with the MGM Grand Hotels in Las Vegas or Reno, Nevada.

(2) The amounts shown consist exclusively of the difference between the option price and the fair market value of shares of MGM Common Stock on the date of exercise of stock options during fiscal 1979, and of amounts, not in excess of $500 per person, for the value of automobiles furnished to executives for personal as well as business use. The imputed profit shown in the above table from exercise of stock options resulted from the appreciation in value of MGM Stock over a period of years. Such options to the named officers were granted at the fair market value of the MGM Stock at the time of each grant during the years 1970 to 1976. The amounts indicated do not represent a cash payment from MGM to the executives or an actual profit realized by the executives.

The above table does not include amounts to be contributed to executives under the MGM Employee Stock Ownership Plan since initial funding of the Plan and allocation to participant's accounts for service during fiscal 1979 will not occur until approximately May 1980. See "Employee Stock Ownership Plan" described elsewhere herein.

(3) The above table does not include MGM's fiscal 1979 contributions to the Metro-Goldwyn-Mayer Inc. Employees' Retirement Plan since the Plan is a "defined benefit plan" and thus such amounts cannot be readily calculated for each individual employee by the Plan's actuaries. The amount charged to earnings in fiscal 1979 with respect to contributions to the Plan represented approximately 8% of the total covered remuneration of all Plan participants. The remuneration covered by the Plan includes total compensation exclusive of overtime, bonuses or earnings in excess of $200,000 per year. See "Employees' Retirement Plan" described elsewhere herein.

(4) Mr. Benninger is not a member of MGM's Employees' Retirement Plan.

(5) MGM Grand Hotel, Inc., which employs Mr. Benedict, does not participate in MGM's Employees' Retirement Plan. However, pursuant to an employer sponsored Individual Retirement Account plan, $450 was contributed in fiscal 1979 to Mr. Benedict's retirement account.

PROFIT-SHARING PLANS AND INCENTIVE COMPENSATION ARRANGEMENTS

MGM initiated profit-sharing plans for executives and employees of the MGM Grand Hotel-Las Vegas in May 1974 and for MGM Grand Hotel-Reno in October 1978 and for MGM's other executives in the United States in May 1974. The plans can be discontinued or modified at any time. The plans for hotel executives and employees provide for a percentage of annual profits of each department to be divided among executives and employees of the department on a discretionary basis. The plan for MGM's non-hotel executives (which was amended in November, 1978) provides for a percentage of MGM's annual pre-tax operating profits (as defined and excluding profit from the MGM Grand Hotel-Las Vegas and MGM Grand Hotel-Reno) in excess of $4,000,000 to be available for distribution on a discretionary basis. If such profits are from $4,000,000 to $22,500,000, varying amounts are available for distribution depending on the amount of such profits, with a maximum of $650,000 being available if such profits reach or exceed $22,500,000. Of the amount so available for distribution to non-hotel executives, at least 50% must be distributed annually, with any remainder being available for future distribution. Approximately $1,977,000 and $2,891,000, respectively, was charged to income for the fiscal year ended August 31, 1978 and August 31, 1979 to provide for distributions under both plans. Of the amount charged for fiscal 1978 approximately $742,520 was distributed to MGM's officers and directors as a group. The amount charged for fiscal 1979 has not yet been allocated or distributed. In addition, Mr. Benninger and Mr. Rosenfelt received incentive compensation awards for fiscal 1978 which are not included in the profit sharing arrangements described in this paragraph.

INFORMATION CONCERNING STOCK OPTIONS

The following table sets forth information as to (i) options granted or exercised from September 1, 1974 through October 26, 1979 under the MGM stock option plans, (ii) shares sold during such period, and (iii) options outstanding on October 26, 1979, with respect to each director and executive officer named in the table on page 6 (except Mr. Benninger who has not been granted stock options), and all directors and officers as a group.

Common Stock (1)	James D. Aljian	Alvin Benedict	Barrie K. Brunet	Jason Rabinovitz	Frank E. Rosenfelt	All directors and officers as a group
Options Granted:						
Number of shares	—	100,000	—	44,050	16,000	481,202
Average option price per share	—	$21.06	—	$ 8.42	$21.06	$15.11
Options Exercised:						
Number of shares	93,730	218,700	124,956	18,026	249,944	1,011,048
Aggregate option price ..	$ 200,035	$ 644,882	$ 310,007	$ 101,306	$ 590,726	$ 2,693,880
Aggregate market value on date of exercise	$1,980,046	$2,546,145	$2,639,696	$ 460,745	$5,460,027	$16,778,563
Sales of Common Stock:						
Number of shares	—	157,500	—	—	—	339,070
Options Unexercised:						
Number of shares	—	100,000	—	26,024	16,000	546,388
Average option price per share	—	$21.06	—	$10.37	$21.06	$13.62

(1) The information has been adjusted to reflect the 2½-for-1 stock split in 1975 and the 2-for-1 stock split in January 1979 as well as 4%, 9%, 5% and 5% stock dividends for the 1975 through 1978 fiscal years.

During the period September 1, 1974 through October 26, 1979, options covering a total of 1,226,800 shares at an average option price of $13.61 were granted to all employees of MGM and its subsidiaries.

EMPLOYEE STOCK OWNERSHIP PLAN

In May 1979, an Employee Stock Ownership Plan was adopted by MGM and designated subsidiaries which permits MGM to pass on to qualified employees an annual tax savings equal to 1% of MGM's qualified investment for investment tax credit purposes. The Plan involves no out-of-pocket cost to MGM except for a portion of the cost of organizing and administering the Plan, which costs are expected to be nominal. The cash generated by the tax credit will be invested in MGM Common Stock purchased on the open market. The stock is then allocated to each participant's account in the proportion that the participant's earnings (excluding compensation of any participant exceeding $50,000 annually) bears to the total earnings of all participants for the year. Vesting occurs upon allocation, however, distribution is made only upon termination of employment, retirement, permanent disability or death. Officers of MGM participate on the same basis as other employees. At August 31, 1979, there were approximately 130 employees eligible to participate in the Plan. Initial funding of the Plan for service by participants during fiscal 1979 will not occur until approximately May 1980. The amount of the investment tax credit available to the Plan will be approximately $1,500,000.

EMPLOYEES' RETIREMENT PLAN

The following table sets forth the annual benefits estimated to be payable under the Metro-Goldwyn-Mayer Inc. Employees' Retirement Plan as presently in effect, assuming continued employment at the current rate of compensation until normal retirement (age 65) with no other changes in the Plan. Benefits are accumulated annually for each employee on an individual basis. The annual retirement benefits are based on the number of years that the employee has been a member of the Plan; whether the employee was a member of the Plan during the period 1959 to 1967; the employee's total compensation during the particular year, exclusive of overtime, bonuses or earnings in excess of $200,000 and the Social Security tax in effect during said year. MGM's contributions are made to the Plan's general trust fund and are based on advice from MGM's actuaries, taking into consideration actuarial gains and losses. MGM does not accumulate retirement funds for individual participants of the Plan. The Plan also provides for voluntary contributions on the part of employees, the benefits of which have been excluded from the table. Subject to certain conditions, MGM can modify or discontinue the Plan at any time.

Name of Individual or Group (1)	Estimated Annual Benefits Upon Retirement
Frank E. Rosenfelt	$ 44,800
Barrie K. Brunet	32,900
James D. Aljian	6,100
Jason Rabinovitz	13,100
All officers and directors as a group (15 persons including those named above)	322,000

(1) See notes (4) and (5) on page 8.

OTHER TRANSACTIONS

In March, 1976, MGM loaned Mr. Rosenfelt the sum of $75,000 in connection with his purchase of a residence, which loan bears interest at ½% above the prime rate (but not exceeding an average rate of 10% per annum over the life of the loan). Said loan is secured by a second deed of trust on the home. As of September 1, 1978 the loan's outstanding balance was approximately $44,300 and at November 1, 1979 the balance was $26,900.

Since the beginning of the 1979 fiscal year, MGM has chartered for business purposes aircraft owned by Tracinda Investment Corporation (of which Mr. Kerkorian, MGM's principal stockholder, is sole stockholder) eleven times for payments aggregating $159,267. The rates charged by Tracinda Investment Corporation cover costs incurred in connection with such charters. MGM believes that the prices charged for such charters were more favorable than those obtainable from other charter firms for comparable aircraft. MGM may charter aircraft from Tracinda Investment Corporation in the future if the need arises.

Insurance has been obtained for certain liabilities that MGM may incur because of indemnity provisions in its By-Laws and under Delaware law, and coverage is also provided for certain liabilities that may be incurred by MGM's officers and directors. In fiscal 1979, MGM paid approximately $94,000 in premiums for such insurance. Additional insurance to cover fiduciary acts by MGM, its directors and employees, under the Employment Retirement Income Security Act of 1974, was purchased at an annual premium cost of $6,350.

INFORMATION CONCERNING POSSIBLE DISTRIBUTION OF SHARES OF MGM FILMED ENTERTAINMENT COMPANY

On November 14, 1979, MGM issued the following press release:

> Metro-Goldwyn-Mayer Inc. ("MGM") said its Executive Committee instructed management to study the feasibility of restructuring the Company into two separate publicly held companies — one consisting of the hotel/gaming operations and the other of filmed entertainment operations.
>
> A principal purpose of the restructuring would be to strengthen and increase the activities of the filmed entertainment company and make it a more significant entity in the motion picture and television industries.
>
> Frank E. Rosenfelt, President and Chief Executive Officer, said the Company was exploring the feasibility of separating the filmed entertainment activities of MGM into a separate entity and distributing the shares of that unit to MGM stockholders on a tax-free basis. It would be the intent to list the shares of the film company on the New York Stock Exchange. The hotel/gaming operations would remain in the current MGM corporate entity.
>
> As a result of the proposed distribution, the holders of MGM Common Stock would continue to own their MGM Common Stock (which company would then consist of hotel/gaming operations) and, in addition, would receive shares in the MGM filmed entertainment company proportionate to their holdings of MGM Common Stock.

Mr. Rosenfelt indicated that the Company's decision with regard to the spin-off would be subject to various conditions, including the receipt of a tax ruling that the proposed distribution would be tax-free to stockholders, the determination that the distribution would be in compliance with various indenture restrictions, and the receipt of various government regulatory agency approvals.

Mr. Rosenfelt stated that if a plan to spin-off the filmed entertainment operations was approved by the Board, and if all required conditions are met and approvals obtained in timely manner, a special meeting of stockholders would be called to act on the proposal in the Spring of 1980.

As indicated in the above press release, in the event that MGM proceeds with the proposed distribution of stock in the filmed entertainment company, a special meeting of stockholders will be called to act on the proposal.

2. SELECTION OF AUDITORS

The Board of Directors, acting upon the recommendation of the Audit Committee, has appointed, subject to ratification by the stockholders, the firm of Arthur Andersen & Co., certified public accountants, to audit the books, records and accounts of MGM and its subsidiaries for the fiscal year ending August 31, 1980. Said firm has acted as auditors for MGM since 1957. Audit services include the examination of financial statements for inclusion in reports to stockholders, the Securities and Exchange Commission and others and assistance on accounting matters. For fiscal 1979, Arthur Andersen & Co. provided both audit and non-audit services for MGM. Fees paid for fiscal 1979 for non-audit services amounted to approximately 4% of the aggregate fees paid for audit services. Non-audit services, each representing less than 3% of the total audit fee, included consultation regarding internal controls and the training of internal auditors, and other accounting and tax matters.

Arthur Andersen's services related to the consultation regarding internal controls and training for internal auditors noted above were performed as part of a cooperative program it has made available to each of its United States audit clients whereby it will absorb an amount up to 10% of the fees for each of the three annual audits performed for the years ending between August 1979 and August 1981 for services designed to improve internal controls and thereby reduce the time required to perform the audits. Had no fees been absorbed by Arthur Andersen & Co. under this cooperative program, the fees MGM would have incurred during 1979 for non-audit services for training of internal auditors and consultation regarding internal controls would have amounted to less than 3% of audit fees. Arrangements have been made for this cooperative program to continue during 1980 and 1981.

The Audit Committee of the Board of Directors reviewed the fiscal 1979 audit plan and approved the performance of non-audit services by Arthur Andersen & Co. prior to the performance of such services and concluded that the furnishing of such non-audit services would not impair the independence of such firm.

Representatives of Arthur Andersen & Co. are expected to be present at the stockholders' meeting with the opportunity to make a statement if they desire to do so and to respond to appropriate questions.

The Board of Directors recommends a vote FOR adoption of this proposal.

3. 1979 EMPLOYEE STOCK OPTION PLAN

The proposed 1979 Employee Stock Option Plan (the "1979 Plan") was adopted by the Board of Directors on November 6, 1979, subject to ratification by the stockholders at the Annual Meeting to be held on January 5, 1980, and will become operative only if it is ratified by the holders of a majority of MGM's shares voting thereon.

Purpose and Effect of Plan

The Board of Directors believe that MGM and its stockholders have benefited substantially over the years from the use of stock options to attract and motivate its employees. To aid in securing and retaining a strong management, the Board of Directors of MGM recommends ratification of the 1979 Plan to grant stock options to officers and certain key employees of MGM and its subsidiaries. Plans to provide stock options to key employees were adopted in 1967 (the "1967 Plan") and 1971 (the "1971 Plan"). As of November 1, 1979, the 1967 Plan was no longer in effect and only 7,800 shares were available for future stock option grants under the 1971 Plan. The 1979 Plan is similar to and will supplement the 1967 and 1971 Plans by providing for the issuance of up to an additional 500,000 shares.

The purpose of the 1979 Plan is to provide additional incentive for officers and key employees of MGM and its subsidiaries to invest in MGM's Common Stock and thereby increase their proprietary interest in MGM's business; to encourage such officers and employees to remain in the employ of MGM and its subsidiaries and to increase their personal interest in the continued success and progress of MGM. The adoption of the 1979 Plan is particularly important at this time, in view of the planned construction of a major hotel/casino in Atlantic City, New Jersey and major additions to the MGM Grand Hotels in Las Vegas and Reno. It is anticipated that the number of hotel employees will increase almost 50% as a result of the foregoing expansion program, and that competition for the services of experienced key hotel and casino employees will be severe for the foreseeable future.

In the event that stock of the filmed entertainment company is distributed to stockholders of MGM (See "Information Concerning Possible Distribution of Shares of MGM Filmed Entertainment Company" described elsewhere herein), the 1979 Plan would thereafter be used exclusively to grant stock options to key employees of the hotel/gaming operations.

Management Recommendation

The Management of MGM recommends adoption of this proposal.

Payment for Shares

MGM will not lend to the optionees any portion of the purchase price of shares purchased under options. Payment of the full option price will be required before delivery of the stock is made to the optionees. The monies paid by the optionees for their purchased stock are to be added to working capital and will be available for any corporate purpose.

Shares Subject to the 1979 Plan

Shares to be issued upon the exercise of options under the 1979 Plan may be either original issue shares or shares reacquired by MGM (treasury shares). The MGM Board of

Directors has heretofore authorized the repurchase of MGM's Common Stock with the shares to be held as treasury shares and issued from time to time to meet contractual obligations to optionees under the 1967 and 1971 Plans and has similarly authorized the repurchase of Common Stock for issuance to optionees under the 1979 Plan. Such repurchase program prevents the dilution which would otherwise occur upon the issuance of previously unissued shares pursuant to the exercise of options. As of October 26, 1979, 1,735,500 shares had been so repurchased.

Summary of 1979 Employee Stock Option Plan

The complete text of the 1979 Plan is attached hereto as Exhibit A. Some of the more important features of the 1979 Plan may be summarized as follows, but the following description is qualified in its entirety by express reference to the terms of the 1979 Plan attached hereto.

Shares To Be Optioned; Changes In Corporate Structure

Subject to adjustment in the event of stock dividends, stock splits, or other changes in the corporate structure of MGM affecting its Common Stock, the number of shares to be issued pursuant to options granted under the 1979 Plan may not exceed 500,000 shares of Common Stock as presently constituted. However, no adjustment will be made for the 6% stock dividend payable on December 21, 1979 to stockholders of record on November 21, 1979. In the event of a future stock dividend, stock split or other change in the corporate structure of MGM affecting its Common Stock, such adjustment shall be made in the aggregate number of shares subject to the 1979 Plan, and the number and option price of shares subject to options granted under the 1979 Plan, as may be determined to be appropriate by the Board of Directors upon recommendation by the Committee administering the 1979 Plan. No option may be granted under the Plan after November 5, 1989. Shares subject to lapsed or terminated options will be available for future options.

Administration of Plan

The 1979 Plan is to be administered by a Committee of the Board of Directors, none of which Committee's members will be eligible to participate in the 1979 Plan. The Committee is to designate the participants, the number of shares to be optioned, the option prices, and the term of each option, which shall not exceed 10 years.

Eligible Employees

Salaried officers and other key employees of MGM and its subsidiaries will be eligible for options. More than one option may be granted to an employee. Directors who are not full-time officers or employees are not eligible.

Option Price

The price at which shares of Common Stock may be purchased upon exercise of an option shall not be less than 100% of the fair market value on the Common Stock on the date the option is granted. The last sale price of Common Stock of MGM on November 6, 1979 on the New York Stock Exchange — Composite Transactions was $17.75 per share.

Exercise of Options

The holder of an option must remain in the continuous employ of MGM or a subsidiary for not less than one year from the date the option is granted before any part of the option can be exercised. Subject to the foregoing, each option will be exercisable at such time or times and with respect to such number of shares as shall be fixed by the Committee. In the event of termination of an optionee's employment by death or otherwise after one year of continuous employment, such option shall be exercisable with respect to the number of shares to which the right to exercise had accrued prior to the date of termination of employment, plus, in case the option was not fully exercisable on such date, that proportion of shares that would next have become exercisable, but for such termination of employment, as the number of days the optionee was employed by MGM after the last preceding date on which the right to exercise the option for the additional shares bears to 365.

Termination of Options

If after a particular option becomes exercisable, and prior to the expiration date of such option, the optionee's employment terminates (i) by death, the option period is to extend one year thereafter, or (ii) for any other cause, it is to extend three months thereafter, or if the optionee dies during such three months, one year after such death. Such extensions will apply only as to options which have accrued prior to the particular event in accordance with the preceding paragraph. Options granted under the 1979 Plan are not transferable other than by will or by the laws of descent and distribution and during an optionee's lifetime are to be exercisable only by such optionee.

Amendment of Plan

The Board of Directors may amend, suspend, or discontinue the 1979 Plan, but may not, without the prior approval of the stockholders, by amendment (a) abolish the Committee, change the qualification of its members, or withdraw the administration of the 1979 Plan from its supervision, (b) make any material change in the class of eligible employees as defined in the Plan, (c) increase the total number of shares for which options may be granted under the 1979 Plan, (d) extend the term of the 1979 Plan or the maximum option period, (e) decrease the minimum option price, or (f) permit adjustments or reductions of the price at which shares may be purchased under any option granted under the 1979 Plan, except as permitted by the provisions relating to changes in corporate structure referred to above.

Tax Consequences of 1979 Plan

Options granted under the 1979 Plan will be non-qualified options not having a "readily ascertainable value". No income will be realized by or taxable to an optionee at the time of the grant of an option. However, at the time the option is exercised ordinary income will be realized by and taxable to the optionee in an amount equal to the excess of the fair market value of the stock at the date of exercise over the option price. The amount of income taxable to the optionee will be deductible by MGM in the taxable year the option is exercised. An optionee's basis for the stock acquired will be the fair market value of the stock on the date of exercise. At the time of sale of the option stock, any gain or loss realized by the optionee will be long-term or short-term capital gain or loss, depending on the holding period of the shares.

Ordinary income recognized by an optionee will generally qualify for the 50% maximum rate on personal service income.

Additional Information

As of October 26, 1979, of the 1,093,568 shares authorized to be issued under the 1967 Plan (after the 2½-for-1 split of 1975 and 2-for-1 split of 1979 and stock dividends of 4%, 9%, 5% and 5% for the 1975 through 1978 fiscal years), stock options for 193,757 shares were outstanding and stock options for 864,622 shares had been exercised. No further stock option grants can be made under the 1967 Plan.

Also as of October 26, 1979, of the 1,874,690 shares authorized to be issued under the 1971 Plan (after the splits and stock dividends described in the preceding paragraph), stock options for 756,304 shares were outstanding and stock options for 1,110,555 shares had been exercised. As of such date, there were 7,831 shares available for future stock option grants. Additional shares may become available for stock option grants under the 1971 Plan upon termination of outstanding stock options prior to their exercise.

Stock options have been granted under the 1967 Plan and 1971 Plan to approximately 145 present officers and other key employees. It is not possible to estimate the number of employees who may be granted stock options hereafter under the 1979 Plan.

4. STOCKHOLDER'S PROPOSAL REGARDING ROTATION OF PLACE OF STOCKHOLDER MEETINGS

A stockholder has submitted the following resolution accompanied by a supporting statement and a notice of intention to present said resolution for action at the Annual Meeting:

> "RESOLVED: That the stockholders of MGM recommend that the Board of Directors take the necessary steps to rotate the annual meeting between the cities of Los Angeles, Las Vegas, New York City, Washington, D.C. and Chicago."

Stockholder's Reasons

"Many major corporations rotate their annual meetings between principal cities where a major proportion of stockholders reside.

"Problems in the motion picture industry and the diversified business of MGM, makes maximum attendance by outside non-employee stockholders particularly desirable at MGM.

"Last year the owners of 378,641 shares voted FOR this resolution.

"If you AGREE, please mark your proxy FOR this resolution, otherwise it will be automatically cast against."

Management's Position

The Board of Directors recommends that you vote AGAINST this resolution.

This is the fourth time in nine years that this proposal has been presented by the same shareholder and on each prior occasion it has been overwhelmingly defeated. Last year over 96% of the shares voting at the meeting opposed the proposal.

MGM's By-Laws give to the Board of Directors the discretion to determine the location of stockholder meetings. Until 1970 stockholder meetings were held in New York because MGM's corporate headquarters were located in New York. Since the transfer of corporate headquarters to Culver City in 1970, these meetings have been held in Culver City. This has enabled MGM to use its own facilities and have its own employees handle the physical arrangements for the meetings.

If, in the future, other considerations arise, the Board should have the flexibility to set a meeting place in a different location.

Adoption of the foregoing proposal will require the affirmative vote of the holders of a majority of the shares of Common Stock present in person or by proxy and voted at the meeting.

5. STOCKHOLDERS' PROPOSAL REGARDING CUMULATIVE VOTING

Three stockholders have submitted the following resolution accompanied by a supporting statement and a notice of intention to present said resolution for action at the Annual Meeting:

> "RESOLVED: That the stockholders of Metro-Goldwyn-Mayer Inc., assembled in annual meeting in person and by proxy, hereby request the Board of Directors to take the steps necessary to provide for cumulative voting in the election of directors, which means each stockholder shall be entitled to as many votes as shall equal the number of shares he or she owns multiplied by the number of directors to be elected, and he or she may cast all of such votes for a single candidate, or any two or more of them as he or she may see fit."

Stockholders' Reasons

"Last year 860 owners of 379,828 shares voted in favor of our similar resolution. The vote against included the unmarked proxies.

"The importance of cumulative voting has been noted in the following words by the Securities and Exchange Commission in an Advisory Report on the proposed plan of reorganization of Yale Express:

> "Section 216(11) of Chapter X requires that the plan shall include equitable provisions with respect to the election of directors, and under section 216(12) the charter of the reorganized company must provide 'for the fair and equitable distribution' of voting power among the security holders. We have interpreted these provisions as requiring cumulative voting in the election of directors, and the plan in this proceeding should be amended accordingly."

"Among companies recently adopting cumulative voting for the first time are: National Fuel Gas, Daylin, Elgin National, De Soto, Greyhound, Viacom, McDonough Company and Brascan.

"If you agree, please mark your proxy for this resolution; otherwise it is automatically cast against it."

Management's Position

The Board of Directors recommends that you vote AGAINST this resolution.

This is the seventh time that this proposal has been presented, and on each prior occasion, the stockholders have overwhelmingly rejected it. Last year over 96% of the voting shares opposed the proposal.

It is management's firm belief that the Board of Directors should administer the affairs of MGM for the benefit of all of its stockholders. A director elected only because of a cumulative voting provision may represent only an individual stockholder or a small group of stockholders. This might tend to divide the Board of Directors into factions to the detriment of the best interests of MGM and the stockholders as a whole.

Adoption of the foregoing proposal will require the affirmative vote of the holders of a majority of the shares of Common Stock present in person or by proxy and voted at the meeting.

The names and addresses of the stockholders submitting the foregoing proposals will be furnished by MGM or by the Securities and Exchange Commission, either orally or in writing as requested, promptly upon the receipt of any oral or written request therefor.

6. OTHER BUSINESS

Management knows of no other business to be transacted, but if any other matters do come before the meeting, the persons named as proxies or their substitutes will vote or act with respect to such other matters in accordance with their best judgment.

7. OTHER INFORMATION

MGM will bear all costs in connection with the management solicitation of proxies. MGM intends to reimburse brokerage houses, custodians, nominees and others for their out-of-pocket expenses and reasonable clerical expenses. Officers and regular employees of MGM and its subsidiaries may request the return of proxies by telephone, telegraph or in person, for which no additional compensation will be paid them.

The Annual Report for the fiscal year ended August 31, 1979 accompanies this Proxy Statement.

By Order of the Board of Directors,

FRANK E. ROSENFELT
President and Chief Executive Officer

EXHIBIT A

METRO-GOLDWYN-MAYER INC.

1979 EMPLOYEE STOCK OPTION PLAN

Section 1. *Purpose and Effect.*

(a) The purpose of this plan is to promote the interests of the Company and its stockholders by providing a method whereby officers and other key employees of the Company and its subsidiaries may be encouraged to invest in the Company's Common Stock and thereby increase their proprietary interest in its business, encourage them to remain in the employ of the Company and increase their personal interest in its continued success and progress. This plan is intended to supplement the Company's 1967 Employee Stock Option Plan, as amended (the "1967 Plan") and the 1971 Employee Stock Option Plan (the "1971 Plan"), and shall not alter or amend in any way either the terms of the 1967 Plan or the 1971 Plan or any stock options granted or to be granted pursuant thereto; nor shall the 1967 Plan or the 1971 Plan in any way limit the number of options or right to receive options of any employees pursuant to this plan or in any other way limit or affect this plan and the options granted or to be granted hereunder.

(b) In the event that this plan is not approved by the stockholders of the Company, this plan and all options granted and to be granted hereunder shall be null and void, and the Company shall have no obligation of any nature whatsoever to any employee or other person arising out of either this plan or any options granted or to be granted hereunder.

Section 2. *Administration.*

(a) The Board of Directors shall designate from its members a committee (hereinafter referred to as the "Committee"), which Committee shall have full power and authority, subject to such orders or resolutions not inconsistent with the provisions of the plan as may from time to time be issued or adopted by the Board, to interpret the provisions and supervise the administration of the plan. None of the Committee members shall be eligible to receive options. All determinations by the Committee shall be made by the affirmative vote of a majority of its members, but any determination reduced to writing and signed by a majority of the members shall be fully as effective as if it had been made by a majority vote at a meeting duly called and held.

(b) Each option shall be evidenced by an option agreement which shall contain such terms and conditions as may be approved by the Committee and shall be signed by an officer of the Company and the employee.

(c) Subject to any applicable provisions of the Company's Bylaws, all decisions made by the Committee pursuant to the provisions of the plan and related orders or resolutions of the Board shall be final, conclusive and binding on all persons, including the Company, stockholders, employees, and optionees.

Section 3. *Shares Subject to the Plan.*

(a) The shares to be delivered upon exercise of options granted under the plan shall be made available, at the discretion of the Board of Directors, either from the authorized but unissued shares of the Company or from shares reacquired by the Company, including shares purchased in the open market.

(b) Subject to adjustments made pursuant to the provisions of paragraph (c) of this Section 3, the aggregate number of shares to be delivered upon exercise of all options which may be granted under this plan shall not exceed 500,000 shares. If an option granted under the plan shall expire or terminate for any reason during the term of the plan, the shares subject to but not delivered under such option shall be available for the grant of other options.

(c) In the event of a merger, reorganization, consolidation, recapitalization, stock dividend, stock split, or other change in corporate structure affecting the Company's Common Stock, such adjustment shall be made in the aggregate number of shares subject to the plan, and the number and option price of shares subject to options granted under the plan as may be determined to be appropriate by the Board of Directors upon recommendation by the Committee; provided, however no such adjustment shall be made for any stock dividend paid prior to ratification of the plan by the stockholders of the Company.

Section 4. *Eligibility and Participation.* The employees eligible to receive options shall consist of salaried officers and other key employees of the Company and its subsidiaries (whether or not directors of the Company). "Subsidiary" means a corporation in which Metro-Goldwyn-Mayer Inc., directly or indirectly, owns stock possessing 50 percent or more of the total combined voting power of all classes of stock of said corporation. Subject to the limitations of the plan, the Committee shall select the employees to be granted options, determine the number and option price of the shares subject to each option, and determine the time when each option shall be granted. More than one option may be granted to the same employee.

Section 5. *Term of Plan and Option Period.* The term during which options may be granted under this plan shall expire on November 5, 1989. Subject to the provisions of the plan with respect to death, retirement, and termination of employment, the maximum period during which each option may be exercised shall be fixed by the Committee at the time such option is granted but shall in no event exceed ten years.

Section 6. *Option Price.* The price at which shares may be purchased upon exercise of a particular option shall be not less than 100 per cent of the fair market value of such shares at the time such option is granted, as determined by the Committee. For this purpose such fair market value shall be the average of the highest and lowest prices at which the Company's Common Stock is traded on the New York Stock Exchange — Composite Transactions or, if not so traded, the average of the closing bid and asked prices thereof on such Exchange as reported for the day the option is granted.

Section 7. *Exercise of Options.*

(a) Each option granted under this plan may be exercised only after one year of continued employment by the Company or its subsidiaries immediately following the date the option is granted and, except in case of death, retirement, or termination of employment as hereinafter provided, only during the continuance of the optionee's employment with the Company or one of its subsidiaries. Subject to the foregoing limitations and the terms and conditions of the option agreement, each option shall be exercisable at such time or times and with respect to such number of shares as shall be fixed by the Committee and set forth in the option agreement; provided, however, if the Committee authorizes an option or options exercisable in more than one installment and if the employment of any optionee holding such an option is terminated by death, or otherwise, after one year from the date the option was granted, the number of shares with respect to which the option shall be deemed to have accrued shall be such number of shares as to which the right to exercise the option accrued prior to the date of termination of employment, plus, in case the option was not fully exercisable on such date, that proportion of the number of shares with respect to which the option would next have become exercisable but for such termination of employment as the number of days the optionee was employed by the Company, or its subsidiaries, prior to such date and subsequent to the last preceding date on which the right to exercise the option as to additional shares accrued bears to 365. No option may at any time be exercised in part with respect to fewer than fifty shares.

(b) No shares shall be delivered pursuant to the exercise of any option, in whole or in part, until qualified for delivery under such laws and regulations as may be deemed by the Committee to be applicable thereto and until payment in full of the option price therefor is received by the Company. No optionee, or the legal representative, legatee, or distributee of an optionee, shall be or deemed to be a holder of any shares subject to such option unless and until the certificate or certificates therefor have been issued.

Section 8. *Transferability of Options.* An option granted under the plan may not be transferred except by will or the laws of descent and distribution and, during the lifetime of the employee to whom granted, may be exercised only by such employee.

Section 9. *Death, Retirement, and Termination of Employment.* Any option, the period of which has not theretofore expired, shall terminate at the time of the death of the employee to whom granted or of the retirement or termination for any reason of such employee's employment with the Company and its subsidiaries, and no shares may thereafter be delivered pursuant to such option, except that

(a) Upon retirement or termination of employment (other than by death), an optionee may, within three months after the date of such retirement or termination, purchase all or part of the shares with respect to which such optionee is entitled to exercise such option in accordance with the provisions of Section 7 hereof, and

(b) Upon the death of any optionee while in active employment or within the three-month period referred to in (a) above, the person or persons to whom such optionee's rights under the option are transferred by will or the laws of descent and distribution may, within one year after the date of such optionee's death, purchase all or any part of the shares with respect to which the option is deemed to have accrued in accordance with the provisions of Section 7 hereof.

Section 10. *Amendments and Discontinuance.* The Board of Directors may amend, suspend, or discontinue the plan, but may not, without the prior approval of the stockholders, make any amendment which would (a) abolish the Committee, change the qualifications of its members, or withdraw the administration of the plan from its supervision, (b) make any material change in the class of eligible employees as defined in the plan, (c) increase the total number of shares for which options may be granted under the plan, (d) extend the term of the plan or the maximum option period, (e) decrease the minimum option price, or (f) permit adjustments in the number and option price of shares granted under the plan except as permitted by the provisions of paragraph (c) of Section 3 above.

Directors & Officers

Directors

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President
Tracinda Corp.
Las Vegas, Nevada

David Begelman*
President and Chief
Operating Officer

Alvin Benedict
President, Chief Operating
Officer and Director,
MGM Grand Hotels, Inc.

Fred Benninger*
Chairman of the Board and
Chief Executive Officer,
MGM Grand Hotels, Inc.

Barrie K. Brunet
President, MGM Grand Hotel-
Reno, Inc. and Director,
MGM Grand Hotels, Inc.

Cary Grant
Executive and Director,
Faberge, Inc.,
New York, New York

Peter M. Kennedy†
Chairman of the Board,
Dominick & Dominick, Inc.
New York, New York

Arthur G. Linkletter
Chairman of the Board,
Linkletter Enterprises, Inc.
Beverly Hills, California

Frank E. Rosenfelt*
Chairman of the Board and
Chief Executive Officer

Walter M. Sharp*†
President, Walter M. Sharp Company,
Beverly Hills, California

Dr. Kenneth L. Trefftzs†
Professor of Finance
School of Business Administration
University of Southern California
Los Angeles, California

*Member of Executive Committee
†Member of Audit Committee

Corporate Officers

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Chairman of the Board and
Chief Executive Officer

David Begelman
President and Chief
Operating Officer

Karla Davidson
Vice President,
General Counsel—
Entertainment

Frank I. Davis
Vice President, Business Affairs

Stanley B. Feuer
Vice President,
General Counsel—
Corporate and Secretary

Robert A. Harrison
Vice President and Controller

Roger L. Mayer
Vice President, Administration

Jason Rabinovitz
Vice President, Finance

Walter C. Hoffer
Treasurer

Benjamin B. Kahane
Assistant Secretary

David Terrasi
Assistant Treasurer

Kenneth A. Wagner
Assistant Controller

Other Officers of Subsidiaries and Divisions

Motion Picture Division

David Chasman
Senior Vice President,
Worldwide Head of
Theatrical Production

Richard Kahn
Senior Vice President,
Worldwide Head of Marketing

B. Boatwright
Vice President, Production—
East Coast

Willett Hunt
Vice President,
Motion Picture Development

Alfred S. Newman
Vice President,
Worldwide Advertising,
Publicity and Promotion

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Executive Production Manager

Albie Rosenhaus
Vice President,
Special Assistant to President

Michael Sevareid
Vice President, Production

Byron Shapiro
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Domestic Distribution

Arnold Shupack
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John Tarnoff
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Senior Vice President,
Business Affairs and
Administration

Werner Michel
Senior Vice President,
Current Programs

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Domestic Sales

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Vice President and Executive
Production Manager

Leslie H. Frends
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Administration

Dori Weiss
Vice President,
Program Development

MGM International

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Executive Vice President

Steven Clug
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Sales Manager

G. W. Edwards
Vice President,
Advertising and Publicity

MGM Laboratories

Roger L. Mayer
Executive Vice President

Walter Eggers
Vice President and
General Manager

Jim George
Vice President and
Assistant General Manager

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