MGM Resorts International
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES & EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 001-10362

MGM Resorts International

(Exact name of registrant as specified in its charter)

Delaware	88-0215232
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3600 Las Vegas Boulevard South, Las Vegas, Nevada 89109

(Address of principal executive offices)

(702) 693-7120

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at November 4, 2016
Common Stock, $.01 par value	573,366,718 shares

MGM RESORTS INTERNATIONAL AND SUBSIDIARIES

FORM 10-Q

I N D E X

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGM RESORTS INTERNATIONAL AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,446,158	$ 1,670,312
Accounts receivable, net	492,426	480,559
Inventories	97,400	104,200
Income tax receivable	478	15,993
Prepaid expenses and other	177,886	137,685
Total current assets	2,214,348	2,408,749
Property and equipment, net	17,948,045	15,371,795
Other assets		
Investments in and advances to unconsolidated affiliates	1,196,543	1,491,497
Goodwill	1,815,209	1,430,767
Other intangible assets, net	4,137,475	4,164,781
Other long-term assets, net	393,666	347,589
Total other assets	7,542,893	7,434,634
	$ 27,705,286	$ 25,215,178
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 232,490	$ 182,031
Construction payable	306,969	250,120
Current portion of long-term debt	—	328,442
Accrued interest on long-term debt	115,977	165,914
Other accrued liabilities	1,475,199	1,311,444
Total current liabilities	2,130,635	2,237,951
Deferred income taxes, net	2,543,815	2,680,576
Long-term debt	12,786,420	12,368,311
Other long-term obligations	320,707	157,663
Commitments and contingencies (Note 6)		
Redeemable noncontrolling interest	6,250	6,250

Stockholders' equity		
Common stock, $.01 par value: authorized 1,000,000,000 shares, issued and outstanding 572,834,533 and 564,838,893 shares	5,728	5,648
Capital in excess of par value	5,651,160	5,655,886
Retained earnings (accumulated deficit)	521,142	(555,629)
Accumulated other comprehensive income	12,801	14,022
Total MGM Resorts International stockholders' equity	6,190,831	5,119,927
Noncontrolling interests	3,726,628	2,644,500
Total stockholders' equity	9,917,459	7,764,427
	$27,705,286	$25,215,178

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

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MGM RESORTS INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Casino	$1,307,827	$1,181,593	$3,569,587	$3,696,071
Rooms	530,331	466,032	1,518,721	1,415,955
Food and beverage	448,666	397,332	1,238,537	1,204,616
Entertainment	140,151	141,085	380,330	402,025
Retail	52,724	53,272	150,629	153,791
Other	148,470	126,585	400,115	390,954
Reimbursed costs	99,316	98,292	301,160	302,900
	2,727,485	2,464,191	7,559,079	7,566,312
Less: Promotional allowances	(212,370)	(183,375)	(564,776)	(568,117)
	2,515,115	2,280,816	6,994,303	6,998,195
Expenses				
Casino	696,329	699,569	1,957,203	2,220,804
Rooms	148,317	140,806	435,311	424,184
Food and beverage	252,108	236,988	712,856	701,636
Entertainment	108,464	107,478	299,579	308,874
Retail	27,105	26,767	73,191	79,261
Other	93,880	88,000	260,901	268,158
Reimbursed costs	99,316	98,292	301,160	302,900
General and administrative	371,950	340,495	1,001,900	1,002,376
Corporate expense	87,782	74,019	240,833	183,977
NV Energy exit expense	139,335	—	139,335	—
Preopening and start-up expenses	31,660	16,510	78,444	50,270
Property transactions, net	(1,268)	7,123	4,717	12,665
Gain on Borgata transaction	(429,778)	—	(429,778)	—
Depreciation and amortization	209,737	204,742	616,475	619,719
	1,834,937	2,040,789	5,692,127	6,174,824
Income from unconsolidated affiliates	32,577	57,350	495,588	217,631
Operating income	712,755	297,377	1,797,764	1,041,002
Non-operating income (expense)				
Interest expense, net of amounts capitalized	(168,048)	(191,781)	(533,069)	(611,288)
Non-operating items from unconsolidated affiliates	(11,132)	(22,968)	(45,229)	(59,745)
Other, net	(17,310)	(4,386)	(67,715)	(12,691)
	(196,490)	(219,135)	(646,013)	(683,724)

Income before income taxes	516,265	78,242	1,151,751	357,278
Benefit for income taxes	44,995	16,493	15,205	76,570
Net income	561,260	94,735	1,166,956	433,848
Less: Net income attributable to noncontrolling interests	(25,641)	(28,310)	(90,185)	(100,114)
Net income attributable to MGM Resorts International	$535,619	$66,425	$1,076,771	$333,734
Net income per share of common stock attributable to MGM Resorts International				
Basic	$0.94	$0.12	$1.90	$0.62
Diluted	$0.93	$0.12	$1.88	$0.61

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

MGM RESORTS INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$561,260	$94,735	$1,166,956	$433,848
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	1,734	1,291	(4,402)	4,375
Other	—	—	—	(672)
Other comprehensive income (loss)	1,734	1,291	(4,402)	3,703
Comprehensive income	562,994	96,026	1,162,554	437,551
Less: Comprehensive income attributable to noncontrolling interests	(26,456)	(29,045)	(88,078)	(102,361)
Comprehensive income attributable to MGM Resorts International	$536,538	$66,981	$1,074,476	$335,190

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

MGM RESORTS INTERNATIONAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net income	$1,166,956	$433,848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	616,475	619,719
Amortization of debt discounts, premiums and issuance costs	31,661	34,829
Loss on retirement of long-term debt	66,904	1,924
Provision for doubtful accounts	2,984	46,971
Stock-based compensation	38,877	30,624
Property transactions, net	4,717	12,665
Gain on Borgata transaction	(429,778)	—
Income from unconsolidated affiliates	(447,191)	(155,473)
Distributions from unconsolidated affiliates	14,016	11,200
Deferred income taxes	(89,658)	(106,223)
Change in operating assets and liabilities:		
Accounts receivable	24,740	(45,251)
Inventories	11,135	1,055
Income taxes receivable and payable, net	2,073	1,456
Prepaid expenses and other	(15,619)	(28,584)
Prepaid Cotai land concession premium	(24,113)	(24,167)
Accounts payable and accrued liabilities	88,630	(108,002)
Other	(13,804)	11,189
Net cash provided by operating activities	1,049,005	737,780
Cash flows from investing activities		
Capital expenditures, net of construction payable	(1,590,308)	(1,000,578)
Dispositions of property and equipment	3,290	343
Proceeds from partial disposition of investment in unconsolidated affiliate	15,000	—
Proceeds from sale of assets held for sale	—	19,797
Acquisition of Borgata, net of cash acquired	(550,975)	—
Investments in and advances to unconsolidated affiliates	(1,555)	(194,524)
Distributions from unconsolidated affiliates in excess of cumulative earnings	543,036	202,850
Investments in cash deposits – original maturities longer than 90 days	—	(200,205)
Proceeds from cash deposits – original maturities longer than 90 days	—	770,205
Other	(8,257)	59
Net cash used in investing activities	(1,589,769)	(402,053)
Cash flows from financing activities		
Net borrowings (repayments) under bank credit facilities – maturities of 90 days or less	298,448	(717,600)

Borrowings under bank credit facilities – maturities longer than 90 days	1,845,375	5,118,750
Repayments under bank credit facilities – maturities longer than 90 days	(1,845,375)	(3,416,875)
Issuance of long-term debt	2,050,000	—
Retirement of senior notes	(2,258,053)	(875,504)
Repayment of Borgata credit facility	(583,598)	—
Debt issuance costs	(138,454)	(46,170)
Issuance of MGM Growth Properties common stock in public offering	1,207,500	—
MGM Growth Properties common stock issuance costs	(75,032)	—
Acquisition of MGM China shares	(100,000)	—
Distributions to noncontrolling interest owners	(78,690)	(304,562)
Excess tax benefit from exercise of stock options	4,770	514
Proceeds from issuance of redeemable noncontrolling interest	—	5,000
Other	(9,179)	(1,564)
Net cash provided by (used in) financing activities	317,712	(238,011)
Effect of exchange rate on cash	(1,102)	845
Cash and cash equivalents		
Net increase (decrease) for the period	(224,154)	98,561
Change in cash related to assets held for sale	—	(4,481)
Balance, beginning of period	1,670,312	1,713,715
Balance, end of period	$1,446,158	$1,807,795
Supplemental cash flow disclosures		
Interest paid, net of amounts capitalized	$551,345	$624,253
Federal, state and foreign income taxes paid, net of refunds	63,322	31,440
Non-cash investing and financing activities		
Common stock issued for acquisition of MGM China shares	174,041	—
Deferred cash payment for acquisition of MGM China shares	42,612	—
Conversion of convertible senior notes to equity	—	1,449,499
Decrease in investment in and advances to CityCenter related to change in completion guarantee liability	—	(8,198)

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

MGM RESORTS INTERNATIONAL AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 — ORGANIZATION

Organization. MGM Resorts International (the “Company”) is a Delaware corporation that acts largely as a holding company and, through subsidiaries, owns and operates casino resorts. The Company owns and/or operates the following integrated casino, hotel and entertainment resorts in Las Vegas, Nevada: Bellagio, MGM Grand Las Vegas, The Mirage, Mandalay Bay, Luxor, New York-New York, Monte Carlo, Excalibur and Circus Circus Las Vegas. Operations at MGM Grand Las Vegas include management of The Signature at MGM Grand Las Vegas, a condominium-hotel consisting of three towers. Along with local investors, the Company owns and operates MGM Grand Detroit in Detroit, Michigan. The Company owns and operates the following resorts in Mississippi: Beau Rivage in Biloxi and Gold Strike in Tunica. Additionally, subsequent to its acquisition on August 1, 2016, the Company owns and operates the Borgata Hotel Casino & Spa (“Borgata”), located on Renaissance Pointe in the Marina area of Atlantic City, New Jersey. See Note 3 for additional information on the Borgata acquisition. The Company also owns and operates Shadow Creek, an exclusive world-class golf course located approximately ten miles north of its Las Vegas Strip resorts, Primm Valley Golf Club at the California/Nevada state line and Fallen Oak golf course in Saucier, Mississippi.

On April 25, 2016, MGM Growth Properties LLC (“MGP”), a subsidiary of the Company, completed its initial public offering (“IPO”) of 57,500,000 of its Class A shares representing limited liability company interests (inclusive of the full exercise by the underwriters of their option to purchase 7,500,000 Class A shares) at an initial offering price of $21 per share. In connection with the IPO, the Company and MGP entered into a series of transactions and several agreements that, among other things, set forth the terms and conditions of the IPO and provide a framework for the Company’s relationship with MGP.

MGP is organized as an umbrella partnership REIT (commonly referred to as an “UPREIT”) structure in which substantially all of its assets and substantially all of its businesses are conducted through its operating partnership subsidiary, MGM Growth Properties Operating Partnership LP (the “Operating Partnership”). MGP contributed the proceeds from the IPO to the Operating Partnership in exchange for 26.7% of the units in the Operating Partnership. The general partner of the Operating Partnership is also a subsidiary of MGP. MGP has two classes of authorized and outstanding voting common shares (collectively, the “shares”): Class A shares and a single Class B share. The Company owns MGP’s Class B share, which does not provide its holder any rights to profits or losses or any rights to receive distributions from operations of MGP or upon liquidation or winding up of MGP. MGP’s Class A shareholders are entitled to one vote per share, while the Company, as the owner of the Class B share, is entitled to an amount of votes representing a majority of the total voting power of MGP’s shares so long as the Company and its controlled affiliates’ (excluding MGP) aggregate beneficial ownership of the combined economic interests in MGP and the Operating Partnership does not fall below 30%. As such, the Company controls MGP through its majority voting rights and consolidates MGP in its financial results.

Pursuant to a master contribution agreement by and between the Company, MGP and the Operating Partnership, the Company contributed the real estate assets of The Mirage, Mandalay Bay, Luxor, New York-New York, Monte Carlo, Excalibur, The Park, Gold Strike Tunica, MGM Grand Detroit and Beau Rivage to newly formed subsidiaries and subsequently transferred 100% ownership interest in such subsidiaries to the Operating Partnership in exchange for 73.3% of the Operating Partnership units in the Operating Partnership on the closing date of the IPO. At September 30, 2016, following the completion of the Company's acquisition of Borgata and the subsequent contribution of Borgata's real property to MGP, as discussed in Note 11, the Company indirectly owned 76.3% of the Operating Partnership units and MGP's Class A shareholders owned 23.7% of the Operating Partnership units in the Operating Partnership, which is controlled and consolidated by MGP. The ownership units of the Operating Partnership are exchangeable into Class A shares of MGP on a one-to-one basis, or cash at the fair value of a Class A share. The determination of settlement method is at the option of MGP's independent conflicts committee. See Note 5 and Note 11 for additional information related to MGP, the IPO and certain other intercompany agreements and debt financing transactions entered into in connection therewith.

The Company acquired an additional 4.95% interest in MGM China Holdings Limited ("MGM China") on September 1, 2016, which increased its ownership to approximately 56%. See Note 8 for additional information. The Company has a controlling interest in MGM China, which owns MGM Grand Paradise, S.A. ("MGM Grand Paradise"), the Macau company that owns and operates the MGM Macau resort and casino and the related gaming subconcession and land concessions, and is in the process of developing an 18 acre site on the Cotai Strip in Macau ("MGM Cotai"). MGM Cotai will be an integrated casino, hotel and entertainment resort with capacity for up to 500 gaming tables and up to 1,500 slots, and featuring approximately 1,500 hotel rooms. The actual number of gaming tables allocated to MGM Cotai will be determined by the Macau government prior to opening, and such allocation is expected to be less than MGM Cotai's 500 gaming table capacity. The total estimated project budget is $3.1 billion, excluding development fees eliminated in consolidation, capitalized interest and land related costs.

The Company owns 50% of and manages CityCenter Holdings, LLC ("CityCenter"), located between Bellagio and Monte Carlo. The other 50% of CityCenter is owned by Infinity World Development Corp, a wholly owned subsidiary of Dubai World, a

Dubai, United Arab Emirates government decree entity. CityCenter consists of Aria, an integrated casino, hotel and entertainment resort; Mandarin Oriental Las Vegas, a non-gaming boutique hotel; and Vdara, a luxury condominium-hotel. In addition, CityCenter features residential units in the Residences at Mandarin Oriental and Veer. In April 2016, CityCenter closed the sale of The Shops at Crystals ("Crystals"), a retail, dining and entertainment district. See Note 4 for additional information related to CityCenter.

The Company and a subsidiary of Anschutz Entertainment Group, Inc. ("AEG") each own 42.5% of the Las Vegas Arena Company, LLC, the entity which owns the T-Mobile Arena, subsequent to the sale of a 7.5% ownership interest by each of the Company and AEG to Athena Arena, LLC on September 1, 2016. The Company manages the T-Mobile Arena, which is located on a parcel of the Company's land between Frank Sinatra Drive and New York-New York, adjacent to the Las Vegas Strip. The T-Mobile Arena is a 20,000 seat venue designed to host world-class events – from mixed martial arts, boxing, hockey, basketball and bull riding, to high profile awards shows and top-name concerts. T-Mobile Arena commenced operations in April 2016. Effective January 1, 2016, the Company leases the MGM Grand Garden Arena, located adjacent to the MGM Grand Las Vegas, to the Las Vegas Arena Company, LLC. See Note 4 for additional information regarding the Company's investment in the Las Vegas Arena Company, LLC. In addition, the Company owns and operates The Park, a dining and entertainment district, which opened in April 2016 and which connects to New York-New York, Monte Carlo and T-Mobile Arena.

The Company also has a 50% interest in Grand Victoria. Grand Victoria is a riverboat casino in Elgin, Illinois; an affiliate of Hyatt Gaming owns the other 50% of Grand Victoria and also operates the resort. See Note 4 for additional information regarding the Company's investments in its unconsolidated affiliates.

The Maryland Video Lottery Facility Location Commission has awarded the Company's subsidiary developing MGM National Harbor a license to build and operate a destination integrated casino, hotel and entertainment resort in Prince George's County at National Harbor, which is a waterfront development located on the Potomac River just outside of Washington D.C. The expected cost to develop and construct MGM National Harbor is approximately $1.4 billion, excluding capitalized interest and land related costs. The Company expects the resort to include a casino with over 3,300 slots and approximately 160 table games including poker; a 300-room hotel with luxury spa and rooftop pool; 93,100 square feet of high end branded retail and fine and casual dining; a 3,000-seat theater venue; 50,000 square feet of meeting and event space; and a 4,700-space parking garage.

A subsidiary of the Company was awarded a casino license to build and operate MGM Springfield in Springfield, Massachusetts. MGM Springfield will be developed on approximately 14 acres of land in downtown Springfield. The Company's plans for the resort currently include a casino with approximately 3,000 slots and 100 table games including poker; a 250-room hotel; 100,000 square feet of retail and restaurant space; 44,000 square feet of meeting and event space; and a 3,375 space parking garage, with an expected development and construction cost of approximately $865 million, excluding capitalized interest and land related costs.

The Company has two reportable segments: domestic resorts and MGM China. See Note 10 for additional information about the Company's segments.

NOTE 2 — BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. As permitted by the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted. These consolidated financial statements should be read in conjunction with the Company's 2015 annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's interim financial statements. The results for such periods are not necessarily indicative of the results to be expected for the full year.

Principles of consolidation. The Company identifies entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of variable interest entities ("VIEs"). A VIE is an entity in which either (i) the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of such entity that most significantly impact such entity's economic performance or (ii) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support. The Company identifies the primary beneficiary of a VIE as the enterprise that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or receive benefits of the VIE that could potentially be significant to the entity. The Company consolidates its investment in a VIE when it determines that it is its primary beneficiary. The Company may change its original assessment of a VIE upon subsequent events such as the modification of contractual arrangements that affect the characteristics or adequacy of the entity's equity investments at risk and the disposition of all or a portion of an interest held by the primary beneficiary. The Company performs this analysis on an ongoing basis.

Management has determined that MGP is a VIE because the Class A equity investors as a group lack the power through voting or similar rights to direct the activities of such entity that most significantly impact such entity's economic performance. The Company has determined that it is the primary beneficiary of MGP and consolidates MGP because (i) its ownership of MGP's single Class B share entitles it to a majority of the total voting power of MGP's shares, and (ii) the exchangeable nature of the operating partnership units owned provide the Company the right to receive benefits from MGP that could potentially be significant to MGP. The Company has recorded MGP's 26.7% interest in the Operating Partnership prior to the Borgata acquisition and 23.7% interest subsequent to the Borgata acquisition as noncontrolling interest in the Company's consolidated financial statements.

As of September 30, 2016, MGP had total assets of $9.5 billion, primarily related to its real estate investments, and total liabilities of $3.9 billion, primarily related to its indebtedness.

For entities not determined to be VIEs, the Company consolidates such entities in which the Company owns 100% of the equity. For entities in which the Company owns less than 100% of the equity interest, the Company consolidates the entity if it has the direct or indirect ability to control the entities' activities based upon the terms of the respective entities' ownership agreements. For these entities, the Company records a noncontrolling interest in the consolidated balance sheets. All intercompany balances and transactions are eliminated in consolidation.

Fair value measurements. Fair value measurements affect the Company's accounting and impairment assessments of its long-lived assets, investments in unconsolidated affiliates, cost method investments, assets acquired and liabilities assumed in an acquisition, and goodwill and other intangible assets. Fair value measurements also affect the Company's accounting for certain of its financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and is measured according to a hierarchy that includes: Level 1 inputs, such as quoted prices in an active market; Level 2 inputs, which are observable inputs for similar assets; or Level 3 inputs, which are unobservable inputs.

Property and equipment. The Company had accrued $37 million and $17 million for property and equipment as of September 30, 2016 and December 31, 2015, respectively, within "Accounts payable" and $31 million and $44 million as of September 30, 2016 and December 31, 2015, respectively, related to construction retention in "Other long-term obligations."

Income tax provision. For interim income tax reporting the Company estimates its annual effective tax rate and applies it to its year-to-date ordinary income. The tax effects of unusual or infrequently occurring items, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, are reported in the interim period in which they occur. The Company's effective income tax rate was (8.7)% and (1.3)% for the three and nine months ended September 30, 2016, respectively.

The Company recognizes deferred tax assets, net of applicable reserves, related to tax loss and credit carryforwards and other temporary differences with a future tax benefit to the extent that realization of such benefit is more likely than not. Otherwise, a valuation allowance is applied. As of December 31, 2015, the scheduled future reversal of existing U.S. federal taxable temporary differences exceeded the scheduled future reversal of existing U.S. federal deductible temporary differences. Consequently, the Company no longer applies a valuation allowance against its domestic deferred tax assets other than its foreign tax credit deferred tax asset.

The Company has generated significant excess foreign tax credits that are attributable to the Macau Special Gaming Tax which is 35% of gross gaming revenue in Macau. Because MGM Grand Paradise is presently exempt from the Macau 12% complementary tax on gaming profits, the Company believes that payment of the Macau Special Gaming Tax qualifies as a tax paid in lieu of an income tax that is creditable against U.S. taxes. As long as the exemption from Macau's 12% complementary tax on gaming profits continues and the Company continues to receive distributions from MGM China, the Company expects that it will generate excess foreign tax credits in most years and that most of the excess foreign credits will not be utilized before the exemption expires. The current five-year exemption from the Macau 12% complementary tax on gaming profits ends on December 31, 2016, and on September 7, 2016, MGM Grand Paradise was granted an additional extension of the complementary tax exemption through March 31, 2020, concurrent with the end of the term of its current gaming subconcession. A competitor of MGM Grand Paradise subsequently received an additional extension of its exemption through March 31, 2020, which also runs concurrent with the end of the term of its current gaming concession. Based upon these developments and the uncertainty concerning taxation after the concession renewal process, the Company has concluded that it can no longer assume that MGM Grand Paradise will be entitled to additional exemption periods beyond the end of the extension recently granted. Thus, for all periods beyond March 31, 2020, the Company has assumed that MGM Grand Paradise will pay the Macau 12% complementary tax on gaming profits and it will thus not be able to credit the Macau Special Gaming Tax in such years, and has factored that assumption into its assessment of the realization of the foreign tax credit deferred tax asset and the measurement of Macau deferred tax liabilities. This change resulted in a reduction in the valuation allowance against the foreign tax credit deferred tax asset in the amount of $169 million and an increase in the Macau deferred tax liability in the amount of $36 million with a corresponding reduction in the provision for income taxes of $133 million during the three and nine months ended September 30, 2016.

Due to improvements in its U.S. operations, the Company has generated U.S. operating profits for the past seven consecutive quarters and as of June 30, 2016 no longer had cumulative U.S. losses in recent years. Consequently, during the quarter ended June 30, 2016 the Company began to rely on future U.S. source operating income in assessing future foreign tax credit realization during the 10-year foreign tax credit carryover period. This change resulted in a reduction in the valuation allowance and a corresponding reduction in the provision for income taxes during the nine months ended September 30, 2016 of $85 million. As a result of the change in assumption concerning the complementary tax exemption renewal and the reliance on U.S. operating income in assessing future foreign tax credit realization, the Company now projects that it will record a deferred tax asset for foreign tax credits, net of valuation allowance, of approximately $360 million as of December 31, 2016.

The Company's assessment of realization of its foreign tax credit deferred tax asset is based on available evidence, including assumptions about future profitability of and distributions from MGM China, as well as its assumption concerning renewals of the exemption from Macau's 12% complementary tax on gaming profits and future profitability of its U.S. operations. As a result, significant judgment is required in assessing the possible need for and amount of valuation allowance and changes to such assumptions may have a material impact on the amount of the valuation allowance. For example, should the Company in a future period actually receive or be able to assume an additional five-year exemption, an additional valuation allowance would likely need to be provided on some portion or all of the foreign tax credit deferred tax asset, resulting in an increase in the provision for income taxes in such period, and such increase may be material. In addition, a change to forecasts of future profitability of, and distributions from, MGM China could also result in a material change in the valuation allowance with a corresponding impact on the provision for income taxes in such period.

Recently issued accounting standards. In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," ("ASU 2015-14"), which defers the effective date of Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers," ("ASU 2014-09") to the fiscal year, and interim periods within the year, beginning on or after December 15, 2017. ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. Additionally, the new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The Company is currently assessing the impact that adoption of ASU 2014-09 will have on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ("ASU 2016-08"), effective for the fiscal years beginning after December 15, 2017. ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations as it relates to ASU 2014-09. The amendment relates to the assessment an entity is required to perform to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent) when another party is involved in providing goods or services to a customer. The Company is currently assessing the impact that adoption of ASU 2016-08 will have on its consolidated financial statements and footnote disclosures.

In May 2016, the FASB issued Accounting Standards Update No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," ("ASU 2016-10"), effective for fiscal years beginning after December 15, 2017. ASU 2016-10 clarifies guidance related to identifying performance obligations and licensing implementation guidance as it relates to ASU 2014-09. The update includes targeted improvements based on input the FASB received from the Transition Resource Group for Revenue Recognition and other stakeholders. It seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. The Company is currently assessing the impact that adoption of ASU 2016-10 will have on its consolidated financial statements and footnote disclosures.

In May 2016, the FASB issued Accounting Standards Update No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," ("ASU 2016-12"), effective for fiscal years beginning after December 15, 2017. ASU 2016-12 addresses narrow-scope improvements to the guidance on collectability, noncash consideration and completed contracts at transition as it relates to ASU 2014-09. The amendments provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The Company is currently assessing the impact that adoption of ASU 2016-12 will have on its consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)," ("ASU 2016-02"), which replaces the existing guidance in Accounting Standard Codification ("ASC") 840, "Leases." ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use ("ROU") asset and a corresponding lease liability. For finance leases the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. The Company is currently assessing the impact that adoption of ASU 2016-02 will have on its consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation – Stock Compensation (Topic 718)," ("ASU 2016-09"), effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. ASU 2016-09 simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company is currently assessing the impact that adoption of ASU 2016-09 will have on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued Accounting Standard Update No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)," ("ASU 2016-15"), effective for fiscal years beginning after December 15, 2017. ASU 2016-15 amends the guidance of ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles, specifically clarifying the guidance on eight cash flow issues. The Company is currently assessing the impact that adoption of ASU 2016-15 will have on its consolidated financial statements.

In October 2016, the FASB issued Accounting Standards Update No. 2016-17, "Consolidation (Topic 810): Interests Held Through Related Parties that are Under Common Control, ("ASU 2016-17"), effective for fiscal years beginning after December 15, 2016. The amendments affect the evaluation of whether to consolidate a VIE in certain situations involving entities under common control. Specifically, the amendments change the evaluation of whether an entity is the primary beneficiary of a VIE for an entity that is a single decision maker of a variable interest by changing how an entity treats indirect interests in the VIE held through related parties that are under common control with the reporting entity. The guidance in ASU 2016-17 must be applied retrospectively to all relevant periods. The Company is currently assessing the impact the adoption of ASU 2016-17 will have on its consolidated financial statements and footnote disclosures.

NOTE 3 — BORGATA ACQUISITION

On August 1, 2016, the Company completed the acquisition of Boyd Gaming Corporation's ("Boyd Gaming") ownership interest in Borgata. Following the completion of the acquisition of Boyd Gaming's interest, MGP acquired Borgata's real property from the Company and leased back the real property to a subsidiary of the Company. See Note 11 for additional information.

Cash paid to Boyd Gaming as of September 30, 2016 for its interest in Borgata was $594 million. As part of the purchase and sale agreement, the Company agreed to pay Boyd Gaming half of any amount received or utilized by the Company as it relates to the Atlantic City tax refund owed to Borgata at the time of the transaction. Pursuant to tax court judgments, the City of Atlantic City, New Jersey owes Borgata property tax refunds of approximately $106 million, plus interest, related to the over-assessment of property values for the 2009-2012 tax years. As a result of funding shortfalls, the City of Atlantic City has not paid the refunds due to Borgata and therefore, Borgata has withheld its current property tax obligations in satisfaction of the tax court judgment. Borgata applied $23 million of such credits as of September 30, 2016. The Company has accrued as contingent consideration related to the acquisition the amount to be paid to Boyd Gaming related to the property tax refunds expected to be realized by Borgata.

During 2014, Borgata and the City of Atlantic City entered into a settlement agreement covering the 2011-2014 tax years, but that agreement has since been terminated. On October 25, 2016, the Atlantic City government released a plan to finance a portion of its potential tax refund obligation to Borgata, based on the assumption of a settlement with Borgata, subject to approval by the state of New Jersey. On November 1, 2016, the state of New Jersey rejected the plan. The Company has not agreed to a settlement amount and has no agreement to settle its judgments or pending tax.

Through the acquisition of Boyd Gaming's interest in Borgata, the Company obtained 100% of the equity interests in Borgata and therefore consolidated Borgata as of August 1, 2016. The Company recognized 100% of the assets and liabilities of Borgata at fair value at the date of the acquisition. Prior to the acquisition, the Company held a 50% ownership interest in Borgata, which was accounted for under the equity method. The fair value of the equity interests of Borgata was determined by the transaction price and equaled approximately $1.2 billion. The carrying value of the Company's equity method investment was significantly less than its share of the fair value of Borgata at the acquisition date, resulting in a $430 million gain on the acquisition. Under the acquisition method, the fair value was allocated to the assets acquired and liabilities assumed in the transaction. The allocation of fair value for substantially all of the assets and liabilities is preliminary and may be adjusted up to one year after the acquisition. Specifically, the Company is finalizing valuation work related to intangible assets and determining property tax credits expected to be realized by Borgata.

The following table sets forth the preliminary allocation at August 1, 2016 (in thousands):

Fair value of assets acquired and liabilities assumed:	
Current assets	$111,542
Property and equipment and other long-term assets	1,373,567
Goodwill	385,483
Trademarks and trade name	91,000
Customer relationships	18,000
Current liabilities	(122,743)
Long-term debt	(583,187)
Deferred taxes	(14,715)
Other long-term obligations	(51,894)
	$1,207,053

As discussed above, the Company recognized the identifiable intangible assets of Borgata at fair value. The trademarks and trade name and customer relationship intangible assets did not have historical cost bases at Borgata. The estimated fair values of the intangible assets were preliminarily determined using methodologies under the income approach based on significant inputs that were not observable.

Unfavorable lease liability. The Company has assumed the liability of a series of ground leases for a total of approximately 20 acres of land on which the Borgata employee parking garage, public space expansion, rooms expansion, modified surface parking lot, beer garden and outdoor pool reside. The Company recorded an unfavorable lease liability of $1 million in “Current liabilities” and $47 million in “Other long-term obligations” for the excess contractual lease obligations over the market value of the leases, which will be amortized on a straight-line basis over the term of the lease contracts through December 2070. Both a market and income approach using Level 2 and Level 3 inputs were utilized to determine the fair value of these leases.

Deferred taxes. The Company recorded an additional net deferred tax liability of $92 million, of which $83 million and $9 million was recorded to income tax expense and goodwill, respectively. The net deferred tax liability represents the excess of the financial reporting amounts of the net assets of Borgata over their respective basis under U.S. and New Jersey tax law expected to be applied to taxable income in the periods such differences are expected to be realized.

Consolidated results. Borgata's net revenue for the period from August 1, 2016 through September 30, 2016 was $151 million, operating income was $23 million and net income was $11 million.

Pro forma information. The operating results for Borgata are included in the accompanying consolidated statements of operations from the date of acquisition. The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the Company's acquisition of its controlling interest has occurred as of January 1, 2015 and excludes the transaction gain recognized by the Company. The unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2015.

	Nine Months Ended September 30,	
	2016	2015
	(In thousands, except per share data) (unaudited)	
Net revenues	$7,479,356	$7,608,892
Net income attributable to MGM Resorts International	790,834	358,748
Basis net income per share	$1.40	$0.67
Diluted net income per share	$1.38	$0.65

NOTE 4 — INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

Investments in and advances to unconsolidated affiliates consisted of the following:

	September 30, 2016	December 31, 2015
	(In thousands)	
CityCenter Holdings, LLC – CityCenter (50%)	$988,862	$ 1,136,452
Marina District Development Company – Borgata (50%)	—	134,454
Elgin Riverboat Resort–Riverboat Casino – Grand Victoria (50%)	121,561	122,500
Las Vegas Arena Company, LLC (42.5% at September 30, 2016; 50% at December 31, 2015)	78,343	90,352
Other	7,777	7,739
	$1,196,543	$ 1,491,497

The Company recorded its share of the results of operations of unconsolidated affiliates as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Income from unconsolidated affiliates	$32,577	$57,350	$495,588	$217,631
Preopening and start-up expenses	(81)	(970)	(3,168)	(2,413)
Non-operating items from unconsolidated affiliates	(11,132)	(22,968)	(45,229)	(59,745)
	$21,364	$33,412	$447,191	$155,473

CityCenter

Summarized balance sheet information for CityCenter is as follows:

September 30,