

MANDALAY RESORT GROUP
Form 10-K/A
March 31, 2003

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K/A
(AMENDMENT NO. 1)**

(Mark One)

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

For the fiscal year ended January 31, 2002

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 Number 1-8570

MANDALAY RESORT GROUP

(Exact name of Registrant as specified in its charter)

Nevada
State or other jurisdiction of organization)

88-0121916
(I.R.S. Employer Identification incorporation or No.)

3950 Las Vegas Boulevard South, Las Vegas, Nevada
(Address of principal executive offices)

89119
(Zip Code)

Registrant's telephone number, including area code: **(702) 632-6700**

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

Title of Each Class on which Registered
Common Stock, \$.01²/₃ Par Value
Common Stock Purchase Rights

Name of Each Exchange
New York Stock Exchange and Pacific Exchange
New York Stock Exchange and Pacific Exchange

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

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

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

The aggregate market value of the voting stock of the Registrant held by persons other than the Registrant's directors and executive officers as of April 22, 2002 (based upon the last reported sale price on the New York Stock Exchange on such date) was \$2,022,845,589.

The number of shares of Registrant's Common Stock, \$.01²/₃ par value, outstanding at April 22, 2002: 68,316,988.

DOCUMENTS INCORPORATED BY REFERENCE

PART III Portions of the Registrant's definitive proxy statement in connection with the annual meeting of stockholders to be held on June 20, 2002, are incorporated by reference into Items 10 through 13, inclusive.

Item 8 is amended and restated as follows solely for the purpose of including the financial statements of Elgin Riverboat Resort-Riverboat Casino for the year ended December 31, 2002 and Victoria Partners for the year ended December 31, 2002 as required by Rule 3-09 of Regulation S-X. Through its wholly owned subsidiary, Nevada Landing Partnership, Mandalay Resort Group owns a 50% interest in Elgin Riverboat Resort Riverboat Casino. Mandalay Resort Group owns 50% interest in Victoria Partners through its wholly owned subsidiary, Gold Strike, L.V. Item 14 is also amended and restated to include the consents of the independent auditors relating to the above-mentioned financial statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

MANDALAY RESORT GROUP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

January 31, (in thousands, except share data)

	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents	\$ 105,905	\$ 105,941
Accounts receivable, net of allowance	58,372	78,359
Income tax receivable	18,089	
Inventories	30,555	31,180
Prepaid expenses	40,848	40,986
Deferred income tax	13,218	30,164
Total current assets	266,987	286,630
Property, equipment and leasehold interests, at cost, net	3,049,812	3,236,824
Other assets		
Excess of purchase price over fair market value of net assets acquired, net	45,445	65,778

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	<u>2002</u>	<u>2001</u>
Investments in unconsolidated affiliates	554,086	560,987
Other investments	35,751	27,021
Deferred charges and other assets	84,953	71,026
	<u> </u>	<u> </u>
Total other assets	720,235	724,812
	<u> </u>	<u> </u>
Total assets	\$ 4,037,034	\$ 4,248,266
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 39,251	\$ 42,262
Accounts and contracts payable		
Trade	33,473	37,275
Construction	8,284	3,920
Accrued liabilities		
Salaries, wages and vacations	52,680	51,866
Progressive jackpots	11,556	11,334
Advance room deposits	13,242	14,069
Interest	58,592	53,122
Other	92,163	82,827
	<u> </u>	<u> </u>
Total current liabilities	309,241	296,675
	<u> </u>	<u> </u>
Long-term debt, net of current portion	2,482,087	2,623,597
	<u> </u>	<u> </u>
Other liabilities		
Deferred income tax	199,478	235,763
Deferred gain	28,339	
Other long-term liabilities	80,919	41,966
	<u> </u>	<u> </u>
Total other liabilities	308,736	277,729
	<u> </u>	<u> </u>
Total liabilities	3,100,064	3,198,001
	<u> </u>	<u> </u>
Commitments and contingent liabilities		
	<u> </u>	<u> </u>
Minority interest	(3,639)	(18,675)
	<u> </u>	<u> </u>
Stockholders' equity		
Common stock \$.01 ² / ₃ par value		
Authorized 450,000,000 shares		
Issued 113,634,013 shares	1,894	1,894
Preferred stock \$.01 par value		
Authorized 75,000,000 shares		
Additional paid-in capital	572,992	572,207
Retained earnings	1,374,376	1,321,332
Accumulated other comprehensive loss	(21,902)	(6,804)
Treasury stock (45,278,193 and 37,357,777 shares), at cost	(986,751)	(819,689)
	<u> </u>	<u> </u>
Total stockholders' equity	940,609	1,068,940
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 4,037,034	\$ 4,248,266

2002	2001
_____	_____
_____	_____

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

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MANDALAY RESORT GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Year ended January 31, (in thousands, except share data)

	2002	2001	2000
	_____	_____	_____
Revenues			
Casino	\$ 1,201,707	\$ 1,221,595	\$ 925,499
Rooms	581,551	611,352	534,132
Food and beverage	410,276	418,081	346,647
Other	332,253	299,753	251,509
Earnings of unconsolidated affiliates	113,287	114,645	98,627
	_____	_____	_____
	2,639,074	2,665,426	2,156,414
Less-complimentary allowances	(177,275)	(169,642)	(131,509)
	_____	_____	_____
	2,461,799	2,495,784	2,024,905
	_____	_____	_____
Costs and expenses			
Casino	669,719	670,243	494,054
Rooms	197,300	203,352	189,419
Food and beverage	283,864	299,726	276,261
Other	219,358	200,236	170,654
General and administrative	417,149	409,603	339,455
Corporate general and administrative	20,981	21,153	22,464
Depreciation and amortization	216,001	217,984	178,301
Operating lease rent	32,185	40,121	25,994
Preopening expenses	2,155	1,832	49,134
Impairment loss	52,027		
Abandonment loss			5,433
	_____	_____	_____
	2,110,739	2,064,250	1,751,169
	_____	_____	_____
Income from operations	351,060	431,534	273,736
	_____	_____	_____
Other income (expense)			
Interest, dividends and other income	(1,163)	8,339	2,369
Guarantee fees from unconsolidated affiliate	2,264	2,498	2,775
Interest expense	(221,352)	(219,940)	(164,387)
Interest expense from unconsolidated affiliates	(8,451)	(11,293)	(11,085)
	_____	_____	_____
	(228,702)	(220,396)	(170,328)

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	2002	2001	2000
Minority interest	(29,352)	(16,746)	(292)
Income before provision for income taxes	93,006	194,392	103,116
Provision for income taxes	39,962	74,692	38,959
Income before cumulative effect of change in accounting principle	53,044	119,700	64,157
Cumulative effect of change in accounting for preopening expenses, net of tax benefit of \$11,843			(21,994)
Net income	\$ 53,044	\$ 119,700	\$ 42,163
Basic earnings per share:			
Income before cumulative effect of change in accounting principle	\$.73	\$ 1.53	\$.71
Cumulative effect of change in accounting principle			(.24)
Net income	\$.73	\$ 1.53	\$.47
Diluted earnings per share:			
Income before cumulative effect of change in accounting principle	\$.71	\$ 1.50	\$.70
Cumulative effect of change in accounting principle			(.24)
Net income	\$.71	\$ 1.50	\$.46
Average shares outstanding (basic)	72,798,916	78,334,735	90,607,487
Average shares outstanding (diluted)	74,459,831	79,700,614	91,896,224

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

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MANDALAY RESORT GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended January 31,

	2002	2001	2000
Increase (decrease) in cash and cash equivalents (in thousands)			
Cash flows from operating activities			
Net income	\$ 53,044	\$ 119,700	\$ 42,163
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	216,001	217,984	178,301
Provision for bad debts	20,381	21,329	13,856
Increase (decrease) in deferred income tax	(11,864)	25,023	(8,104)
Increase (decrease) in interest payable	5,470	33,727	(8,372)

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	2002	2001	2000
	<u> </u>	<u> </u>	<u> </u>
Increase in accrued pension cost	7,536	4,363	2,888
Loss on sale of fixed assets	1,973	290	2,903
Impairment loss	52,027		
Increase in other current assets	(17,720)	(33,381)	(67,653)
Increase in other current liabilities	5,743	18,584	42,930
(Increase) decrease in other noncurrent assets	13,404	(551)	32,556
Decrease in other noncurrent liabilities			(49)
Unconsolidated affiliates' (earnings in excess of distributions) distributions in excess of earnings	(2,783)	22,077	(6,419)
Minority interest in earnings, net of distributions	15,036	6,421	
	<u> </u>	<u> </u>	<u> </u>
Total adjustments	305,204	315,866	182,837
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by operating activities	358,248	435,566	225,000
	<u> </u>	<u> </u>	<u> </u>
Cash flows from investing activities			
Capital expenditures	(156,742)	(110,220)	(352,133)
Increase (decrease) in construction payable	4,364	(29,495)	(63,474)
Increase in other investments	(10,802)	(16,755)	(10,267)
Decrease in investments in unconsolidated affiliates			10,728
Net cash paid for additional ownership interest in joint venture			(25,225)
(Increase) decrease in notes receivable	1,667	(145)	(24,952)
Proceeds from sale of equipment and other assets	1,734	2,408	697
Other	(126)	370	
	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities	(159,905)	(153,837)	(464,626)
	<u> </u>	<u> </u>	<u> </u>
Increase (decrease) in cash and cash equivalents (in thousands)			
Cash flows from financing activities			
Proceeds from issuance of senior and senior subordinated notes	297,836	700,000	
Proceeds from sale-leaseback transactions	130,500		
Net effect on cash of issuances and payments of debt with initial maturities of three months or less	(380,000)	(715,576)	294,990
Principal payments of debt with initial maturities in excess of three months	(62,498)	(23,000)	(3,425)
Debt issuance costs	(16,233)	(16,325)	(1,072)
Exercise of stock options	5,054	17,797	17,616
Purchases of treasury stock	(125,910)	(247,128)	(29,627)
Interim settlements and interest under equity forward agreements	(45,517)	(2,405)	
Other	(1,611)	(5,768)	(3,628)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) financing activities	(198,379)	(292,405)	274,854
	<u> </u>	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	(36)	(10,676)	35,228
Cash and cash equivalents at beginning of year	105,941	116,617	81,389
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of year	\$ 105,905	\$ 105,941	\$ 116,617
	<u> </u>	<u> </u>	<u> </u>
Supplemental cash flow disclosures			
Cash paid for interest (net of amounts capitalized)	\$ 209,418	\$ 183,638	\$ 170,272
Cash paid for income taxes	\$ 58,132	\$ 38,731	\$ 42,551
Noncash items			

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	2002	2001	2000
Decrease in market value of interest rate swaps	\$ 24,119	\$	\$
Decrease in market value of pension investment	\$ 2,073	\$	\$
Minimum pension liability adjustment	\$ 8,735	\$ 23,179	\$
Acquisition of additional ownership interest in joint venture			
Cash paid	\$	\$	\$ (38,386)
Current assets, other than cash			(13,462)
Property and equipment			(152,037)
Other assets			(14,092)
Current liabilities			33,693
Long-term debt			179,180
Stockholders' equity			(20,121)
Net cash paid for acquisition	\$	\$	\$ (25,225)

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

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MANDALAY RESORT GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Issued		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
	(in thousands)						
Balance, January 31, 1999	113,623	\$ 1,894	\$ 558,935	\$ 1,159,469	\$	\$ (562,670)	\$ 1,157,628
Net income				42,163			42,163
Exercise of stock options	11		6,990			10,626	17,616
Treasury stock acquired (1,672 shares), at cost						(29,627)	(29,627)
Balance, January 31, 2000	113,634	1,894	565,925	1,201,632		(581,671)	1,187,780
Net income				119,700			119,700
Minimum pension liability adjustment					(6,804)		(6,804)
Total comprehensive income							112,896
Exercise of stock options			6,282			11,515	17,797
Treasury stock acquired (14,534 shares), at cost						(247,128)	(247,128)
Interest under equity forward agreements						(2,405)	(2,405)
Balance, January 31, 2001	113,634	1,894	572,207	1,321,332	(6,804)	(819,689)	1,068,940
Net income				53,044			53,044
Minimum pension liability adjustment					1,005		1,005

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Common Stock Issued

Interest rate swap market adjustment				(16,103)		(16,103)
Total comprehensive income						37,946
Exercise of stock options	689			4,365		5,054
Treasury stock acquired (5,186 shares), at cost				(125,910)		(125,910)
Interim settlements and interest under equity forward agreements				(45,517)		(45,517)
Other	96					96
Balance, January 31, 2002	113,634	\$ 1,894	\$ 572,992	\$ 1,374,376	\$ (21,902)	\$ (986,751) \$ 940,609

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

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MANDALAY RESORT GROUP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

Mandalay Resort Group (the "Company"), which changed its name from Circus Circus Enterprises, Inc. effective June 18, 1999, was incorporated February 27, 1974 in Nevada. The Company owns and operates hotel and casino facilities in Las Vegas, Reno, Laughlin, Jean and Henderson, Nevada and a hotel and dockside casino in Tunica County, Mississippi. In Detroit, Michigan, the Company is the majority investor in a temporary casino which opened December 14, 1999. It is also an investor in several unconsolidated affiliates, with operations that include a riverboat casino in Elgin, Illinois, a hotel/casino in Reno, Nevada and a hotel/casino on the Las Vegas Strip. (See Note 5 Investments in Unconsolidated Affiliates.)

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and the Detroit joint venture (53.5% owned), which is required to be consolidated. Material intercompany accounts and transactions have been eliminated. Investments in 50% or less owned affiliated companies are accounted for under the equity method.

CASH EQUIVALENTS

At January 31, 2002 and 2001, cash equivalents (consisting principally of money market funds and instruments with initial maturities of three months or less) had a cost approximately equal to market value.

INVENTORIES

Inventories (consisting primarily of food, beverage and retail inventories) are stated at the lower of cost or market. Cost is determined using the first-in, first-out and the average cost methods.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in the determination of income.

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Depreciation and amortization of property, equipment and leasehold interests are provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	15-45 years
Equipment, furniture and fixtures	3-15 years
Leasehold interests and improvements	5-16 years

CAPITALIZED INTEREST

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. When debt is not specifically identified as being incurred in connection with a construction project, the Company capitalizes interest on amounts expended on the project at the Company's average cost of borrowed money. Capitalization of interest ceases when a project is substantially complete or construction activities are no longer underway. The amounts capitalized

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during the years ended January 31, 2002, 2001 and 2000, were \$1.0 million, \$1.6 million and \$11.0 million, respectively.

LONG-LIVED ASSETS

Long-lived assets are comprised of intangible assets and property, plant and equipment. Long-lived assets are reviewed for impairment, on a property by property basis (the lowest level for which there are identifiable cash flows), whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Pursuant to the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), an estimate of undiscounted future cash flows produced by the asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether an impairment exists. If an asset is determined to be impaired based on expected future cash flows, a loss, measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized in the consolidated statements of income. Assets to be disposed of are reported at the lower of the carrying amount or its estimated net realizable value.

Pursuant to SFAS 121, the Company determined that the carrying values of its two Jean properties, Gold Strike and Nevada Landing, exceeded their fair values and, accordingly, recognized an impairment loss of \$52.0 million in fiscal 2002. The properties' fair values were determined based upon several valuation approaches, including discounted future cash flows and cash flow multiples. The write-down reflects the downturn in operating results at these properties over the past few years due to the continued expansion of Native American casinos in California. Of the \$52.0 million write-down, \$17.9 million represented goodwill.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144, which is effective for the Company in fiscal 2003, supercedes SFAS 121 and portions of other accounting statements. The provisions applicable to the Company are substantially the same as those applied under SFAS 121.

TREASURY STOCK

Shares purchased and placed in treasury are valued at cost. Shares are removed from treasury using the first-in, first-out method. Interest charges and other fees related to the Company's equity forward agreements are included in treasury stock, net of the related tax benefit. (See Note 15 Equity Forward Agreements.)

CASINO REVENUES

Casino revenues are the net difference between the sums received as winnings and the sums paid as losses. Incentives, such as discounts to induce casino play, are deducted from gross revenues.

COMPLIMENTARY ALLOWANCES

Revenues include the retail value of rooms, food and beverage furnished gratuitously to customers. Such amounts are then deducted as complimentary allowances.

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The estimated cost of providing such complimentary allowances, as they relate to the casino department, was included in casino expenses as follows:

	Year ended January 31,		
	2002	2001	2000
	(in thousands)		
Rooms	\$ 19,341	\$ 18,580	\$ 17,291
Food and beverage	93,405	94,440	73,495
Other	13,405	11,042	11,879
	\$ 126,151	\$ 124,062	\$ 102,665

PLAYER CLUB POINTS

The Company's player club allows customers to earn "points" based on the volume of their gaming activity. These points are redeemable for certain complimentary services and/or cash rebates. In February 2001, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus in EITF Issue No. 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future." EITF Issue No. 00-22 requires that the redemption of points for cash be recognized as a reduction of revenue. The Company has complied with the requirements of EITF Issue No. 00-22 in the accompanying condensed consolidated statements of income, including reclassification of prior period amounts. The adoption of EITF Issue No. 00-22 does not affect net income.

Points are accrued based upon their historical redemption rate multiplied by the cash value or the cost of providing the applicable complimentary services. Casino revenues were reduced by the value of player club points earned of \$28.3 million, \$28.4 million and \$26.0 million in the years ended January 31, 2002, 2001 and 2000, respectively.

PREOPENING EXPENSES

Preopening expenses consist principally of direct incremental personnel costs and advertising and marketing expenses. In accordance with the American Institute of Certified Public Accountants' Statement of Position 98-5, preopening expenses incurred through January 31, 1999 (\$33.8 million), on projects opening after that date, are reflected, net of income tax benefit of \$11.8 million, as a cumulative effect of a change in accounting principle for preopening expenses in the consolidated statements of income. Preopening expenses incurred after January 31, 1999 are expensed as incurred. Previously, these costs were capitalized prior to the opening of the specific project and were charged to expense at the commencement of operations.

For the year ended January 31, 2002, preopening expenses of \$2.2 million related primarily to the new convention center at Mandalay Bay expected to open in January 2003. For the year ended January 31, 2001, preopening expenses of \$1.8 million related to the Shark Reef at Mandalay Bay, which opened June 20, 2000. For the year ended January 31, 2000, preopening expenses of \$83.0 million (including the write-off of \$33.8 million of previously capitalized preopening expenses) related primarily to Mandalay Bay, which opened March 2, 1999, and the Company's joint venture in Detroit, which opened December 14, 1999.

ABANDONMENT LOSS

During fiscal 2000, the Company wrote off \$5.4 million related to a proposed timeshare resort in Las Vegas which the Company decided not to pursue.

INCOME TAXES

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Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on the income tax provision and deferred tax assets and liabilities is recognized in the results of operations in the period that includes the enactment date.

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period, while diluted earnings per share reflects the impact of additional dilution for all potentially dilutive securities, such as stock options.

The table below reconciles weighted average shares outstanding used to calculate basic earnings per share with the weighted average shares outstanding used to calculate diluted earnings per share. There were no reconciling items for net income.

	Year ended January 31,		
	2002	2001	2000
	(in thousands, except per share data)		
Net income	\$ 53,044	\$ 119,700	\$ 42,163
Weighted average shares outstanding (basic earnings per share)	72,799	78,335	90,607
Stock options	1,661	1,366	1,289
Weighted average shares outstanding (diluted earnings per share)	74,460	79,701	91,896
Basic earnings per share	\$.73	\$ 1.53	\$.47
Diluted earnings per share	\$.71	\$ 1.50	\$.46

COMPREHENSIVE INCOME

In fiscal 2001, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes new rules for the reporting of comprehensive income and its components; however, the adoption of this statement does not impact the Company's net income. Comprehensive income is a broad concept of an enterprise's financial performance that includes all changes in equity during a period that arise from transactions and economic events from nonowner sources. Comprehensive income is net income plus "other comprehensive income," which consists of revenues, expenses, gains and losses that do not affect net

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income under Generally Accepted Accounting Principles. Other comprehensive income for the Company includes adjustments for minimum pension liability and adjustments to interest rate swaps, net of tax. The accumulated other comprehensive loss reflected on the balance sheet consisted of the following:

	January 31,	
	2002	2001
	(in thousands)	
Minimum pension liability adjustment	\$ 5,799	\$ 6,804
Adjustment to interest rate swaps	16,103	

	January 31,	
	2002	2001
Accumulated other comprehensive loss	\$ 21,902	\$ 6,804

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

The financial statements for prior years reflect certain reclassifications, which have no effect on net income, to conform with classifications adopted in the current year. These include reclassifying goodwill related to the Company's acquisition of the investments in Grand Victoria and Monte Carlo. (See Note 4 Goodwill.)

Note 2. Accounts Receivable

The Company extends credit to approved casino customers. These receivables are the principal financial instruments that potentially subject the Company to concentration of credit risk. The Company maintains an allowance for doubtful accounts to reduce the receivables to their estimated collectible amount, which approximates fair value. As of January 31, 2002, management believes that there are no concentrations of credit risk for which an allowance has not been established and recorded. The collectibility of foreign and domestic receivables could be affected by future business or economic conditions or other significant events in the United States or in the countries in which foreign customers reside. Bad debt expense was \$20.4 million, \$21.3 million and \$13.9 million for the years ended January 31, 2002, 2001 and 2000, respectively.

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Accounts receivable consisted of the following:

	January 31,	
	2002	2001
	(in thousands)	
Casino	\$ 64,036	\$ 75,642
Hotel	20,601	30,189
Other	9,139	5,849
	93,776	111,680
Less allowance for doubtful accounts	(35,404)	(33,321)
	\$ 58,372	\$ 78,359

The above allowance for doubtful accounts includes \$32.8 million and \$31.7 million related to casino receivables at January 31, 2002 and 2001, respectively.

Note 3. Property, Equipment and Leasehold Interests

Property, equipment and leasehold interests consisted of the following:

January 31,

	2002	2001
	(in thousands)	
Land and land leases	\$ 395,805	\$ 382,793
Buildings and improvements	3,037,800	3,088,717
Equipment, furniture and fixtures	674,830	809,616
Leasehold interests and improvements	8,664	8,664
	4,117,099	4,289,790
Less accumulated depreciation and amortization	(1,162,203)	(1,077,322)
	2,954,896	3,212,468
Construction in progress	94,916	24,356
	\$ 3,049,812	\$ 3,236,824

Note 4. Goodwill

The excess of the purchase price over the fair value of net assets of businesses acquired (goodwill) is amortized using the straight-line method over 25-40 years. When events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable, the Company measures the amount of impairment, if any, by assessing current and future levels of income and cash flows as well as other factors.

On December 14, 1999, the Company purchased an additional ownership interest in a joint venture which operates MotorCity Casino, a temporary casino in Detroit, Michigan, bringing its total ownership interest in the joint venture to 53.5%. The excess of the purchase price over the fair market value of the net assets acquired amounted to \$38.4 million.

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On June 1, 1995, the Company completed its acquisition of a group of properties (collectively, the "Gold Strike Properties") consisting of (i) two hotel/casino facilities in Jean, Nevada (see Note 1 regarding an impairment loss at these properties); (ii) a hotel/casino in Henderson, Nevada; (iii) a 50% interest in a joint venture which owns Grand Victoria, a riverboat casino and land-based entertainment complex in Elgin, Illinois; and (iv) a 50% interest in a joint venture which owns the Monte Carlo, a major hotel/casino on the Las Vegas Strip. The excess of the purchase price over the fair market value of the net assets acquired amounted to \$394.5 million.

When the Gold Strike acquisition was consummated, the Company recorded the entire excess of the purchase price over the fair market value of net assets acquired as goodwill. However, the majority of the excess related to the value of the investments in Grand Victoria and Monte Carlo. Since the amount was not assigned to the specific assets (e.g., property and equipment) of the joint ventures, it was properly treated as goodwill. With the pending adoption of a new accounting standard for goodwill (see below), goodwill related to investments in unconsolidated affiliates should be reviewed differently for impairment than other goodwill. Therefore, unamortized goodwill of \$309.2 million at January 31, 2002 was reclassified to investment in unconsolidated affiliates. This reclassification had no impact on the Company's reported net income.

On February 1, 1983, the Company purchased the Edgewater Hotel and Casino in Laughlin, Nevada. The excess of the purchase price over the fair market value of the net assets acquired amounted to \$9.7 million.

On November 1, 1979, the Company purchased the Slots-A-Fun Casino in Las Vegas. The excess of the purchase price over the fair market value of the net assets acquired amounted to \$4.2 million.

Goodwill amortization was \$11.8 million, \$11.8 million and \$10.5 million for the years ended January 31, 2002, 2001 and 2000, respectively, including amortization of goodwill associated with the Grand Victoria and Monte Carlo joint ventures. Accumulated goodwill amortization was \$10.2 million and \$11.3 million as of January 31, 2002 and 2001, respectively.

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In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 provides that goodwill will no longer be amortized, but will instead be reviewed for impairment at least annually. SFAS 142 is effective for the Company on February 1, 2002. The Company has begun its review of existing goodwill for impairment. After the review is complete, any impairment will be recognized as a cumulative effect of a change in accounting principle in the quarter ended April 30, 2002.

Note 5. Investments in Unconsolidated Affiliates

The Company has investments in unconsolidated affiliates that are accounted for under the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Company's share of earnings, losses and distributions of these companies. The investment balance also includes interest capitalized during construction. The investment balances for Grand Victoria and Monte Carlo are greater than the carrying values of the net assets of the respective unconsolidated

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affiliates due primarily to goodwill recognized when the Company acquired the investments. (See Note 4 Goodwill.) Investments in unconsolidated affiliates consisted of the following:

	January 31,	
	2002	2001
	(in thousands)	
Circus and Eldorado Joint Venture (50%) (Silver Legacy, Reno, Nevada)	\$ 77,029	\$ 72,222
Elgin Riverboat Resort (50%) (Grand Victoria, Elgin, Illinois)	251,022	255,640
Victoria Partners (50%) (Monte Carlo, Las Vegas, Nevada)	226,035	233,125
	\$ 554,086	\$ 560,987

The Company's unconsolidated affiliates operate with fiscal years ending on December 31. Summarized balance sheet information of the unconsolidated affiliates as of December 31, 2001 and 2000 is as follows:

	2001	2000
	(in thousands)	
Current assets	\$ 116,709	\$ 108,869
Property and other assets, net	655,147	673,773
Current liabilities	182,193	94,137
Long-term debt and other liabilities	135,000	244,000
Equity	454,663	444,505

Selected results of operations for each of the unconsolidated affiliates for the years ended December 31, 2001 and 2000 are as follows:

	December 31, 2001			
	Silver Legacy	Grand Victoria	Monte Carlo	Total
	(in thousands)			
Revenues	\$ 164,677	\$ 410,248	\$ 256,586	\$ 831,511

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December 31, 2001

Expenses	130,595	284,101	189,737	604,433
Operating income	34,082	126,147	66,849	227,078
Net income	21,120	127,594	62,575	211,289

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December 31, 2000

	Silver Legacy	Grand Victoria	Monte Carlo	Total
(in thousands)				
Revenues	\$ 177,489	\$ 394,438	\$ 276,558	\$ 848,485
Expenses	140,246	278,571	198,002	616,819
Operating income	37,243	115,867	78,556	231,666
Net income	21,770	117,594	72,348	211,712

Note 6. Other Investments

The Company has adopted a Supplemental Executive Retirement Plan ("SERP"), a defined benefit plan pursuant to which the Company will pay supplemental pension benefits to certain key employees upon retirement. The SERP is an unfunded plan. However, the Company is informally funding the plan through life insurance contracts on the participants. These life insurance contracts had cash surrender values of \$28.6 million and \$20.6 million at January 31, 2002 and 2001, respectively.

Note 7. Deferred Charges and Other Assets

Deferred charges and other assets consisted of the following:

	January 31,	
	2002	2001
(in thousands)		
Debt issuance costs, net	\$ 38,893	\$ 28,122
Intangible asset related to SERP	22,992	12,712
Other	23,068	30,192
	\$ 84,953	\$ 71,026

The Company incurs discounts, structuring fees and other costs in connection with its issuance of notes and in connection with its credit facilities. Debt issuance costs are capitalized when incurred and amortized to interest expense based on the related debt maturities using the straight-line method, which approximates the effective interest method. The amortization of debt issuance costs included in interest expense was \$6.5 million, \$4.9 million and \$3.7 million for the years ended January 31, 2002, 2001 and 2000, respectively.

With respect to the intangible asset related to the SERP, the Company accounts for the SERP according to Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87"). SFAS 87 requires the recognition of an intangible asset in an amount equal to the additional minimum liability, provided that such intangible asset may not exceed the amount of unrecognized prior service cost and unrecognized net obligation. The amount by which the additional minimum liability exceeds unrecognized prior service cost and unrecognized net obligation is recorded as a negative component of stockholders' equity through comprehensive income (net of related tax benefits).

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Note 8. Long-term Debt

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Long-term debt consisted of the following:

	January 31,	
	2002	2001
	(in thousands)	
Amounts due under bank credit agreements at floating interest rates, weighted average of 3.6% and 6.9%	\$ 380,000	\$ 760,000
Amounts due under majority-owned joint venture revolving credit facility at floating interest rates, weighted average of 3.3% and 7.1%	64,000	127,000
6 ³ / ₄ % Senior Subordinated Notes due 2003 (net of unamortized discount of \$23 and \$39)	149,977	149,961
9 ¹ / ₄ % Senior Subordinated Notes due 2005	275,000	275,000
6.45% Senior Notes due 2006 (net of unamortized discount of \$176 and \$220)	199,824	199,780
10 ¹ / ₄ % Senior Subordinated Notes due 2007 500,000	500,000	500,000
9 ¹ / ₂ % Senior Notes due 2008	200,000	200,000
9 ³ / ₈ % Senior Subordinated Notes due 2010 (net of unamortized discount of \$2,142)	297,858	
7 ⁵ / ₈ % Senior Subordinated Debentures due 2013	150,000	150,000
7.0% Debentures due 2036 (net of unamortized discount of \$92 and \$106)	149,908	149,894
6.70% Debentures due 2096 (net of unamortized discount of \$88 and \$135)	149,912	149,865
Other notes	4,859	4,359
	2,521,338	2,665,859
Less current portion	(39,251)	(42,262)
	\$ 2,482,087	\$ 2,623,597

In August 2001, the Company replaced its \$1.8 billion unsecured credit facility, dated May 23, 1997, with three separate facilities that totaled \$1.25 billion. These credit facilities included a \$150 million capital markets term loan facility which was paid in full using a portion of the net proceeds received from the issuance of \$300 million of Senior Subordinated Notes in December 2001 (discussed more fully below), thus reducing the borrowing capacity to \$1.1 billion under the two remaining facilities. The remaining credit facilities, which are for general corporate purposes, include a \$250 million term loan facility, the entire amount of which was outstanding at January 31, 2002, and an \$850 million revolving facility, \$130 million of which was outstanding at January 31, 2002. Each of the credit facilities is unsecured and provides for the payment of interest, at the Company's option, either at a rate equal to or an increment above the higher of the Bank of America, N.A. "prime rate" and the Federal Reserve Board "Federal Funds Rate" plus 50 basis points or, alternatively, at a Eurodollar-based rate. The entire principal amount outstanding under the credit facilities becomes due and payable on August 21, 2006, unless the maturity date is extended with the consent of the lenders. While the debt instruments issued under the above credit facilities are short term in tenor, they are classified as long-term debt because it is management's intention to continue to replace such borrowings on a rolling basis as various instruments come due and to have such borrowings outstanding for longer than one year.

Each of the credit facilities includes financial covenants regarding total debt and interest coverage and contains covenants that limit the Company's ability, among other things, to dispose of assets, make distributions on its capital stock, engage in a merger, incur liens and engage in transactions with its affiliates. In December 2001, the Company amended the covenants under each of its credit facilities to

provide for more liberal tests for total debt and interest coverage. These amendments were obtained to address the impact of the terrorist attacks on September 11, 2001. The amended covenants were effective with the quarter ended January 31, 2002 and will continue to provide relief through the quarter ending April 30, 2003. At January 31, 2002, the Company was in compliance with all of the covenants in its credit facilities and, under the most restrictive loan covenant, was restricted from issuing additional debt in excess of approximately \$250 million.

On December 14, 1999, the Company acquired an additional 8.5% ownership interest in the joint venture that owns and operates MotorCity Casino in Detroit, Michigan, bringing the total ownership interest to 53.5%. Therefore, long-term debt of that joint venture is reflected as an

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obligation of the Company. In June 1999, the joint venture entered into a \$150 million reducing revolving credit facility which matures on June 30, 2003. The credit facility reduces by fixed amounts quarterly (which began on December 31, 2000) and contains financial covenants regarding total debt, capital expenditures and investments. At January 31, 2002, the joint venture was in compliance with all of these covenants. The credit facility, which is guaranteed by the Company, was used primarily to develop and construct the temporary casino facility. The fair value of the debt issued under the credit facility approximates the carrying amount of the debt.

On December 20, 2001, the Company issued \$300 million principal amount of 9³/₈% Senior Subordinated Notes due February 15, 2010 (the "9³/₈% Notes"), with interest payable each February and August. The 9³/₈% Notes are redeemable prior to maturity at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium. The 9³/₈% Notes, which were discounted to \$297.8 million, are not subject to any sinking fund requirements. The net proceeds from this offering were used to repay borrowings under the Company's credit facilities. As of January 31, 2002, the estimated fair value of the 9³/₈% Notes was \$307.5 million, based on their trading price.

On August 16, 2000, the Company issued \$200 million principal amount of 9¹/₂% Senior Notes due August 2008 (the "9¹/₂% Notes"), with interest payable each February and August. The 9¹/₂% Notes are redeemable prior to maturity at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium. The 9¹/₂% Notes are not subject to any sinking fund requirements. The net proceeds from this offering were used to repay borrowings under the Company's credit facility. As of January 31, 2002, the estimated fair value of the 9¹/₂% Notes was \$214.3 million, based on their trading price.

On July 24, 2000, the Company issued \$500 million principal amount of 10¹/₄% Senior Subordinated Notes due August 2007 (the "10¹/₄% Notes"), with interest payable each February and August. The 10¹/₄% Notes are redeemable prior to maturity at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium. A portion of the 10¹/₄% Notes are also redeemable at the option of the Company prior to August 1, 2003 with the proceeds of a public offering of equity securities. The 10¹/₄% Notes are not subject to any sinking fund requirements. The net proceeds from this offering were used to repay borrowings under the Company's credit facility. As of January 31, 2002, the estimated fair value of the 10¹/₄% Notes was \$532.5 million, based on their trading price.

In November 1998, the Company issued \$275 million principal amount of 9¹/₄% Senior Subordinated Notes due December 2005 (the "9¹/₄% Notes"), with interest payable each June and December. The 9¹/₄% Notes are redeemable at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium at any time prior to December 1, 2002. The 9¹/₄% Notes are also redeemable at the option of the Company, in whole or in part, beginning December 1, 2002 at prices declining annually to 100% on or after December 1, 2004. The 9¹/₄% Notes are not subject to

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any sinking fund requirements. As of January 31, 2002, the estimated fair value of the 9¹/₄% Notes was \$280.5 million, based on their trading price.

In November 1996, the Company issued \$150 million principal amount of 7.0% Debentures due November 2036 (the "7.0% Debentures"). The 7.0% Debentures may be redeemed at the option of the holder in November 2008. Also in November 1996, the Company issued \$150 million principal amount of 6.70% Debentures due November 2096 (the "6.70% Debentures"). The 6.70% Debentures may be redeemed at the option of the holder in November 2003. Both the 7.0% Debentures, which were discounted to \$149.8 million, and the 6.70% Debentures, which were discounted to \$149.7 million, have interest payable each May and November, are not redeemable by the Company prior to maturity and are not subject to any sinking fund requirements. As of January 31, 2002, the estimated fair value of the 7.0% Debentures was \$139.5 million and the estimated fair value of the 6.70% Debentures was \$148.5 million, based on their trading prices.

In February 1996, the Company issued \$200 million principal amount of 6.45% Senior Notes due February 1, 2006 (the "6.45% Notes"), with interest payable each February and August. The 6.45% Notes, which were discounted to \$199.6 million, are not redeemable prior to maturity and are not subject to any sinking fund requirements. As of January 31, 2002, the estimated fair value of the 6.45% Notes was \$191.0 million, based on their trading price.

In July 1993, the Company issued \$150 million principal amount of 6³/₄% Senior Subordinated Notes (the "6³/₄% Notes") due July 2003 and \$150 million principal amount of 7⁵/₈% Senior Subordinated Debentures (the "7⁵/₈% Debentures") due July 2013, with interest payable each July and January. The 6³/₄% Notes, which were discounted to \$149.8 million, and the 7⁵/₈% Debentures are not redeemable prior to maturity and are not subject to any sinking fund requirements. As of January 31, 2002, the estimated fair value of the 6³/₄% Notes was \$148.5 million and the estimated fair value of the 7⁵/₈% Debentures was \$129.0 million, based on their trading prices.

Required annual principal payments as of January 31, 2002 are as follows:

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Year ending January 31,	(in thousands)
2003	\$ 39,251
2004	325,179
2005	289
2006	275,289
2007	580,112
Thereafter	1,301,218
	\$ 2,521,338

Note 9. Interest Rate Swaps

The Company has a policy aimed at managing interest rate risk associated with its current and anticipated future borrowings. Under this policy, the Company may use any combination of interest rate swaps, futures, options, caps and similar instruments. To the extent the Company employs such financial instruments pursuant to this policy, and the instruments qualify for hedge accounting, they are accounted for as hedging instruments. In order to qualify for hedge accounting, the underlying hedged item must expose the Company to risks associated with market fluctuations and the financial instrument used must be designated as a hedge and must reduce the Company's exposure to market fluctuation throughout the hedge period. If these criteria are not met, a change in the market value of

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the financial instrument is recognized as a gain or loss in the period of change. Otherwise, gains and losses are not recognized except to the extent that the financial instrument is disposed of prior to maturity. Net interest paid or received pursuant to the financial instrument is included as interest expense in the period.

The Company has entered into various interest rate swaps, principally with its bank group, to manage interest expense, which is subject to fluctuation due to the variable-rate nature of the debt under the Company's credit facilities. The Company has interest rate swap agreements under which it pays a fixed interest rate (weighted average of approximately 6.4%) and receives a variable interest rate (weighted average of approximately 2.0% at January 31, 2002) on \$550 million notional amount of "initial" swaps. The net effect of all such swaps resulted in additional interest expense of \$13.7 million for the year. Three of the swaps with a combined notional amount of \$350 million terminate in fiscal 2003. The remaining swap of \$200 million notional amount terminates in fiscal 2004.

The Company is exposed to credit loss in the event of nonperformance by the counterparties to the interest rate swap agreements. However, the Company considers the risk of nonperformance by the counterparties to be minimal because the parties to the swaps are predominantly members of the Company's bank group. If the Company had terminated all swaps as of January 31, 2002, the Company would have had to pay a net amount of \$24.1 million based on quoted market values from the various financial institutions holding the swaps.

Except as noted below, the above swaps meet the criteria for hedge accounting established by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). The fair market value of the swaps is recorded as an asset or a liability in accordance with SFAS 133. At February 1, 2001, we recorded a liability of \$14.3 million (\$9.3 million, net of tax), representing the fair market value of the swaps. The corresponding loss was recorded as a cumulative effect of a change in accounting principle as part of other comprehensive income. The value of the swaps decreased by an additional \$9.8 million (\$6.8 million, net of tax) during the year ended January 31, 2002, which increased the liability with the corresponding loss included as other comprehensive income.

The Company has \$550 million notional amount in floating to fixed rate swaps, though its floating rate exposure is limited to borrowings under its credit facilities, which totaled only \$380 million at January 31, 2002 (due to the issuance of \$300 million Senior Subordinated Notes in December 2001, the proceeds of which were used to reduce borrowings under the credit facilities). Consequently, a portion of the Company's \$200 million swap maturing September 24, 2002 is considered an "ineffective hedge" pursuant to SFAS 133, and a portion of the change in the fair value of this swap must be recognized in the income statement. This amounted to approximately \$6.9 million at January 31, 2002. In accordance with SFAS 133, this amount is being amortized to interest expense over the remaining life of the \$200 million swap. To the extent the fair value of this swap changes prior to maturity (due to interest rate fluctuations), the amount to be recognized in the income statement will also change.

Note 10. Leasing Arrangements

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In October 1998, the Company entered into a \$200 million operating lease agreement with a group of financial institutions to lease equipment at Mandalay Bay.

In December 2001, the Company entered into a series of additional operating lease agreements totaling \$130.5 million with a group of financial institutions. These leases cover equipment located at several Nevada properties. Since this equipment was originally purchased by the Company, the transaction constituted a sale and leaseback of this equipment. The sale of the equipment resulted in

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the recognition of a net deferred gain of \$28.3 million. The proceeds from these leases were used to reduce borrowings outstanding under the Company's credit facilities, thereby providing additional borrowing capacity and improving leverage under the Company's bank covenants.

The Company entered into the above operating leases solely to provide greater financial flexibility; they are not considered a material source of financing. The rent expense related to these operating leases is reported separately in the consolidated statements of income as operating lease rent. The operating lease agreements contain financial covenants regarding total debt and interest coverage that are identical to those under the Company's credit facilities. The agreements also contain covenants regarding equipment maintenance, insurance requirements and prohibitions on liens.

The leases provide that, at termination, the Company may elect to purchase the equipment for a stated purchase option amount which is equal to the estimated fair value of the equipment at that date, as determined by an independent appraisal. If the Company chooses not to purchase the equipment, it may be obligated to pay additional amounts under the lease provisions. The following table summarizes these operating lease agreements:

Summary of Operating Lease Agreements (in thousands)

					Total
Date of agreement	10/30/98	12/21/01	12/28/01	12/28/01	
Initial value of leased equipment	\$ 200,000	\$ 112,500	\$ 12,500	\$ 5,500	\$ 330,500
Purchase option at January 31, 2002(1)	\$ 139,600	\$ 112,500	\$ 12,500	\$ 5,500	\$ 270,100
Current termination date	6/30/03	12/21/04	12/28/04	12/28/04	
Purchase option at current termination(1)	\$ 118,200	\$ 56,300	\$ 8,400	\$ 3,700	\$ 186,600
Maximum extended termination date(2)	6/30/03	12/21/05	12/28/06	12/28/06	
Purchase option at maximum termination(1)	\$ 118,200	\$ 45,000	\$ 6,200	\$ 2,800	\$ 172,200
Frequency of rent payments	Quarterly	Quarterly	Monthly	Monthly	
Estimated rent expense fiscal 2003(3)	\$ 23,000	\$ 24,500	\$ 2,500	\$ 1,000	\$ 51,000

(1) Represents estimated fair value at that date based upon independent appraisal.

(2) Assumes election of all available renewal periods.

(3) Estimated based on forward implied LIBOR.

The Company also leases various storage facilities and has various air space under operating leases expiring individually through 2032. A portion of the Circus Circus facility in Reno is built on leased land with various operating leases expiring through 2033. The following is a schedule of future

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minimum rental payments required as of January 31, 2002 under operating leases that have lease terms in excess of one year:

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Year ending January 31,	(in thousands)
2003	\$ 52,202
2004	36,825
2005	27,926
2006	661
2007	610
Thereafter	5,419
	<u>\$ 123,643</u>

Note 11. Income Taxes

The Company accounts for income taxes according to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences. The standard requires recognition of a future tax benefit to the extent that realization of such benefit is more likely than not. Otherwise, a valuation allowance is applied. At January 31, 2002, the Company believes that its deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income. Accordingly, there is no valuation allowance at January 31, 2002.

The components of the provision for income taxes were as follows:

	Year ended January 31,		
	2002	2001	2000
	(in thousands)		
Current			
Federal	\$ 38,970	\$ 53,588	\$ 38,069
State	1,615	1,545	734
	<u>40,585</u>	<u>55,133</u>	<u>38,803</u>
Deferred (see below)			
Federal	(623)	19,559	(11,687)
	<u>\$ 39,962</u>	<u>\$ 74,692</u>	<u>\$ 27,116</u>

The Company has recognized a tax benefit of \$1.3 million, \$2.7 million and \$1.7 million related to the exercise of stock options for the fiscal years ended January 31, 2002, 2001 and 2000, respectively. Such amounts reduce current taxes payable and increase additional paid-in capital.

The components of deferred income tax expense were as follows:

	Year ended January 31,		
	2002	2001	2000
	(in thousands)		

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	Year ended January 31,		
	2002	2001	2000
Additional depreciation resulting from the use of accelerated methods for tax purposes	\$ 10,064	\$ 20,956	\$ 10,723
Nondeductible loss resulting from asset impairment	(11,935)		
Effect of expensing preopening costs for financial statement purposes and amortizing over five years for tax purposes	3,832	4,409	(16,932)
Pension plan expense not deductible for tax purposes and market value adjustment	(5,594)	(1,587)	(978)
Book reserve for bad debts not deductible for tax purposes until written off	6,344	(6,643)	(2,715)
Difference between book and tax basis of investments in unconsolidated affiliates	(2,553)	(1,822)	(2,294)
Other, net	(781)	4,246	509
	<u>\$ (623)</u>	<u>\$ 19,559</u>	<u>\$ (11,687)</u>

The reconciliation of the difference between the federal statutory tax rate and the Company's effective tax rate was as follows:

	Year ended January 31,		
	2002	2001	2000
Federal statutory tax rate	35.0%	35.0%	35.0%
Nondeductible goodwill impairment	6.7		
Nondeductible goodwill amortization	3.8	1.8	5.3
Other, net	(2.5)	1.6	(1.2)
Effective tax rate	<u>43.0%</u>	<u>38.4%</u>	<u>39.1%</u>

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The income tax effects of temporary differences between financial and income tax reporting that gave rise to deferred income tax assets and liabilities at January 31, 2002 and 2001, were as follows:

	January 31,	
	2002	2001
	(in thousands)	
Deferred tax liabilities		
Property and equipment	\$ 210,715	\$ 218,456
Investments in unconsolidated affiliates	10,671	12,873
Other	312	15,376
Gross deferred tax liabilities	<u>221,698</u>	<u>246,705</u>
Deferred tax assets		
Accrued vacation benefits	9,201	7,259
Bad debt reserve	3,510	11,475
Preopening expenses	9,766	13,276
Pension plan	5,176	2,538

	January 31,	
	2002	2001
Other	7,785	6,558
Gross deferred tax assets	35,438	41,106
Net deferred tax liabilities	\$ 186,260	\$ 205,599

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Note 12. Employee Retirement Plans

Approximately 42% of the Company's employees are covered by union-sponsored, collectively bargained, multi-employer defined benefit pension plans. The Company contributed \$9.2 million, \$13.2 million and \$12.8 million during the years ended January 31, 2002, 2001 and 2000, respectively, for such plans. These contributions are determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. The Company also has a profit sharing and investment plan covering primarily nonunion employees who are at least 21 years of age and have at least one year of service. The plan is a voluntary defined contribution plan and is subject to the provisions of the Employee Retirement Income Security Act of 1974. The plan allows for investments in the Company's common stock as one of the investment alternatives. The Company's contributions to this plan include "automatic" contributions based on employees' years of service, and "matching" contributions based on employees' contributions. Employees vest in Company contributions over a period of six years. Contributions are funded with cash and were approximately \$6.1 million, \$5.4 million and \$4.7 million in the years ended January 31, 2002, 2001 and 2000.

On June 18, 1998, the Company adopted a Supplemental Executive Retirement Plan ("SERP"). The SERP is a defined benefit plan pursuant to which the Company will pay supplemental pension benefits to certain key employees upon retirement based upon the employees' years of service, compensation and SERP tier.

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The following information summarizes activity in the SERP:

	Year ended January 31,		
	2002	2001	2000
	(in thousands)		
Changes in Projected Benefit Obligation			
Projected benefit obligation at beginning of year	\$ 31,548	\$ 20,763	\$ 12,978
Service cost	3,089	1,783	1,395
Interest cost	3,329	1,713	1,070
Additional liability(1)	11,622	1,100	
Actuarial losses	6,630	6,436	5,330
Benefits paid	(720)	(247)	(10)
Projected benefit obligation at end of year	\$ 55,498	\$ 31,548	\$ 20,763
Fair Value of Plan Assets(2)	\$	\$	\$
Reconciliation of Funded Status			
Funded status	\$ (55,498)	\$ (31,548)	\$ (20,763)
Unrecognized actuarial loss	17,719	11,585	5,330
Unrecognized prior service cost	22,992	12,712	12,545

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	Year ended January 31,		
	2002	2001	2000
Accrued net periodic pension cost	\$ (14,787)	\$ (7,251)	\$ (2,888)
Amounts Recognized in the Consolidated Balance Sheets			
Accrued net periodic pension cost	\$ (14,787)	\$ (7,251)	\$ (2,888)
Additional minimum liability	(31,914)	(23,179)	
Intangible asset	22,992	12,712	
Accumulated other comprehensive loss(3)	8,922	10,467	
Net liability reflected in the consolidated balance sheet	\$ (14,787)	\$ (7,251)	\$ (2,888)
Components of Net Periodic Pension Cost			
Current period service cost	\$ 3,089	\$ 1,783	1,395
Interest cost	3,329	1,713	1,070
Amortization of prior service cost	1,342	933	433
Recognized net actuarial loss	496	181	
Net expense(4)	\$ 8,256	\$ 4,610	\$ 2,898
Weighted Average Assumptions			
Discount rate	7.3%	8.0%	8.0%
Rate of compensation increase	3.0%	3.0%	3.0%

- (1) Consists of liability for prior service cost for new participants, plus certain prior year adjustments relating to years of credited service and compensation.
- (2) While the SERP is an unfunded plan, the Company is informally funding the plan through life insurance contracts on the participants. The life insurance contracts had cash surrender values of \$28.6 million, \$20.6 million and \$11.3 million at January 31, 2002, 2001 and 2000, respectively. The life insurance contracts had a face value of \$174.0 million at January 31, 2002.
- (3) Amount recorded in the Consolidated Statement of Stockholders' Equity is net of income tax of \$3.1 million and \$3.7 million in the years ended January 31, 2002 and 2001, respectively.
- (4) The periodic pension expense is included in departmental expenses.

Note 13. Stock Options

The Company has various stock option plans for executive, managerial and supervisory personnel as well as the Company's outside directors and consultants. The plans permit grants of options, performance shares and restricted stock awards relating to the Company's common stock. The stock options are generally exercisable in one or more installments beginning not less than six months after the grant date.

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Summarized information for stock option plans was as follows:

	Year ended January 31,					
	2002		2001		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	5,615,940	\$ 13.46	6,029,959	\$ 13.70	3,872,674	\$ 14.72
Granted	4,631,500	19.33	655,500	15.99	3,377,166	14.20
Exercised	(308,269)	12.27	(940,061)	16.06	(878,914)	18.08
Canceled	(41,800)	14.92	(129,458)	18.36	(340,967)	19.05
Outstanding at end of year	9,897,371	16.24	5,615,940	13.46	6,029,959	13.70
Options exercisable at end of year	3,484,629	13.01	2,422,600	12.52	1,937,662	13.71
Options available for grant at end of year	6,790		4,885,990		1,912,032	

The following table summarizes information about stock options outstanding and exercisable at January 31, 2002:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$11.25 to \$13.00	4,567,371	6.19	\$ 12.48	3,172,198	\$ 12.35
14.50 to 20.20	4,737,500	9.18	18.94	136,664	15.92
20.75 to 27.61	592,500	8.12	23.67	175,767	22.77
	9,897,371	7.74	16.24	3,484,629	13.01

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") provides, among other things, that companies may elect to account for employee stock options using a fair value method or continue to apply the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB 25").

Under SFAS 123, all employee stock option grants are considered compensatory. Compensation cost is measured at the date of grant based on the estimated fair value of the options determined using

an option pricing model. The model takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the stock, expected dividends on the stock and the risk-free interest rate over the expected life of the option. Under APB 25, generally only stock options that have an intrinsic value at the date of grant are considered compensatory. Intrinsic value represents the excess, if any, of the market price of the stock at the grant date over the exercise price of the options. Under both methods, compensation cost is charged to earnings over the period the options become exercisable.

The Company has elected to continue to account for employee stock options under APB 25. Accordingly, no compensation cost has been recognized.

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The following table discloses the Company's pro forma net income and net income per share assuming compensation cost for employee stock options had been determined consistent with SFAS 123. The table also discloses the weighted average assumptions used in estimating the fair value of each option grant on the date of grant using the Black-Scholes option pricing model, and the estimated weighted average fair value of the options granted. The model assumes no expected future dividend payments on the Company's common stock.

Year ended January 31,			
	2002	2001	2000

(in thousands, except share data)			
Net income			
As reported	\$ 53,044	\$ 119,700	\$ 42,163
Pro forma	42,629	114,404	30,799
Net income per share (basic)			
As reported	\$.73	\$ 1.53	\$.47
Pro forma	.59	1.46	.34
Net income per share (diluted)			
As reported	\$.71	\$ 1.50	\$.46
Pro forma	.57	1.44	.34
Weighted average assumptions:			
Expected stock price volatility	41.9%	45.1%	45.1%
Risk-free interest rate	4.2%	4.6%	6.4%
Expected option lives (years)	2.9	3.4	3.2
Dividend yield	0.0%	0.0%	0.0%
Estimated fair value of options granted	\$ 6.10	\$ 6.25	\$ 5.37

Note 14. Stock Related Matters

On July 14, 1994, the Company declared a dividend of one common stock purchase right (the "Rights") for each share of common stock outstanding at the close of business on August 15, 1994. Each Right entitles the holder to purchase from the Company one share of common stock at an exercise price of \$125, subject to certain antidilution adjustments. The Rights become exercisable ten days after the earlier of an announcement that an individual or group has acquired 15% or more of the Company's outstanding common stock or the announcement of commencement of a tender offer for 15% or more of the Company's common stock.

In the event the Rights become exercisable, each Right (except the Rights beneficially owned by the acquiring individual or group, which become void) would entitle the holder to purchase, for the

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exercise price, a number of shares of the Company's common stock having an aggregate current market value equal to two times the exercise price. The Rights expire August 15, 2004, and may be redeemed by the Company at a price of \$.01 per Right any time prior to their expiration or the acquisition of 15% or more of the Company's common stock. The Rights should not interfere with any merger or other business combination approved by the Company's Board of Directors and are intended to cause substantial dilution to a person or group that attempts to acquire control of the Company on terms not approved by the Board of Directors.

The Company is authorized to issue up to 75 million shares of \$.01 par value preferred stock in one or more series having such respective terms, rights and preferences as are designated by the Board of Directors. No preferred stock has yet been issued.

In May 2000, the Company's Board of Directors authorized the purchase of up to 15% of the Company's then-outstanding shares of common stock, as market conditions and other factors warranted. In June 2001, the Board announced an additional authorization enabling the Company to purchase up to 15% of the shares of the Company's common stock which remain outstanding after the May 2000 authorization is fully utilized. Assuming the Company purchases all of the shares pursuant to the equity forward agreements (see Note 15 Equity Forward Agreements), the additional shares that may be purchased as of January 31, 2002, as authorized by the Board of Directors, would be approximately 7.8 million shares.

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During the year ended January 31, 2002, the Company purchased 5.2 million shares of its common stock at a cost of \$125.9 million. In the fiscal years ended 2001 and 2000, the Company purchased 14.5 million shares of its common stock at a cost of \$247.1 million and 1.7 million shares of its common stock at a cost of \$29.6 million, respectively. These amounts do not include interim settlements under the Company's equity forward agreements.

Note 15. Equity Forward Agreements

The Company has entered into equity forward agreements with Bank of America ("B of A" or "the Bank") providing for the Bank's purchase of up to an agreed amount of the Company's outstanding common stock. (Such purchases were to be in accordance with the volume and other limitations of Rule 10b-18 under the Securities Exchange Act of 1934.) The agreements, as amended, provide that on the settlement date, the Company will purchase from B of A the shares that the Bank then holds. For those shares, the Company will pay to B of A its acquisition cost (as adjusted by any interim settlements) plus accrued fees (the "Settlement Amount"). At the Company's option, it may acquire all or a portion of the shares at an earlier date, or it may become obligated to acquire all or a portion of the shares at an earlier date under certain circumstances specified in the agreements. The agreements provide for interim settlements whereby the Company may deliver or receive shares at the end of each calendar quarter so that the aggregate market value of the shares held by B of A is equal to the remaining notional amount of the agreements. The shares held by B of A at each interim settlement date are valued at the closing price of the stock on that date. To the extent that the value of the shares exceeds the notional amount, B of A delivers equivalent shares to the Company. To the extent the notional amount exceeds the value, the Company delivers equivalent shares to B of A.

Bank of America acquired a total of 6.9 million shares at a total cost of \$138.7 million under these agreements. Pursuant to the interim settlement provisions and an amendment to the agreements, the Company has received a net of 3.2 million shares and reduced the notional amount of the agreements by \$38.7 million. As of February 28, 2002, the Company was entitled to purchase the remaining 3.7 million shares from B of A for the notional amount of \$100 million on the settlement date (which was extended to March 31, 2003 by amendment of the agreements) subject to any future adjustment of

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the notional amount and/or the number of shares under the agreements' interim settlement provisions. The table below summarizes the share purchase and interim settlement activity under these equity forward agreements through February 28, 2002.

(in thousands)

Date	Description	Shares Acquired (Delivered) by BofA	Shares Acquired (Delivered) by Mandalay	Increase (Decrease) in Notional Amount
9/8/00	Original agreement	4,856		\$ 100,000
3/21/01	Amendment (increase of notional amount)	1,246		24,933
6/30/01	Interim settlement	(1,543)	1,543	
9/15/01	Amendment (increase of notional amount)	754		13,741
10/31/01	Interim settlement	938	(938)	(35,527)
1/31/02	Interim settlement	(2,438)	2,438	
2/6/02	Amendment (contract extension to 3/31/03)	(116)	116	(3,147)
	Net amounts	3,697	3,159	\$ 100,000

Although the Company's current intention is to purchase the shares held by B of A on the settlement date in accordance with the terms of the agreements, it could elect to net settle its obligation in cash or shares (i.e., pay cash or deliver additional shares or receive cash or shares). Upon final settlement of the agreements, B of A will be entitled to receive the Settlement Amount. If the Company elects to net settle its obligation, and if the net proceeds from the sale of the shares held by B of A total less than the Settlement Amount, the Company will be required to pay the difference either in cash or in the form of shares with an equivalent value (limited to the maximum number of shares under the agreement). If the net proceeds from the sale of the shares held by B of A total more than the Settlement Amount, B of A will be required to pay the Company the difference either in cash or in the form of shares with an equivalent value. The number of shares the Company ultimately acquires from B of A under these equity forward agreements will reduce, by an identical number, the shares it may purchase pursuant to its current share purchase authorizations. The Company's maximum exposure under the equity forward agreements is limited to the notional

amount.

The Company incurs quarterly interest charges on the notional amount at a current rate equal to LIBOR plus 1.95%. Total interest charges incurred from inception through January 31, 2002, amounted to \$7.8 million, of which \$6.5 million was incurred in fiscal 2002. In addition, the Company has also incurred structuring fees and commissions totaling \$3.7 million, of which \$2.0 million was incurred in fiscal 2002. These interest charges and other fees are included in the cost of treasury stock.

Note 16. Commitments and Contingent Liabilities

Mandalay Bay Convention Center

The Company has commenced construction of a convention and meeting complex located on land adjacent to the existing Mandalay Bay Conference Center. The complex will include more than one million square feet of exhibit space. Upon completion of the project, Mandalay Bay will offer a total of almost two million gross square feet of conference and exhibit space. Following the events of September 11, construction of the facility was temporarily suspended. Construction was resumed in February, and the facility is currently expected to open in January 2003. The cost of the convention

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center, excluding land, preopening expenses and capitalized interest, is estimated to be \$235 million. As of January 31, 2002, the Company had incurred costs of \$61.6 million related to this project.

Detroit

The Company participates with the Detroit-based Atwater Casino Group in a joint venture that owns and operates a temporary casino in Detroit, Michigan. This joint venture is one of three groups which negotiated casino development agreements with the city. The Company has a 53.5% ownership interest in the joint venture.

Pending the development of a permanent hotel/casino, the joint venture constructed a temporary casino (MotorCity Casino) in downtown Detroit, which opened December 14, 1999. The cost of the temporary casino, including land and capitalized interest but excluding preopening expenses, was approximately \$150 million. This cost was financed through the joint venture's \$150 million credit facility, which is secured by the assets associated with the temporary casino. The Company has guaranteed this credit facility, which had a balance of \$64 million at January 31, 2002. The joint venture's operation of the temporary casino is subject to ongoing regulatory oversight, and its ability to proceed with a permanent hotel/casino project is contingent upon the receipt of all necessary gaming approvals and satisfaction of other conditions.

The joint venture is currently negotiating with the City of Detroit concerning the location and scope of the permanent facility; however, the facility is expected to include hotel rooms, larger casino space, convention and meeting space, and dining and entertainment facilities. The Company has committed to contribute 20% of the cost of the permanent facility in the form of an investment in the joint venture. The joint venture will seek to borrow the funds necessary to complete the permanent facility. Because of the uncertainty about the location and scope of the permanent facility, its cost has yet to be determined. The current development agreement provides that Mandalay will guarantee completion of the permanent facility and will enter into a keep-well agreement with the city, pursuant to which it could be required to contribute additional funds to continue operation of the permanent facility for a period of two years. This keep-well agreement also applies to the temporary casino. There is no contractual limitation on the amount that the Company may be required to contribute to the joint venture in order to guarantee the completion of the permanent facility or to keep the project in operation for a period of two years. However, based on the performance of the temporary casino to date, the Company does not expect that these guarantees will require the outlay of additional capital. The Company has issued letters of credit totaling \$50 million for the benefit of Bank of America in order to back letters of credit issued by Bank of America for the same total amount. The Bank of America letters of credit were issued to secure payments of principal and interest on bonds issued by the Economic Development Corporation of the City of Detroit. The proceeds of the bonds are to be used to finance costs associated with activities (including acquisition) relating to land located along the Detroit River (including the site where the joint venture's permanent facility originally was to be located). However, this restriction on the use of proceeds may be modified as a result of negotiations with the City of Detroit.

Various lawsuits have been filed in the state and federal courts challenging the constitutionality of the Casino Development Competitive Selection Process Ordinance and the Michigan Gaming Control and Revenue Act, and seeking to appeal the issuance of a certificate of suitability and casino license to MotorCity Casino. A recent decision by the Sixth Circuit Court of Appeals in *Lac Vieux Desert Band of Lake Superior Chippewa Indians v. The Michigan Gaming Control Board et al.* held that the ordinance in its current form was unconstitutional and remanded the case to the District Court. The matter is presently pending before the District Court, which has declared that "the Ordinance in its current form

is unconstitutional." The effect of the rulings in this case is uncertain. The Michigan Gaming Control Board has taken the ruling of the Sixth Circuit Court of Appeals under advisement without comment. In a separate action, on February 13, 2002, John Ren filed suit in the Circuit Court of Wayne County, Michigan, against the Detroit joint venture and the other two casino operators in Detroit. The plaintiff purports to represent himself and a class consisting of all persons who lost money and/or incurred debts that remain unpaid at any of the three Detroit casinos. Relying on the Sixth Circuit Court of Appeals' *Lac Vieux* decision, the plaintiff alleges that the three casinos have been operating illegally and continue to do so. The relief sought by the plaintiff includes an injunction to restrain the three casinos from remaining open until properly licensed, compensatory damages, and disgorgement of all profits "unjustly obtained." The joint venture continues to operate MotorCity Casino. However, any future ruling by the court in either lawsuit or by the Michigan Gaming Control Board, as well as an adverse ruling in other lawsuits, could affect the joint venture's operation of the temporary facility, as well as its ability to retain its certificate of suitability and casino license for its permanent facility. No assurance can be given regarding the timing or outcome of any of these proceedings.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Mandalay Resort Group:

We have audited the accompanying consolidated balance sheets of Mandalay Resort Group (a Nevada corporation) and subsidiaries as of January 31, 2002 and 2001 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended January 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mandalay Resort Group and subsidiaries as of January 31, 2002 and 2001 and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2002, in conformity with accounting principles generally accepted in the United States.

As explained in Note 9 of the notes to consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" during the year ended January 31, 2002.

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
February 27, 2002

Management's Report on Financial Statements

The Company is responsible for preparing the consolidated financial statements and related information appearing in this report. Management believes that the financial statements present fairly the Company's financial position, results of operations and cash flows in conformity with Accounting Principles Generally Accepted in the United States. In preparing its financial statements, the Company is required to include amounts based on estimates and judgments which management believes are reasonable under the circumstances.

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The Company maintains accounting and other control systems designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. Compliance with these systems and controls is reviewed through a program of audits by an internal audit staff.

The Board of Directors fulfills its responsibility for the Company's financial statements through its audit committee, which is composed solely of directors who are not Company officers or employees. The audit committee meets from time to time with the independent public accountants, management and the internal auditors. The independent public accountants have direct access to the audit committee, with or without the presence of management representatives.

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SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Year Ended January 31, 2002

(in thousands, except per share amounts)

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Total</u>
Revenue	\$ 669,081	\$ 644,194	\$ 609,365	\$ 539,159	\$ 2,461,799
Income from operations	138,104	111,540	100,349	1,067	351,060
Income before income tax	75,095	48,508	36,377	(66,974)	93,006
Net income	47,362	30,527	23,311	(48,156)	53,044
Basic earnings per share	\$.62	\$.41	\$.33	\$ (.68)	\$ 0.73
Diluted earnings per share	\$.61	\$.40	\$.32	\$ (.66)	\$ 0.71

Year Ended January 31, 2001

(in thousands, except per share amounts)

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Total</u>
Revenue	\$ 633,667	\$ 639,459	\$ 630,813	\$ 591,845	\$ 2,495,784
Income from operations	130,915	119,950	114,081	66,588	431,534
Income (loss) before income tax	78,245	60,801	47,231	8,115	194,392
Net income (loss)	48,858	38,052	29,371	3,419	119,700
Basic earnings (loss) per share	\$.58	\$.49	\$.39	\$.04	\$ 1.53
Diluted earnings (loss) per share	\$.58	\$.48	\$.38	\$.04	\$ 1.50

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Elgin Riverboat Resort Riverboat Casino

Balance Sheets

December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 62,170,699	\$ 63,624,380

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	2002	2001
Accounts receivable, net of allowance for doubtful accounts of \$91,500 and \$250,000, respectively	666,543	801,350
Inventories	570,551	419,027
Prepaid expenses	1,671,977	1,343,425
Total current assets	65,079,770	66,188,182
Property and equipment, net	69,513,062	71,508,881
Other assets	68,900	56,400
Total assets	\$ 134,661,732	\$ 137,753,463
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 805,661	\$ 406,868
Accrued liabilities	47,515,769	52,189,471
Total current liabilities	48,321,430	52,596,339
Total liabilities	48,321,430	52,596,339
Commitments and contingencies		
Partners' equity	86,340,302	85,157,124
Total liabilities and partners' equity	\$ 134,661,732	\$ 137,753,463

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

Elgin Riverboat Resort Riverboat Casino

Statements of Operations

For Each of the Three Years Ended December 31, 2002

	2002	2001	2000
Revenues:			
Casino	\$ 392,973,373	\$ 399,574,280	\$ 370,299,913
Food and beverage	28,093,250	29,542,892	27,397,113
Admissions and other	12,052,427	11,375,386	10,807,332
	433,119,050	440,492,558	408,504,358
Less: promotional allowances	(30,250,504)	(30,244,503)	(27,402,778)
	402,868,546	410,248,055	381,101,580
Operating expenses:			
Casino	228,234,291	202,885,894	188,533,577

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	2002	2001	2000
Food and beverage	6,513,115	6,823,873	6,821,673
General and administrative	44,947,987	50,563,689	48,258,404
Depreciation and amortization	8,422,486	8,671,916	7,686,148
Other operating expenses	12,684,712	15,155,268	13,934,750
	<u>300,802,591</u>	<u>284,100,640</u>	<u>265,234,552</u>
Operating income	<u>102,065,955</u>	<u>126,147,415</u>	<u>115,867,028</u>
Other income (expense):			
Interest income	617,223	1,446,685	1,767,562
(Loss) gain on asset disposal			(40,306)
	<u>617,223</u>	<u>1,446,685</u>	<u>1,727,256</u>
Net income	<u>\$ 102,683,178</u>	<u>\$ 127,594,100</u>	<u>\$ 117,594,284</u>

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

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Elgin Riverboat Resort Riverboat Casino

Statements of Partners' Equity

For Each of the Three Years Ended December 31, 2002

	Nevada Landing Partnership	RBG, L.P.	Total
Balance, January 1, 2000	41,734,370	41,734,370	83,468,740
Net income	58,797,142	58,797,142	117,594,284
Distributions to partners	(61,750,000)	(61,750,000)	(123,500,000)
Balance, December 31, 2000	<u>38,781,512</u>	<u>38,781,512</u>	<u>77,563,024</u>
Net income	63,797,050	63,797,050	127,594,100
Distributions to partners	(60,000,000)	(60,000,000)	(120,000,000)
Balance, December 31, 2001	<u>42,578,562</u>	<u>42,578,562</u>	<u>85,157,124</u>
Net income	51,341,589	51,341,589	102,683,178
Distributions to partners	(50,750,000)	(50,750,000)	(101,500,000)
Balance, December 31, 2002	<u>\$ 43,170,151</u>	<u>\$ 43,170,151</u>	<u>\$ 86,340,302</u>

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

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Elgin Riverboat Resort Riverboat Casino

Statements of Cash Flows

For Each of the Three Years Ended December 31, 2002

	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 102,683,178	\$ 127,594,100	\$ 117,594,284
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,422,486	8,671,916	7,686,148
Net loss (gain) from sale of asset			40,306
Changes in assets and liabilities:			
Accounts receivable	134,807	(457,634)	346,353
Inventories	(151,524)	53,143	(51,584)
Prepaid expenses	(328,552)	(196,756)	(58,841)
Other assets	(12,500)		(1,000)
Accounts payable	398,793	13,740	447
Accrued liabilities	(4,673,702)	4,020,104	9,554,003
Net cash provided by operating activities	106,472,986	139,698,613	135,110,116
Cash flows from investing activities:			
Capital expenditures	(6,426,667)	(7,608,733)	(3,760,160)
Net cash used in investing activities	(6,426,667)	(7,608,733)	(3,760,160)
Cash flows from financing activities:			
Distributions to partners	(101,500,000)	(120,000,000)	\$ (123,500,000)
Net cash used in financing activities	(101,500,000)	(120,000,000)	(123,500,000)
Net (decrease) increase in cash and cash equivalents	(1,453,681)	12,089,880	7,849,956
Cash and cash equivalents, beginning of year	63,624,380	51,534,500	43,684,544
Cash and cash equivalents, end of year	\$ 62,170,699	\$ 63,624,380	\$ 51,534,500

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

Elgin Riverboat Resort Riverboat Casino

Notes to Financial Statements

1. Business

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Elgin Riverboat Resort Riverboat Casino ("Joint Venture"), doing business as the Grand Victoria Casino, was formed in December 1992, as a partnership, under a Joint Venture Agreement between Nevada Landing Partnership and RBG, L.P., in which each partner owns a fifty percent interest.

The Joint Venture is licensed by the Illinois Gaming Board ("IGB") to own and operate a riverboat casino on the Fox River in Elgin, Illinois. The original license, issued on October 6, 1994, was valid for a three-year term. On October 17, 2000, the IGB approved the renewal of the license for a term of four years.

2. Summary of Significant Accounting Policies

Casino Revenues

In accordance with industry practice, the Joint Venture recognizes as casino revenues the net win from gaming activities, which is the difference between gaming wins and losses.

Promotional Allowances

The retail value of admissions, food and beverage, and other complimentary items furnished to customers without charge is included in gross revenue and then deducted as promotional allowances. The estimated costs of providing such promotional allowances have been included in casino expenses as follows:

	2002	2001	2000
Admissions and other	\$ 9,639,112	\$ 9,164,805	\$ 8,858,483
Food and beverage	16,677,766	16,666,842	14,454,073
	\$ 26,316,878	\$ 25,831,647	\$ 23,312,556

Cash and Cash Equivalents

The Joint Venture considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Joint Venture maintains cash balances at a financial institution in excess of federally insured limits.

Inventories

Inventories, consisting of food, beverage, and gift shop items are stated at the lower of cost or market value. Cost is determined by the first-in, first-out method.

Advertising Expense

Advertising expenses are expensed as incurred. Advertising expense for the years ended December 31, 2002, 2001 and 2000 were \$3,334,814, \$5,682,903 and \$4,898,159, respectively.

Property and Equipment

Property, improvements and equipment are stated at cost. The Joint Venture computes depreciation and amortization using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	39 years
Riverboat	20 years
Land improvements	15 years
Furniture, fixtures and equipment, gaming and computer equipment	2-7 years

Reserve for Slot Club Redemption

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The Company's player club allows customers to earn "points" based on the volume of their gaming activity. These points are redeemable for certain complimentary services and/or cash rebates. The Joint Venture has accrued for the total liability of all points earned, but not redeemed by slot club members, less inactive players. Expenses incurred from actual point redemptions and the change in reserve for slot club redemption is presented as a reduction in casino revenues on the statements of operations.

Income Taxes

The financial statements of the Joint Venture do not reflect a provision for income taxes because the partners are required to recognize their proportionate share of the Joint Venture's income in their individual tax returns.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Lived Assets

Long-lived assets are comprised of property and equipment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

3. Property and Equipment

A summary of property and equipment at December 31, 2002 and 2001 is as follows:

	<u>2002</u>	<u>2001</u>
Buildings	\$ 29,170,069	\$ 29,170,069
Riverboat	52,699,655	52,699,655
Leasehold improvements	5,517,891	5,517,891
Furniture, fixtures and equipment, gaming and computer equipment	50,909,708	43,653,199
Construction in progress	144,193	974,035
	<u>138,441,516</u>	<u>132,014,849</u>
Total property and equipment	138,441,516	132,014,849
Less: accumulated depreciation and amortization	68,928,454	60,505,968
	<u>69,513,062</u>	<u>71,508,881</u>
Property and equipment, net	\$ 69,513,062	\$ 71,508,881

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4. Accrued Liabilities

A summary of accrued liabilities at December 31, 2002 and 2001 is as follows:

	<u>2002</u>	<u>2001</u>
Accrued commitment to Grand Victoria Foundation and County of Kane	\$ 25,962,289	\$ 32,119,418
Reserve for progressive jackpots	6,132,865	5,878,817
Accrued payroll, vacation and related taxes	3,887,394	3,608,424
Accrued fines and expenses payable to Illinois Gaming Board	3,200,000	1,500,000
Reserve for slot club redemptions	2,435,091	2,851,491

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	2002	2001
Accrued ground lease	883,711	1,275,108
Unredeemed chip/token liability	827,000	866,161
Accrued gaming, sales and state withholding taxes	779,062	680,689
Accrued property taxes	776,580	752,000
Accrued liability insurance	559,411	533,747
Accrued audit and legal	462,700	359,000
Accrued employees' tips	396,430	364,371
Unclaimed property liability	351,410	269,602
Other	278,849	50,485
Accrued employee expenses payable to Mandalay Resort Group	229,762	405,158
Accrued promotions and advertising	228,215	550,000
Kane County Forest Preserve trust agreement	125,000	125,000
Total accrued liabilities	\$ 47,515,769	\$ 52,189,471

5. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments.

6. Leases

In accordance with the Ground Lease and Development Agreement, as amended, (the "Agreement") the Joint Venture leases land for a term of ten years commencing with the initial issuance of the IGB license, with the right to renew the Agreement for successive five year terms, not to exceed a total lease term of thirty years. The Agreement requires annual lease payments equal to the greater of (i) \$107,195 or (ii) three percent of the Joint Venture's annual net operating income, as defined.

The future minimum lease commitments under the ground lease as of December 31, 2002 are as follows:

2003	\$ 107,195
2004	81,938

Rent expense for the years ended December 31, 2002, 2001, and 2000 were \$4,239,215, \$5,207,797 and \$4,822,905, respectively.

7. Commitments

Pursuant to an agreement with the City of Elgin, the Joint Venture has guaranteed that the City shall receive at least \$500,000 annually resulting from a combination of lease payments and admission taxes. For each of the three years ended December 31, 2002, 2001, and 2000, the Joint Venture has paid amounts in excess of the guarantee.

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Pursuant to the Fox River Trust Agreement, entered into on July 20, 1993, the Joint Venture has agreed to make certain payments to a trust fund for the benefit of the Fox River. Annual contributions of \$500,000 commenced on October 6, 1995, the initial anniversary date of the issuance of the IGB license, and will continue for twelve successive years.

The Joint Venture has agreed to contribute to both the County of Kane and a foundation that has been established for the benefit of educational, environmental and economic development programs in the region. The total commitment is equal to 20% of adjusted net operating income ("ANOI"), as defined. This commitment must be paid within 120 days of the end of the fiscal year for which it has been calculated. Donation expense for the years ended December 31, 2002, 2001, and 2000 were \$25,962,289, \$32,119,418 and \$30,660,173, respectively.

8. Related Party Transactions

Employment expenses, including salaries, benefits and incentives, for certain key Joint Venture employees, are paid by one of the Joint Venture Partners and then reimbursed by the Joint Venture.

9. Profit Sharing Plan

The Joint Venture contributes to a defined contribution plan which provides for contributions in accordance with the plan document. The plan covers substantially all employees. The Joint Venture contributes a set dollar amount to all eligible employees as well as a matching contribution of 25% of employee contributions limited to specified dollar amount as stated in the plan document. Contribution expense for the years ended December 31, 2002, 2001 and 2000 were \$704,673, \$613,944 and \$475,943, respectively.

10. Subsequent Event

On January 21, 2003, the Joint Venture and the IGB settled a complaint for alleged violations of the Illinois Riverboat Gambling Act and the IGB's Adopted Rules after the Joint Venture agreed to pay a fine of \$3,200,000. This amount has been included in accrued liabilities at December 31, 2002.

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Report of Independent Accountants

To the Partners of the Elgin Riverboat Resort Riverboat Casino

In our opinion, the accompanying balance sheets and the related statements of operations, partners' equity and cash flows present fairly, in all material respects, the financial position of Elgin Riverboat Resort Riverboat Casino ("Joint Venture") at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Joint Venture's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
January 21, 2003

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**VICTORIA PARTNERS
(dba Monte Carlo Resort & Casino)****BALANCE SHEETS
DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 15,106,522	\$ 14,180,059
Accounts receivable net of allowance for doubtful accounts of \$3,351,921 and \$2,244,401, respectively	7,684,742	9,497,964
Inventories	3,323,940	3,472,205
Prepaid expenses	3,969,820	1,750,940
	<u>30,085,024</u>	<u>28,901,168</u>
Total current assets	30,085,024	28,901,168
PROPERTY AND EQUIPMENT Net	290,734,380	298,021,708

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	2002	2001
OTHER ASSETS Net	2,628,050	4,011,070
TOTAL ASSETS	\$ 323,447,454	\$ 330,933,946
LIABILITIES AND PARTNERS' EQUITY		
CURRENT LIABILITIES:		
Revolving credit facility	\$	\$ 87,000,000
Accounts payable	2,848,802	3,044,348
Accrued liabilities:		
Jackpots and prizes	3,992,910	3,315,085
Salaries, wages and benefits	7,602,725	8,254,093
Gaming and other taxes	1,968,689	1,735,792
Advance room deposits	2,839,334	1,199,034
Other	2,117,280	2,286,403
Total current liabilities	21,369,740	106,834,755
COMMITMENTS AND CONTINGENCIES		
PARTNERS' EQUITY	302,077,714	224,099,191
TOTAL LIABILITIES AND PARTNER'S EQUITY	\$ 323,447,454	\$ 330,933,946

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

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VICTORIA PARTNERS
(dba Monte Carlo Resort & Casino)

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
OPERATING REVENUES:			
Casino	\$ 97,387,402	\$ 101,720,130	\$ 107,492,821
Rooms	97,590,237	99,792,667	109,066,568
Food and beverage	41,197,776	40,132,646	42,151,622
Other	28,937,874	30,881,760	34,529,276
	265,113,289	272,527,203	293,240,287
Less promotional allowances	(14,796,312)	(15,940,986)	(16,681,983)
Net operating revenues	250,316,977	256,586,217	276,558,304
OPERATING EXPENSES:			
Casino	53,850,831	56,145,225	56,909,623

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	<u>2002</u>	<u>2001</u>	<u>2000</u>
Rooms	30,586,314	30,222,733	30,787,811
Food and beverage	29,752,220	29,706,136	32,154,499
Other operating expenses	16,256,836	17,454,511	19,728,833
General and administrative	40,800,689	39,534,090	38,404,734
Depreciation and amortization	13,020,719	16,674,921	20,016,434
Total operating expenses	<u>184,267,609</u>	<u>189,737,616</u>	<u>198,001,934</u>
OPERATING INCOME	<u>66,049,368</u>	<u>66,848,601</u>	<u>78,556,370</u>
OTHER INCOME (EXPENSE):			
Interest and other income	141,719	410,371	635,860
Interest expense	(1,212,564)	(4,684,293)	(6,844,456)
OTHER EXPENSE Net	<u>(1,070,845)</u>	<u>(4,273,922)</u>	<u>(6,208,596)</u>
NET INCOME	<u>\$ 64,978,523</u>	<u>\$ 62,574,679</u>	<u>\$ 72,347,774</u>

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

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VICTORIA PARTNERS
(dba Monte Carlo Resort & Casino)

STATEMENTS OF CHANGES IN PARTNERS' EQUITY
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	<u>Gold Strike L.V.</u>	<u>MRGS Corp.</u>	<u>Total</u>
BALANCE, DECEMBER 31, 1999	\$ 130,827,909	\$ 114,348,829	\$ 245,176,738
Net income	36,173,887	36,173,887	72,347,774
Distributions to partners	(42,000,000)	(42,000,000)	(84,000,000)
BALANCE, DECEMBER 31, 2000	125,001,796	108,522,716	233,524,512
Net income	31,287,340	31,287,339	62,574,679
Distributions to partners	(36,000,000)	(36,000,000)	(72,000,000)
BALANCE, DECEMBER 31, 2001	120,289,136	103,810,055	224,099,191
Net income	32,489,262	32,489,261	64,978,523
Partners' contributions	43,500,000	43,500,000	87,000,000
Distributions to partners	(37,000,000)	(37,000,000)	(74,000,000)
BALANCE, DECEMBER 31, 2002	<u>\$ 159,278,398</u>	<u>\$ 142,799,316</u>	<u>\$ 302,077,714</u>

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

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VICTORIA PARTNERS
(dba Monte Carlo Resort & Casino)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	<u>2002</u>	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 64,978,523	\$ 62,574,679	\$ 72,347,774
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,020,719	16,674,921	20,016,434
(Gain) loss on disposal of fixed assets	(15,959)	(16,874)	8,915
Increase (decrease) in allowance for doubtful accounts	1,107,520	633,574	(375,028)
Changes in assets and liabilities:			
Accounts receivable	705,702	2,882,220	(4,123,136)
Prepaid expenses	(2,218,880)	750,060	102,922
Inventories	148,265	(143,695)	(168,696)
Other assets	1,345,518	(183,800)	166,412
Accounts payable	(195,546)	(1,448,987)	1,895,701
Interest payable	(200,628)	(379,801)	124,934
Accrued liabilities:			
Jackpots and prizes	677,825	(1,155,107)	152,258
Salaries, wages and benefits	(651,368)	583,465	844,629
Gaming and other taxes	232,897	(460,707)	445,933
Advance room deposits	1,640,300	(767,187)	521,182
Other	31,505	(684,719)	1,016,851
Net cash provided by operating activities	<u>80,606,393</u>	<u>78,858,042</u>	<u>92,977,085</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(5,745,035)	(7,365,990)	(7,333,505)
Proceeds from sale of fixed assets	65,105	110,732	131,511
Net cash used in investing activities	<u>(5,679,930)</u>	<u>(7,255,258)</u>	<u>(7,201,994)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Partners' contributions	87,000,000		
Distributions to partners	(74,000,000)	(72,000,000)	(84,000,000)
Payments on revolving credit facility	(87,000,000)		
Net cash used in financing activities	<u>(74,000,000)</u>	<u>(72,000,000)</u>	<u>(84,000,000)</u>

VICTORIA PARTNERS
(dba Monte Carlo Resort & Casino)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

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	2002	2001	2000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 926,463	\$ (397,216)	\$ 1,775,091
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,180,059	14,577,275	12,802,184
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 15,106,522	\$ 14,180,059	\$ 14,577,275
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid during year for interest	\$ 1,413,192	\$ 4,827,952	\$ 6,209,233

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

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Victoria Partners

(dba Monte Carlo Resort & Casino)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

1. Organization and Operations

Gold Strike L.V., a subsidiary of Mandalay Resort Group ("MRG"), and MRGS Corp. (a subsidiary of Mirage Resorts, Incorporated) formed a partnership, Victoria Partners (the "Partnership"), under a joint venture agreement. The purpose of the joint venture was to acquire certain unimproved property for the development and operation of a hotel-casino. The Partnership is doing business under the name Monte Carlo Resort & Casino. The joint venture agreement was signed on December 9, 1994 and provides for an even split of net income or losses from the Partnership, with MRG as managing partner. The casino opened for business on June 21, 1996.

During 1996, Gold Strike L.V. and MRGS Corp. made additional cash capital contributions to the Partnership of \$37,000,000 and \$21,500,000, respectively. Gold Strike L.V. also paid for certain fixed assets on behalf of the Partnership of \$13,600,000.

In 1997, Gold Strike L.V. made an additional capital contribution of \$2,100,000 to fund completion of the project.

In 2002, Gold Strike L.V. and MRGS Corp. made cash capital contributions of \$43,500,000 each in order to retire the reducing revolving loan facility (see Note 5).

2. Summary of Significant Accounting Policies

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents Cash and cash equivalents include all cash balances and highly liquid investments with maturities three months or less at the date of purchase.

Allowance for Doubtful Accounts The Partnership reserves an estimated amount for receivables that may not be collected. Methodologies for estimating bad debt reserves range from specific reserves to various percentages applied to aged receivables. Historical collection rates and customer relationships are considered in determining specific reserves. Bad debt expense was \$2,375,718, \$1,934,365 and \$954,151 for the years ended December 31, 2002, 2001 and 2000. Write-offs, net of recoveries, were \$1,268,198, \$1,300,791 and \$1,329,179 for the years ended December 31, 2002, 2001 and 2000, respectively.

Inventories Inventories are stated at the lower of cost, using a first-in, first-out basis, or market value.

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Property and Equipment Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Costs of major improvements are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred.

Long-Lived Assets In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Partnership evaluates the potential impairment of long-lived assets when events or changes in

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circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. If it is determined that the carrying value of long-lived assets may not be recoverable based upon the relevant facts and circumstances, the Partnership estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, the Partnership will recognize an impairment loss for the difference between the carrying value of the asset and its fair value.

Other Assets Other assets consist of county license deposits, Internet domain name rights, china, glass, silverware, linen and uniforms.

Income Taxes Income taxes are not recorded by the Partnership since any income or loss is allocated to the partners and included in their respective income tax returns. Accordingly, no provision for income taxes has been made and the Partnership has no liability for income taxes.

Deferred Finance Charges Fees paid by the Partnership in obtaining its long-term debt facility were included in other assets and were fully amortized as of December 31, 2001. These charges were amortized over the period of the loan. Amortization relating to these charges of \$236,142 and \$510,288 was included in interest expense in the years ended December 31, 2001 and 2000, respectively.

Jackpots and Prizes The Partnership accrues for all progressive slot machine jackpots and other fixed jackpots in excess of \$25,000. Fixed jackpot accruals are recorded as a reduction of gaming revenues ratably over the period of play expected to precede payout. Any portion of a jackpot not already accrued is charged to revenue at the time of payout.

Revenue Recognition Casino revenues are the net difference between the sums received as winnings and the sums paid as losses. Incentives, such as discounts to induce casino play, are deducted from gross revenues. Hotel, food and beverage, and other revenues are generally recognized as services are provided to customers.

Complimentary Allowances Revenues include the retail value of rooms, food and beverage furnished gratuitously to customers. Such amounts are then deducted as complimentary allowances.

The estimated costs of providing such complimentary allowances, as they relate to the casino department, are included in casino expenses as follows for the years ended January 31:

	2002	2001	2000
Rooms	\$ 1,798,576	\$ 1,983,934	\$ 2,079,504
Food and beverage	4,139,629	4,398,029	4,998,652
Other	794,950	964,108	846,560
	\$ 6,733,155	\$ 7,346,071	\$ 7,924,716

Player Club Points The Partnership's casino player club allows customers to earn "points" based on the volume of their gaming activity. These points are redeemable for certain complimentary services and/or cash rebates. In February 2001, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a consensus in EITF Issue No. 00-22, *Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future*. EITF Issue No. 00-22 requires that the redemption of

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points for cash be recognized as a reduction of revenue. The Partnership has complied with the requirements of EITF Issue No. 00-22 in the accompanying statements of income.

Advertising Advertising costs are expensed as incurred and amounted to \$4,030,752, \$3,454,222 and \$4,281,868 for the years ended December 31, 2002, 2001 and 2000 respectively.

Recently Issued Accounting Pronouncements In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 established a single accounting model for the impairment or disposal of long-lived assets and new standards for reporting discontinued operations. SFAS No. 144 superseded SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets to Be Disposed Of*, and Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. The Partnership adopted SFAS No. 144 during the 2002 fiscal year and the adoption did not have a material impact on the 2002 financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan, as previously required under EITF Issue No. 94-3. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Partnership does not believe the adoption of this standard will have a material impact on its financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. Additionally, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial liability recognition and measurement provisions of FIN 45 apply prospectively to guarantees issued or modified after December 31, 2002. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The Partnership has determined that FIN 45 will not have a material impact on its financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation FIN 46, *Consolidation of Variable Interest Entities*, which addresses consolidation by business enterprises where equity investors do not bear the residual economic risks and rewards. These entities have been commonly referred to as "special purpose entities." Companies are required to apply the provisions of FIN 46 prospectively for all variable interest entities created after January 31, 2003. FIN 46 is expected to have no impact on the Partnership's results of operations or financial position.

3. Related Party Transactions

The Partnership is engaged in a joint venture agreement with an entertainer. Under this agreement, the Partnership constructed a showroom for the performance of the entertainer's act and advanced the entertainer money, in the form of two notes, for the purpose of additional necessary equipment. In 1996, Gold Strike L.V. paid off the balance of the two notes. The entertainer then owed the balance of the notes to Gold Strike L.V. The Partnership collected payments on the notes from the entertainer's share of the proceeds of the act and remitted such payments on the entertainer's behalf to Gold Strike L.V. During 1999, the balance of one of the notes was retired. During 2002, the balance of the second note was retired. At December 31, 2001, the balance of the second note was \$116,493.

MRG provides management information system services to the Partnership and directly charges or allocates a portion of its costs to the Partnership. For the years ended December 31, 2002, 2001 and 2000, \$991,704, \$991,704 and \$941,788, respectively, were allocated to the Partnership and included in general and administrative expenses. Additionally, certain management employees of MRG are assigned on a permanent basis to the Partnership. The cost of these employees' salaries paid by MRG is reimbursed by the Partnership.

During 2002, the Partnership sold fully depreciated miscellaneous pieces of equipment to entities controlled by MRG for \$6,356. During 2001, the Partnership sold fully depreciated slot machines and other gaming equipment to an entity controlled by principal officers of MRG for \$22,670, and the Partnership sold computer equipment to an MRG subsidiary with a net book value of \$2,223 for \$2,300; however, there were no such transactions during 2000.

4. Property and Equipment

Property and equipment consist of the following at December 31:

	2002	2001	Estimated Useful Life (Years)
Land	\$ 54,979,644	\$ 54,979,644	
Buildings	263,586,452	263,448,522	30-45
Leasehold improvements	6,100,923	6,100,923	2.5
Furniture, fixtures and equipment	81,712,258	79,949,747	3-15
Construction in progress	513,706	356,520	
	406,892,983	404,835,356	
Less accumulated depreciation and amortization	(116,158,603)	(106,813,648)	
Property and equipment net	\$ 290,734,380	\$ 298,021,708	

Included in leasehold improvements is the 1996 purchase of the interest in the lease between Fri-Admin ("Carrows") and La Quinta Development Partners ("La Quinta") for approximately \$6 million. The Partnership subleased the property to Carrows, the former lessee. During 1997, New York-New York Hotel & Casino, LLC ("New York-New York") purchased La Quinta and thereby became the lessor of the property. Under the agreement, the Partnership now pays all obligations to New York-New York and is paid a similar amount by Carrows. The lease specifies a term of 10 years

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through November 2008 at an annual base rent of \$73,142 and provides for certain additional rents based upon annual revenues. The lease also provides for an additional five-year renewal option, increasing the annual base rent to \$75,000 through November 2013.

5. REVOLVING CREDIT FACILITY

The Partnership had a revolving loan facility with a total commitment of \$200,000,000 and a maturity date of April 2, 2002. The interest rate fluctuated based on the Partnership's performance. At December 31, 2001, interest was payable at the London Interbank Offering Rate ("LIBOR") of 1.9375% plus a margin of .625%. The weighted-average interest rate as of December 31, 2001 was 2.75%. At December 31, 2001, the entire balance was classified as current. In 2002, the Partnership requested an extension of the maturity date to July 5, 2002, at which time the outstanding commitment was retired with funds contributed equally by each partner.

6. Commitments and Contingencies

Litigation The Partnership is party to various litigation arising in the normal course of business. Management is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the financial position or the results of operations of the Partnership.

Operating Leases The Partnership leases certain equipment under operating leases. Future minimum payments under noncancelable operating leases with initial terms of one year or more consist of the following at December 31, 2002:

2003	\$ 206,102
2004	206,102
2005	206,102
2006	14,500
	\$ 632,806

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Total rental expense under operating leases for the years ended December 31, 2002, 2001 and 2000 was \$946,610, \$658,857 and \$818,878, respectively.

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INDEPENDENT AUDITORS' REPORT

Partners

Victoria Partners dba Monte Carlo Resort & Casino

We have audited the accompanying balance sheet of Victoria Partners dba Monte Carlo Resort & Casino (a Nevada Partnership, the "Partnership") as of December 31, 2002 and the related statements of income, changes in partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Partnership as of December 31, 2001 and for the years ended December 31, 2001 and 2000 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 26, 2002.

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

In our opinion, the 2002 financial statements present fairly, in all material respects, the financial position of Victoria Partners dba Monte Carlo Resort & Casino as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
February 28, 2003

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

- (a) (1) Consolidated Financial Statements:

MANDALAY RESORT GROUP AND SUBSIDIARIES

	Page
Consolidated Balance Sheets as of January 31, 2002 and 2001	3*
Consolidated Statements of Income for the three years ended January 31, 2002	4*
Consolidated Statements of Cash Flows for the three years ended January 31, 2002	5*
Consolidated Statements of Stockholders' Equity for the three years ended January 31, 2002	6*

	<u>Page</u>
Notes to Consolidated Financial Statements	7-31*
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- (a) (2) Supplemental Financial Statement Schedules: None.

ELGIN RIVERBOAT RESORT RIVERBOAT CASINO

Balance Sheets as of December 31, 2002 and 2001	35*
Statements of Operations for the three years ended December 31, 2002	36*
Statements of Partners' Equity for each of the three years ended December 31, 2002	37*
Statements of Cash Flows for each of the three years ended December 31, 2002	38*
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VICTORIA PARTNERS (dba Monte Carlo Resort & Casino)

Balance Sheets as of December 31, 2002 and 2001	44*
Statements of Income for the three years ended December 31, 2002	45*
Statements of Changes in Partners' Equity for each of the three years ended December 31, 2002	46*
Statements of Cash Flows for each of the three years ended December 31, 2002	47-48*
Notes to Financial Statements	49-53*
Report of Independent Auditors	54*

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Refers to page in this amendment.

- (a) (3) Exhibits:

The following exhibits are filed as a part of this report or incorporated herein by reference:

- | | |
|--------|---|
| 3.1.1. | Restated Articles of Incorporation of the Registrant as of July 15, 198 and Certificate of Amendment thereto, dated June 29, 1989. (Incorporated by reference to Exhibit 3(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1991.) |
| 3.1.2. | Certificate of Division of Shares into Smaller Denominations, dated June 20, 1991. (Incorporated by reference to Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1992.) |
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| 3.1.3. | Certificate of Division of Shares into Smaller Denominations, dated June 22, 1993. (Incorporated by reference to Exhibit 3(i) to the Registrant's Current Report on Form 8-K dated July 21, 1993.) |
| 3.1.4. | Certificate of Amendment of Restated Articles of Incorporation of the Registrant, filed with the Office of the Secretary of State of Nevada on June 18, 1999. (Incorporated by reference to Exhibit 3(i) to the Registrant's Current Report on Form 8-K dated June 18, 1999.) |
| 3.2. | Restated Bylaws of the Registrant dated April 30, 1999. (Incorporated by reference to Exhibit 3(ii) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1999.) |
| 4.1. | Rights Agreement dated as of July 14, 1994, between the Registrant and First Chicago Trust Company of New York. (Incorporated by reference to Exhibit 4 to the Registrant's Current Report on Form 8-K dated August 15, 1994.) |

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- 4.2. Amendment to Rights Agreement effective as of April 16, 1996, between the Registrant and First Chicago Trust Company of New York. (Incorporated by reference to Exhibit 4(a) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 1996.)
- 4.3. Revolving Loan Agreement, dated as of August 22, 2001, by and among the Registrant, the banks named therein, Bank of America, N.A., as administration agent, and Citicorp USA, Inc. and Bankers Trust Company, as syndication agents for the Banks, and the related Subsidiary Guarantee, dated August 22, 2001, of the Registrant's subsidiaries named therein. (Incorporated by reference to Exhibit 4(a) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2001.)
- 4.4. Term Loan Agreement, dated as of August 22, 2001, by and among the Registrant, the banks named therein, Bank of America, N.A., as administration agent, and Citicorp USA, Inc. and Bankers Trust Company, as syndication agents for the Banks, and the related Subsidiary Guarantee, dated August 22, 2001, of the Registrant's subsidiaries named therein. (Incorporated by reference to Exhibit 4(b) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2001.)
- 4.5. First Amendment Agreement, dated December 19, 2001, to the Revolving Loan Agreement and Term Loan Agreement, both dated August 22, 2001, by and among the Registrant, the banks named therein, Bank of America, N.A., as administration agent, and Citicorp USA, Inc. and Bankers Trust Company, as syndication agents for the Banks, and the related Subsidiary Guarantee, dated August 22, 2001, of the Registrant's subsidiaries named therein.
- 4.6. Capital Markets Term Loan Agreement, dated as of August 22, 2001, by and among the Registrant, the banks named therein, Bank of America, N.A., as administration agent, and Citicorp USA, Inc. and Bankers Trust Company, as syndication agents for the Banks, and the related Subsidiary Guarantee, dated August 22, 2001, of the Registrant's subsidiaries named therein. (Incorporated by reference to Exhibit 4(c) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2001.)
- 4.7. Rate Swap Master Agreement, dated as of October 24, 1986, and Rate Swap Supplements One through Four, by and between the Registrant and Bank of America, N.A. (Incorporated by reference to Exhibit 4(j) to the Registrant's Current Report on Form 8-K dated December 29, 1986.)
- 4.8. Interest Rate Swap Agreement, dated as of September 27, 1999, by and between the Registrant and Bank of America, N.A. (Incorporated by reference to Exhibit 4(a) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1999.)

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- 4.9. Interest Rate Swap Agreement, dated as of September 27, 1999, by and between the Registrant and Bank of America, N.A. (Incorporated by reference to Exhibit 4(b) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1999.)
- 4.10. Interest Rate Swap Agreement, dated as of October 13, 1999, by and between the Registrant and Bank of America, N.A. (Incorporated by reference to Exhibit 4(c) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1999.)
- 4.11. Interest Rate Cap Agreement, dated October 20, 1997, between the Registrant and Morgan Guaranty Trust Company of New York. (Incorporated by reference to Exhibit 4(f) to the Registrant's Quarterly Report for the quarterly period ended October 31, 1997.)
- 4.12. Interest Rate Cap Agreement, dated January 13, 1998, between the Registrant and Morgan Guaranty Trust Company of New York. (Incorporated by reference to Exhibit 4(h) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1998.)
- 4.13. Interest Rate Cap Agreement dated June 14, 2000, between the Registrant and Morgan Guaranty Trust Company of New York. (Incorporated by reference to Exhibit 4(e) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2000.)
- 4.14. Interest Rate Cap Agreement dated June 29, 2000, between the Registrant and Morgan Guaranty Trust Company of New York. (Incorporated by reference to Exhibit 4(f) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July

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31, 2000.)

- 4.15. Grid Promissory Note, dated October 17, 1997, between the Registrant and Lyon Short Term Funding Corp. (Incorporated by reference to Exhibit 4(g) to the Registrant's Quarterly Report for the quarterly period ended October 31, 1997.)
- 4.16. Commercial Paper Dealer Agreement, dated October 9, 1997, between the Registrant and Merrill Lynch Money Markets Inc. (Incorporated by reference to Exhibit 4(b) to the Registrant's Quarterly Report for the quarterly period ended October 31, 1997.)
- 4.17. Commercial Paper Dealer Agreement, dated October 9, 1997, between the Registrant and BancAmerica Robertson Stephens. (Incorporated by reference to Exhibit 4(c) to the Registrant's Quarterly Report for the quarterly period ended October 31, 1997.)
- 4.18. Commercial Paper Dealer Agreement, dated October 9, 1997, between the Registrant and Credit Suisse First Boston Corporation. (Incorporated by reference to Exhibit 4(d) to the Registrant's Quarterly Report for the quarterly period ended October 31, 1997.)
- 4.19. Issuing and Paying Agency Agreement, dated October 9, 1997, between the Registrant and The Chase Manhattan Bank. (Incorporated by reference to Exhibit 4(e) to the Registrant's Quarterly Report for the quarterly period ended October 31, 1997.)
- 4.20. Indenture by and between the Registrant and First Interstate Bank of Nevada, N.A., as Trustee with respect to the Registrant's 6³/₄% Senior Subordinated Notes due 2003 and its 7⁵/₈% Senior Subordinated Debentures due 2013. (Incorporated by reference to Exhibit 4(a) to the Registrant's Current Report on Form 8-K dated July 21, 1993.)
- 4.21. Indenture, dated February 1, 1996, by and between the Registrant and First Interstate Bank of Nevada, N.A., as Trustee. (Incorporated by reference to Exhibit 4(b) to the Registrant's Current Report on Form 8-K dated January 29, 1996.)
- 4.22. Supplemental Indenture, dated February 1, 1996, by and between the Registrant and First Interstate Bank of Nevada, N.A., as Trustee, with respect to the Registrant's 6.45% Senior Notes due February 1, 2006. (Incorporated by reference to Exhibit 4(c) to the Registrant's Current Report on Form 8-K dated January 29, 1996.)
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- 4.23. 6.45% Senior Notes due February 1, 2006 in the principal amount of \$200,000,000. (Incorporated by reference to Exhibit 4(d) to the Registrant's Current Report on Form 8-K dated January 29, 1996.)
- 4.24. Supplemental Indenture, dated as of November 15, 1996, to an indenture dated February 1, 1996, by and between the Registrant and Wells Fargo Bank (Colorado), N.A., as Trustee, with respect to the Registrant's 6.70% Senior Notes due November 15, 2096. (Incorporated by reference to Exhibit 4(c) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1996.)
- 4.25. 6.70% Senior Notes due February 15, 2096 in the principal amount of \$150,000,000. (Incorporated by reference to Exhibit 4(d) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1996.)
- 4.26. Indenture, dated November 15, 1996, by and between the Registrant and Wells Fargo Bank (Colorado), N.A., as Trustee. (Incorporated by reference to Exhibit 4(e) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1996.)
- 4.27. Supplemental Indenture, dated as of November 15, 1996, to an indenture dated November 15, 1996, by and between the Registrant and Wells Fargo Bank (Colorado), N.A., as Trustee, with respect to the Registrant's 7.0% Senior Notes due November 15, 2036. (Incorporated by reference to Exhibit 4(f) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1996.)
- 4.28. 7.0% Senior Notes due February 15, 2036, in the principal amount of \$150,000,000. (Incorporated by reference to Exhibit 4(g) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1996.)
- 4.29. Instrument of Joinder, dated May 31, 1998, by Mandalay Corp., pursuant to the Subsidiary Guaranty dated as of May 23, 1997, with respect to the Amended and Restated Loan Agreement, in favor of Bank of America, N.A., as administrative agent for the Banks. (Incorporated by reference to Exhibit 4(a) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 1998.)

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- 4.30. Indenture dated November 20, 1998, by and between the Registrant and The Bank of New York, as Trustee. (Incorporated by reference to Exhibit 4(a) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1998.)
- 4.31. Supplemental Indenture, dated November 20, 1998, by and between the Registrant and The Bank of New York, as Trustee, with respect to the Registrant's 9¹/₄% Senior Subordinated Notes due December 1, 2005. (Incorporated by reference to Exhibit 4(b) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1998.)
- 4.32. 9¹/₄% Senior Subordinated Notes due December 1, 2005 in the principal amount of \$275,000,000. (Incorporated by reference to Exhibit 4(c) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1998.)
- 4.33. Indenture dated as of July 24, 2000 by and between the Registrant and The Bank of New York with respect to \$500 million aggregate principal amount of 10¹/₄% Senior Subordinated Notes due 2007. (Incorporated by reference to Exhibit 4.1 to the Registrant's Form S-4 Registration Statement No. 333- 44216.)
- 4.34. Indenture dated as of August 16, 2000 by and between the Registrant and The Bank of New York, with respect to \$200 million aggregate principal amount of 9¹/₂% Senior Notes due 2008. (Incorporated by reference to Exhibit 4.1 to the Registrant's Form S-4 Registration Statement No. 333-44838.)
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- 4.35. Indenture dated as of December 20, 2001 by and among the Registrant and The Bank of New York, with respect to \$300 million aggregate principal amount of 9³/₈% Senior Subordinated Notes due 2010. (Incorporated by reference to Exhibit 4.1 to the Registrant's Form S-4 Registration Statement No. 333- 82936.)
- 4.36. Registration Rights Agreement dated as of December 20, 2001 by and among the Registrant and Banc of America Securities LLC, Deutsche Bank Alex Brown, Inc., Salomon Smith Barney Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Lyonnais Securities (USA) Inc., Credit Suisse First Boston Corporation, Dresdner Kleinwort Wasserstein Grantchester Inc., Scotia Capital (USA) Inc., SG Cowen Securities Corporation, UBS Warburg LLC, and Wells Fargo Brokerage Services LLC. (Incorporated by reference to Exhibit 4.1 to the Registrant's Form S-4 Registration Statement No. 333-82936.)
- 10.1.* Amended and Restated 1989 Stock Option Plan of the Registrant. (Incorporated by reference to Exhibit 10 to the Post Effective Amendment No. 4 to the Registrant's Registration Statement (No. 33-39215) on Form S-8.)
- 10.2.* Amended and Restated 1991 Stock Incentive Plan of the Registrant. (Incorporated by reference to Exhibit 10 to the Post Effective Amendment No. 3 to the Registrant's Registration Statement (No. 33-56420) on Form S-8.)
- 10.3.* Amended and Restated 1993 Stock Option Plan of the Registrant. (Incorporated by reference to Exhibit 10 to the Post Effective Amendment No. 2 to the Registrant's Registration Statement (No. 33-53303) on Form S-8.)
- 10.4.* 1998 Stock Option Plan. (Incorporated by reference to Exhibit 4(g) to the Registrant's Registration Statement (No.333-51073) on Form S-8.)
- 10.5.* 1999 Non-Employee Directors Stock Option Plan. (Incorporated by reference to Exhibit 10(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1999.)
- 10.6.* 2000 Stock Incentive Plan. (Incorporated by reference to Appendix B to the Registrant's definitive proxy statement dated April 28, 2000 relating to the 2000 Annual Meeting of Registrant's Stockholders.)
- 10.7.* Executive Compensation Insurance Plan. (Incorporated by reference to Exhibit 10(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1992.)
- 10.8. Lease, dated August 3, 1977, by and between B&D Properties, Inc., as lessor, and the Registrant, as lessee; Amendment of Lease, dated May 6, 1983. (Incorporated by reference to Exhibit 10(h) to the Registrant's Registration Statement (No. 2-85794) on Form S-1.)
- 10.9. Thirteenth Amendment and Restatement of the Registrant's Employees' Profit Sharing and Investment Plan. (Incorporated by reference to Exhibit 4(d) to Post Effective Amendment No. 11 to the Registrant's Registration Statement (No. 33-18278 on Form S-8.)

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- 10.10. Fourteenth Amendment, dated November 21, 2000, of the Registrant's Employees' Profit Sharing and Investment Plan. (Incorporated by reference to Exhibit 10(j) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2001.)
- 10.11. Fifteenth Amendment, dated November 29, 2001, of the Registrant's Employees' Profit Sharing and Investment Plan.
- 10.12. Ninth Amendment and Restatement to the Registrant's Employees' Profit Sharing and Investment Trust. (Incorporated by reference to Exhibit 4(e) to Post Effective Amendment No. 11 to the Registrant's Registration Statement (No. 33-18278) on Form S-8.)
-
- 10.13. Tenth Amendment and Restatement to the Registrant's Employees' Profit Sharing and Investment Trust.
- 10.14. Group Annuity Contract No. GA70867 between Philadelphia Life (formerly Bankers Life Company) and Trustees of the Registrant's Employees' Profit Sharing and Investment Plan. (Incorporated by reference to Exhibit 4(c) to the Registrant's Registration Statement (No. 33-1459) on Form S-8.)
- 10.15. Lease by and between Robert Lewis Uccelli, guardian, as lessor, and Nevada Greens, a limited partnership, William N. Pennington, as trustee, and William G. Bennett, as trustee, and related Assignment of Lease. (Incorporated by reference to Exhibit 10(p) to the Registrant's Registration Statement (No. 33- 4475) on Form S-1.)
- 10.16. Agreement of Purchase, dated March 15, 1985, by and between Denio Brothers Trucking Company, as seller, and the Registrant, as buyer, and related lease by and between Denio Brothers Trucking Co., as lessor, and Nevada Greens, a limited partnership, William N. Pennington, as trustee, and William G. Bennett, as trustee, and related Assignment of Lease. (Incorporated by reference to Exhibit 10(q) to the Registrant's Registration Statement (No. 33-4475) on Form S-1.)
- 10.17. Amended and Restated Agreement of Joint Venture of Circus and Eldorado Joint Venture by and between Eldorado Limited Liability Company and Galleon, Inc. (Incorporated by reference to Exhibit 3.3 to the Form S-4 Registration Statement of Circus and Eldorado Joint Venture and Silver Legacy Capital Corp. Commission File Nos. 333-87202 and 333-87202-01.)
- 10.18. Amended and Restated Credit Agreement, dated November 24, 1997, by and among Circus and Eldorado Joint Venture, the Banks named therein and Bank of America National Trust and Savings Association as administrative agent, and the related Note, Amended and Restated Make-Well Agreement and Amended and Restated Deed of Trust. (Incorporated by reference to Exhibit 4(h) to the Registrant's Quarterly Report for the quarterly period ended October 31, 1997.)
- 10.19. Amendment No. 1 to the Amended and Restated Credit Agreement, by and among Circus and Eldorado Joint Venture, the Banks named therein and Bank of America, N.A., as administrative agent. (Incorporated by reference to Exhibit 10(w) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2000.)
- 10.20. Second and Amended and Restated Credit Agreement, dated as of March 5, 2002, among Circus and Eldorado Joint Venture, the banks referred to therein and Bank of America, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.9.2 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.21. Guaranty, dated as of March 5, 2002, made by Silver Legacy Capital Corp., in favor of Bank of America, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.9.3 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.22. Second Amended and Restated Security Agreement, dated as of March 5, 2002, by and between Circus and Eldorado Joint Venture and Bank of America, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.9.4 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)

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- 10.23. Guarantor Security Agreement, dated as of March 5, 2002, by and between Silver Legacy Capital Corp. and Bank of America, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.9.5 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.24. Second Amended and Restated Deed of Trust, dated as of February 26, 2002, but effective March 5, 2002, by and among Circus and Eldorado Joint Venture and Bank of America, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.9.6 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.25. Second Amended and Restated Assignment of Rent and Revenues entered into as of February 26, 2002, but effective March 5, 2002, by and between Circus and Eldorado Joint Venture and Bank of America, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.9.7 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.26. Second Amended and Restated Collateral Account Agreement, dated March 5, 2002, by and between Circus and Eldorado Joint Venture and Bank of America, N.A., as administrative agent. (Incorporated by reference to Exhibit 10.9.8 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.27. Intercreditor Agreement, dated as of March 5, 2002, by and among Bank of America, N.A., as administrative agent, The Bank of New York, as trustee, Circus and Eldorado Joint Venture and Silver Legacy Capital Corp. (Incorporated by reference to Exhibit 10.9.9 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.28. Indenture, dated as of March 5, 2002, among Circus and Eldorado Joint Venture, Silver Legacy Capital Corp., and The Bank of New York, as trustee. (Incorporated by reference to Exhibit 10.10.1 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.29. Deed of Trust, dated as of February 26, 2002, by Circus and Eldorado Joint Venture, to First American Title Company of Nevada for the benefit of The Bank of New York. (Incorporated by reference to Exhibit 10.10.2 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.30. Security Agreement, dated as of March 5, 2002, by and between Circus and Eldorado Joint Venture and Silver Legacy Corp. for the benefit of The Bank of New York, as trustee. (Incorporated by reference to Exhibit 10.10.3 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.31. Assignment of Rent and Revenues entered into as of February 26, 2002, by and between Circus and Eldorado Joint Venture and The Bank of New York, as trustee. (Incorporated by reference to Exhibit 10.10.4 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
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- 10.32. Collateral Account Agreement, dated as of March 5, 2002, by and among Circus and Eldorado Joint Venture, Silver Legacy Capital Corp., and The Bank of New York, as trustee. (Incorporated by reference to Exhibit 10.10.5 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.33. Environment Indemnity Agreement entered into as of March 5, 2002, by Circus and Eldorado Joint Venture and Silver Legacy Capital Corp. (Incorporated by reference to Exhibit 10.10.6 to the Annual Report on Form 10-K for the year ended December 31, 2001 of Eldorado Resorts LLC and Eldorado Capital Corp. Commission File No. 333-11811.)
- 10.34. Agreement and Plan of Merger, dated March 19, 1995, by and among the Registrant and M.S.E. Investments, Incorporated, Last Chance Investments, Incorporated, Gold Strike Investments, Incorporated, Diamond Gold, Inc., Gold Strike Aviation, Incorporated, Gold Strike Finance Company, Inc., Oasis Development Company, Inc., Michael S. Ensign, William A. Richardson, David R. Belding, Peter A. Simon II and Robert J. Verchota. (Incorporated by reference to Exhibit 10(ee) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1995.)

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- 10.35. First Amendment to Agreement and Plan of Merger, dated May 30, 1995, by and among the Registrant and M.S.E. Investments, Incorporated, Last Chance Investments, Incorporated, Goldstrike Investments, Incorporated, Diamond Gold, Inc., Gold Strike Aviation, Incorporated, Goldstrike Finance Company, Inc., Oasis Development Company, Inc., Michael S. Ensign, William A. Richardson, David R. Belding, Peter A. Simon II and Robert J. Verchota. (Incorporated by reference to Exhibit 99.2 of the Schedule 13D of Michael S. Ensign relating to the Registrant's Common Stock, filed on June 12, 1995.)
- 10.36. Exchange Agreement, dated March 19, 1995, by and among the Registrant and New Way, Inc., a wholly owned subsidiary of the Registrant, Glenn W. Schaeffer, Gregg H. Solomon, Antonio C. Alamo, Anthony Korfman and William Ensign. (Incorporated by reference to Exhibit 10(ff) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1995.)
- 10.37. First Amendment to Exchange Agreement, dated May 30, 1995, by and among the Registrant and New Way, Inc., a wholly owned subsidiary of the Registrant, Glenn W. Schaeffer, Gregg H. Solomon, Antonio C. Alamo, Anthony Korfman and William Ensign. (Incorporated by reference to Exhibit 10(d) to the Registrant's Current Report on Form 8-K dated June 1, 1995.)
- 10.38. Registration Rights Agreement, dated as of June 1, 1995, by and among the Registrant and Michael S. Ensign, William A. Richardson, David R. Belding, Peter A. Simon II, Glenn W. Schaeffer, Gregg H. Solomon, Antonio C. Alamo, Anthony Korfman, William Ensign and Robert J. Verchota. (Incorporated by reference to Exhibit 99.5 of the Schedule 13D of Michael S. Ensign, relating to the Registrant's Common Stock, filed on June 12, 1995.)
- 10.39. Standstill Agreement, dated as of June 1, 1995, by and among the Registrant and Michael S. Ensign, William A. Richardson, David R. Belding, Peter A. Simon II and Glenn W. Schaeffer. (Incorporated by reference to Exhibit 99.4 of the Schedule 13D of Michael S. Ensign, relating to the Registrant's Common Stock, filed on June 12, 1995.)
- 10.40. Amendment No. 1 to Standstill Agreement, effective April 16, 1996, by and among the Registrant and Michael S. Ensign, William A. Richardson, David R. Belding, Peter A. Simon II and Glenn W. Schaeffer. (Incorporated by reference to Exhibit 99.7 of Amendment No. 2 to the Schedule 13D of Michael S. Ensign, relating to the Registrant's Common Stock, filed on September 5, 1996.)
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- 10.41.* 2000 Executive Officers' Bonus Plan. (Incorporated by reference to Appendix A to the Registrant's definitive proxy statement dated April 28, 2000 relating to its 2000 Annual Meeting of Stockholders.)
- 10.42.* Amendment and Restatement of Employment Agreement dated November 1, 1997, by and between the Registrant and Michael S. Ensign. (Incorporated by reference to Exhibit 10(gg) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1998.)
- 10.43.* Amendment and Restatement of Employment Agreement dated November 1, 1997, by and between the Registrant and Glenn W. Schaeffer. (Incorporated by reference to Exhibit 10(hh) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1998.)
- 10.44.* Amendment and Restatement of Employment Agreement dated November 1, 1997, by and between the Registrant and William A. Richardson. (Incorporated by reference to Exhibit 10(ii) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1998.)
- 10.45. Joint Venture Agreement, dated as of December 18, 1992, between Nevada Landing Partnership and RBG, L.P. (Incorporated by reference to Exhibit 10(g) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 1995.)
- 10.46. Amendment dated July 15, 1993 to the Joint Venture Agreement between Nevada Landing Partnership and RBG, L.P. (Incorporated by reference to Exhibit 10(h) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 1995.)
- 10.47. Amendment dated October 6, 1994 to the Joint Venture Agreement between Nevada Landing Partnership and RBG, L.P. (Incorporated by reference to Exhibit 10(i) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 1995.)
- 10.48. Amendment dated June 1, 1995 to the Joint Venture Agreement between Nevada Landing Partnership and RBG, L.P. (Incorporated by reference to Exhibit 10(j) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July

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31, 1995.)

- 10.49. Amendment dated February 28, 1996 to the Joint Venture Agreement between Nevada Landing Partnership and RBG, L.P. (Incorporated by reference to Exhibit 10(ww) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1996.)
- 10.50. Reducing Revolving Loan Agreement, dated as of December 21, 1994, among Victoria Partners, each bank party thereto, The Long-Term Credit Bank of Japan, Ltd., Los Angeles Agency, and Societe Generale, as Co-agents, and Bank of America N.A., as administrative agent (without Schedules or Exhibits) (the "Victoria Partners Loan Agreement"). (Incorporated by reference to Exhibit 99.2 to Amendment No. 1 on Form 8-K/A to the Current Report on Form 8-K dated December 9, 1994 of Mirage Resorts, Incorporated. Commission File No. 1-6697.)
- 10.51. Amendment No. 1 to the Victoria Partners Loan Agreement, dated as of January 31, 1995. (Incorporated by reference to Exhibit 10(uu) to the Annual Report on Form 10-K for the year ended December 31, 1994 of Mirage Resorts, Incorporated. Commission File No. 1-6697.)
- 10.52. Amendment No. 2 to the Victoria Partners Loan Agreement, dated as of June 30, 1995. (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995 of Mirage Resorts, Incorporated. Commission File No. 1-6697.)
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- 10.53. Amendment No. 3 to the Victoria Partners Loan Agreement, dated as of July 28, 1995. (Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995 of Mirage Resorts, Incorporated. Commission File No. 1-6697.)
- 10.54. Amendment No. 4 to the Victoria Partners Loan Agreement, dated as of October 16, 1995. (Incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 1995.)
- 10.55. Amendment No. 5 to the Victoria Partners Loan Agreement dated as of August 1, 1996. (Incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 1996.)
- 10.56. Amendment No. 6 to the Victoria Partners Loan Agreement, dated as of April 12, 1997. (Incorporated by reference to Exhibit 10(ccc) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1997.)
- 10.57. Amendment No. 7 to the Victoria Partners Loan Agreement, dated as of January 12, 1998. (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 of Mirage Resorts, Incorporated. Commission File No. 1-6697.)
- 10.58. Amendment No. 8 to the Victoria Partners Loan Agreement, dated as of March 28, 2002.
- 10.59. Joint Venture Agreement, dated as of December 9, 1994, between MRGS Corp. and Gold Strike L.V. (without Exhibit) (the "Victoria Partners Venture Agreement"). (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K dated December 9, 1994 of Mirage Resorts, Incorporated. Commission File No. 1-6697.)
- 10.60. Amendment No. 1 to the Victoria Partners Venture Agreement dated as of April 17, 1995. (Incorporated by reference to Exhibit 10(c) to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1995 of Mirage Resorts, Incorporated. Commission File No. 1-6697.)
- 10.61. Amendment No. 2 to the Victoria Partners Venture Agreement dated as of September 25, 1995. (Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1995 of Mirage Resorts, Incorporated. Commission File No. 1-6697.)
- 10.62. Amendment No. 3 to the Victoria Partners Venture Agreement dated as of February 28, 1996. (Incorporated by reference to Exhibit 10(fff) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1996.)
- 10.63. Amendment No. 4 to the Victoria Partners Venture Agreement dated as of May 29, 1996. (Incorporated by reference to Exhibit 10(b) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended April 30, 1996.)

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- 10.64. Consulting Agreement, dated June 1, 1995, between Circus Circus Casinos, Inc. (a subsidiary of the Registrant) and Lakeview Company. (Incorporated by reference to Exhibit 10(ggg) to the Registra