

MANDALAY RESORT GROUP  
Form 10-K  
April 18, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-K**

(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, 2005

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 incorporation or organization)

**88-0121916**  
(I.R.S. Employer Identification 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	Name of Each Exchange on which Registered
Common Stock, \$.01-2/3 Par Value	New York Stock Exchange and Pacific Exchange
Common Stock Purchase Rights	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

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.

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by persons other than the registrant's directors and executive officers as of July 30, 2004 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the last reported sale price on the New York Stock Exchange on such date, was \$4,478,250,712.

The number of shares of registrant's Common Stock, \$.01-2/3 par value, outstanding at March 31, 2005: 67,558,870.

**DOCUMENTS INCORPORATED BY REFERENCE**

PART III Portions of the Registrant's definitive proxy statement for its 2005 annual meeting of shareholders are incorporated by reference into Items 10 through 14, inclusive.

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**PART I**

**ITEM 1. BUSINESS.**

*In this report, when we use the terms "we," "our" and "us," we are referring to Mandalay Resort Group and its majority owned subsidiaries as a combined entity, except where it is clear that reference is only to Mandalay Resort Group. When we use the term "Mandalay," it refers only to Mandalay Resort Group, unless the context otherwise requires. These terms, as used in this report, do not include our unconsolidated joint ventures, unless the context otherwise requires. Except as otherwise indicated, cross references in this report are to sections in this Item 1.*

*Pending Merger Pursuant to Which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE*

On June 16, 2004, Mandalay and MGM MIRAGE jointly announced that they had entered into an Agreement and Plan of Merger dated as of June 15, 2004 among Mandalay, MGM MIRAGE and MGM MIRAGE Acquisition Co. #61, a Nevada corporation (the "Merger Agreement") pursuant to which MGM MIRAGE is to acquire Mandalay for \$71.00 in cash for each outstanding share of common stock of Mandalay. The transaction, which was approved by Mandalay stockholders on December 10, 2004, is structured as a merger of a wholly owned subsidiary of MGM MIRAGE with and into Mandalay. Except as otherwise contemplated by the Merger Agreement or with the prior written consent of MGM MIRAGE (which consent may not be unreasonably withheld or delayed), prior to the effective time of the merger or the termination of the Merger Agreement, we are required to conduct our business in the ordinary course consistent with past practice, and we are prohibited, among other things, from paying dividends, purchasing or otherwise acquiring our common stock, issuing indebtedness, making acquisitions, or selling, pledging or encumbering our assets. On March 22, 2005, Mandalay received from MGM MIRAGE a notice of MGM MIRAGE's election to extend the outside date for the closing of the merger from March 31, 2005 to June 30, 2005 (the "Extension Notice") in accordance with the Merger Agreement. The merger remains subject to receipt of the regulatory approval of the Illinois Gaming Board and other customary closing conditions. The foregoing description, which does not include all of the material terms of the Merger Agreement, is qualified in its entirety by reference to the Merger Agreement included as an exhibit to our current report on Form 8-K dated June 15, 2004, and the Extension Notice included as an exhibit to our current report on Form 8-K dated March 22, 2005, which are incorporated by reference as Exhibits 10.1 and 10.2, respectively, to this report.

In order to avoid noncompliance with applicable Michigan law, which prohibits MGM MIRAGE from acquiring an interest in a second Detroit casino upon the consummation of our merger, Mandalay, MGM MIRAGE, Circus Circus Michigan, Inc. ("Circus Circus Michigan"), a wholly-owned subsidiary of Mandalay through which we hold our 53.5% interest in MotorCity Casino, CCM Merger Inc., an unaffiliated entity, and CCM Merger Sub., Inc., a wholly-owned subsidiary of CCM Merger Inc., entered into a merger agreement on March 22, 2005 (the "Michigan Agreement") pursuant to which CCM Merger Inc. is to acquire Circus Circus Michigan for approximately \$525 million in cash. Actual cash proceeds are subject to working capital-type adjustments as provided in the Michigan Agreement. Closing of this transaction, which was approved by the Michigan Gaming Control Board on April 13, 2005, is subject to the closing of our merger pursuant to the Merger Agreement and other customary closing conditions. The foregoing description, which does not include all of the material terms of the Michigan Agreement, is qualified in its entirety by reference to the Michigan Agreement included as an exhibit to our current report on Form 8-K dated March 22, 2005, which is incorporated by reference as Exhibit 10.3 to this report.

*Overview*

We are one of the four largest hotel-casino operators in the United States, in terms of revenues, rooms and casino space. Our operations consist of 12 wholly owned resorts in Nevada and Mississippi, as well as investments in four joint ventures with operating resorts in Nevada, Illinois and Michigan. Our resorts cater to a wide variety of customers, from value-oriented to high-end, and we strive to provide the best overall experience in each of the market segments in which we compete.

Our core market is Las Vegas, the world's largest gaming market, where our properties are expected to generate approximately 75% of our operating income in fiscal 2006. We have the largest-scaled hotel/casino resort development in Las Vegas. This "Mandalay Mile" consists of three interconnected megaresorts on 230 acres, and includes our flagship property, Mandalay Bay. Mandalay Bay is typically the best performer among our properties, as it possesses amenities that appeal to higher-income customers. Strong demand from this segment of our customer base has permitted us greater pricing leverage, which has helped to drive results at this property. With the additions of the convention center, an all-suites hotel tower and a retail center, Mandalay Bay should continue to be the leading driver of near-term growth for our company.

Although the casino accounts for approximately 50% of our net revenue companywide, we consider the hotel to be the principal driver of our business in the Las Vegas market. This is due to the fact that the majority of our revenues are derived from "in-house" customers, that is, customers who stay in our hotel rooms. Consequently, to the extent we can place higher-value customers in our rooms, we can generate increased revenues throughout our properties. Furthermore, due to the nature of gaming activities, we have little pricing leverage in the casino, whereas we possess significant pricing leverage in our rooms.

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We have provided the information below as of January 31, 2005 about our properties and those of the joint ventures in which we participate. Except as otherwise indicated, we wholly own and operate these properties.

<b>Location/Property</b>	<b>Guest Rooms</b>	<b>Approximate Casino Square Footage</b>	<b>Slots(1)</b>	<b>Gaming Tables(2)</b>	<b>Parking Spaces</b>
<i>Las Vegas, Nevada</i>					
Mandalay Bay(3)	4,760	135,000	2,156	126	7,000
Luxor	4,408	120,000	1,857	99	3,200
Excalibur	4,002	110,000	1,736	73	4,000
Circus Circus	3,744	109,000	1,825	70	4,700
Monte Carlo (50% Owned)	3,002	90,000	1,800	74	4,000
Slots-A-Fun		16,700	596	22	
<i>Reno, Nevada</i>					
Circus Circus	1,572	60,000	1,426	61	3,000
Silver Legacy (50% Owned)	1,711	85,000	1,802	73	1,800
<i>Laughlin, Nevada</i>					
Colorado Belle	1,226	64,000	1,179	39	1,700
Edgewater	1,450	44,000	1,128	32	2,300
<i>Jean, Nevada</i>					
Gold Strike	811	37,000	821	15	2,100
Nevada Landing	303	36,000	810	15	1,400
<i>Henderson, Nevada</i>					
Railroad Pass	120	21,000	346	6	600
<i>Tunica County, Mississippi</i>					
Gold Strike	1,159	48,000	1,407	49	1,400
<i>Detroit, Michigan</i>					
MotorCity Casino (53.5% Owned)(4)		75,000	2,398	84	3,800
<i>Elgin, Illinois</i>					
Grand Victoria (50% Owned)		36,000	1,072	41	2,300
<b>Total</b>	<b>28,268</b>	<b>1,086,700</b>	<b>22,359</b>	<b>879</b>	<b>43,300</b>

- (1) Includes slot machines and other coin-operated devices.
- (2) Generally includes blackjack ("21"), craps, pai gow poker, Caribbean stud poker, wheel of fortune and roulette. Mandalay Bay, Luxor and MotorCity Casino also offer baccarat.
- (3) This property includes a Four Seasons Hotel with 424 guest rooms that we own and Four Seasons Hotels Limited manages. It also includes 1,117 suites at THEhotel at Mandalay Bay.
- (4) This property is being operated pending the construction of an expanded hotel-casino facility. For information concerning an agreement to sell our 53.5% interest in this property if Mandalay's proposed merger with a wholly owned subsidiary of MGM MIRAGE is consummated, see "Pending Merger Pursuant to which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in this Item 1.

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### *Property Descriptions*

Provided below is additional information concerning the properties we, and the joint ventures in which we participate, own and operate.

#### *Las Vegas, Nevada*

**Mandalay Bay.** This property is located on the Las Vegas Strip adjacent to our Luxor property and is the first major resort on the Las Vegas Strip to greet visitors arriving in Las Vegas on I-15, the primary thoroughfare between Las Vegas and southern California. The 43-story South Seas themed hotel-casino resort has 4,760 guest rooms, including a Four Seasons Hotel with 424 guest rooms that provides visitors with a luxury "five-diamond" hospitality experience, and THEhotel, a tower with 1,117 suites. Mandalay Bay's attractions include an 11-acre tropical lagoon featuring a surfing beach, a three-quarter-mile lazy river ride, and Moorea Beach, a European-style "ultra" beach, along with a 30,000-square-foot spa. The property features numerous restaurants such as Charlie Palmer's Aureole, Wolfgang Puck's Trattoria Del Lupo, China Grill, rumjungle, Red Square, Red, White and Blue, and Border Grill, as well as a House of Blues nightclub and restaurant, including its signature Foundation Room situated on Mandalay Bay's top floor. In 2004, we opened Fleur de Lys featuring the French cuisine of restaurateur Hubert Keller. Mandalay Bay also offers multiple entertainment venues that include the Shark Reef at Mandalay Bay featuring sharks and rare sea predators, a 1,760-seat showroom featuring the Broadway hit "Mamma Mia!", the *rumjungle* nightclub and a 12,000-seat special events arena that features entertainment and sporting events.

In January 2003, we opened a convention and meeting complex on land adjacent to the Mandalay Bay Conference Center. The complex includes more than one million square feet of exhibit space. With this building and the original conference center, Mandalay Bay now offers almost two million gross square feet of conference and exhibit space.

In October 2003, we opened Mandalay Place, a retail center located between Mandalay Bay and Luxor. The center includes approximately 90,000 square feet of retail space and approximately 40 stores and restaurants, including internationally branded retailers like Oilily, GF Ferre, Nike Golf and Urban Outfitters, along with restaurants by celebrity chefs Pierro Selvaggio, Hubert Keller and Rick Moonen and burlesque club Forty Deuce.

In December 2003, we opened THEhotel, a 1,117-all-suite tower at Mandalay Bay. The suites average 750 square feet, among the largest room product in the Las Vegas market. The tower also includes meeting suites, a spa and fitness center, a lounge and two restaurants, including a rooftop venue "Mix-Las Vegas" created by famed chef Alain Ducasse. The suites serve the demand generated by the convention center.

**Luxor.** This property is an Egyptian-themed hotel and casino complex situated on our Mandalay Mile, between Mandalay Bay and Excalibur. The resort features a 30-story pyramid and two 22-story hotel towers. Luxor offers 20,000 square feet of convention space, a 20,000-square-foot spa, a 1,200-seat showroom currently featuring the off-Broadway hit "Blue Man Group", a nightclub, and food and entertainment venues on three different levels beneath a soaring hotel atrium. The pyramid's guest rooms can be reached from the four corners of the building by "inclinators" that travel at a 39-degree angle. Above the pyramid's casino, the property offers a special format motion base ride and an IMAX 2D/3D theater. Luxor's other public areas include a buffet, eight restaurants including four gourmet restaurants, as well as a snack bar, a food court featuring national fast food franchises, several cocktail lounges and a variety of specialty shops.

**Excalibur.** This property is a castle-themed hotel and casino complex situated immediately to the north of Luxor on Mandalay Mile. Excalibur's public areas include a Renaissance fair, a medieval village, an amphitheater with a seating capacity of nearly 1,000, where mock jousting tournaments and

costume drama are presented nightly, two dynamic motion theaters, various artisans' booths and medieval games of skill. In addition, Excalibur has a buffet restaurant, five themed restaurants, as well as several snack bars, cocktail lounges and a variety of specialty shops. The property also features a 13,000-square-foot spa.

**Circus Circus-Las Vegas.** This property, which is our original resort, is a circus-themed hotel and casino complex situated on the north end of the Las Vegas Strip. From a "Big Top" above the casino, Circus Circus-Las Vegas offers its guests a variety of circus acts performed daily, free of charge. A mezzanine area overlooking the casino has a circus midway with carnival-style games and an arcade that offers a variety of amusements and electronic games. Four specialty restaurants, a buffet, a coffee shop, fast food snack bars, several cocktail bars and a variety of gift shops and specialty shops are also available to the guests at Circus Circus-Las Vegas. The Adventuredome, covering approximately five acres, offers theme park entertainment that includes a high-speed, double-loop, double-corkscrew roller coaster, a coursing river flume ride on white-water rapids, a motion base ride, several rides and attractions designed for preschool age children, themed carnival-style midway games, an arcade, food kiosks and souvenir shops, all in a climate-controlled setting under a giant space-frame dome.

**Monte Carlo (50% owned).** Through wholly owned entities, we are a 50% participant with a subsidiary of MGM MIRAGE in, and manage the operations of, Victoria Partners, a joint venture which owns Monte Carlo, a 3,002-room hotel and casino resort situated on the Las Vegas Strip between Bellagio, a 4,000-room resort, and New York-New York, a 2,000-room hotel-casino resort, each owned and operated by MGM MIRAGE. Monte Carlo's casino reflects a palatial style reminiscent of the *Belle Epoque*, the French Victorian architecture of the late 19th century. Amenities at Monte Carlo include three specialty restaurants, including the popular Andre's gourmet restaurant, a buffet, a coffee shop, a food court, a microbrewery which features live entertainment, approximately 28,000 square feet of meeting and banquet space, and tennis courts. A 1,200-seat replica of a plush vaudeville theater, including a balcony and proscenium arch, features an elaborately staged show of illusions by the world-renowned magician, Lance Burton.

#### **Reno, Nevada**

**Circus Circus-Reno.** This property is a circus-themed hotel and casino complex situated in downtown Reno, Nevada. Like its sister property in Las Vegas, Circus Circus-Reno offers its guests a variety of circus acts performed daily, free of charge. A mezzanine area has a circus midway with carnival-style games and an arcade that offers a variety of amusements and electronic games. The property also has three specialty restaurants, a buffet, a coffee shop, a deli/bakery, a fast food snack bar, cocktail lounges, a gift shop and specialty shops.

**Silver Legacy (50% owned).** Through a wholly owned entity, we are a 50% participant with Eldorado Limited Liability Company in Circus and Eldorado Joint Venture, a joint venture which owns and operates Silver Legacy, a hotel-casino and entertainment complex situated in downtown Reno, Nevada. Silver Legacy is located between Circus Circus-Reno and the Eldorado Hotel & Casino, which is owned and operated by an affiliate of our joint venture partner at Silver Legacy. Silver Legacy's casino and entertainment complex is connected at the mezzanine level with Circus Circus-Reno and the Eldorado by enclosed climate-controlled skyways above the streets between the respective properties. The property's exterior is themed to evoke images of historical Reno. Silver Legacy features four restaurants and several bars, a special events center, custom retail shops, a health spa and an outdoor pool and sun deck. Circus and Eldorado Joint Venture's executive committee, which functions in a manner similar to a corporation's board of directors, is responsible for overseeing the performance of Silver Legacy's management. Under the terms of the joint venture agreement, we appoint three of the executive committee's five members.

***Laughlin, Nevada***

***Colorado Belle.*** This property is situated on the bank of the Colorado River in Laughlin, Nevada, approximately 90 miles south of Las Vegas. The Colorado Belle features a 600-foot replica of a Mississippi riverboat, and also includes a buffet, a coffee shop, three specialty restaurants, a microbrewery, fast food snack bars and cocktail lounges, as well as a gift shop and other specialty shops.

***Edgewater.*** This property is located adjacent to Colorado Belle along the Colorado River. Edgewater's facilities include a specialty restaurant, a coffee shop, a buffet, a snack bar and cocktail lounges.

***Jean, Nevada***

Jean is located between Las Vegas and southern California, approximately 25 miles south of Las Vegas and 12 miles north of the California-Nevada state line. Jean attracts gaming customers almost entirely from the large number of people traveling between Las Vegas and southern California on Interstate-15, the principal highway between Las Vegas and southern California which passes directly through Jean.

***Gold Strike.*** This property is an "Old West" themed hotel-casino located on the east side of Interstate-15. The property has, among other amenities, a swimming pool and spa, several restaurants, a banquet center, a gift shop and an arcade. The casino has a stage bar with regularly scheduled live entertainment and a casino bar.

***Nevada Landing.*** This property is a turn-of-the-century riverboat themed hotel-casino located across Interstate-15 from Gold Strike. Nevada Landing includes a 70-seat Chinese restaurant, a full-service coffee shop, a buffet, a snack bar, a gift shop, a swimming pool and spa and a 300-guest banquet facility.

***Henderson, Nevada***

Henderson is a suburb located southeast of Las Vegas.

***Railroad Pass.*** This property is situated along US-93, the direct route between Las Vegas and Phoenix, Arizona. The property includes, among other amenities, two full-service restaurants, a buffet, a gift shop, two bars, a swimming pool and a banquet facility. In contrast with our other Nevada properties, Railroad Pass caters to local residents, particularly from Henderson and Boulder City.

***Tunica County, Mississippi***

Tunica County is located 20 miles south of Memphis, Tennessee on the Mississippi River. Tunica County attracts customers from Mississippi and surrounding states, including cities such as Memphis, Tennessee and Little Rock, Arkansas.

***Gold Strike-Tunica.*** This property is a dockside casino located along the Mississippi River in Tunica County, approximately three miles west of Mississippi State Highway 61 (a major north/south highway connecting Memphis with Tunica County) and 20 miles south of Memphis. The property features an 800-seat showroom, a coffee shop, a specialty restaurant, a buffet, a snack bar and several cocktail lounges. Gold Strike-Tunica is part of a three-casino development covering approximately 72 acres. The other two casinos are owned and operated by unaffiliated third parties. We also own an undivided one-half interest in an additional 388 acres of land which may be used for future development.



***Detroit, Michigan***

***MotorCity Casino (53.5% owned).*** In December 1999, with our joint venture partner, Atwater Casino Group, we opened MotorCity Casino, a casino facility in Detroit, Michigan. The casino includes approximately 75,000 square feet of casino space, five restaurants and a 3,800-space parking facility. Under a revised development agreement with the City of Detroit, MotorCity Casino is to be expanded at its current location into a facility that is currently planned to include approximately 400 hotel rooms, 100,000 square feet of casino space, a theater, convention space, and additional restaurants, retail space and parking. We are committed to contribute 20% of the costs of the permanent facility in the form of an investment in the joint venture, and the joint venture will seek to borrow the balance of the costs. Under our operating agreement, project costs are to be reviewed every six months and additional contributions could be required in the future. The costs of the additional facilities, excluding land, capitalized interest and preopening expenses, is currently estimated to be \$275 million.

Various lawsuits have been filed in the state and federal courts challenging the constitutionality of the Detroit Casino Competitive Selection Process and the Michigan Gaming Control Revenue Act, and seeking to appeal the issuance of a certificate of suitability to MotorCity Casino. Incorporated by reference in this Item 1 is the additional information appearing under the caption "Detroit Litigation" in Item 3 of this report.

For information concerning an agreement to sell our 53.5% interest in this property if Mandalay's proposed merger with a wholly owned subsidiary of MGM MIRAGE is consummated, see "Pending Merger Pursuant to which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in this Item 1.

***Elgin, Illinois***

***Grand Victoria (50% owned).*** Through wholly owned entities, we are a 50% participant with RBG, L.P., in a joint venture which owns Grand Victoria. Grand Victoria is a Victorian themed riverboat casino and land-based entertainment complex in Elgin, Illinois, a suburb approximately 40 miles northwest of downtown Chicago. The two-story vessel provides 80,000 square feet of space, approximately 36,000 square feet of which was being used as casino space as of January 31, 2005. The boat offers dockside gaming, which means its operation is conducted at dockside without cruising. The property also features a dockside complex that contains an approximately 83,000-square-foot pavilion with a buffet, a fine dining restaurant, a VIP lounge and a gift shop. Grand Victoria, which is strategically located among the residential suburbs of Chicago, with nearby freeway access and direct train service from downtown Chicago, is located approximately 20 miles and 40 miles, respectively, from its nearest competitors in Aurora, Illinois and Joliet, Illinois, and holds one of only ten riverboat gaming licenses currently granted state-wide, nine of which are presently operational. The operator of the dormant tenth license, which has been the subject of litigation, entered into a settlement agreement with the Illinois Board whereby the ownership interest in the license will be transferred to a new operator. Pursuant to a bidding process, the Illinois Board selected Isle of Capri which plans to locate its operation in Rosemont, Illinois. Rosemont is approximately 20 miles from the Grand Victoria. The closing of this transaction is contingent upon the settlement of outstanding litigation, the Illinois Board finding Isle of Capri suitable for licensure and the Illinois Attorney General's final approval of the settlement agreement between the Illinois Board and the operator. We manage the Grand Victoria, subject to the oversight of an executive committee which functions in a manner similar to a corporation's board of directors. Each joint venture partner is equally represented on the executive committee. See the discussion under "Regulation and Licensing Illinois Gaming Laws" in this Item 1.

*Marketing*

We have historically followed a marketing and operating philosophy which emphasized high-volume business by providing moderately priced hotel rooms, food and beverage and alternative entertainment in combination with our gaming operations. While we continue to follow this philosophy at many of our properties such as Circus Circus, with the opening of Mandalay Bay (and to a lesser extent Luxor), our marketing focus has shifted to providing a high-quality, destination-resort experience designed to appeal to higher-wealth customers. With the opening of the new convention center and THEhotel at Mandalay Bay, we are also targeting the lucrative business and convention segment of the market. We seek to provide the best overall experience for our customers in each of the market segments we serve.

Las Vegas is our core market and our properties in Las Vegas appeal to a broad range of customers. For example, Mandalay Bay with its fine rooms, internationally renowned restaurants, and entertainment attractions appeals to the upper middle-income to high-income segment of the market. Meanwhile, Luxor and Monte Carlo are marketed more to the middle-income to upper middle-income segment of the market. With their playful themes and more limited amenities, Circus Circus and Excalibur appeal more to the value-oriented, middle-income segment of the market.

We consider hotel operations to be the principal driver of our business in the Las Vegas market, due to the fact that a majority of our revenues are derived from customers staying in our hotel rooms. Hotel customers are typically divided into three main segments: (1) free and independent travelers ("FIT"); (2) convention and business; and (3) wholesale. With its sizeable convention facilities, Mandalay Bay now has a higher percentage of convention and business customers staying in its hotel rooms, as does the adjacent Luxor. Meanwhile, our other Las Vegas properties are more dependent on FIT and wholesale customers.

Our properties in other markets outside Las Vegas tend to be more dependent upon gaming revenues and, consequently, these properties typically appeal to customers in multiple segments of the market who are primarily seeking a gaming experience.

We utilize a variety of methods to market our properties including advertising on radio, television and billboards, as well as in magazines. We market our Las Vegas Strip properties primarily through national cable television and magazines. For our other Nevada properties, advertising is concentrated primarily in Nevada, California and Arizona, while our properties outside Nevada advertise in the regional markets in which they compete. We also utilize direct marketing to a large extent, by making specific offers directly to our extensive database of customers, both via mail and the Internet. We also maintain Internet websites for all of our properties, which provide customers with information about our resorts, along with the ability to make hotel and show reservations. In addition, we offer complimentary hotel accommodations, meals and drinks to selected customers.

We also look for cross-marketing opportunities. For example, in November 2001 we introduced One Club, our player affinity program that allows cash and complimentary awards to be accumulated and redeemed in real time across multiple properties. Our wholly owned properties in Las Vegas, Laughlin, and Reno, Nevada and Tunica County, Mississippi, as well as Monte Carlo are currently linked through the One Club system. We believe the One Club system has helped us maintain and expand our customer database, enabling us to better target our marketing efforts. We also believe One Club encourages repeat visitation to our properties and further encourages customers to visit our other properties through the seamless use of their One Club card.

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Our Mandalay Mile also provides us with unique cross-marketing opportunities where we can promote the restaurants, entertainment and other amenities located throughout the Mandalay Mile properties Mandalay Bay, Luxor and Excalibur to each other as well as to our other properties located outside the Mandalay Mile. In addition to One Club, we cross-market these properties through the use of video screens, in-room brochures and displays located within each property and within the skyways and monorail systems connecting the Mandalay Mile properties.

### *Operations and Cost Controls*

The primary source of our revenues is casinos, although our hotels, restaurants, bars, shops, midway games and other entertainment attractions and other services are an important adjunct to the casinos.

Current operations at each of our casinos and those of our joint ventures are conducted 24 hours a day, every day of the year, with the exception of Grand Victoria which operates 22 hours a day, every day of the year. We emphasize courteous and prompt service to our customers and aspire to a high standard of excellence in all of our operations.

The following table sets forth the respective contributions to our net revenues on a dollar and percentage basis of our major activities at our consolidated properties for each of our three most recent fiscal years.

	Year Ended January 31,					
	2005		2004		2003	
	(Dollars in thousands)					
<b>Revenues:</b>						
Casino(1)	\$ 1,331,009	47.4%	\$ 1,225,249	49.2%	\$ 1,205,163	51.2%
Hotel(2)	792,524	28.2%	652,287	26.2%	570,236	24.2%
Food and beverage(2)	502,975	17.9%	454,602	18.3%	414,051	17.6%
Other(2)	372,708	13.3%	334,645	13.4%	333,979	14.2%
	2,999,216	106.8%	2,666,783	107.1%	2,523,429	107.2%
<b>Less:</b>						
Complimentary allowances(2)	(190,073)	(6.8)%	(175,684)	(7.1)%	(169,311)	(7.2)%
<b>Net revenues</b>	\$ 2,809,143	100.0%	\$ 2,491,099	100.0%	\$ 2,354,118	100.0%

(1) Casino revenues are the net difference between the sums received as winnings and the sums paid as losses, less incentives provided to customers in the form of discounts and the value of points earned under our player club.

(2) Hotel, Food and beverage and Other include the retail value of services which are provided to casino customers and others on a complimentary basis. Such amounts are then deducted as complimentary allowances to arrive at net revenues.

We historically have followed a general policy of offering minimal credit to gaming customers at our properties. However, Mandalay Bay (and to lesser extent Luxor) do extend credit to gaming customers on a selective basis in an effort to appeal to a broader segment of the gaming market. As a result, while our other properties continue to offer minimal credit, credit play now represents a more significant portion of the volume of table games play at Mandalay Bay and at Luxor. See Note 2 of Notes to Consolidated Financial Statements in Item 8 of this report.

We maintain strict controls over the issuance of credit and aggressively pursue collection of customer debts. These collection efforts are similar to those used by most large corporations, including the mailing of statements and delinquency notices, personal and other contacts, the use of outside

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collection agencies and civil litigation. Nevada gaming debts evidenced by written credit instruments are enforceable under the laws of Nevada. All other states are required to enforce a judgment on a gaming debt entered in Nevada pursuant to the Full Faith and Credit Clause of the United States Constitution. Gaming debts are not legally enforceable in some foreign countries, but the United States assets of foreign customers may be reached to satisfy judgments entered in the United States. While the portion of our accounts receivable that is owed by foreign customers is not currently material, to the extent we hold obligations of foreign customers, the collectibility of those debts may be affected by a number of factors, including changes in currency exchange rates and economic, market or other conditions in the customers' home countries.

Our operating results can vary substantially from quarter to quarter though, on an annual basis, our results are generally less volatile. Special events such as a championship boxing match or a concert, or visits by high-budget players, or the timing of holidays, or even bad weather, can impact our results for the respective periods during which such events occur. Our operating income is typically lowest in the fourth quarter, affected by slower travel leading up to the holiday period. With the increase in convention business stemming from the convention center at Mandalay Bay, our quarterly fluctuations may be accentuated. Convention business is typically the strongest in our first and third quarters.

We maintain stringent cost controls over all of our operations. In connection with our gaming activities, we follow a policy of controls and cross checks on the recording of all receipts and disbursements. The cash controls we have developed and utilize include the following:

locked cash boxes;

independent counters;

checkers and observers to perform the daily cash and coin counts;

floor observation of the gaming areas;

closed-circuit television observation of certain areas;

computer tabulation of receipts and disbursements for each of our slot machines, tables and other games; and

the rapid analysis and resolution of discrepancies or deviations from normal performance.

### *Expansion Activities*

Pursuant to the Merger Agreement, we are generally prohibited from issuing indebtedness, making acquisitions or otherwise selling, pledging or encumbering our assets. As a result, we cannot consider any significant new investments or expansion activities at this time. See "Pending Merger Pursuant to Which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in this Item 1.

### *Competition*

#### **General**

The hotel and casino industry is very competitive and the level of competition has increased as gaming has expanded dramatically in the United States in recent years. Forms of gaming include:

riverboats;

dockside gaming facilities;

Native American gaming ventures;

land-based casinos;

state-sponsored lotteries;

racetracks, including slot machines at racetracks;

off-track wagering;

Internet gaming; and

card parlors.

Since 1990, when there were casinos in only three states (excluding casinos on Native American lands), gaming has spread to a number of additional states. In addition, other states have considered, or may in the future consider, legalizing casino gaming in specific geographic areas within their states.

Many Native American tribes throughout the United States, including tribes in California and Arizona, conduct casino gaming and other Native American tribes are either in the process of establishing, or are considering establishing, gaming at additional locations. On March 7, 2000, California voters approved Proposition 1A which amended the California constitution and legalized "Nevada-style" gaming on Native American reservations. The passage of this amendment has allowed the expansion of existing Native American gaming operations, as well as the opening of new Native American gaming facilities, in California. Numerous federally recognized Native American tribes in California have entered into compacts with the State of California pursuant to which most of these tribes may operate up to 2,000 slot machines, and up to two gaming facilities may be operated on any one reservation. Under action taken by the National Indian Gaming Commission, gaming devices similar in appearance to slot machines, but which are deemed to be technological enhancements to bingo style gaming, are not subject to such limits and may be used by tribes without state permission. Certain compacts have been renegotiated with the state, and others may be renegotiated. While the outcome of the negotiations is yet to be determined, the possibility exists that the current facilities operating in California will be allowed to expand the scope and size of their operations, including an increase in the number of slot machines.

Many Native American gaming facilities in California are modest compared to the larger Las Vegas and Reno casinos. However, some Native American tribes have established large-scale hotel and gaming facilities in California. Numerous tribes are at various stages of planning new or expanded facilities and some have announced that they are in the process of constructing, developing or are considering establishing large-scale hotel and gaming facilities. We believe the operation of Native American casinos in California and Arizona has adversely impacted our gaming operations in Nevada, particularly our properties in Reno, Laughlin and Jean.

The competitive impact on Nevada gaming establishments, in general, and our operations, in particular, from the continued growth of gaming in jurisdictions outside Nevada cannot be determined at this time. We believe that the continued growth of casino gaming in markets close to Nevada, such as California and Arizona, and the expansion of the types of gaming permitted in California, could have an adverse impact on our operations and, depending on the nature, location and extent of those operations outside of Nevada, the impact could be material.

#### ***Methods by Which We and Our Joint Ventures Compete***

The principal methods by which we compete are through the quality of amenities at our properties, the value of the experience we offer our guests, the location of our resorts and our previously discussed marketing programs.

We, and the joint ventures in which we participate, compete within each of our markets by developing, owning and operating gaming resorts that we believe will be viewed by destination resort travelers as "must stay" properties. In pursuing this competitive strategy, we and our joint ventures

have developed properties that offer top quality hotel rooms and a variety of amenities including spas, restaurants and entertainment options that we believe provide customers with a memorable experience.

We believe the locations of our principal properties contribute to their ability to compete within their respective markets. In Las Vegas, for example, our three Mandalay Mile properties are located off the first major freeway exit from southern California, in addition to being located only a short distance from the airport.

We also compete by seeking to provide at each of our resorts a quality experience for our guests. While our properties compete with each other to some extent, in Las Vegas, where most of our larger properties are located, we compete as a company for all segments of the market by offering an array of properties ranging from Circus Circus-Las Vegas, which is directed to the more value-oriented customer, to Mandalay Bay, which is directed to the high-end of the market. With the opening of Mandalay Bay, we expanded our target market to include premium clientele and increased our commitment to providing additional amenities for this clientele.

#### ***Information About the Markets Where We Operate***

Set forth below is additional information concerning the competitive conditions in the markets where we and our joint ventures operate, as well as information concerning our position in those markets.

***Las Vegas, Nevada.*** We are the largest hotel operator in Las Vegas (with three of our resorts ranking among the five largest in Las Vegas) in terms of the number of guest rooms. Our hotel-casino operations in Las Vegas, which are conducted primarily from properties located along the Las Vegas Strip, currently compete with numerous other major hotel-casinos and a number of smaller casinos located on or near the Las Vegas Strip. Our Las Vegas operations also compete with a dozen major hotel-casinos located in downtown Las Vegas, and other hotel-casinos elsewhere in the Las Vegas area, including our own Railroad Pass in the suburb of Henderson. To a lesser extent, our Las Vegas properties also compete with casino and hotel properties in other parts of Nevada, including Laughlin, Reno and along I-15 (the principal highway between Las Vegas and southern California) near the California-Nevada state line. Our Las Vegas casinos also compete with Native American casinos in southern California (the principal source of business for Las Vegas casinos, including our own) and central Arizona and, to a lesser extent with casinos in other parts of the country.

A major new 2,700-room hotel/casino is scheduled to open in Las Vegas on April 28, 2005. In addition, other major hotel/condominium/casino projects or expansions have been announced and some have commenced construction. These projects will add additional rooms and casino capacity to the Las Vegas market. The Las Vegas market currently has approximately 131,500 rooms. The impact on our future operations of increased capacity in Las Vegas, or the impact of additional growth in Native American gaming, particularly in southern California and Arizona, cannot be determined at this time.

The three resorts located on our Mandalay Mile are our largest and include our newest resort. These three resorts compete with other Las Vegas properties, including our own, by offering their guests the ability to experience three distinctively themed resorts that are conveniently connected by monorail systems as well as climate-controlled skyways, including a 90,000-square-foot retail center located between Mandalay Bay and Luxor.

***Reno, Nevada.*** Circus Circus-Reno, our only wholly owned resort in Reno, competes principally with seven other major casinos. Like Circus Circus-Reno, each of these casinos generates at least \$36 million in annual gaming revenues, including Silver Legacy, a hotel-casino complex with 1,711 guest rooms, which is 50% owned by one of our wholly owned subsidiaries. Circus Circus-Reno and Silver Legacy have almost 3,300 rooms combined, or over 20% of the total rooms base in Reno. Circus Circus-Reno and Silver Legacy also compete with numerous other smaller casinos in the greater Reno

area and with casinos and hotels in Lake Tahoe and other parts of Nevada. Circus Circus-Reno and Silver Legacy, along with the entire Reno market, are also encountering increasing competition from Native American casinos in northern California and the Northwest.

**Laughlin, Nevada.** In Laughlin, Colorado Belle and Edgewater, which together accounted for approximately 25% of the rooms in Laughlin as of January 31, 2005, compete with seven other Laughlin casinos. Colorado Belle and Edgewater have approximately 108,000 square feet of casino space combined, over 20% of the total in Laughlin. They also compete with the hotel-casinos in Las Vegas and those on I-15 (the principal highway between Las Vegas and southern California) near the California-Nevada state line, as well as a growing number of Native American casinos in Laughlin's regional market. The expansion of hotel and casino capacity in Las Vegas in recent years and the growth of Native American casinos in central Arizona and southern California have had a negative impact on Colorado Belle and Edgewater, by drawing visitors from the Laughlin market. This has, in turn, resulted in increased competition among Laughlin properties for a reduced number of visitors which contributes to generally lower revenues and profit margins at Colorado Belle and Edgewater.

**Jean, Nevada.** Our Jean, Nevada properties, Gold Strike and Nevada Landing, are located on I-15 (the principal highway between Las Vegas and southern California), approximately 25 miles south of Las Vegas and 12 miles north of the California-Nevada border, where their nearest competitor is located. These properties attract their customers almost entirely from the people traveling between Las Vegas and southern California. Accordingly, these properties compete with the large concentration of hotel, casino and other entertainment options available in Las Vegas as well as three hotel-casinos located at the California-Nevada border. They also compete with the growing number of Native American casinos in southern California which has had a negative impact on their operations. At this time, we cannot determine the impact of the continued growth of Native American gaming in southern California on our operations at the Jean properties, although we believe these properties will continue to encounter increasing competition as a result of such growth.

**Tunica County, Mississippi.** Gold Strike-Tunica competes with nine other casinos in Tunica County, Mississippi, including a hotel-casino which is closer to Memphis, the largest city in Tunica County's principal market. Gold Strike-Tunica's hotel tower provides this property with the second largest number of guest rooms in the Tunica County market.

**Elgin, Illinois.** Grand Victoria is a 50%-owned Victorian themed riverboat casino and land-based entertainment complex in Elgin, Illinois, a suburb approximately 40 miles northwest of downtown Chicago. Grand Victoria is one of nine licensed gaming riverboats currently operating in Illinois, and produces the highest casino revenues of any riverboat in that market (based on results for calendar 2004). It is located approximately 20 miles and 40 miles, respectively, from its nearest competitors in Aurora, Illinois and Joliet, Illinois. The operator of the dormant tenth license, which has been the subject of litigation, entered into a settlement agreement with the Illinois Board whereby the ownership interest in the license will be transferred to a new operator. Pursuant to a bidding process, the Illinois Board selected Isle of Capri which plans to locate its operation in Rosemont, Illinois. Rosemont is approximately 20 miles from the Grand Victoria. The closing of this transaction is contingent upon the settlement of outstanding litigation, the Illinois Board finding Isle of Capri suitable for licensure and the Illinois Attorney General's final approval of the settlement agreement between the Illinois Board and the operator.

**Detroit, Michigan.** MotorCity Casino, a 53.5%-owned casino in Detroit, Michigan, is one of three licensed casinos in Detroit. In addition to the other two Detroit casinos, MotorCity Casino competes with a government-owned casino and a racetrack which has an estimated 2,000 slot machines, each of which is located in Windsor, Ontario, directly across the Detroit River from Detroit. A number of Native American casinos are currently operating in central and northern Michigan, but the nearest of these casinos is approximately 150 miles from Detroit. Legislation is under consideration in Michigan



which would permit slot machines to be operated at racetracks, including racetracks in the greater Detroit area. For information concerning an agreement to sell our 53.5% interest in this property if Mandalay's proposed merger with a wholly owned subsidiary of MGM MIRAGE is consummated, see "Pending Merger Pursuant to which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in this Item 1.

#### *Regulation and Licensing*

Each of our casinos, including those owned and operated by the joint ventures in which we participate, is subject to extensive regulation under laws, rules and supervisory procedures primarily in the jurisdiction where located or docked. Set forth below is a discussion of the applicable gaming laws and regulations of each jurisdiction where gaming is conducted by us or by a joint venture in which we participate.

#### *Nevada Gaming Laws*

The ownership and operation of casino gaming facilities in the State of Nevada, such as the Nevada gaming facilities we and the joint ventures in which we participate own and operate, are subject to the Nevada Gaming Control Act and the regulations promulgated under this Act and various local regulations. Our Nevada gaming operations and those of its Nevada joint ventures are subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada State Gaming Control Board and, depending on the facility's location, the Clark County Liquor and Gaming Licensing Board or the City of Reno, which we refer to collectively as the "Nevada Gaming Authorities."

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy that are concerned with, among other things:

the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;

the establishment and maintenance of responsible accounting practices and procedures;

the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities;

the prevention of cheating and fraudulent practices; and

providing a source of state and local revenues through taxation and licensing fees.

Changes in these laws, regulations and procedures could have an adverse affect on our gaming operations.

Each of Mandalay's subsidiaries that currently operates a casino in Nevada is required to be licensed by the Nevada Gaming Authorities. The gaming license requires the periodic payment of fees and taxes and is not transferable. Mandalay is required to be registered by the Nevada Gaming Commission as a publicly traded corporation and as such, is required periodically to submit detailed financial and operating reports to the Nevada Gaming Commission and furnish any other information that the Nevada Gaming Commission may require. No person may become a stockholder of, or receive any percentage of profits from, a licensed casino without first obtaining licenses and approvals from the Nevada Gaming Authorities. We have obtained from the Nevada Gaming Authorities the various registrations, findings of suitability, approvals, permits and licenses required in order to engage in gaming activities in Nevada.

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The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, Mandalay or any of its licensed subsidiaries in order to determine whether the individual is suitable or should be licensed as a business associate of a gaming licensee. Mandalay and its licensed subsidiaries' officers, directors and key employees must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause which they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. An applicant for licensing or an applicant for a finding of suitability must pay for all the costs of the investigation. Changes in licensed positions must be reported to the Nevada Gaming Authorities and, in addition to their authority to deny an application for a finding of suitability or licensing, the Nevada Gaming Authorities have the jurisdiction to disapprove a change in a corporate position.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with Mandalay or any licensed subsidiary, Mandalay and the licensed subsidiary would have to sever all relationships with that person. In addition, the Nevada Gaming Commission may require Mandalay or a licensed subsidiary to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or questions pertaining to licensing are not subject to judicial review in Nevada.

Mandalay and all of its licensed subsidiaries are required to submit detailed financial and operating reports to the Nevada Gaming Commission. Substantially all of our or our licensed subsidiaries' material loans, leases, sales of securities and similar financing transactions must be reported to, or approved by, the Nevada Gaming Commission.

If the Nevada Gaming Commission determined that Mandalay or a licensed subsidiary violated the Nevada Gaming Control Act, it could limit, condition, suspend or revoke our gaming licenses. In addition, Mandalay, the licensed subsidiary, and the persons involved could be subject to substantial fines for each separate violation of the Nevada Gaming Control Act at the discretion of the Nevada Gaming Commission. Further, a supervisor could be appointed by the Nevada Gaming Commission to operate a licensed subsidiary's gaming establishment and, under specified circumstances, earnings generated during the supervisor's appointment, except for the reasonable rental value of the premises, could be forfeited to the State of Nevada. Limitation, conditioning or suspension of any gaming license of a licensed subsidiary and the appointment of a supervisor could, or revocation of any gaming license would, have a material adverse effect on our gaming operations.

Any beneficial holder of our common stock, or any of our other voting securities, regardless of the number of shares owned, may be required to file an application, be investigated and have that person's suitability as a beneficial holder of our voting securities determined if the Nevada Gaming Commission has reason to believe that the ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of the investigation incurred by the Nevada Gaming Authorities in conducting any investigation.

The Nevada Gaming Control Act requires any person who acquires a beneficial ownership of more than 5% of Mandalay's voting securities to report the acquisition to the Nevada Gaming Commission. The Nevada Gaming Control Act requires that beneficial owners of more than 10% of Mandalay's voting securities apply to the Nevada Gaming Commission for a finding of suitability within thirty days after the Chairman of the Nevada State Gaming Control Board mails the written notice requiring such filing. An "institutional investor," as defined in the Nevada Act, which acquires beneficial ownership of more than 10%, but not more than 15% of Mandalay's voting securities may apply to the Nevada Gaming Commission for a waiver of a finding of suitability if the institutional investor holds Mandalay's voting securities for investment purposes only. In certain circumstances, an institutional investor that has obtained a waiver may hold up to 19% of Mandalay's voting securities for a limited period of time

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and maintain the waiver. An institutional investor will be deemed to hold Mandalay's voting securities for investment purposes if it acquired and holds Mandalay's voting securities in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly:

the election of a majority of the members of Mandalay's board of directors;

any change in Mandalay's corporate charter, bylaws, management, policies or operations, or any of its gaming affiliates; or

any other action which the Nevada Gaming Commission finds to be inconsistent with holding Mandalay's voting securities for investment purposes only.

Activities which are not deemed to be inconsistent with holding voting securities for investment purposes only include:

voting on all matters voted on by stockholders;

making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and

other activities as the Nevada Gaming Commission may determine to be consistent with investment intent.

If the beneficial holder of Mandalay's voting securities who must be found suitable is a corporation, partnership, limited partnership, limited liability company or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Gaming Commission or by the Chairman of the Nevada State Gaming Control Board may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of Mandalay's voting securities beyond the period of time as may be prescribed by the Nevada Gaming Commission may be guilty of a criminal offense. Mandalay will be subject to disciplinary action if, after it receives notice that a person is unsuitable to be a stockholder or to have any other relationship with it or a licensed subsidiary, it:

pays that person any dividend or interest upon any of Mandalay's voting securities;

allows that person to exercise, directly or indirectly, any voting right conferred through securities held by that person;

pays remuneration in any form to that person for services rendered or otherwise; or

fails to pursue all lawful efforts to require the unsuitable person to relinquish the voting securities including, if necessary, the immediate purchase of the voting securities for cash at fair market value.

Additionally, the Clark County Liquor and Gaming Licensing Board has the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming licensee.

The Nevada Gaming Commission may, in its discretion, require the holder of any debt security of a registered publicly traded corporation to file applications, be investigated and be found suitable to own the debt security of the registered corporation. If the Nevada Gaming Commission determines that a person is unsuitable to own the security, then under the Nevada Gaming Control Act, the registered publicly traded corporation can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Gaming Commission, it:



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pays to the unsuitable person any dividend, interest or any distribution whatsoever;

recognizes any voting right by the unsuitable person in connection with the securities;

pays the unsuitable person remuneration in any form; or

makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

Mandalay is required to maintain a current stock ledger in Nevada which may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make the disclosure may be grounds for finding the record holder unsuitable. Mandalay is also required to render maximum assistance in determining the identity of the beneficial owner of any of our voting securities. The Nevada Gaming Commission has the power to require our stock certificates to bear a legend indicating that the securities are subject to the Nevada Gaming Control Act. To date, the Nevada Gaming Commission has not imposed that requirement on us.

Mandalay may not make a public offering of its securities without the prior approval of the Nevada Gaming Commission if it intends to use the securities or the proceeds from the offering to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for those purposes or for similar transactions. On April 17, 2003, the Nevada Gaming Commission granted Mandalay prior approval to make public offerings for a period of two years, subject to some conditions, which we refer to as the "shelf approval." The shelf approval also applies to any company that Mandalay wholly owns which is a publicly traded corporation or would become a publicly traded corporation pursuant to a public offering. The shelf approval also includes approval for our registered and licensed subsidiaries to guarantee any security issued by, and to hypothecate their assets to secure the payment or performance of any obligations evidenced by a security issued by, Mandalay or an affiliate in a public offering under the shelf registration. The shelf approval also includes approval to place restrictions upon the transfer of and enter into agreements not to encumber the equity securities of the licensed subsidiaries, which we refer to as "stock restrictions." The shelf approval, however, may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada State Gaming Control Board. The shelf approval does not constitute a finding, recommendation or approval of the Nevada Gaming Authorities as to the accuracy or adequacy of the prospectus or other disclosure document by which securities are offered or the investment merits of such securities.

A person must obtain prior approval of the Nevada Gaming Commission with respect to a change in control in Mandalay through:

merger;

consolidation;

stock or asset acquisitions;

management or consulting agreements; or

any act or conduct by a person whereby the person obtains control of Mandalay.

On February 24, 2005, the Nevada Gaming Commission approved the proposed merger of a wholly owned subsidiary of MGM MIRAGE with and into Mandalay.

Entities seeking to acquire control of a registered publicly traded corporation must satisfy the Nevada State Gaming Control Board and Nevada Gaming Commission in a variety of stringent standards before assuming control of the registered corporation. The Nevada Gaming Commission may

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also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada gaming licenses, and registered publicly-traded corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Gaming Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to:

assure the financial stability of corporate gaming operators and their affiliates;

preserve the beneficial aspects of conducting business in the corporate form; and

promote a neutral environment for the orderly governance of corporate affairs.

Approvals may be required from the Nevada Gaming Commission before Mandalay can make exceptional repurchases of voting securities above their current market price and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by our board of directors in response to a tender offer made directly to its stockholders for the purpose of acquiring control of Mandalay.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the counties and cities in which the licensed subsidiaries respective operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually and are based upon either:

a percentage of the gross revenues received;

the number of gaming devices operated; or

the number of table games operated.

A live entertainment tax is also paid by casino operators where entertainment is furnished in connection with admission charges, the selling of food or refreshments or the selling of merchandise. Nevada corporate licensees that hold a license as an operator of a slot machine route, or a manufacturer's or distributor's license, also pay fees and taxes to the State of Nevada. The licensed subsidiaries currently pay monthly fees to the Nevada Gaming Commission equal to a maximum of 6.75% of gross revenues.

Any person who is licensed, required to be licensed, registered, required to be registered, or is under common control with those persons (collectively, "licensees"), and who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada State Gaming Control Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation of the Nevada State Gaming Control Board of the licensee's participation in such foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Gaming Commission. Thereafter, licensees are required to comply with the reporting requirements imposed by the Nevada Gaming Control Act. A licensee is also subject to disciplinary action by the Nevada Gaming Commission if it:

knowingly violates any laws of the foreign jurisdiction pertaining to the foreign gaming operation;

fails to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations;

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engages in activities or enters into associations that are harmful to the State of Nevada or its ability to collect gaming taxes and fees; or

employs, contracts with or associates with a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the ground of personal unsuitability.

The sale of alcoholic beverages at establishments operated by a licensed subsidiary is subject to licensing, control and regulation by applicable local regulatory agencies. All licenses are revocable and are not transferable. The agencies involved have full power to limit, condition, suspend or revoke any license, and any disciplinary action could, and revocation would, have a material adverse affect upon the operations of the licensed subsidiary.

### *Mississippi Gaming Laws*

Mandalay conducts its Mississippi gaming operations through a Mississippi subsidiary, Circus Circus Mississippi, Inc. ("CCMI"), which owns and operates the Gold Strike Casino Resort in Tunica County, Mississippi. The ownership and operation of casino facilities in Mississippi are subject to extensive state and local regulation, but primarily the licensing and regulatory control of the Mississippi Gaming Commission and the Mississippi State Tax Commission.

The Mississippi Gaming Control Act, which legalized dockside casino gaming in Mississippi, was enacted on June 29, 1990. Although not identical, the Mississippi Gaming Control Act is similar to the Nevada Gaming Control Act. Effective October 29, 1991, the Mississippi Gaming Commission adopted regulations in furtherance of the Mississippi Gaming Control Act (the "regulations"), which are also similar in many respects to the Nevada gaming regulations.

The laws, regulations and supervisory procedures of Mississippi and the Mississippi Gaming Commission seek to:

prevent unsavory or unsuitable persons from having any direct or indirect involvement with gaming at any time or in any capacity;

establish and maintain responsible accounting practices and procedures;

maintain effective control over the financial practices of licensees, including establishing minimum procedures for internal fiscal affairs and safeguarding of assets and revenues, providing reliable record keeping and making periodic reports to the Mississippi Gaming Commission;

prevent cheating and fraudulent practices;

provide a source of state and local revenues through taxation and licensing fees; and

ensure that gaming licensees, to the extent practicable, employ Mississippi residents.

The regulations are subject to amendment and interpretation by the Mississippi Gaming Commission. Changes in Mississippi law or the regulations or the Mississippi Gaming Commission's interpretations thereof may limit or otherwise materially affect the types of gaming that may be conducted, and could have a material adverse effect on Mandalay and CCMI's Mississippi gaming operations.

The Mississippi Gaming Control Act provides for legalized dockside gaming at the discretion of the 14 counties that either border the Gulf Coast or the Mississippi River, but only if the voters in these counties have not voted to prohibit gaming in that county. As of April 1, 2005, dockside gaming was permissible in nine of the 14 eligible counties in the state and gaming operations had commenced in Adams, Coahoma, Hancock, Harrison, Tunica, Warren and Washington counties.

Under Mississippi law, gaming vessels must be located on the Mississippi River or on navigable waters in eligible counties along the Mississippi River, or in the waters of the State of Mississippi lying south of the state in eligible counties along the Mississippi Gulf Coast. The law permits unlimited stakes gaming on permanently moored vessels on a 24-hour basis and does not restrict the percentage of space which may be utilized for gaming. There are no limitations on the number of gaming licenses which may be issued in Mississippi. The legal age for gaming in Mississippi is 21.

Mandalay and its Mississippi licensee subsidiary CCMI are subject to the licensing and regulatory control of the Mississippi Gaming Commission. Mandalay is registered under the Mississippi Gaming Control Act as a publicly-traded corporation of CCMI and is required to periodically submit detailed financial, operating and other reports to the Mississippi Gaming Commission and furnish any other information which the Mississippi Gaming Commission may require. If we are unable to satisfy the registration requirements of the Mississippi Gaming Control Act, Mandalay and CCMI cannot own or operate gaming facilities in Mississippi. CCMI also is required to periodically submit detailed financial, operating and other reports to the Mississippi Gaming Commission and the Mississippi State Tax Commission and to furnish any other information required thereby.

CCMI must maintain a gaming license from the Mississippi Gaming Commission to operate a casino in Mississippi. Gaming licenses require the periodic payment of fees and taxes and are not transferable. Gaming licenses are issued for a maximum term of three years and must be renewed periodically thereafter. CCMI received its Mississippi gaming license on August 18, 1994 and renewals on August 19, 1996, August 20, 1998, August 21, 2000 and August 22, 2003. No person may become a stockholder of or receive any percentage of profits from a licensed subsidiary of a holding company without first obtaining licenses and approvals from the Mississippi Gaming Commission.

Certain of Mandalay's officers, directors and employees and the officers, directors and key employees of CCMI who are actively and directly engaged in the administration or supervision of gaming in Mississippi must be found suitable or be licensed by the Mississippi Gaming Commission. Mandalay believes it and CCMI have applied for all necessary findings of suitability with respect to these persons, although the Mississippi Gaming Commission, in its discretion, may require additional persons to file applications for findings of suitability. In addition, any person having a material relationship or involvement with Mandalay or CCMI may be required to be found suitable, in which case those persons must pay the costs and fees associated with the investigation. A finding of suitability requires submission of detailed personal and financial information followed by a thorough investigation. There can be no assurance that a person who is subject to a finding of suitability will be found suitable by the Mississippi Gaming Commission. The Mississippi Gaming Commission may deny an application for a finding of suitability for any cause that it deems reasonable. Findings of suitability must be periodically renewed.

Changes in certain licensed positions must be reported to the Mississippi Gaming Commission. In addition to its authority to deny an application for a finding of suitability, the Mississippi Gaming Commission has jurisdiction to disapprove a change in a licensed position. The Mississippi Gaming Commission has the power to require Mandalay and CCMI to suspend or dismiss officers, directors and other key employees or sever relationships with other persons who refuse to file appropriate applications or whom the authorities find unsuitable to act in their capacities.

Employees associated with gaming must obtain work permits that are subject to immediate suspension. The Mississippi Gaming Commission will refuse to issue a work permit to a person convicted of a felony and it may refuse to issue a work permit to a gaming employee if the employee has committed various misdemeanors or knowingly violated the Mississippi Gaming Control Act or for any other reasonable cause.

At any time, the Mississippi Gaming Commission has the power to investigate and require a finding of suitability of any of Mandalay's record or beneficial stockholders, regardless of the



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percentage of ownership. Mississippi law requires any person who acquires more than 5% of the common stock of a publicly-traded corporation registered with the Mississippi Gaming Commission to report the acquisition to the Mississippi Gaming Commission, and that person may be required to be found suitable. Also, any person who becomes a beneficial owner of more than 10% of the common stock of such a company, as reported to the Mississippi Gaming Commission, must apply for a finding of suitability by the Mississippi Gaming Commission and must pay the costs and fees that the Mississippi Gaming Commission incurs in conducting the investigation. The Mississippi Gaming Commission has generally exercised its discretion to require a finding of suitability of any beneficial owner of more than 5% of a registered public or private company's common stock. However, the regulations may permit institutional investors to own beneficially up to 15% of a registered public or private company's common stock, and, in limited circumstances, up to 19% of a registered public company's common stock without a finding of suitability.

Under certain circumstances, an "institutional investor," as defined by the regulations, which acquires more than 10% but not more than 15% of a registered public or private company's voting securities, may apply to the Executive Director of the Mississippi Gaming Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes only. An institutional investor shall not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of the board of directors of the registered public or private company, any change in the registered public or private company's corporate charter, bylaws, management, policies or operations of the registered public or private company or any of its gaming affiliates, or any other action which the Mississippi Gaming Commission finds to be inconsistent with holding the registered public or private company's voting securities for investment purposes only. Activities that are not deemed to be inconsistent with holding voting securities for investment purposes only include:

voting, directly or indirectly through the delivery of a proxy furnished by the board of directors, on all matters voted upon by the holders of such voting securities;

serving as a member of any committee of creditors or security holders formed in connection with a debt restructuring;

nominating any candidate for election or appointment to the board of directors in connection with a debt restructuring;

accepting appointment or election as a member of the board of directors in connection with a debt restructuring and serving in that capacity until the conclusion of the member's term;

making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and

such other activities as the Mississippi Gaming Commission may determine to be consistent with such investment intent.

An institutional investor that has been granted a waiver may beneficially own more than 15%, but not more than 19%, of the voting securities of a registered public company only if such additional ownership above 15% results from the operation of such company's stock repurchase program, as long as the institutional investor does not purchase or acquire any additional voting securities of such company and the institutional investor reduces its ownership in such company to 15% or less within one year from the date the institutional investor receives constructive notice that its ownership in such company exceeded 15%.

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If a stockholder who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The Mississippi Gaming Commission may at any time dissolve, suspend, condition, limit or restrict a finding of suitability to own Mandalay's equity interests for any cause it deems reasonable.

Mandalay may be required to disclose to the Mississippi Gaming Commission upon request the identities of the holders of any debt or other securities. In addition, under the Mississippi Gaming Control Act the Mississippi Gaming Commission may, in its discretion:

require holders of debt securities of registered corporations to file applications;

investigate the holders; and

require the holders to be found suitable to own the debt securities.

Although the Mississippi Gaming Commission generally does not require the individual holders of obligations such as notes to be investigated and found suitable, the Mississippi Gaming Commission retains the discretion to do so for any reason, including but not limited to a default, or where the holder of the debt instrument exercises a material influence over the gaming operations of the entity in question. Any holder of debt or equity securities required to apply for a finding of suitability must pay all investigative fees and costs of the Mississippi Gaming Commission in connection with the investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Mississippi Gaming Commission may be found unsuitable. Any person found unsuitable and who holds, directly or indirectly, any beneficial ownership of Mandalay's securities beyond the time that the Mississippi Gaming Commission prescribes, may be guilty of a misdemeanor. Mandalay is subject to disciplinary action if, after receiving notice that a person is unsuitable to be a stockholder, a holder of debt securities or to have any other relationship with Mandalay or CCMI, Mandalay:

pays the unsuitable person any dividend, interest or other distribution whatsoever;

recognizes the exercise, directly or indirectly, of any voting rights conferred through such securities held by the unsuitable person;

pays the unsuitable person any remuneration in any form for services rendered or otherwise, except in limited and specific circumstances;

makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction; or

fails to pursue all lawful efforts to require the unsuitable person to divest himself of the securities, including, if necessary, the immediate purchase of the securities for cash at a fair market value.

CCMI must maintain in Mississippi a current ledger with respect to the ownership of its equity securities and Mandalay must maintain in Mississippi a current list of its stockholders which must reflect the record ownership of each outstanding share of any equity security issued by Mandalay. The ledger and stockholder lists must be available for inspection by the Mississippi Gaming Commission at any time. If any of Mandalay's securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Mississippi Gaming Commission. A failure to make that disclosure may be grounds for finding the record holder unsuitable. Mandalay must also render maximum assistance in determining the identity of the beneficial owner.

The Mississippi Gaming Control Act requires that the certificates representing securities of a registered publicly-traded corporation bear a legend to the general effect that the securities are subject to the Mississippi Gaming Control Act and the regulations of the Mississippi Gaming Commission. The Mississippi Gaming Commission has granted Mandalay a waiver of this legend requirement. The Mississippi Gaming Commission has the power to impose additional restrictions on Mandalay and the holders of its securities at any time.

Substantially all loans, leases, sales of securities and similar financing transactions by a licensed gaming subsidiary must be reported to or approved by the Mississippi Gaming Commission. A licensed gaming subsidiary may not make a public offering of its securities, but may pledge or mortgage casino facilities if it obtains the prior approval of the Mississippi Gaming Commission. Mandalay may not make a public offering of its securities without the prior approval of the Mississippi Gaming Commission if any part of the proceeds of the offering is to be used to finance the construction, acquisition or operation of gaming facilities in Mississippi or to retire or extend obligations incurred for those purposes. The approval, if given, does not constitute a recommendation or approval of the accuracy or adequacy of the prospectus or the investment merits of the securities subject to the offering. On January 17, 2004, the Mississippi Gaming Commission granted Mandalay a waiver of the prior approval requirement for its securities offerings for a period of two years, subject to certain conditions. The waiver may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Executive Director of the Mississippi Gaming Commission.

Under the regulations of the Mississippi Gaming Commission, CCMI may not guarantee a security issued by Mandalay pursuant to a public offering, or pledge its assets to secure payment or performance of the obligations evidenced by the security issued by Mandalay, without the prior approval of the Mississippi Gaming Commission. Similarly, Mandalay may not pledge the stock or other ownership interests of CCMI, nor may the pledgee of these ownership interests foreclose on the pledge, without the prior approval of the Mississippi Gaming Commission. Moreover, restrictions on the transfer of an equity security issued by CCMI and agreements not to encumber such securities granted by Mandalay are ineffective without the prior approval of the Mississippi Gaming Commission. The waiver of the prior approval requirement for Mandalay's securities offerings received from the Mississippi Gaming Commission on January 17, 2004 includes a waiver of the prior approval requirement for such guarantees, pledges and restrictions of CCMI, subject to certain conditions.

Mandalay cannot change its control through merger, consolidation, acquisition of assets, management or consulting agreements or any form of takeover without the prior approval of the Mississippi Gaming Commission. The Mississippi Gaming Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction. On December 15, 2004, the Mississippi Gaming Commission approved the proposed merger of a wholly owned subsidiary of MGM MIRAGE with and into Mandalay.

The Mississippi Legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and other corporate defense tactics that affect corporate gaming licensees in Mississippi and corporations whose stock is publicly-traded that are affiliated with those licensees, may be injurious to stable and productive corporate gaming. The Mississippi Gaming Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Mississippi's gaming industry and to further Mississippi's policy to:

assure the financial stability of corporate gaming operators and their affiliates;

preserve the beneficial aspects of conducting business in the corporate form; and

promote a neutral environment for the orderly governance of corporate affairs.

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Mandalay may be required to obtain approval from the Mississippi Gaming Commission before it may make exceptional repurchases of voting securities in excess of the current market price of its common stock (commonly called "greenmail") or before it may consummate a corporate acquisition opposed by management. The regulations will also require prior approval by the Mississippi Gaming Commission if Mandalay adopts a plan of recapitalization proposed by its board of directors opposing a tender offer made directly to the stockholders for the purpose of acquiring control of Mandalay.

Neither Mandalay nor CCMI may engage in gaming activities in Mississippi while Mandalay, CCMI and/or persons found suitable to be associated with the gaming license of CCMI conduct gaming operations outside of Mississippi without approval of the Mississippi Gaming Commission. The Mississippi Gaming Commission may require means for it to have access to information concerning Mandalay's and Mandalay's affiliates' out-of-state gaming operations. Mandalay received waivers of foreign gaming approval from the Mississippi Gaming Commission for the conduct of gaming operations in Nevada, Indiana, Louisiana, Illinois, New Jersey, Michigan and Ontario, Canada, and may be required to obtain the approval or a waiver of such approval from the Mississippi Gaming Commission before engaging in any additional future gaming operations outside of Mississippi.

If the Mississippi Gaming Commission decides that a licensed gaming subsidiary violated a gaming law or regulation, the Mississippi Gaming Commission could limit, condition, suspend or revoke the license of the subsidiary. In addition, we, the licensed subsidiary and the persons involved could be subject to substantial fines for each separate violation. A violation under any of Mandalay's other operating subsidiaries' gaming licenses may be deemed a violation of CCMI's gaming license. Because of a violation, the Mississippi Gaming Commission could attempt to appoint a supervisor to operate the casino facilities. Limitation, conditioning or suspension of CCMI's gaming license or Mandalay's registration as a publicly-traded corporation of CCMI, or the appointment of a supervisor could, and revocation of any gaming license or registration would, materially adversely affect Mandalay's Mississippi gaming operations.

A licensed gaming subsidiary must pay license fees and taxes, computed in various ways depending on the type of gaming involved, to the State of Mississippi and to the county or city in which the licensed gaming subsidiary conducts operations. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually and are based upon:

a percentage of the gross gaming revenues received by the casino operation;

the number of slot machines operated by the casino; and

the number of table games operated by the casino.

The license fee payable to the State of Mississippi is based upon "gaming receipts," generally defined as gross receipts less payouts to customers as winnings, and equals:

4% of gaming receipts of \$50,000 or less per month;

6% of gaming receipts over \$50,000 and less than \$134,000 per month; and

8% of gaming receipts over \$134,000 per month.

These license fees are allowed as a credit against our Mississippi income tax liability for the year paid. The gross revenue fee imposed by the Mississippi cities and counties in which casino operations are located is in addition to the fees payable to the State of Mississippi and equals approximately 4% of the gaming receipts.

The Mississippi Gaming Commission adopted a regulation in 1994 requiring as a condition of licensure or license renewal that a gaming establishment's plan include a 500-car parking facility in close proximity to the casino complex and infrastructure facilities which will amount to at least 25% of the casino cost. Infrastructure facilities are defined in the regulation to include a hotel with at least 250

rooms, theme park, golf course and other similar facilities. With the opening of its resort hotel and other amenities in 1998, CCMI is in compliance with this requirement. On January 21, 1999, the Mississippi Gaming Commission adopted an amendment to this regulation which increased the infrastructure requirement to 100% from the existing 25%; however, the regulation grandfathers existing licensees and applies only to new casino projects and casinos that are not operating at the time of acquisition or purchase, and would therefore not apply to CCMI.

Both the local jurisdiction and the Alcoholic Beverage Control Division of the Mississippi State Tax Commission license, control and regulate the sale of alcoholic beverages by CCMI. The Gold Strike Casino Resort owned and operated by CCMI is in an area designated as a special resort area, which allows casinos located therein to serve alcoholic beverages on a 24-hour basis. The Alcoholic Beverage Control Division requires that the key officers and managers of Mandalay and CCMI and all owners of more than 5% of CCMI's equity submit detailed personal, and in some instances, financial information to the Alcoholic Beverage Control Division and be investigated and licensed. All such licenses are non-transferable. The Alcoholic Beverage Control Division must approve changes in key positions. The Alcohol Beverage Control Division has the full power to limit, condition, suspend or revoke any license for the service of alcoholic beverages or to place a licensee on probation with or without conditions. Any disciplinary action could, and revocation would, have a material adverse affect upon the casino's operations.

### *Illinois Gaming Laws*

We are subject to the jurisdiction of the Illinois gaming authorities as a result of our 50% interest in Grand Victoria Riverboat Casino based in Elgin, Illinois.

In February 1990, the State of Illinois legalized riverboat gambling. The Illinois Riverboat Gambling Act (the "Illinois Act") authorizes the five-member Illinois Gaming Board (the "Illinois Board") to issue up to ten riverboat gaming owners' licenses on navigable streams within or forming a boundary of the State of Illinois except for Lake Michigan and any waterway in Cook County, which includes Chicago. Pursuant to the initial Illinois Act, a licensed owner who holds greater than a 10% interest in one riverboat operation, could hold no more than a 10% interest in any other riverboat operation. In addition, the initial Illinois Act restricted the location of certain of the ten owners' licenses. Four of the licenses were to be located on the Mississippi River, one license was to be at a location on the Illinois River south of Marshall County and one license had to be located on the Des Plaines River in Will County. The remaining licenses were not restricted as to location. Currently, nine owner's licenses are in operation in Alton, Aurora, East Peoria, East St. Louis, Elgin, Metropolis, Rock Island and two licenses in Joliet. The tenth license, which was initially granted to an operator in East Dubuque, was not renewed by the Illinois Board and has been the subject of on-going litigation. At present, the Illinois Board has entered into a settlement agreement with the operator whereby the ownership interest in the tenth license will be transferred to a new operator pursuant to a bid process initiated by the Illinois Board. Recently the bid process was completed and Isle of Capri was the successful bidder. It is proposed that Isle of Capri would locate its gaming operation in Rosemont, Illinois. The closing of this transaction is contingent upon the settlement of outstanding litigation, the Illinois Board finding Isle of Capri suitable for licensure and the Illinois Attorney General's final approval of the settlement agreement between the Illinois Board and the operator. There is no assurance that this process will reach a successful conclusion.

Furthermore, under the initial Illinois Act, no gambling could be conducted while a riverboat was docked. A gambling excursion could last no more than four hours, and a gaming excursion was deemed to have started when the first passenger boarded a riverboat. Gaming could continue during passenger boarding for a period of up to 30 minutes. Gaming was also allowed for a period of up to 30 minutes after the gangplank or its equivalent was lowered, thereby allowing passengers to exit the riverboat. During the 30-minute exit time period, new passengers were not allowed to board the riverboat.

Although riverboats were mandated to cruise, there were certain exceptions. If a riverboat captain reasonably determined that either it was unsafe to transport passengers on the waterway due to inclement weather or the riverboat had been rendered temporarily inoperable by unforeseeable mechanical or structural difficulties or river icing, the riverboat could remain dockside or return to the dock. In those situations, a gaming excursion could begin or continue while the gangplank or its equivalent was raised and remained raised, in which event the riverboat was not considered docked. If a gaming excursion had to begin or continue with the gangplank or its equivalent raised, and the riverboat did not leave the dock, entry of new patrons on to the riverboat was prohibited until the completion of the excursion.

In June of 1999, amendments to the Illinois Act were passed by the legislature and signed into law by the Governor. The amended Illinois Act redefined the conduct of gaming in the state. Pursuant to the amended Illinois Act, riverboats can conduct gambling without cruising and passengers can enter and leave a riverboat at any time. In addition, riverboats may now be located upon any water within Illinois and not just navigable waterways. There is no longer any prohibition of a riverboat being located in Cook County. Riverboats are now defined as self-propelled excursion boats or permanently moored barges. The amended Illinois Act requires that only three, rather than four owner's licenses, be located on the Mississippi River. The 10% ownership prohibition has also been removed. Therefore, subject to certain Illinois Board rules, individuals or entities could own more than one riverboat operation.

The amended Illinois Act also allows for the relocation of a riverboat home dock. A licensee that was not conducting riverboat gambling on January 1, 1998, may apply to the Illinois Board for renewal and approval of relocation to a new home dock and the Illinois Board shall grant the application and approval of the new home dock upon the licensee providing to the Illinois Board authorization from the new dockside community. It was pursuant to the amended Illinois Act that the former owner of the East Dubuque riverboat applied for relocation of its operation to Rosemont and it is this license that was the subject of the recent bid process. Any licensee that relocates in accordance with the provisions of the amended Illinois Act, must attain a level of at least 20% minority ownership of such a gaming operation.

The constitutionality of the relocation provisions of the amended Illinois Act was challenged. That lawsuit is currently pending before the Illinois Supreme Court. There is no assurance that the relocation provisions will be deemed constitutional. In 2003, the Illinois legislature passed and the Governor signed the 2003 amendments to the Illinois Act. The 2003 amendments provided, among other things, that the provisions of the Illinois Act are severable. Thus, regardless of the outcome of the lawsuit, it will not affect other sections of the amended Illinois Act.

The Illinois Act strictly regulates the facilities, persons, associations and practices related to gaming operations. The Illinois Act grants the Illinois Board specific powers and duties, and all other powers necessary and proper to fully and effectively execute the Illinois Act for the purpose of administering, regulating and enforcing the system of riverboat gaming. The Illinois Board has authority over every person, association, corporation, partnership and trust involved in riverboat gaming operations in the State of Illinois.

The Illinois Act requires the owner of a riverboat gaming operation to hold an owner's license issued by the Illinois Board. Each owner's license permits the holder to own up to two riverboats, however, gaming participants are limited to 1,200 for any owner's license. The number of gaming participants will be determined by the number of gaming positions available. Gaming positions are counted as follows:

electronic gaming devices positions will be determined as 90% of the total number of devices available for play;

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craps tables will be counted as having ten gaming positions; and

games utilizing live gaming devices, except for craps, will be counted as having five gaming positions.

Each owner's license initially runs for a period of three years. Thereafter, the license must be renewed annually. Under the amended Illinois Act, the Board may renew an owner's license for up to four years. An owner licensee is eligible for renewal upon payment of the applicable fee and a determination by the Illinois Board that the licensee continues to meet all of the requirements of the Illinois Act and Illinois Board rules. The owner's license for Grand Victoria Riverboat Casino was issued in October 1994 and was valid for three years. Since that time, the license has been renewed annually, and in October 2000, the license was renewed for four years. The license was due to be renewed in October 2004, but due to lack of a quorum of the Illinois Board the license renewal could not be considered. Until the renewal is presented and acted upon by the Illinois Board, the license continues by operation of law. Recently, the Governor appointed three new members to the Illinois Board thereby filling all outstanding vacancies on the Illinois Board. It is anticipated that the license renewal will be promptly reviewed by the Illinois Board. An ownership interest in an owner's license may not be transferred or pledged as collateral without the prior approval of the Illinois Board.

Pursuant to the amended Illinois Act, which lifted the 10% ownership prohibition, the Illinois Board established certain rules to effectuate this statutory change. In deciding whether to approve direct or indirect ownership or control of an owner's license, the Illinois Board shall consider the impact of any economic concentration of the ownership or control. No direct or indirect ownership or control may be approved which will result in undue economic concentration of the ownership of a riverboat gambling operation in Illinois. Undue economic concentration means that a person or entity would have actual or potential domination of riverboat gambling in Illinois sufficient to:

substantially impede or suppress competition among holders of owner's licenses;

adversely impact the economic stability of the riverboat casino industry in Illinois; or

negatively impact the purposes of the Illinois Act, including tourism, economic development, benefits to local communities and state and local revenues.

The Illinois Board will consider the following criteria in determining whether the approval of the issuance, transfer or holding of a license will create undue economic concentration:

percentage share of the market presently owned or controlled by the person or entity;

estimated increase in the market share if the person or entity is approved to hold the owner's license;

relative position of other persons or entities that own or control owner's licenses in Illinois;

current and projected financial condition of the riverboat gaming industry;

current market conditions, including proximity and level of competition, consumer demand, market concentration and any other relevant characteristics of the market;

whether the license to be approved has separate organizational structures or other independent obligations;

potential impact on the projected future growth and development of the riverboat gambling industry, the local communities in which licenses are located and the State of Illinois;

barriers to entry into the riverboat gambling industry and if the approval of the license will operate as a barrier to new companies and individuals desiring to enter the market;





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whether the approval of the license is likely to result in enhancing the quality and customer appeal of products and services offered by riverboat casinos in order to maintain or increase their respective market shares;

whether a restriction on the approval of the additional license is necessary in order to encourage and preserve competition in casino operations; and

any other relevant information.

The Illinois Act does not limit the maximum bet or per patron loss. Minimum and maximum wagers on games are set by the owner licensee. Wagering may not be conducted with money or other negotiable currency. No person under the age of 21 is permitted to wager and wagers may only be received from a person present on the riverboat. With respect to electronic gaming devices, the payout percentage may not be less than 80% nor more than 100%.

An admission tax is imposed on the owner of a riverboat operation. Under the 2003 amendments to the Illinois Act, for an owner licensee that admitted 2,300,000 persons or fewer in the previous calendar year, the admission tax is \$4.00 per person and for an owner licensee that admitted more than 2,300,000 persons in the previous calendar year (including Grand Victoria), the admission tax is \$5.00.

Additionally, a wagering tax is imposed on the adjusted gross receipts, as defined in the initial Illinois Act, of a riverboat operation. As of July 1, 2003, pursuant to the 2003 amendments the wagering tax was increased as follows:

15% of adjusted gross receipts up to and including \$25 million;

27.5% of adjusted gross receipts in excess of \$25 million but not exceeding \$37.5 million;

32.5% of adjusted gross receipts in excess of \$37.5 million but not exceeding \$50 million;

37.5% of adjusted gross receipts in excess of \$50 million but not exceeding \$75 million;

45% of adjusted gross receipts in excess of \$75 million but not exceeding \$100 million;

50% of adjusted gross receipts in excess of \$100 million but not exceeding \$250 million; and

70% of adjusted gross receipts in excess of \$250 million.

The wagering tax as outlined in the 2003 amendments shall no longer be imposed beginning on the earlier of (i) July 1, 2005; (ii) the first date after the effective date of the 2003 amendments to the Illinois Act that riverboat gambling operations are conducted pursuant to the dormant tenth license or (iii) the first day that riverboat gambling operations are conducted under the authority of an owners license that is in addition to the 10 owners licenses authorized by the Illinois Act. The wagering tax will rollback to the rates in effect prior to the 2003 amendments. There is no assurance that the Illinois Act will not be further amended, or other legislation enacted, to change the wagering tax rollback.

The owner licensee is required, on a daily basis, to wire the wagering tax payment to the Illinois Board.

In addition to owner's licenses, the Illinois Board also requires licensing for all vendors of gaming supplies and equipment and for all employees of a riverboat gaming operation. The Illinois Board is authorized to conduct investigations into the conduct of gaming and into alleged violations of the Illinois Act and the Illinois Board rules. Employees and agents of the Illinois Board have access to and may inspect any facilities relating to the riverboat gaming operation.

A holder of any license is subject to imposition of fines, suspension or revocation of such license, or other action for any act or failure to act by himself or his agents or employees, that is injurious to the public health, safety, morals, good order and general welfare of the people of the State of Illinois, or that would discredit or tend to discredit the Illinois gaming industry or the State of Illinois. Any



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riverboat operations not conducted in compliance with the Illinois Act may constitute an illegal gaming place and consequently may be subject to criminal penalties, including possible seizure, confiscation and destruction of illegal gaming devices and seizure and sale of riverboats and dock facilities to pay any unsatisfied judgment that may be recovered and any unsatisfied fine that may be levied. The Illinois Act also provides for civil penalties, equal to the amount of gross receipts derived from wagering on the gaming, whether unauthorized or authorized, conducted on the day of any violation. The Illinois Board may revoke or suspend licenses, as the Illinois Board may see fit and in compliance with applicable laws of the State of Illinois regarding administrative procedures and may suspend an owner's license, without notice or hearing, upon a determination that the safety or health of patrons or employees is jeopardized by continuing a riverboat's operation. The suspension may remain in effect until the Illinois Board determines that the cause for suspension has been abated and it may revoke the owner's license upon a determination that the owner has not made satisfactory progress toward abating the hazard.

If the Illinois Board has suspended, revoked or refused to renew the license of an owner or if a riverboat gambling operation is closing and the owner is voluntarily surrendering its owner's license, the Illinois Board may petition the local circuit court in which the riverboat is situated for appointment of a receiver. The circuit court shall have sole jurisdiction over any and all issues pertaining to the appointment of a receiver. The Illinois Board shall specify the specific powers, duties and limitations for the receiver, including but not limited to the authority to:

hire, fire, promote and discipline personnel and retain outside employees or consultants;

take possession of any and all property, including but not limited to its books, records, papers;

preserve and/or dispose of any and all property;

continue and direct the gaming operations under the monitoring of the Board;

discontinue and dissolve the operation;

enter into and cancel contracts;

borrow money and pledge, mortgage or otherwise encumber the property;

pay all secured and unsecured obligations;

institute or defend actions by or on behalf of the holder of an Owner's license; and

distribute earnings derived from gaming operations in the same manner as admission wagering taxes are distributed under Sections 12, 13 of the Riverboat Gambling Act.

The Illinois Board shall submit at least three nominees to the court. The nominees may be individuals or entities selected from an Illinois Board approved list of pre-qualified receivers who meet the same criteria for a finding of preliminary suitability for licensure under Illinois Board Rules, Sections 3000.230(c)(2)(B) and (C). In the event that the Illinois Board seeks the appointment of a receiver on an emergency basis, the Illinois Board shall issue a Temporary Operating Permit to the receiver appointed by the court. A receiver, upon appointment by the court, shall before assuming his or her duties, execute and post the same bond as an owner's licensee pursuant to Section 10 of the Illinois Act.

The receiver shall function as an independent contractor, subject to the direction of the court. However, the receiver shall also provide to the Illinois Board regular reports and provide any information deemed necessary for the Illinois Board to ascertain the receiver's compliance with all applicable rules and laws. From time to time, the Illinois Board may, at its sole discretion, report to the court on the receiver's level of compliance and any other information deemed appropriate for disclosure to the court. The term and compensation of the receiver shall be set by the court. The



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receiver shall provide to the court and the Illinois Board at least 30 days written notice of any intent to withdraw from the appointment or to seek modification of the appointment. Except as otherwise provided by action to the Illinois Board the gaming operation shall be deemed a licensed operation subject to all rules of the Illinois Board during the tenure of any receivership.

The Illinois Board requires that a "Key Person" of an owner licensee submit a Personal Disclosure or Business Entity Form and be investigated and approved by the Illinois Board. The Illinois Board shall certify for each applicant for or holder of an owner's license each position, individual or Business Entity that is to be approved by the Board and maintain suitability as a Key Person.

With respect to an applicant for or the holder of an owner's license, a Key Person shall include:

any Business Entity and any individual with an ownership interest or voting rights of more than 5% in the licensee or applicant and the trustee of any trust holding such ownership interest or voting rights;

the directors of the licensee or applicant and its chief executive officer, president and chief operating officer or their functional equivalents; and

all other individuals or Business Entities that, upon review of the applicant's or licensee's Table of Organization, Ownership and Control the Board determines hold a position or a level of ownership, control or influence that is material to the regulatory concerns and obligations of the Illinois Board for the specified licensee or applicant.

In order to assist the Illinois Board in its determination of Key Persons, applicants for or holders of an owner's license must provide to the Illinois Board a Table of Organization, Ownership and Control (the "Table"). The Table must identify in sufficient detail the hierarchy of individuals and Business Entities that, through direct or indirect means, manage, own or control the interest and assets of the applicant or licensee holder. If a Business Entity identified in the Table is a publicly traded company, the following information must be provided in the Table:

the name and percentage of ownership interest of each individual or Business Entity with ownership of more than 5% of the voting shares of the entity, to the extent this information is known or contained in Schedule 13D or 13G SEC filings;

to the extent known, the names and percentage of interest of ownership of persons who are relatives of one another and who together (as individuals or through trusts) exercise control over or own more than 10% of the voting shares of the entity; and

any trust holding more than 5% ownership or voting interest in Mandalay, to the extent this information is known or contained in Schedule 13D or 13G SEC filings.

The Table may be disclosed under the Freedom of Information Act.

Each owner licensee must provide a means for the economic disassociation of a Key Person in the event such economic disassociation is required by an order of the Illinois Board. Based upon findings from an investigation into the character, reputation, experience, associations, business probity and financial integrity of a Key Person, the Illinois Board may enter an order upon the licensee or require the economic disassociation of the Key Person.

Furthermore, each applicant or owner licensee must disclose the identity of every person, association, trust or corporation having a greater than 1% direct or indirect pecuniary interest in an owner licensee or in the riverboat gaming operation with respect to which the license is sought. The Illinois Board may also require an applicant or owner licensee to disclose any other principal or investor and require the investigation and approval of these individuals.

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The Illinois Board (unless the investor qualifies as an institutional investor) requires a Personal Disclosure Form or a Business Entity Form from any person or entity who or which, individually or in association with others, acquires directly or indirectly, beneficial ownership of more than 5% of any class of voting securities or non-voting securities convertible into voting securities of a publicly-traded corporation which holds an ownership interest in the holder of an owner's license. If the Illinois Board denies an application for such a transfer and if no hearing is requested, the applicant for the transfer of ownership interest must promptly divest those shares in the publicly-traded parent corporation. The holder of an owner's license would not be able to distribute profits to a publicly-traded parent corporation until such shares have been divested. If a hearing is requested, the shares need not be divested and profits may be distributed to a publicly-held parent corporation pending the issuance of a final order from the Illinois Board. Mandalay has requested approval of the transfer of its 50% interest in the Grand Victoria Riverboat Casino and MGM MIRAGE has applied to the Illinois Board for approval of its acquisition of Mandalay's 50% interest. The Illinois Board has not yet acted on this matter, but is expected to take action in late April 2005. No assurance can be given as to what action the Illinois Board will take in connection with this application.

An institutional investor that individually or jointly with others, cumulatively acquires, directly or indirectly, 5% or more of any class of voting securities of a publicly-traded licensee or a licensee's publicly-traded parent corporation shall, within no less than ten days after acquiring these securities, notify the Administrator of the Board of such ownership and shall provide any additional information as may be required. If an institutional investor (as specified above) acquires 10% or more of any class of voting securities of a publicly-traded licensee or a licensee's publicly-traded parent corporation it shall file an Institutional Investor Disclosure Form within 45 days after acquiring this level of ownership interest. The owner licensee shall notify the Administrator as soon as possible after it becomes aware that it or its parent is involved in an ownership acquisition by an institutional investor. The institutional investor also has an obligation to notify the Administrator of its ownership interest.

In addition to Institutional Investor Disclosure Forms, certain other forms may be required to be submitted to the Illinois Board. An owner-licensee must submit a Marketing Agent Form to the Illinois Board for each Marketing Agent with whom it intends to do business. A Marketing Agent is a person or entity, other than a junketeer or an employee of a riverboat gaming operation, who is compensated by the riverboat gaming operation in excess of \$100 per patron per trip for identifying and recruiting patrons. Key Persons of owner-licensees must submit Trust Identification Forms for trusts, excluding land trusts, for which they are a grantor, trustee or beneficiary each time such a trust relationship is established, amended or terminated.

Applicants for and holders of an owner's license are required to obtain formal approval from the Illinois Board for changes in the following areas:

Key Persons;

type of entity;

equity and debt capitalization of the entity;

investors and/or debt holders;

source of funds;

applicant's economic development plan;

riverboat capacity or significant design change;

gaming positions;

anticipated economic impact; or

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agreements, oral or written, relating to the acquisition or disposition of property (real or personal) of a value greater than \$1 million.

A holder of an owner's license is allowed to make distributions to its stockholders only to the extent that the distribution would not impair the financial viability of the gaming operation. Factors to be considered by the licensee will include but not be limited to the following:

cash flow, casino cash and working capital requirements;

debt service requirements, obligations and covenants associated with financial instruments;

requirements for repairs and maintenance and capital improvements;

employment or economic development requirements of the Act; and

a licensee's financial projections.

The Illinois Board has implemented a Voluntary Self-Exclusion Policy whereby a person who acknowledges that he/she has a gambling problem may self-identify and self-exclude himself or herself from an Illinois riverboat. The Illinois Board has prescribed procedures that owner licensees must follow in order to implement this self-exclusion program.

The Illinois Board may waive any licensing requirement or procedure provided by rule if it determines that the waiver is in the best interests of the public and the gaming industry. Also, the Illinois Board may, from time to time, amend or change its rules.

From time to time, various proposals have been introduced in the Illinois legislature that, if enacted, would affect the taxation, regulation, operation or other aspects of the gaming industry or Mandalay. Some of this legislation, if enacted, could adversely affect the gaming industry or Mandalay. No assurance can be given whether such or similar legislation will be enacted.

Uncertainty exists regarding the Illinois gambling regulatory environment due to limited experience in interpreting the Illinois Act.

### ***Michigan Gaming Laws***

Mandalay is subject to regulation by the Michigan Gaming Control Board ("Michigan Board") pursuant to the Michigan Gaming Control and Revenue Act ("Michigan Act") as a result of ownership of 53.5% of Detroit Entertainment, L.L.C., a Michigan limited liability company, which operates MotorCity Casino.

The qualification standards established by the Michigan Act and Rules are very comprehensive. A burden of proof by "clear and convincing evidence" is placed upon the applicant. The focus of these standards is suitability as to:

character;

reputation;

integrity;

business probity;

experience;

ability;

financial ability and responsibility; and

any other criteria considered appropriate by the Michigan Board.



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MotorCity Casino's casino license is a one-year license. The license will be renewed by the Michigan Board on an annual basis if the Michigan Board determines that MotorCity Casino continues to meet all requirements established by the Michigan Act and Rules. MotorCity Casino has timely filed its Casino License Annual Renewal Report with the Michigan Board. Action on the license renewal is currently pending before the Michigan Board. The Michigan Board staff has advised MotorCity Casino that its casino license remains in effect while the Michigan Board completes its normal and customary processing procedures for a casino license renewal. No assurances can be given regarding when the Michigan Board will act on the license renewal or what action the Michigan Board will take in connection with the license renewal.

The Michigan Act permits the licensing and operation of up to three casinos in any Michigan city that meets certain requirements. At the present time, the only city in Michigan that meets these requirements is Detroit. To date, three casino licenses have been issued.

The Michigan Board is composed of five persons. It has the authority to:

enforce the provisions of the Michigan Act;

license casinos in accordance with the provisions of the Michigan Act; and

regulate all aspects of the operation of casinos licensed by the Michigan Board.

The Michigan Board's jurisdiction extends to every person and business entity involved in casino gaming operations governed by the Michigan Act and Rules. The Michigan Act and Rules strictly regulate all aspects of the ownership and operation of casinos licensed under the Michigan Act. This includes regulation of:

all related buildings, facilities, bars, restaurants, hotels, cocktail lounges, retail establishments, arenas and rooms functionally or physically connected to the casino; and

any other facility located in the city of Detroit that is under the control of the casino licensee or an affiliated company.

Collectively, the Michigan Act calls all of these buildings, facilities and other amenities the "Casino Enterprise."

The Michigan Board, the Michigan Attorney General and the Michigan State Police have been assigned to investigate and inspect the casinos licensed under the Michigan Act. These employees have the right to inspect all facilities relating to the Casino Enterprise.

The Michigan Act and Rules require that "Key Persons" meet the requirements set forth in the Michigan Act and Rules. Key Persons include:

officers, directors, trustees, partners and proprietors of a casino licensee or an affiliate or holding company of a casino licensee that has control of a casino licensee;

a person that holds a combined direct, indirect or attributed debt or equity interest of more than 5% in a person that holds a casino license;

a person that holds a combined direct, indirect or attributed equity interest of more than 5% in a person that holds a casino license;

a managerial employee of an affiliate or holding company that has control of a person that holds a casino license; and

various management level employees of the casino licensee.

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The Michigan Act defines "control" of a casino licensee as having greater than 15% direct or indirect pecuniary interest in the casino licensee. Mandalay has control of MotorCity Casino.

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Key Persons are required to timely file and update qualification information with the Michigan Board and then be approved by the Michigan Board.

The Michigan Act and Rules require compliance with qualification standards for obtaining and retaining a direct or indirect ownership interest in a casino and for transferring an ownership interest in a casino. Owners are required to timely file and update information required to be submitted to the Michigan Board.

The Michigan Board can require compliance with the qualification and approval standards whenever the Michigan Board determines that it is in the best interests of the Michigan casino regulatory process to do so regardless of the amount of direct or indirect beneficial ownership interest involved or the nature of the ownership interest.

The Michigan Act and Rules distinguish between shareholders of a privately owned company and shareholders of a publicly traded company for qualification purposes. Shareholders of a privately owned company who directly or indirectly beneficially own 1% or more of a casino licensee or casino license applicant must submit qualification information to the Michigan Board and be approved by the Michigan Board. Shareholders that own more than 5% of a publicly traded company that owns 1% or more of one of the Detroit casinos must submit and update qualification information to the Michigan Board. Mandalay owns more than 1% of MotorCity Casino and, therefore, each shareholder that owns more than 5% of the shares of Mandalay is subject to the qualification requirements established by the Michigan Act and Rules.

There are special rules for an "institutional investor" that has invested in a publicly traded company that owns 1% or more of a Detroit casino or a Michigan casino license applicant.

The Michigan Board is currently taking the position that an institutional investor that individually or, in association with others, directly or indirectly holds or acquires beneficial ownership of more than 5% of Mandalay must notify the Michigan Board of its interest in Mandalay within 10 business days after the institutional investor acquires more than a 5% interest in Mandalay or files a Form 13-D or 13-G with the SEC. The institutional investor may be required by the Michigan Board to supply additional information to the Michigan Board. The Michigan Board may require the institutional investor to be found suitable.

An institutional investor that individually or, in association with others, directly or indirectly holds or acquires beneficial ownership of more than a 5% interest but less than a 10% interest in Mandalay may request from the Michigan Board a waiver of the eligibility and suitability requirements if the institutional investor purchased the interest in Mandalay for investment purposes only and not for the purpose of influencing or affecting the affairs of Mandalay, MotorCity Casino or its affiliates. In order to obtain the waiver, the institutional investor must complete and file with the Michigan Board a Michigan Institutional Investor Waiver Form 206C.

An institutional investor that individually or, in association with others, directly or indirectly holds or acquires beneficial ownership of more than a 10% interest but not more than a 15% interest in Mandalay may request from the Michigan Board a waiver of the eligibility and suitability requirements if the institutional investor purchased the interest in Mandalay for investment purposes only and not for the purpose of influencing or affecting the affairs of Mandalay, MotorCity Casino or its affiliates. In order to obtain the waiver, the institutional investor must complete and file with the Michigan Board a Michigan Institutional Investor Waiver Form NON 206C. The Michigan Rules require that an institutional investor within these ownership parameters must disclose detailed information concerning the institutional investor.

An institutional investor that individually or, in association with others, directly or indirectly holds or acquires beneficial ownership of more than a 15% interest in Mandalay is required to file

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qualification information with the Michigan Board within 45 days after acquiring the interest and is required to meet qualification and approval standards.

The Michigan Act and Rules regulate an institutional investor owning debt securities of a casino licensee's affiliates. An institutional investor may be required to meet the Michigan Act's qualification standards if the institutional investor:

owns or acquires beneficial ownership of 10% or more of debt securities of a casino licensee's affiliate or affiliated company which are related in any way to the financing of the casino licensee; or

owns or acquires beneficial ownership of more than 50% of any issue of the outstanding debt of the casino licensee's affiliate or affiliated company.

An institutional investor that owns or acquires beneficial ownership of more than 5% but less than 10% of debt securities of a casino licensee's affiliate or affiliated company which are in any way related to the financing of the casino licensee may be granted a waiver of the eligibility and suitability requirements of the Michigan Act and Michigan Rules if:

the debt securities do not represent more than 20% of the outstanding debt of the casino licensee's affiliate or affiliated company; or

the debt securities represent not more than 50% of any issue of the outstanding debt of the casino licensee's affiliate or affiliated company; and

the debt securities are those of a publicly traded corporation and were purchased for investment purposes only.

The Michigan Act and Rules regulate the transfer of a direct or indirect interest in a casino licensee. The Michigan Board must be notified in advance of any proposed transfer of a direct or indirect interest. If the proposed transfer involves more than a 1% direct or indirect interest, the proposed transfer may not be consummated until the transfer has been approved by the Michigan Board. In all events, the parties proposing to engage in the transfer action should determine the applicable requirements of the Michigan Act and Rules before completing the transfer transaction.

Formal notice of certain events must be given to and approval obtained from the Michigan Board by the casino licensee or applicant and any of their affiliates or holding companies whenever any of the following events occur:

a change of a Key Person;

a change in entity;

a change in equity or debt capitalization of the entity;

a change in investors subject to the Michigan Act and Michigan Rules;

a change in debt holders subject to the Michigan Act and Michigan Rules;

a change in source of funds; or

related party transactions exceeding \$250,000 in a 12-month period.

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The Michigan Act declares that a person or entity that is required to meet the Michigan Act's suitability standards will not be eligible if any of the following circumstances exist:

the applicant has been convicted of a felony anywhere in the United States;

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the applicant has been convicted of a misdemeanor involving gambling, theft, fraud or dishonesty or convicted of violation of a local ordinance involving gambling, theft, fraud or dishonesty that substantially corresponds to a misdemeanor;

the applicant has submitted an application that contains false information;

the applicant or affiliate owns more than a 10% ownership interest in any entity holding a casino license issued under the Michigan Act;

the applicant holds any elective office in the United States (with certain minor exceptions), is an employee of any gaming regulatory body in the United States or is employed by a governmental unit of the State of Michigan;

the Michigan Board concludes that the applicant lacks the requisite suitability as to integrity, moral character and reputation, personal and business probity, financial ability and experience, responsibility or means to develop, construct, operate or maintain the casino; or

the applicant fails to meet other criteria considered appropriate by the Michigan Board that are not arbitrary, capricious or contrary to the provisions of the Michigan Act.

The Michigan Act prohibits casino licensees and applicants and certain related persons from making contributions to candidates for state or local office in the State of Michigan and to committees supporting any such candidates during various periods, including periods prior to licensure. The political contribution restriction applies to casino license applicants, casino licensees and all of the following persons and entities:

any person or entity that holds at least a 1% interest in the casino licensee or Casino Enterprise;

any person who is an officer or managerial employee of the casino licensee or Casino Enterprise;

any person who is an officer of the person who holds at least a 1% interest in the casino licensee or Casino Enterprise; and

any person that is an independent committee of the casino licensee or Casino Enterprise.

On March 22, 2005, at the request of MGM MIRAGE pursuant to the Merger Agreement, Mandalay entered into an agreement to dispose of its interest in MotorCity Casino subject and immediately prior to the closing of the Mandalay/MGM MIRAGE merger. The buyer of Mandalay's interest applied to the Michigan Board for approval of this proposed transfer and on April 13, 2005, the Michigan Board approved the transfer.

The Michigan Act also applies this restriction to spouses, parents, children and spouses of children of persons holding an interest in the casino licensee or Casino Enterprise. However, the portion of the political contribution restriction relating to spouses, parents, children and spouses of children has been declared unconstitutional by Attorney General Frank Kelley in Attorney General Opinion No. 7002 issued on December 17, 1998 in those instances where the contribution is not a willful attempt to evade the political contribution restrictions contained in the Michigan Act.

The penalties for violation of the political contribution restriction includes fines, imprisonment or both.

If a shareholder who is required to submit qualification information to the Michigan Board is not approved by the Michigan Board, the shareholder must promptly dispose of all ownership interest in the shares.

If a person who seeks to acquire shares is a person who is required to submit qualification information to the Michigan Board and the person does not obtain approval for the acquisition from



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the Michigan Board, the person may not acquire the shares and must promptly dispose of all interest in the shares.

If a Key Person who is required to submit qualification information to the Michigan Board is not approved by the Michigan Board, the Key Person must promptly cease all involvement in the Michigan Casino Enterprise.

As required under the Michigan Act, MotorCity Casino had a Development Agreement with the City of Detroit. Over the course of our negotiations with the City regarding a permanent facility, the term of the Development Agreement was extended by a series of amendments. MotorCity Casino constructed a temporary casino in accordance with the terms of the Development Agreement. This temporary casino opened on December 14, 1999. On August 2, 2002, the Detroit City Council approved a revised development agreement between the joint venture and the City of Detroit (the "Revised Development Agreement"). Under the Revised Development Agreement, MotorCity Casino is to be expanded at its current location into a permanent facility that is currently planned to include 100,000 square feet of casino space, a 400-room hotel, a theater, convention space and additional restaurants, retail and parking. Depending upon market conditions, availability of additional land and the joint venture's ability to obtain reasonable financing, the joint venture could be required to construct an additional 400 rooms. Under the terms of the Revised Development Agreement, the joint venture has paid the City a total of \$44.0 million as of January 31, 2005. The joint venture is further obligated, through letters of credit issued by Mandalay, to fund approximately \$49.4 million to repay bonds issued by the Economic Development Corporation of the City of Detroit. Also under the Revised Development Agreement, beginning January 1, 2006, the joint venture is to pay the City 1% of adjusted casino revenues. If its casino revenues top \$400 million in any given calendar year, the payment will be increased to 2% for that calendar year.

The Development Agreement entered into between the City of Detroit and Detroit Entertainment, L.L.C. has numerous terms and conditions relating to the following:

the construction of the temporary and permanent casino;

the employment of Detroit residents, minorities and women to staff the operation of the temporary and permanent casinos; and

the use of Detroit based, minority and woman owned vendors and suppliers.

MotorCity Casino has agreed to exercise its reasonable best efforts to comply with vendor and supplier use and hiring goals. Failure to comply with the terms of the Development Agreement could adversely affect its casino license.

Michigan law requires that any person who holds a "Casino Interest" must file a registration form with the Michigan Secretary of State not later than 5 days after obtaining the Casino Interest. A person who violates this registration requirement for more than 30 days is subject to being charged with a misdemeanor and a fine of not more than \$1,000. The Casino Interest registration requirement is completely separate and apart from the eligibility and qualification requirements established by the Michigan Act and Michigan Rules. A person holding a Casino Interest includes:

a person who holds at least a 1% interest in a casino licensee or a Casino Enterprise;

a person who is a partner, officer or key or managerial employee of the casino licensee or Casino Enterprise; and

a person who is an officer of the person who holds at least a 1% interest in the casino licensee or Casino Enterprise.

A "person" includes any individual and legal entity.



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Michigan law also applies the "Casino Interest" registration requirement to the spouse and children of persons holding a Casino Interest. However, the Michigan Secretary of State has ruled that the "Casino Interest" registration requirement does not apply to spouses and children based upon Michigan Attorney General Opinion No. 7053 issued on May 3, 2000. Michigan Attorney General Opinion No. 7053 was issued based upon Michigan Attorney General Opinion No. 7002 issued on December 17, 1998, which declared the portion of the Michigan Act's political contribution restrictions unconstitutional as to spouses and children (among others) where the political contribution is not a willful attempt to evade the political contribution restrictions contained in the Michigan Act.

The Casino Interest Registration Form may be obtained from the Michigan Secretary of State in Lansing, Michigan.

The Michigan Act and Rules establish extensive requirements and procedures relating to all of the following:

operation of casino games;

ownership records;

reporting of transactions;

handling of money;

extending credit;

accounting and auditing;

internal control systems; and

compliance reporting.

The Michigan Act and Rules do not limit the maximum bet or per person loss. No person under the age of 21 years is permitted to wager in a casino licensed under the Michigan Act. MotorCity Casino may operate 24 hours a day, 7 days a week. MotorCity Casino is subject to regulation by the Michigan Liquor Control Commission. The Michigan Act subjects MotorCity Casino to five forms of gaming taxes and fees:

a nonrefundable license application fee of \$50,000;

a \$25,000 casino license fee, which is payable annually;

a wagering tax equal to 18% of adjusted gross receipts;

effective September 1, 2004, an additional wagering tax equal to 6% of adjusted gross receipts, which is (a) eliminated in the event that video lottery is permitted and actually conducted at Michigan horse race tracks under Michigan's McCauley-Traxler-Law-Bowman-McNeely Lottery Act, (b) decreased to 1% of adjusted gross receipts when the Michigan Board declares that MotorCity Casino has a fully operational hotel with at least 400 rooms in accordance with the Revised Development Agreement with the City of Detroit, and (c) increased at the rate of 1% per year on July 1 of the years 2009, 2010 and 2011 to a maximum of 9% of adjusted gross receipts unless and until the Michigan Board declares that MotorCity Casino has a fully operational hotel with at least 400 rooms in accordance with the Revised Development Agreement with the City of Detroit, at which time the additional wagering tax is decreased to 1% of adjusted gross receipts.

an annual municipal services fee in an amount equal to the greater of 1.25% of adjusted gross receipts or \$4,000,000; and



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the payment of all regulatory and enforcement costs, including compulsive gaming programs, casino related programs and activities, casino related services provided by the Michigan Attorney General and casino related expenses of the Michigan State Police up to a combined total annual maximum charge of \$25,000,000 in the first year of casino operations for all casinos licensed under the Michigan Act. This maximum amount is adjusted annually by the Detroit Consumer Price Index.

No casino licensed under the Michigan Act is liable for the payment of more than  $\frac{1}{3}$  of the total annual assessment. This fee is placed into a services fee fund. This service fee fund is prohibited from exceeding \$65,000,000. If this service fee fund exceeds \$65,000,000, any amount in excess of \$65,000,000 must be credited towards the annual payments the casinos licensed under the Michigan Act are required to make to the service fee fund.

The five forms of fees and taxes listed above are in addition to the taxes, fees and assessments customarily paid by business entities in the State of Michigan and the City of Detroit.

The holder of a casino license issued under the Michigan Act is subject to a variety of penalties for violation of the Michigan Act or Rules. The penalties include, but are not necessarily limited to, the following:

monetary fines;

suspension of the casino license;

revocation of the casino license;

civil penalties of up to \$10,000 or the amount of daily gross receipts derived from wagering on gaming on the day of the violation, whichever is greater;

criminal penalties;

seizure and/or destruction of gaming equipment;

seizure and/or sale of gaming operations;

imposition of a conservatorship; and

imposition of restrictions or conditions on gaming operations by the Michigan Board.

The Michigan Board is required to comply with the Michigan Act, the Michigan Rules, the Michigan Administrative Procedures Act and other applicable laws and regulations. The Michigan Board may suspend a casino operator's license, without notice or hearing, upon a determination that:

the safety or health of patrons or employees would be threatened by the continued operation of the casino; or

the action is necessary for the immediate preservation of the integrity of casino gaming, public peace, health, safety, morals, good order or general welfare.

The Michigan Board may waive any licensing requirement or procedures provided by the Michigan Rules provided that the waiver does not violate the Michigan Act. Any such waiver must be based upon a determination by the Michigan Board that the waiver is in the best interests of the public and the gaming industry.

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The Michigan Board may amend or change the Michigan Rules provided that the amendment or change complies with the Michigan Act and other applicable Michigan law.

Uncertainty exists regarding the Michigan gaming regulatory environment due to the limited experience in interpreting the Michigan Act and the Michigan Rules. The Michigan Act and Michigan Rules are evolving pursuant to an ongoing regulatory, legislative and judicial process. Therefore, the

Michigan Act and Michigan Rules are subject to and, in all probability will, change with the maturation of casino gaming regulated by the Michigan Act.

Various regulatory proposals have been and, in all likelihood, will continue to be discussed by the Detroit City Council concerning the regulation of casinos in the City of Detroit. Legislation proposed to or by the Detroit City Council, if enacted, could adversely affect the gaming industry, Detroit Entertainment, L.L.C. or Mandalay. No assurance can be given whether additional ordinances will be enacted and what effect such ordinances could have on the operation of casinos in the City of Detroit.

From time to time various proposals have been introduced in the Michigan legislature which relate to casino gaming in Detroit. Some of the proposals, if enacted, would affect the taxation, regulation, operation or other aspects of the gaming industry, Detroit Entertainment, L.L.C. or Mandalay. In addition, legislation has been periodically introduced which would permit slot machines to be operated at racetracks, including racetracks in the greater Detroit area. No assurance can be given whether legislation will be enacted in the future and what effect such legislation could have on the operation of casinos in 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 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 Michigan Gaming Control Board ("MGCB") took the ruling of the Sixth Circuit Court of Appeals under advisement without comment. The District Court declared that the ordinance in its current form is unconstitutional and awarded the Lac Vieux Band attorneys' fees and costs totaling \$545,094, but rejected the Lac Vieux Band's request to require a rebidding of the three casino licenses, and in addition, rejected the Lac Vieux Band's request to enjoin the City of Detroit from entering into revised development agreements with the three casino developers, including MotorCity Casino. The Lac Vieux Band has appealed the District Court's decision to the Sixth Circuit Court of Appeals. The Sixth Circuit Court of Appeals issued an opinion granting the Lac Vieux Band's motion for an injunction pending appeal, that temporarily enjoins the City of Detroit from issuing building permits for the permanent casino facilities and temporarily enjoins the casino developers from commencing construction of the permanent casino facilities.

The Lac Vieux Band filed a separate action in the Gogebic County, Michigan, Circuit Court entitled *Lac Vieux Desert Band of Lake Superior Chippewa Indians v. Michigan Gaming Control Board*, in which the Lac Vieux Band requested the Circuit Court to enter an order requiring the MGCB to revoke the casino licenses issued to the three Detroit casinos, including MotorCity Casino. As a result of the settlement agreement discussed below, this action has been dismissed.

On November 26, 2003, we announced that MotorCity Casino had signed a settlement agreement with the Lac Vieux Desert Band of Lake Superior Chippewa Indians. On April 9, 2004, the District Court approved the settlement. On April 23, 2004, MotorCity paid to the Lac Vieux Tribe \$1.5 million plus \$500,000 in attorney's fees. MGM MIRAGE has appealed the approval of the settlement and the injunction remains in place. Because approval of the settlement agreement was subsequently appealed, all further settlement payments were suspended pending resolution of the appeal. These payments include \$1.5 million due 30 days after the first payment, \$5.75 million due on the first and second anniversaries of the first payment and \$1 million due annually for 25 years, beginning on the third anniversary of the first payment. If the Sixth Circuit Court of Appeals ultimately affirms the approval of the settlement agreement, then, absent filing of another adverse claim, the payment schedule will be reinstated and MotorCity Casino will have to immediately pay all amounts that otherwise would have been due during the period of suspension (plus interest). The occurrence of certain events would

suspend, lower and/or terminate the payments. There can be no assurance as to when final resolution will occur with respect to this matter, or what action the courts might take. These payments would satisfy the joint venture's obligations under an indemnity agreement with respect to the Lac Vieux litigation claims. However, the joint venture would still be liable under the indemnity agreement for claims related to the acquisition of the riverfront land, which potentially are capped at \$4 million.

Any future adverse ruling by the courts in the above lawsuits or in other lawsuits, or any adverse ruling by the MGCB, could affect the joint venture's operation of its current facility, as well as its ability to retain its certificate of suitability and casino license for its expanded permanent facility. No assurance can be given regarding the timing or outcome of any of these proceedings.

The joint venture's operation of MotorCity Casino is subject to ongoing regulatory oversight, and its ability to proceed with an expanded hotel/casino project is contingent upon the receipt of all necessary governmental approvals, successful resolution of pending litigation and satisfaction of other conditions.

#### **Other Gaming Jurisdictions**

We may expand our operations in the future to include gaming operations in jurisdictions other than those in which our activities and those of the joint ventures in which we participate are currently conducted. As a result, we and/or one or more joint ventures in which we participate may become subject to comprehensive gaming and other regulations in additional jurisdictions. Such regulations may be similar to, and could be more restrictive than, those currently applicable to us, our joint ventures and our officers, directors, employees and persons associated with us.

#### **Other Laws and Regulations**

Each of the casino hotels and the riverboat and dockside casinos described in this report is subject to extensive state and local regulations and, on a periodic basis, must obtain various other licenses and permits, including those required to sell alcoholic beverages. We believe that we and the joint ventures in which we participate have obtained all licenses and permits required for the conduct of our operations and that our businesses and those of our joint ventures are conducted in substantial compliance with applicable laws.

#### ***Internal Revenue Service Regulations***

The Internal Revenue Service requires operators of casinos located in the United States to file information returns for U.S. citizens, including names and addresses of winners, for keno, bingo and slot machine winnings in excess of stipulated amounts. The Internal Revenue Service also requires operators to withhold taxes on some keno, bingo and slot machine winnings of nonresident alien visitors residing in certain countries. We are unable to predict the extent, to which these requirements, if extended, might impede or otherwise adversely affect operations of, and/or income from, the other games.

Regulations adopted by the Financial Crimes Enforcement Network of the Treasury Department and the gaming regulatory authorities in some of the jurisdictions in which we operate casinos, or in which we may apply for licensing to operate a casino, require the reporting of currency transactions in excess of \$10,000 occurring within a gaming day, including identification of the patron by name and social security number. This reporting obligation began in May 1985 and may have resulted in the loss of gaming revenues to jurisdictions outside the United States which are exempt from the ambit of these regulations.

*Employees and Labor Relations*

At January 31, 2005, Mandalay and its consolidated subsidiaries employed approximately 29,000 persons. As of January 31, 2005, approximately 48% of these employees were employed pursuant to the terms of collective bargaining agreements. Four of our union contracts covering a total of approximately 225 employees have expired or will expire during fiscal 2006. We are currently or will be negotiating to renew these contracts. Our other collective bargaining agreements have remaining terms ranging from one to four years. We consider our labor relations to be satisfactory.

At January 31, 2005, Mandalay's 50%-owned joint ventures employed approximately 6,500 additional persons. Of those individuals, approximately 21% (all employees of Monte Carlo) were employed pursuant to the terms of a collective bargaining agreement expiring in two years. We consider our joint ventures' labor relations to be satisfactory.

A work stoppage has not been experienced at a property owned by us or a joint venture in which we participate since an industry-wide strike in 1975.

Certain states in which gaming has been legalized have established community commitment and similar laws or requirements which require that a specified percentage of employees of gaming ventures be residents of the community or state in which the gaming venture is located or meet certain other criteria. These laws can affect our ability to attract and retain qualified employees for gaming operations we or joint ventures in which we participate conduct outside Nevada.

*Internet Website Access to Our Periodic Reports and Other Information*

Mandalay makes available, free of charge, through its Internet website ([www.mandalayresortgroup.com](http://www.mandalayresortgroup.com)) its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC").

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of our Audit Committee, Nominating/Corporate Governance Committee and Compensation Committee are also available on our Internet website and are available in print to any shareholder who requests them.

The information presented on Mandalay's website is not part of this report and the references to Mandalay's website are intended to be inactive textual references only.

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### *Factors that May Affect Our Future Results*

(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

Certain information included in this report and other materials filed or to be filed by Mandalay with the SEC (as well as information included in oral statements or other written statements made or to be made by us, including our 2004 Annual Report to Stockholders) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements can be identified by the fact that they do not relate strictly to historical or current facts. We have based these forward-looking statements on our current expectations about future events. These forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, intentions, financial condition, results of operations, future performance and business, including:

statements relating to our business strategy;

our current and future development plans; and

statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan" or similar expressions.

Our forward-looking statements include information relating to plans for future expansion and other business development activities as well as capital spending, financing sources and the effects of regulation (including gaming and tax regulation) and competition. From time to time, oral or written forward-looking statements are also included in Mandalay's periodic reports on Forms 10-Q and 8-K, press releases and other materials released to the public.

Any or all of the forward-looking statements in this report or in any other public statements we make may turn out to be wrong. This can occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this report, such as government regulation and the competitive environment, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from forward-looking statements.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in Mandalay's subsequent reports to the Securities and Exchange Commission on Forms 10-K, 10-Q and 8-K should be consulted. The following discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business includes factors we believe could cause our actual results to differ materially from expected and historical results. Other factors beyond those listed below could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

In the event the merger contemplated by the Merger Agreement is not consummated or the Merger Agreement is terminated, our subsequent operations may be adversely impacted as a result of the limitations imposed on our conduct and operations during the term of the Merger Agreement. Depending on the particular facts and circumstances, any failure to consummate the merger or a termination of the Merger Agreement could result in litigation which, depending on the nature of the claims and the litigation's duration and outcome, could adversely impact our financial condition or results of operations.

As described under "Competition," we and the joint ventures in which we participate operate in a very competitive environment, particularly in Nevada. To the extent that hotel and/or casino capacity is expanded by others in one or more of the markets where we and/or our joint ventures operate, the increased competition could adversely impact our future operations.



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Legalization of gaming in any additional jurisdictions from which our properties or those of one or more of our joint ventures draw their visitors, including jurisdictions near our joint venture properties located near Detroit, Michigan and Elgin, Illinois, or the establishment of new large-scale gaming operations on nearby Native American reservations, could adversely affect our operations and/or those of one or more of our joint ventures.

Legalization of additional gaming in those jurisdictions which currently limit the types and/or number of gaming establishments, such as Michigan and Illinois, could adversely affect our operations and/or those of our joint ventures.

On March 7, 2000, California voters approved an amendment to the California constitution that gave Native American tribes in California the right to conduct gaming operations offering a limited number of slot machines and a range of house-banked card games, and the number of slot machines each tribe is allowed to operate is subject to change pursuant to negotiations which have been initiated between the tribes and the State of California. At this time, we cannot determine the future growth of Native American gaming in California or the impact of such growth on our Nevada operations and those of our Nevada joint ventures.

The expansion of Native American gaming which may result from the recent determination that gaming devices similar to slot machines but which are deemed to be technical enhancements to bingo-style gaming may be operated by Native American tribes without state permission could adversely impact our operations and/or those of our joint ventures.

As discussed under "Regulation and Licensing," our gaming operations and the gaming operations of the joint ventures in which we participate are highly regulated by governmental authorities in Nevada, Mississippi, Illinois and Michigan. We will also become subject to regulation in any other jurisdiction where we or any joint venture in which we participate conduct gaming in the future. Any regulation in other jurisdictions may or may not be similar to that in Nevada, Mississippi, Illinois and Michigan.

In Mississippi, in three separate instances in 1998 and 1999, referenda were proposed which, if approved, would have amended the Mississippi constitution to ban gaming in Mississippi and would have required all currently legal gaming entities to cease operations within two years of the ban. All three of the proposed referenda were ruled illegal by Mississippi state trial court judges, and the one such ruling which was appealed was affirmed by the Mississippi Supreme Court. The next election for which the proponents could attempt to place such a proposal on the ballot would be in November 2006. At this time, we cannot predict whether such a referendum will appear on a ballot or the likelihood of such a referendum being approved by the voters. If such a referendum were passed and gaming was prohibited in Mississippi, it would have a material adverse effect on our Mississippi gaming operations.

Changes in applicable laws or regulations could have a significant effect on our operations and those of the joint ventures in which we participate.

Our operations and those of the joint ventures in which we participate are affected by changes in local and national general economic, market and other conditions in the locations where those operations are conducted and where customers live.

We and the joint ventures in which we participate are large consumers of electricity and other energy. Accordingly, any significant shortages of, and/or substantial increases in the cost of, energy that may occur at any of our properties or those of our joint ventures could have a negative impact on our operations. Additionally, higher energy and gasoline prices, or shortages of those commodities which affect our customers, may adversely impact the number of customers who visit our properties and those of our joint ventures and adversely impact our revenues.

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The interstate highway between southern California, where a large number of our customers reside, and Las Vegas has experienced long traffic delays, due to construction work or otherwise, during peak periods. Such delays may affect the number of customers who visit our properties in southern Nevada.

Any construction, including any expansion of MotorCity Casino in Detroit can be affected by a number of factors, including delays in obtaining necessary governmental permits and approvals and legal challenges. Changes may be made in the scope of a project, budgets and schedules for competitive, aesthetic or other reasons, and these changes may also result from circumstances beyond our control. These circumstances include weather interference, shortages of materials and labor, work stoppages, labor disputes, unforeseen engineering, environmental or geological problems and unanticipated cost increases. Any of these circumstances could give rise to delays in the completion of any project we or any joint venture in which we participate may undertake and/or cost overruns.

The gaming industry represents a significant source of tax revenues to the state, county and local jurisdictions in which gaming is conducted. In recent years, tax increases have been enacted in Nevada, Illinois and Michigan, where all but one of our properties are located. From time to time, various state and federal legislators and officials have proposed other changes in tax laws that could, if enacted, affect operations at all or some of our properties.

We believe that our recorded balances with respect to federal and state income taxes are adequate. However, it is not possible to determine with certainty the likelihood of possible changes in the tax laws or their administration. Changes in federal or state tax laws, if adopted, could have a material negative effect on our operating results and the operating results of joint ventures in which we participate.

The interest rate on a portion of our long-term debt is subject to fluctuation based on changes in short-term interest rates, our leverage ratio and the ratings which national rating agencies assign to outstanding debt. We may incur additional debt, all or a portion of which may be at interest rates that are subject to fluctuation. Interest expense could increase as a result of these factors.

Claims have been brought against us in various legal proceedings, and additional legal and tax claims may arise from time to time. While we believe that the ultimate disposition of current matters will not have a material impact on our financial condition or results of operations, it is possible that our cash flows and results of operations could be affected from time to time by the resolution of one or more of these contingencies. See the further discussion under "Legal Proceedings" in Item 3 of this report.

The terrorist attacks of September 11, 2001 adversely impacted our operations and any future attacks, as well as any hostilities which may develop between the United States and other countries, including the war in Iraq and its aftermath, could have a material adverse effect on our future operations.

There is intense competition to attract and retain management and key employees in the gaming industry. Our business or the business of the joint ventures in which we participate could be adversely affected in the event of the inability to recruit or retain key personnel.

**ITEM 2. PROPERTIES.**

**Mandalay Bay.** We own approximately 95 acres of land on the Las Vegas Strip and Mandalay Bay which is situated on the site.

**Luxor and Excalibur.** We own a 117-acre parcel on the southwest corner of the intersection of the Las Vegas Strip and Tropicana Avenue, with approximately 2,400 feet of frontage on the Las Vegas Strip, that includes, Excalibur and Luxor, which is situated on the site to the south of Excalibur.

**Circus Circus-Las Vegas.** We own approximately 69 acres of land, and Circus Circus-Las Vegas which is situated on the site.

**Circus Circus-Reno.** Circus Circus-Reno is situated on a three-block area in downtown Reno, of which approximately 90% is owned by us and the remainder is held under two separate leases, which expire in 2032 and 2033, respectively.

**Colorado Belle.** We own approximately 22 acres on the bank of the Colorado River in Laughlin, Nevada and the Colorado Belle which is situated on the site.

**Edgewater.** Adjacent to the site of the Colorado Belle, we own approximately 16 acres on the bank of the Colorado River in Laughlin, Nevada, and the Edgewater Hotel and Casino which is situated on the site.

**Gold Strike.** We own approximately 51 acres and the Gold Strike Hotel & Gambling Hall, which is situated on the site, located on the east side of I-15 in Jean, Nevada, approximately 12 miles from the California/Nevada border and 25 miles from Las Vegas.

**Nevada Landing.** We own approximately 55 acres and the Nevada Landing Hotel & Casino, which is situated on the site, located on the west side of I-15 in Jean, Nevada.

**Railroad Pass.** We own approximately 56 acres and the Railroad Pass Hotel & Casino, which is situated on the site, located on US-93 in Henderson, Nevada.

**Gold Strike-Tunica.** We own approximately 24 acres in Tunica County, Mississippi and Gold Strike- Tunica, which is situated on the site. We also own an undivided 50% interest in an additional 388-acre site which is owned jointly with another unaffiliated gaming company.

**MotorCity Casino.** We hold a 53.5% interest in the joint venture that owns and operates MotorCity Casino. MotorCity Casino and its related amenities are located on approximately 12 acres of land in Detroit, Michigan, near the downtown area. The joint venture owns approximately 10 additional acres of undeveloped land in the vicinity of MotorCity Casino. For information concerning an agreement to sell our 53.5% interest in this property if Mandalay's proposed merger with a wholly owned subsidiary of MGM MIRAGE is consummated, see "Pending Merger Pursuant to which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in Item 1 of this report.

**Other Real Property.** Slots-A-Fun is situated on a 30,000-square-foot parcel that we own on the Las Vegas Strip.

Incorporated by reference in this Item 2 is the additional information concerning the above properties appearing under the captions "Overview" and "Property Descriptions" in Item 1 of this report.

We own approximately 37 acres of unimproved land at the south end of the Las Vegas Strip, including 22 acres located immediately south of Mandalay Bay and approximately 15 acres located across the Las Vegas Strip from Luxor.

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We own 60 acres of land in Jean, Nevada to the north of Gold Strike and approximately 85 acres of land in Sloan, Nevada off of I-15. Sloan is located between Jean and Las Vegas.

We also own or lease, or have options and/or agreements to purchase or lease, certain other improved and unimproved properties which are not deemed to be material to us.

As of January 31, 2005, none of the aforementioned properties we own was subject to any encumbrance securing the repayment of indebtedness.

***Fifty-Percent-Owned Joint Ventures.*** Mandalay, through wholly owned subsidiaries, owns:

a 50% interest in the joint venture entity which owns and operates Grand Victoria, a riverboat casino and land-based entertainment complex in Elgin, Illinois;

a 50% interest in the joint venture entity which owns and operates Monte Carlo, a hotel-casino complex on the Las Vegas Strip; and

a 50% interest in the joint venture entity which owns and operates Silver Legacy, a hotel-casino in Reno.

Incorporated by reference in this Item 2 is the additional information concerning these joint venture properties appearing under the captions "Overview" and "Property Descriptions" in Item 1 of this report.

As of January 31, 2005, Silver Legacy was the only 50%-owned joint venture property encumbered by liens securing the repayment of indebtedness. The amount of this indebtedness was \$160.0 million at January 31, 2005.

### **ITEM 3. LEGAL PROCEEDINGS.**

#### ***Slot Machine Litigation***

On April 26, 1994, William H. Poulos brought a class action in the U.S. District Court for the Middle District of Florida, Orlando Division captioned *William H. Poulos, et al. v. Caesars World, Inc. et al.*, against 41 manufacturers, distributors and casino operators of video poker and electronic slot machines, including Mandalay. On May 10, 1994, another plaintiff filed a class action complaint in the United States District Court for the Middle District of Florida in *William Ahearn, et al. v. Caesars World, Inc. et al.* alleging substantially the same allegations against 48 defendants, including Mandalay. On September 26, 1995, a third action was filed against 45 defendants, including Mandalay, in the U.S. District Court for the District of Nevada in *Larry Schreier, et al. v. Caesars World, Inc. et al.* The court consolidated the three cases in the U.S. District Court for the District of Nevada under the case captioned *William H. Poulos, et al. v. Caesars World, Inc. et al.*

The consolidated complaints allege that the defendants are involved in a scheme to induce people to play electronic video poker and slot machines based on false beliefs regarding how such machines operate and the extent to which a player is likely to win on any given play. The actions included claims under the Federal Racketeering Influenced and Corrupt Organizations Act, as well as claims of common law fraud, unjust enrichment and negligent misrepresentation, and seek unspecified compensatory and punitive damages. A motion for class certification was filed in March 1998. On June 26, 2002, the Motion for Class Certification was denied. Subsequently, the Plaintiffs sought permission from the Ninth Circuit Court of Appeals to appeal the issue of class certification and the Court of Appeals granted the Plaintiffs' motion. The appeal was heard and the Court of Appeals upheld the denial of Class Certification. Thus, the named Plaintiffs now can only proceed individually. Discovery is currently underway and the trial date has been set for September 12, 2005. Currently pending before the Court is Defendants' Motion for Partial Summary Judgment.

***Detroit Litigation***

*In Lac Vieux Desert Band of Lake Superior Chippewa Indians v. The Michigan Gaming Control Board et al.*, originally filed on February 26, 1997, the Lac Vieux Band of Lake Superior Chippewa Indians has sought to challenge the validity of the Michigan Gaming Control and Revenue Act (the "Michigan Act") and the City of Detroit's Casino Development Competitive Selection Process Ordinance (the "Ordinance"). On October 31, 1997, the United States District Court for the Western District of Michigan issued an opinion holding that the Lac Vieux Band lacked standing to challenge the Michigan Act and the Ordinance on First Amendment and Equal Protection grounds. In a decision issued on April 12, 1999, the United States Court of Appeals for the Sixth Circuit affirmed the District Court's determination that the Lac Vieux Band lacked standing to challenge the Michigan Act. However, the Sixth Circuit reversed the District Court's determination that (i) the Lac Vieux Band lacked standing to challenge the Ordinance, (ii) the First Amendment is not implicated in the Ordinance, and (iii) a rational basis review rather than a strict scrutiny review should be applied in determining the merits of the Lac Vieux Equal Protection claim regarding the Ordinance. The Sixth Circuit remanded the case to the District Court for further proceedings consistent with the Sixth Circuit's decision. On July 17, 2000, the District Court found in favor of the Defendants as to all matters remanded by the Sixth Circuit Court of Appeals. The Lac Vieux Band appealed the District Court's decision to the Sixth Circuit Court of Appeals, which found that the Ordinance in its current form was unconstitutional and remanded the case to the District Court. The District Court declared that "the Ordinance in its current form is unconstitutional" and awarded the Lac Vieux Band attorney fees and costs totaling \$545,094, but rejected the Lac Vieux Band's request to require a rebidding of the three casino licenses and, in addition, rejected the Lac Vieux Band's request to enjoin the City of Detroit from entering into revised development agreements with the three casino developers, including MotorCity Casino. The Lac Vieux Band appealed the District Court's decision to the Sixth Circuit Court of Appeals. The Sixth Circuit Court of Appeals issued an opinion granting the Lac Vieux Band's motion for an injunction pending appeal, which temporarily enjoins the City of Detroit from issuing building permits for the permanent casino facilities and temporarily enjoins the casino developers from commencing construction of the permanent casino facilities.

The Lac Vieux Band filed a separate action in the Gogebic County, Michigan, Circuit Court entitled *Lac Vieux Desert Band of Lake Superior Chippewa Indians v. Michigan Gaming Control Board*, in which the Lac Vieux Band requested the Circuit Court to enter an order requiring the MGCB to revoke the casino licenses issued to the three Detroit casinos, including MotorCity Casino. As a result of the settlement agreement discussed below, this action has been dismissed.

On November 26, 2003, we announced that MotorCity Casino had signed a settlement agreement with the Lac Vieux Desert Band of Lake Superior Chippewa Indians. On April 9, 2004, the District Court approved the settlement. On April 23, 2004, MotorCity paid to the Lac Vieux Tribe \$1.5 million plus \$500,000 in attorney's fees. MGM MIRAGE has appealed the approval of the settlement and the injunction remains in place. Because approval of the settlement agreement was subsequently appealed, all further settlement payments were suspended pending resolution of the appeal. These payments include \$1.5 million due 30 days after the first payment, \$5.75 million due on the first and second anniversaries of the first payment and \$1 million due annually for 25 years, beginning on the third anniversary of the first payment. If the Sixth Circuit Court of Appeals ultimately affirms the approval of the settlement agreement, then, absent filing of another adverse claim, the payment schedule will be reinstated and MotorCity Casino will have to immediately pay all amounts that otherwise would have been due during the period of suspension (plus interest). The occurrence of certain events would suspend, lower and/or terminate the payments. There can be no assurance as to when final resolution will occur with respect to this matter, or what action the courts might take. These payments would satisfy the joint venture's obligations under an indemnity agreement with respect to the Lac Vieux

litigation claims. However, the joint venture would still be liable under the indemnity agreement for claims related to the acquisition of the riverfront land, which potentially are capped at \$4 million.

Our Detroit joint venture continues to operate MotorCity Casino. However, any future ruling by the court in the above lawsuits or by the Michigan Gaming Control Board, as well as an adverse ruling in other lawsuits, could affect the joint venture's operation of its current facility, as well as its ability to retain its certificate of suitability and casino license. No assurance can be given regarding the timing or outcome of any of these proceedings.

For information concerning an agreement to sell our 53.5% interest in this property if Mandalay's proposed merger with a wholly owned subsidiary of MGM MIRAGE is consummated, see "Pending Merger Pursuant to which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in Item 1 of this report.

#### ***Shareholder Litigation***

Mandalay and its directors were named defendants in *Stephen Ham, Trustee for the J.C. Ham Residuary Trust v. Mandalay Resort Group, et al.*, Case No. A487100, which was filed on June 11, 2004 in the 8<sup>th</sup> Judicial District Court for Clark County, Nevada, and *Robert Lowinger v. Mandalay Resort Group, et al.*, Case No. A486782, which was filed on June 7, 2004 also in the 8<sup>th</sup> Judicial District Court for Clark County, Nevada. Both of these actions make claims concerning the announced merger between Mandalay and MGM MIRAGE, including claims of breach of fiduciary duty against Mandalay's directors, and seek injunctive relief and unspecified monetary damages. The plaintiffs in both actions agreed that Mandalay and the directors did not need to respond to the pending complaints, as they intended to file a joint amended complaint and consolidate both actions. On December 3, 2004, the plaintiff in *Ham* filed a motion for temporary restraining order and motion for preliminary injunction enjoining the Mandalay shareholder vote on the proposed merger and for an order shortening time to allow plaintiff to conduct expedited discovery. Plaintiff's motion was denied. On January 27, 2005 the plaintiff in *Ham* filed an amended complaint for breach of fiduciary duty in connection with approving the proposed merger. Mandalay moved to dismiss the amended complaint on April 4, 2005. The court has not yet ruled on that motion.

We are defendants in various other pending lawsuits. In management's opinion, the ultimate outcome of such lawsuits will not have a material adverse effect on our results of operations or our financial position.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

The 2004 Annual Meeting of our stockholders was held on December 10, 2004. At the meeting, stockholders approved the Agreement and Plan of Merger dated as of June 15, 2004, among MGM MIRAGE, MGM MIRAGE Acquisition Co. #61 and Mandalay, providing for the merger of a wholly owned subsidiary of MGM MIRAGE with and into Mandalay, by a vote (expressed in number of shares) of 38,486,824 for, 2,133,994 against, 8,259,134 abstentions and 12,736,327 broker non-votes. The stockholders also approved the adjournment of the meeting, if necessary or appropriate, to solicit additional proxies if there were insufficient votes at the time of the meeting to approve the above proposal, by a vote of 47,614,447 for, 12,205,415 against, 1,796,417 abstentions and no broker non-votes.

Also at the meeting, stockholders elected management's nominees to fill the three available positions as directors of Mandalay Resort Group. Voting was as follows: William E. Bannen, M.D. 60,845,112 for, 771,167 against or withheld and no abstentions or broker non-votes; Jeffrey D. Benjamin 60,789,638 for, 826,641 against or withheld and no abstentions or broker non-votes; and Rose McKinney-James 60,845,154 for, 771,125 against or withheld and no abstentions or broker non-votes. Stockholders also ratified the appointment of Deloitte & Touche LLP as our independent auditors to examine and report on our financial statements for the fiscal year ended January 31, 2005, by a vote of 60,539,953 for, 561,048 against, 515,278 abstentions and non broker non-votes.

## PART II

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

*Price Range of Common Stock.* Mandalay's common stock is listed on the New York Stock Exchange and on the Pacific Exchange and traded under the symbol MBG. The following table sets forth, for the fiscal quarters shown, the low and high sale prices for the common stock on the New York Stock Exchange Composite Tape.

<b>Fiscal 2005</b>	<b>Low</b>	<b>High</b>
First Quarter	\$ 46.10	\$ 62.20
Second Quarter	\$ 50.44	\$ 72.80
Third Quarter	\$ 66.11	\$ 69.60
Fourth Quarter	\$ 68.82	\$ 70.70
<b>Fiscal 2004</b>	<b>Low</b>	<b>High</b>
First Quarter	\$ 23.40	\$ 29.30
Second Quarter	\$ 25.80	\$ 34.97
Third Quarter	\$ 34.76	\$ 42.52
Fourth Quarter	\$ 39.16	\$ 49.00

Prior to the public announcement of MGM MIRAGE's offer to purchase Mandalay, our common stock was trading substantially below the levels at which it has traded since that announcement. The cash consideration to be paid for our outstanding common stock if the merger is consummated represents a 17.8% premium over the closing price of Mandalay common stock on the New York Stock Exchange on June 4, 2004, the last full trading session prior to the public announcement of MGM MIRAGE's offer to purchase Mandalay, and a 26.4% premium over the average closing price of Mandalay common stock on the New York Stock Exchange for the three months preceding that announcement. In the event the transactions contemplated by the Merger Agreement are not consummated, the market price of our common stock may change to the extent that the current market price of our common stock reflects an assumption that the merger will be consummated.

*Holders.* On March 31, 2005 there were 2,464 holders of record of Mandalay's common stock.

*Dividends.* On June 12, 2003, Mandalay's board of directors instituted a policy of paying quarterly cash dividends on the common stock. The following table sets forth the cash dividends declared in fiscal 2004 and fiscal 2005:

<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend per share</b>
June 26, 2003	August 1, 2003	\$ .23
October 15, 2003	November 1, 2003	\$ .25
January 15, 2004	February 2, 2004	\$ .27
April 16, 2004	May 3, 2004	\$ .27
July 15, 2004	August 2, 2004	\$ .27

Pursuant to the terms of the Merger Agreement additional dividends may not be declared or paid pending the consummation of the merger or the termination of the Merger Agreement if the merger is not consummated. See "Pending Merger Pursuant to which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in Item 1 of this report.

Other than as set forth in the preceding table, Mandalay did not declare or pay any cash dividends on its common stock during fiscal 2004 or fiscal 2005. While we did not declare or pay cash dividends

prior to June 12, 2003, we did make payments to our stockholders in the form of the payments we made for shares of Mandalay common stock we purchased pursuant to share purchase authorizations of our Board of Directors. For information concerning our share purchase activity during fiscal 2004 and fiscal 2005 and our current share purchase authorization, reference is made to the discussion appearing in Item 7 of this report in the "Financial Position and Capital Resources" section of our Management's Discussion and Analysis of Financial Condition and Results of Operations under the captions "Share Purchases" and "Off Balance Sheet Arrangements Equity Forward Agreements."

Under the terms of the Merger Agreement, we may not purchase shares of Mandalay common stock pending the consummation of the merger or the termination of the Merger Agreement if the merger is not consummated. See "Pending Merger Pursuant to Which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in Item 1 of this report.

*Recent Sales of Unregistered Securities.* During the fiscal year ended January 31, 2005 we did not sell any equity securities of Mandalay that were not registered under the Securities Act of 1933.

*Recent Purchases of Equity Securities.* During the fourth quarter of the fiscal year ended January 31, 2005, we did not purchase any equity securities of Mandalay.

*Equity Compensation Plans.* Reference is made to the information appearing in Item 12 of this report under the caption "Equity Compensation Plan Information," which is incorporated herein by this reference.



## ITEM 6. SELECTED FINANCIAL DATA.

	Year ended January 31,				
	2005	2004	2003	2002	2001
(amounts in thousands, except ratios and per share amounts)					
<i>Operating Results:(1)</i>					
Net revenues (2)	\$ 2,809,143	\$ 2,491,099	\$ 2,354,118	\$ 2,348,512	\$ 2,381,139
Income from operations	613,432	490,441	452,306	351,060	431,534
Pretax income	359,516	232,318	195,334	93,006	194,392
Net income (3)	229,062	149,847	115,603	53,044	119,700
Basic earnings per share	\$ 3.41	\$ 2.40	\$ 1.71	\$ .73	\$ 1.53
Diluted earnings per share	\$ 3.31	\$ 2.31	\$ 1.65	\$ .71	\$ 1.50
<i>Balance Sheet Data:</i>					
Total assets	\$ 4,722,115	\$ 4,782,496	\$ 4,354,664	\$ 4,032,478	\$ 4,235,406
Long-term debt	2,646,986	3,001,975	2,763,593	2,482,087	2,623,597
Stockholders' equity	1,239,230	1,030,270	882,929	940,609	1,068,940
<i>Other Data:</i>					
Cash dividends declared per common share (4)	\$ .54	\$ .75			
Ratio of earnings to fixed charges (5)	3.12x	2.30x	1.91x	1.50x	1.85x

- (1) Mandalay Bay opened its convention center in January 2003. Mandalay Place opened in October 2003 and THEhotel opened in December 2003.
- (2) During fiscal 2003, we reclassified equity in earnings of unconsolidated affiliates from revenues to a separate component within income from operations. Prior fiscal years have been reclassified to conform to the new presentation. This reclassification had no impact on previously reported income from operations or net income.
- (3) Net income includes charges for the cumulative effect of an accounting change of \$1.9 million related to goodwill in fiscal 2003. In accordance with the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" on February 1, 2002, Mandalay no longer amortizes goodwill.
- (4) Under the terms of the Merger Agreement, we may not declare or pay additional dividends pending the consummation of the merger or the termination of the Merger Agreement if the merger is not consummated. See "Pending Merger Pursuant to Which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in Item 1 of this report.
- (5) The ratio of earnings to fixed charges has been computed by dividing net income before fixed charges and income taxes, adjusted to exclude capitalized interest. Fixed charges consist of interest, whether expensed or capitalized, amortization of debt discount and issuance costs, Mandalay's proportionate share of the interest cost of 50%-owned ventures, and the estimated interest component of rental expense.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

***Pending Merger Pursuant to Which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE***

On June 16, 2004, Mandalay and MGM MIRAGE jointly announced that they had entered into an Agreement and Plan of Merger dated as of June 15, 2004 among Mandalay, MGM MIRAGE and MGM MIRAGE Acquisition Co. #61, a Nevada corporation (the "Merger Agreement") pursuant to which MGM MIRAGE is to acquire Mandalay for \$71.00 in cash for each outstanding share of common stock of Mandalay. The transaction, which was approved by Mandalay stockholders on December 10, 2004, is structured as a merger of a wholly owned subsidiary of MGM MIRAGE with and into Mandalay. Except as otherwise contemplated by the Merger Agreement or with the prior written consent of MGM MIRAGE (which consent may not be unreasonably withheld or delayed), prior to the effective time of the merger or the termination of the Merger Agreement, we are required to conduct our business in the ordinary course consistent with past practice, and we are prohibited, among other things, from paying dividends, purchasing or otherwise acquiring our common stock, issuing indebtedness, making acquisitions, or selling, pledging or encumbering our assets. On March 22, 2005, Mandalay received from MGM MIRAGE a notice of MGM MIRAGE'S election to extend the outside date for the closing of the merger from March 31, 2005 to June 30, 2005 (the "Extension Notice") in accordance with the Merger Agreement. The merger remains subject to receipt of the regulatory approval of the Illinois Gaming Board and other customary closing conditions. The foregoing description, which does not include all of the material terms of the Merger Agreement, is qualified in its entirety by reference to the Merger Agreement included as an exhibit to our current report on Form 8-K dated June 15, 2004, and the Extension Notice included as an exhibit to our current report on Form 8-K dated March 22, 2005, which are incorporated by reference as Exhibits 10.1 and 10.2, respectively, to this report.

In order to avoid noncompliance with applicable Michigan law, which prohibits MGM MIRAGE from acquiring an interest in a second Detroit casino upon the consummation of our merger, Mandalay, MGM MIRAGE, Circus Circus Michigan, Inc. ("Circus Circus Michigan"), a wholly-owned subsidiary of Mandalay through which we hold our 53.5% interest in MotorCity Casino, CCM Merger Inc., an unaffiliated entity, and CCM Merger Sub., Inc., a wholly-owned subsidiary of CCM Merger Inc., entered into a merger agreement on March 22, 2005 (the "Michigan Agreement") pursuant to which CCM Merger Inc. is to acquire Circus Circus Michigan for approximately \$525 million in cash. Actual cash proceeds are subject to working capital-type adjustments as provided in the Michigan Agreement. Closing of this transaction is subject to the closing of our merger pursuant to the Merger Agreement, which was approved by the Michigan Gaming Control Board on April 13, 2005, and other customary closing conditions. The foregoing description, which does not include all of the material terms of the Michigan Agreement, is qualified in its entirety by reference to the Michigan Agreement included as an exhibit to our current report on Form 8-K dated March 22, 2005, which is incorporated by reference as Exhibit 10.3 to this report.

***Overview***

We are one of the four largest hotel/casino operators in the United States, in terms of revenues, rooms and casino space. Our operations consist of wholly owned resorts in Nevada and Mississippi, as well as jointly owned resorts in Nevada, Illinois and Michigan. Our resorts cater to a wide variety of customers, from value-oriented to high-end, and we strive to provide the best overall experience in each of the market segments in which we compete. Our core market is Las Vegas, the world's largest gaming market, where our properties generated approximately 77% of our operating income in fiscal 2005. We have the largest-scaled hotel/casino resort development in Las Vegas. Our "Mandalay Mile" consists of three interconnected megaresorts on 230 acres, and includes our flagship property, Mandalay Bay. Mandalay Bay is typically the best performer among our properties, as it possesses amenities that appeal to higher-income customers. Strong demand from this segment of our customer base has

permitted us greater pricing leverage, which has helped to drive results at this property. With the recent additions of an all-suites hotel tower and a retail center (discussed more fully under "Financial Position and Capital Resources - New Projects" below), Mandalay Bay should continue to be the leading driver of near-term growth for our company.

Our operating results are highly dependent on the volume of customers visiting and staying at our resorts, which drives results in our two principal revenue centers - the casino and the hotel. We generate approximately 50% of our revenues from gaming activities, and approximately 25% from hotel operations. The volume of casino activity is measured by "drop," which refers to amounts wagered by our customers. The amount of drop which we keep and recognize as casino revenue is referred to as our "win" or "hold." In our hotel business, the key metric is revenue per available room, or "REVPAR." REVPAR reflects both occupancy levels and room rates, each of which is impacted by customer demand, among other factors. Although the casino accounts for approximately 50% of our revenues companywide, we consider the hotel to be the principal driver of our business in the Las Vegas market. This is due to the fact that the majority of our revenues are derived from "in-house" customers, that is, customers who stay in our hotel rooms. Consequently, to the extent we can place higher-value customers in our rooms, we can generate increased revenues throughout our properties. Furthermore, due to the nature of gaming activities, we have little pricing leverage in the casino, whereas we possess significant pricing leverage in our rooms.

### *Risks and Uncertainties*

Our operations are exposed to various risks, the most significant of which are increased competition, tax increases, economic downturns and future security alerts or terrorist attacks.

### *Pending Merger Agreement*

In the event the merger contemplated by the Merger Agreement is not consummated or the Merger Agreement is terminated, our subsequent operations may be adversely impacted as a result of the limitations imposed on our conduct and operations during the term of the Merger Agreement. Depending on the particular facts and circumstances, any failure to consummate the merger or a termination of the Merger Agreement could result in litigation which, depending on the nature of the claims and the litigation's duration and outcome, could adversely impact our financial condition or results of operations.

### *Competition*

Historically, in our core market of Las Vegas, the addition of new competing hotel/casino resorts has not had a negative effect on our operations. In fact, major new developments have typically expanded the market and actually contributed to higher results at our properties. However, the expansion of Native American gaming operations in California and our other key feeder markets has contributed to generally lower operating results at our properties in the secondary markets of Reno, Laughlin and Jean, Nevada. While most existing Native American gaming facilities in California are modest compared to our Nevada casinos, numerous Native American tribes have announced that they are in the process of constructing, developing, or are considering establishing, new large-scale hotel and gaming facilities, or expanding existing facilities, in California. In addition, under action taken by the National Indian Gaming Commission, gaming devices similar in appearance to slot machines which are deemed to be technical enhancements to bingo-style gaming may be used by Native American tribes without state permission, making it easier for tribes to engage in gaming. The continued growth of Native American gaming establishments in California (as well as elsewhere in the country), or the potential placement of slot machines in card rooms or racetracks in California, could have a material adverse effect on our operations.

*Taxes*

We pay substantial amounts of income taxes, gaming taxes, property taxes and various other taxes. Significant increases in tax rates could materially affect our results. For example, the gaming tax rate in Michigan increased from 18% to 24% effective September 1, 2004. In addition, increases in the gaming tax rate in Illinois in 2002 and 2003 contributed to significant declines in the contribution to income from operations by Grand Victoria (our 50%-owned riverboat casino). See the discussion under "Recent Tax Developments" under "Results of Operations" for additional details regarding these tax increases.

*Economy*

Historically, there has not been a high correlation between economic conditions and our operating results. This has been true with respect to the overall U.S. economy and also the regional economies from which we derive a sizeable portion of our customers (e.g., California). However, we believe an improved economy in the country contributed to positive results in fiscal 2005. In fact, visitor volume on the Las Vegas Strip increased 5.2% in calendar 2004.

*Terrorism / War*

Terrorist attacks, such as those that occurred September 11, 2001, can materially affect our operations. In that specific instance, the precipitous decline in air travel that immediately followed the attacks was particularly detrimental to the Las Vegas market, which depends on air travel for roughly 50% of its customers. This continued to negatively affect results at our properties well into fiscal 2003. We also believe that the war in Iraq affected our operating results in fiscal 2004. The intense and comprehensive media coverage of the war, along with new travel concerns associated with elevated alert levels, caused many customers to stay close to home during March and April 2003, though the war and its aftermath did not appear to significantly affect our results in the latter part of that fiscal year. We cannot predict the extent to which the ongoing war on terrorism will continue to directly or indirectly impact our operating results, nor can we predict the extent to which future security alerts or terrorist attacks may interfere with our operations.

***Critical Accounting Policies***

The consolidated financial statements included in this report were prepared in conformity with accounting principles generally accepted in the United States. Certain accounting policies require us to apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, such judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, observance of trends in the gaming industry and information available from other outside sources. There can be no assurance that actual results will not differ from these estimates. The following is a summary of our critical accounting policies.

*Property and Equipment*

We have significant capital invested in our property and equipment, which represents approximately 75% of our total assets. We utilize our judgment in (i) determining whether an expenditure is a maintenance expense or a capital asset; (ii) determining the estimated useful lives of assets; (iii) determining the salvage values to be assigned to assets; and (iv) determining if or when an asset has been impaired. The accuracy of these estimates affects how much depreciation expense we recognize in our income statement, whether we have a gain or loss on the disposal of an asset, and whether or not we record an impairment loss related to an asset.

We review the carrying value of our property and equipment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable, based upon the estimated future

cash flows expected to result from its use and eventual disposition. The factors we consider in performing this assessment include current operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows, we group assets at the operating-unit level, which for most of our assets is the individual casino. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value. The ability to accurately predict future cash flows may impact the determination of fair value and, hence, the amount of the impairment loss. Our assessment of cash flows represents our best estimate at the time of the impairment review and is consistent with our internal planning. Based upon our most recent review of the carrying values of our property and equipment, we do not believe that any additional impairments have occurred or are likely to occur in the near term.

#### *Goodwill and Other Intangible Assets*

Effective February 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which requires an annual review of goodwill and other indefinite-life intangible assets for impairment. Our initial assessment of these assets resulted in an impairment charge of \$1.9 million, reflected as a cumulative effect of a change in accounting principle in the first quarter of fiscal 2003. Our subsequent annual assessment for fiscal 2003 resulted in an additional impairment charge of \$5.4 million. These impairment charges were necessitated by significant declines in income from operations at the affected properties, as well as lower future expectations attributable to increased competition from Native American casinos.

The annual evaluation of goodwill and other indefinite-life intangible assets requires the use of projections about future operating results at each reporting unit to determine the assets' estimated fair value. Changes in forecasted operations can materially affect these estimates. Once an impairment of goodwill or other intangible assets has been recorded, it cannot be reversed. Based upon our annual assessment of goodwill and intangible development costs for fiscal 2005, we do not believe that there are additional impairments that have occurred or are likely to occur in the near term. We had \$38.0 million in goodwill and \$102.5 million in intangible development costs on our consolidated balance sheet at January 31, 2005. The goodwill relates entirely to our acquisition of Slots-A-Fun and our investment in MotorCity Casino in Detroit. The carrying value of goodwill related to those investments, relative to the market value of the other assets, is small; furthermore, operating results at these properties have historically been strong and stable. The intangible asset represents casino development rights associated with MotorCity Casino and stem from a revised development agreement entered into with the City of Detroit on August 2, 2002. Pursuant to this agreement, MotorCity has paid certain amounts to the City in exchange for the right to develop a permanent facility at its current location.

#### *Players' Club Program*

Our players' club program offers incentives to customers who gamble at our casinos. Customers earn points, redeemable for cash and complimentary, based upon their level of gambling. These points may accumulate up to a maximum of 18 months, at which time the points expire if the customer has not yet redeemed them. We accrue expense related to this program as the points are earned based upon historical redemption percentages and, in the case of complimentary, the estimated cost of the complimentary to be provided. The actual amount of expense can differ from the amount accrued to the extent that actual redemptions differ from historical patterns. Through fiscal 2005, approximately 85% of the points earned and available had been redeemed. The total accrued liability related to our players' club was \$14.8 million at January 31, 2005, compared with \$12.9 million at January 31, 2004.

*Bad Debt Reserves*

Our receivables balances relate primarily to our hotel operations and our casino operations. Historically, we have not reserved amounts related to our hotel operations, since the majority of those receivables relate to credit card transactions for which we have not historically experienced any material losses. For our casino operations, we reserve an estimated amount for receivables that may not be collected. We estimate casino bad debt reserves using a combination of specific reserves and various percentages applied to aged receivables based upon our judgment. We consider historical collection rates along with customer relationships in determining specific reserves. At January 31, 2005, we had \$8.5 million in our casino bad debt reserve, representing approximately 29% of the related casino receivables. At January 31, 2004, we had \$12.3 million in the reserve, representing approximately 28% of the related casino receivables. To the extent that world events such as economic downturns, war or further terrorist attacks impact the ability of our customers to pay us, our reserves could be inadequate. However, a significant portion of our casino receivables relate to domestic play. Consequently, we believe our casino receivables are less exposed to the impact of some of these events, and that our current reserve is appropriate and reasonable based upon our experience.

*Self-Insurance Accruals*

We are self-insured, up to certain limits, for costs associated with workers' compensation and employee medical coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of estimates for claims incurred but not yet reported. At January 31, 2005, we had total self-insurance accruals reflected on our balance sheet of \$15.3 million, compared with \$10.5 million at January 31, 2004. Based upon this review, we believe our estimates of future liability are reasonable based upon our methodology, which considers historical claims patterns and loss experience, as well as an independent actuarial review, among other factors. However, changes in health care costs, accident frequency and severity, and other factors could materially affect the estimate for these liabilities.

*Income Taxes*

We are subject to both federal, state and city income taxes. We account 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 a benefit is more likely than not. Otherwise, a valuation allowance is applied. At January 31, 2005, we had \$78.9 million of deferred tax assets and \$279.7 million of deferred tax liabilities. We believe that our deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income.

Our income tax returns are subject to examination by the Internal Revenue Service and other tax authorities. We regularly assess the potential outcomes of these examinations in determining the adequacy of our provision for income taxes and our income tax liabilities. Inherent in our determination of any necessary reserves are assumptions based on past experiences and judgments about potential actions by taxing authorities. Our estimate of the potential outcome for any uncertain tax issue is highly judgmental, though we believe that our exposure to uncertain tax matters is immaterial.

When actual results of tax examinations differ from our estimates, we adjust the income tax provision in the period in which the examination issues are settled. In August 2002, we settled the IRS audits of our fiscal 1992 through fiscal 1995 tax returns, which did not result in a material impact on our results of operations or financial position. Additionally, in May 2003, we settled the IRS audits of our fiscal 1996 through fiscal 2000 tax returns. This settlement did not materially impact our results of

operations or financial position. We do not currently have any tax years under audit by either federal, state or local tax authorities.

#### *Contingencies*

We are involved in various legal proceedings, as more fully discussed in Item 3 of this report. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental intervention. Management assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. We believe that any liability that may arise as a result of currently pending legal proceedings will not have a material adverse effect on our financial condition, taken as a whole.

#### *Fiscal 2005 Compared with Fiscal 2004*

### RESULTS OF OPERATIONS

#### *Earnings per Share*

For the year ended January 31, 2005, we reported net income of \$229.1 million, or \$3.31 per diluted share, versus \$149.8 million, or \$2.31 per diluted share, for the year ended January 31, 2004.

Strong results at our Las Vegas Strip properties were the principal factor in this increase. Income from operations at these properties (including our 50% share of Monte Carlo) increased \$139.6 million, or 42%, in fiscal 2005, as REVPAR rose 17%. At Mandalay Bay, income from operations increased \$79.8, or 95%, in fiscal 2005, driven primarily by the first full year of operation of THEhotel (the new all-suites tower which opened in December 2003). The convention center and THEhotel have contributed to a pronounced shift towards the more profitable convention customer. In fact, we believe all of our Las Vegas Strip properties have benefited from increased convention business. We also believe that the improved economy positively affected results at our Las Vegas Strip properties. As previously discussed, overall visitation to Las Vegas increased 5.2% in calendar 2004. Other significant factors which affected our fiscal 2005 and 2004 results included the following:

*Merger Related Expenses.* During fiscal 2005, we recognized \$11.6 million of expenses related to the pending merger with MGM MIRAGE. These expenses, which are not deductible for tax purposes, were reflected in Corporate General and Administrative Expense.

*Adjustments to Carrying Values.* At the end of each quarterly reporting period, we adjust the carrying value of investments associated with our Supplemental Executive Retirement Plan ("SERP"), a defined benefit plan for senior executives, to reflect the investments' market value. These noncash adjustments (reflected in the "Interest, dividends and other income" caption in the Consolidated Statements of Income) resulted in gains of \$6.0 million in fiscal 2005 and \$7.7 million in fiscal 2004.

*Accounting Adjustments.* During fiscal 2005, we made various accounting adjustments which included (1) a change in accounting estimate with respect to our fixed jackpot accrual, which resulted in additional casino revenue of \$5.4 million; (2) a change in accounting estimate with respect to the amortization of deferred income, which resulted in a reduction of other revenues of \$3.4 million; and (3) an increase in the reserve for worker's compensation claims of \$3.1 million, based upon changes in claims patterns and loss experience, among other factors. These adjustments were not considered material to our consolidated financial statements.

*Preopening Expenses.* We recorded preopening expenses of \$8.2 million in fiscal 2004 related primarily to THEhotel and Mandalay Place, the new retail center connecting Mandalay Bay and Luxor that opened in October 2003.

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*Loss on Early Retirement of Debt.* Results for fiscal 2004 include a loss of \$6.3 million on early retirement of debt arising from the July 2003 call of our \$275 million 9<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes due 2005.

*Higher Average Diluted Shares Outstanding.* Average diluted shares outstanding for fiscal 2005 increased 7% from fiscal 2004. This reflects the issuance of shares pursuant to the exercise of employee stock options, as well as grants of restricted stock in the first quarter of fiscal 2005. It also includes the dilutive effect of our Floating-Rate Convertible Senior Debentures due 2033.

### Revenues

Revenues increased \$318.0 million, or 13%, for fiscal 2005, due primarily to results at our Las Vegas Strip properties. Mandalay Bay was the largest contributor, with revenues rising \$178.5 million, or 27%, over the prior year. As previously noted, this property benefited substantially from the December 2003 opening of THEhotel, which generated hotel revenues of \$78.2 million, with a REVPAR of \$193, during fiscal 2005.

### Casino Revenues

Casino revenues rose \$105.8 million, or 9%, in fiscal 2005, led by Mandalay Bay (up \$25.0 million, or 13%) and Luxor (up \$15.6 million, or 15%). These increases were largely attributable to a full year of operations for THEhotel and Mandalay Place, our retail shopping experience connecting Mandalay Bay and Luxor. These key additions not only increased the overall number of customers visiting those properties, their proximity to the casino floor also contributed to improved casino traffic. Casino revenues also rose sharply at MotorCity Casino (our 53.5%-owned casino in Detroit, Michigan), up \$35.1 million, or 9%, as the upturn in the economy and increased marketing efforts drove results. With the exception of our Jean, Nevada properties, which experienced a slight downtick, all of our other properties reported higher casino revenues in fiscal 2005.

### Hotel Revenues

Hotel revenues increased \$140.2 million, or 21%, in fiscal 2005. Mandalay Bay accounted for most of this increase, with hotel revenues rising \$92.3 million, or 36%, driven primarily by a full year of the additional 1,117 suites in THEhotel. Including this additional capacity, REVPAR at this property still rose 9%. THEhotel, along with the convention center, have enabled this property to increase its emphasis on the business and convention segment of the market, which has traditionally been willing to pay a higher rate for midweek rooms. Meanwhile, REVPAR at our other Las Vegas Strip properties grew 14%, reflecting increased demand. The following table compares average room rates, occupancy and REVPAR at our major wholly owned properties:

	FYE 1/31/2005			FYE 1/31/2004		
	Rate	Occ.%	REVPAR	Rate	Occ.%	REVPAR
Mandalay Bay	\$ 207	85%	\$ 175	\$ 186	86%	\$ 161
Luxor	\$ 114	90%	\$ 103	\$ 105	85%	\$ 90
Excalibur	\$ 85	94%	\$ 79	\$ 76	91%	\$ 69
Circus Circus-Las Vegas	\$ 62	90%	\$ 56	\$ 55	89%	\$ 49
Circus Circus-Reno	\$ 59	75%	\$ 44	\$ 54	77%	\$ 41
Colorado Belle	\$ 31	81%	\$ 25	\$ 29	80%	\$ 23
Edgewater	\$ 31	78%	\$ 24	\$ 29	79%	\$ 23
Gold Strike-Tunica	\$ 51	83%	\$ 42	\$ 49	82%	\$ 40
<b>Weighted average all wholly owned properties</b>	<b>\$ 101</b>	<b>86%</b>	<b>\$ 86</b>	<b>\$ 87</b>	<b>84%</b>	<b>\$ 74</b>
<b>Weighted average wholly owned Las Vegas Strip properties</b>	<b>\$ 120</b>	<b>89%</b>	<b>\$ 107</b>	<b>\$ 104</b>	<b>88%</b>	<b>\$ 92</b>

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### **Food and Beverage Revenues**

Food and beverage revenues increased \$48.4 million, or 11%, in fiscal 2005. The increase was due mainly to new restaurants and bars located in THEhotel, as well as the continued expansion of Mandalay Bay's convention business.

### **Other Revenues**

Other revenues come principally from entertainment, amusements and retail stores, and rose \$38.1 million, or 11%, in fiscal 2005. Retail revenues benefited from the October 2003 opening of Mandalay Place. Entertainment revenues were higher due to a number of major events that were held in Mandalay Bay's Special Events Center (most notably the May 15, 2004 championship boxing match between Roy Jones Jr. and Antonio Tarver and two concerts by Prince).

### *Costs and Expenses*

#### **Health Care**

Employee health care costs increased \$17.8 million, or 12%, in fiscal 2005. Rising medical costs, a higher incidence of catastrophic claims and an increase in the number of employees (due primarily to the December 2003 opening of THEhotel) contributed to these increases. These costs are included in the various departmental expenses reported in the Consolidated Statements of Income.

#### **Corporate General and Administrative**

Corporate general and administrative expense for fiscal 2005 was \$64.4 million compared with \$32.9 million in fiscal 2004. The increase of \$31.5 million was attributable primarily to amortization of deferred compensation related to restricted stock awards of \$16.5 million and merger related costs of \$11.6 million.

#### **Depreciation and Amortization**

For fiscal 2005, depreciation and amortization expense was \$189.8 million versus \$175.5 million in fiscal 2004. Depreciation expense increased due to the December 2003 opening of THEhotel along with the June 30, 2003 exercise of purchase options under our two operating lease agreements, pursuant to which we paid \$198.3 million to acquire the equipment under the leases. These increases were partially offset by original equipment at Mandalay Bay that became fully depreciated on March 2, 2004, the five-year anniversary of the opening of Mandalay Bay. See the discussions under "Financing Activities Other Financing Transactions" and "Off Balance Sheet Arrangements Operating Leases" under "Financial Position and Capital Resources" for additional details regarding our operating lease agreements.

*Operating Lease Rent* There was no operating lease rent for fiscal 2005 compared to \$20.2 million in fiscal 2004, due to the previously discussed June 30, 2003 termination of our operating leases.

#### *Income from Operations*

For the year ended January 31, 2005, income from operations rose \$123.0 million, or 25%, from the previous year. The composite operating margin in fiscal 2005 was 21.8% versus 19.7% in fiscal 2004. Income from operations for fiscal 2005 benefited from improved operating results at our Las Vegas Strip properties, most notably Mandalay Bay, as discussed more fully below. The table below

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summarizes our operating results by property and is followed by a discussion of operating results by market.

	FYE 1/31/2005		FYE 1/31/2004	
	Income from Operations	Depreciation and Amortization	Income from Operations	Depreciation and Amortization
	(in millions)			
Mandalay Bay	\$ 163.4	\$ 78.4	\$ 83.6	\$ 72.3
Luxor	113.2	30.1	92.5	25.5
Excalibur	97.7	16.3	79.4	14.1
Circus Circus-Las Vegas (1)	55.8	19.0	42.3	18.8
Gold Strike-Tunica	19.9	9.2	21.6	8.7
Colorado Belle / Edgewater	7.9	9.2	4.4	9.8
Circus Circus-Reno	8.8	5.9	5.6	5.8
Gold Strike properties (2)	5.8	3.3	1.7	3.4
MotorCity Casino (3)	133.7	11.4	125.5	10.1
Unconsolidated joint ventures (4)	83.3	0.3	81.2	0.3
Other	(5.1)	0.1	(7.9)	0.1
<b>Subtotal</b>	<b>\$ 684.4</b>	<b>\$ 183.2</b>	<b>\$ 529.9</b>	<b>\$ 168.9</b>
Corporate expense	(71.0)	6.6	(39.5)	6.6
<b>Total</b>	<b>\$ 613.4</b>	<b>\$ 189.8</b>	<b>\$ 490.4</b>	<b>\$ 175.5</b>

- (1) Includes Circus Circus-Las Vegas and Slots-A-Fun.
- (2) Includes Gold Strike, Nevada Landing and Railroad Pass.
- (3) MotorCity Casino is 53.5%-owned and its operations are consolidated for financial reporting purposes.
- (4) Includes Monte Carlo, Grand Victoria and Silver Legacy, each of which is 50%-owned.

### Las Vegas

Our Las Vegas properties (including our 50% share of Monte Carlo) posted an overall increase in income from operations of \$139.6 million, or 42%, in fiscal 2005. At Mandalay Bay, income from operations rose \$79.8 million, or 95%. As noted previously, this property benefited significantly from the first full year of operation of THEhotel. Including the additional 1,117 suites in THEhotel, REVPAR at Mandalay Bay rose 9%, as expanded convention business contributed to higher REVPAR during the slower midweek period.

At Luxor, income from operations increased \$20.7 million, or 22%. This property benefited from higher customer counts attributable to increased convention business (derived in large part from its proximity to the Convention Center at Mandalay Bay), as well as the October 2003 opening of Mandalay Place, the retail experience located between Luxor and Mandalay Bay. Meanwhile, income from operations at Excalibur rose \$18.3 million, or 23%, and at Circus Circus-Las Vegas, it increased \$13.5 million, or 32%. The contribution from the 50%-owned Monte Carlo rose \$7.4 million, or 20%. The rebound in the national economy and the overall strength of the Las Vegas market were significant factors in the higher results at our Las Vegas Strip properties.

### Reno

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Income from operations at our Reno properties (including our 50% share of Silver Legacy) rose \$3.5 million, or 19%, in fiscal 2005. A stronger economy offset the negative impact of expanded Native American gaming in California and the northwestern U.S.

## Laughlin

Income from operations at our two Laughlin properties, Colorado Belle and Edgewater, rose to \$7.9 million from an all-time record low of \$4.4 million in fiscal 2004. Like the Reno market, Laughlin benefited from an improved economy, despite facing increased competition from Native American casinos in its primary feeder markets in Arizona and southern California.

## Other Markets

In Detroit, Michigan, MotorCity Casino generated an increase in income from operations of \$8.2 million, or 7%, despite an increase in the casino tax rate which took effect September 1, 2004 and resulted in additional tax of approximately \$10.3 million in fiscal 2005. (See "Recent Tax Developments" for additional details regarding this tax increase.) MotorCity benefited from the economic rebound and increased marketing efforts, which have increased its market share.

In Tunica County, Mississippi, income from operations at Gold Strike declined \$1.7 million, or 8%, during fiscal 2005. Costs related to increased marketing efforts contributed to the lower results, though they are expected to drive improved results in the future.

The contribution to income from operations from Grand Victoria (our 50%-owned riverboat casino in Elgin, Illinois) decreased \$5.5 million, or 18%, in fiscal 2005. The decrease was due primarily to the impact of a gaming tax increase that took effect July 1, 2003. See "Recent Tax Developments" below.

### *Interest Expense*

In fiscal 2005, interest expense decreased \$4.8 million, benefiting from lower average debt outstanding (\$2.8 billion versus \$2.9 billion in fiscal 2004), the payoff of our \$275 million 9<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes in July 2003 using less expensive borrowings under our revolving credit facility, and the amortization of gains related to the termination of interest rate swap agreements. These benefits were partially mitigated by higher capitalized interest in fiscal 2004 (see discussion below). See also "Financing Activities-Interest Rate Swaps" and "Market Risk and Derivative Financial Instruments" under "Financial Position and Capital Resources."

Capitalized interest was \$1.0 million in fiscal 2005 compared to \$7.6 million in the previous year. Capitalized interest in the current year relates primarily to the spa and roof-top restaurant at THEhotel, and in the previous year related primarily to the original construction of THEhotel and Mandalay Place.

### *Income Taxes*

The effective tax rates for fiscal 2005 and fiscal 2004 were 36.3% and 35.5%, respectively. These rates reflect the federal corporate statutory rate of 35%, plus state income taxes and the effect of various nondeductible expenses, including merger-related costs.

### *Recent Tax Developments*

On August 17, 2004, the Governor of Michigan signed new legislation providing for an increase in the gaming tax rate from 18% to 24% effective September 1, 2004. The new law provides for additional one percent increases in the tax rate on July 1, 2009, 2010 and 2011. Once a permanent facility is fully operational, the tax is reduced to 19%. The legislation further provides that the tax increase is eliminated if the Michigan Lottery Act is amended and video lottery terminals at horse racetracks become operational. As a result of this new legislation, we currently estimate that gaming taxes at MotorCity Casino will be increased by approximately \$25-\$30 million on an annual basis.

New tax legislation signed into law by the Governor of Nevada on July 22, 2003, increased the taxes applicable to our Nevada operations and those of our Nevada joint ventures. The impact on our income from operations in FY05 was less than \$10 million.

On June 20, 2003, the Governor of Illinois signed new tax legislation providing for an increase in tax rates on Illinois gaming revenues effective July 1, 2003. Under the bill, the upper tax rate on casino revenues was increased from 50% on casino revenues exceeding \$200 million to 70% on casino revenues exceeding \$250 million. The legislation also provided for increased tax rates for the lower revenue tiers as well as increased boarding fees. By law, the above increase is to be repealed after a tenth casino license is awarded and the new property commences operations, or July 1, 2005, whichever occurs first. The tenth casino license was previously awarded, however based upon a number of contingencies needed to finalize this tenth license, we cannot determine at this time when or whether a tenth property will commence operations. There is no assurance that the Illinois Act will not be further amended, or other legislation enacted, to change the wagering tax rollback.

### **Fiscal 2004 Compared with Fiscal 2003**

#### **RESULTS OF OPERATIONS**

##### *Earnings per Share*

For the year ended January 31, 2004, we reported net income of \$149.8 million, or \$2.31 per diluted share, versus \$115.6 million, or \$1.65 per diluted share, for the year ended January 31, 2003. The principal factors which contributed to the increase in earnings were:

*Strong Results at Our Las Vegas Strip Properties.* Income from operations at our Las Vegas Strip properties (including our 50% share of Monte Carlo) increased \$37.8 million, or 13% in fiscal 2004, driven primarily by a 14% increase in REVPAR. The new convention center and the all-suites tower at Mandalay Bay (THEhotel) contributed to a pronounced shift towards the more profitable convention customer. This significantly benefited REVPAR at Mandalay Bay and, to a lesser extent, the adjacent Luxor. We also believe that the rebound in the national economy positively affected results at all of our Las Vegas Strip properties, particularly in the latter half of our fiscal year.

*Lower Average Diluted Shares Outstanding.* Average diluted shares outstanding for fiscal 2004 decreased 8% from the prior year, reflecting the effect of substantial share purchases in the latter half of fiscal 2003, as well as the March 2003 settlement of our equity forward agreement pursuant to which we acquired an additional 3.3 million shares. These purchases were somewhat offset by the issuance of 6.1 million shares in fiscal 2004 pursuant to the exercise of employee stock options.

Other significant factors which affected our fiscal 2004 and 2003 results included the following:

*Preopening Expenses.* We recorded preopening expenses of \$8.2 million in fiscal 2004 related primarily to THEhotel, which opened in December 2003 at Mandalay Bay, and Mandalay Place, the new retail center connecting Mandalay Bay and Luxor that opened in October 2003. For fiscal 2003, preopening expenses of \$4.6 million related primarily to the new convention center at Mandalay Bay that opened in January 2003.

*Adjustments to Carrying Values.* At the end of each quarterly reporting period, we adjust the carrying value of investments associated with our Supplemental Executive Retirement Plan ("SERP"), a defined benefit plan for senior executives, to reflect the investments' market value. These noncash adjustments (reflected in the "Interest, dividends and other income" caption in the Consolidated Statements of Income) resulted in a gain of \$7.7 million in fiscal 2004 compared with a loss of \$2.9 million in fiscal 2003.

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*Loss on Early Retirement of Debt.* Results for fiscal 2004 include a loss of \$6.3 million on early retirement of debt arising from the July 2003 call of our \$275 million 9<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes due 2005.

*Write-off of Intangibles.* Results for fiscal 2003 reflect the write-off of \$13.0 million of intangible costs associated with MotorCity Casino in Detroit. These intangible costs represented amounts paid by Mandalay to its partner, Atwater Casino Group, in exchange for a so-called preference (applicable to predecessors of Atwater Casino Group) to develop a casino in Detroit. In early 2002, preferences of this nature were declared unconstitutional by a federal appeals court. On August 2, 2002, MotorCity signed a Revised Development Agreement with the City of Detroit which provided for the development of an expanded casino on the site of the current facility. As a result of these events, it was determined that the intangible preference had no value and should be written off.

*Goodwill Impairment.* Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), became effective for Mandalay on February 1, 2002. Under SFAS 142, goodwill is no longer amortized, but must be reviewed at least annually for impairment. In connection with our implementation of SFAS 142, we completed an analysis of the goodwill arising from our prior acquisitions and recorded a write-off of \$1.9 million, representing the unamortized goodwill associated with the June 1, 1995 acquisition of the Railroad Pass Hotel and Casino in Henderson, Nevada. This write-off was reflected as a cumulative effect of a change in accounting principle in the first quarter of fiscal 2003. Pursuant to our subsequent annual review for goodwill impairment, we recorded a write-off of \$5.4 million that was reflected as an impairment loss in the fourth quarter of fiscal 2003. This latter write-off represented the unamortized goodwill associated with the February 1, 1983, acquisition of the Edgewater Hotel and Casino in Laughlin, Nevada. The write-off was necessitated by a decline in income from operations at that property, and by lower future expectations for the Laughlin market arising from increased competition from Native American casinos.

### *Revenues*

Revenues increased \$137.0 million, or 6%, for fiscal 2004, due largely to results at our Las Vegas Strip properties. Mandalay Bay was the largest contributor, with revenues rising \$91.1 million, or 16%, over the prior year. As previously noted, this property benefited substantially from the new convention center and, to a lesser extent, from the December 2003 opening of THEhotel, which together helped drive a 22% increase in room revenue at the property.

### **Casino Revenues**

Casino revenues rose \$20.1 million, or 2%, in fiscal 2004. In Las Vegas, Excalibur led the way with a \$10.3 million, or 10%, increase in casino revenues. This increase was attributable to improved occupancy levels along with a higher hold percentage stemming from a change in the mix of pit games and slot machines. Mandalay Bay reported a \$6.0 million, or 3%, increase in casino revenues, benefiting from the increased casino traffic generated by the convention center and THEhotel. Elsewhere in Nevada, casino revenues were mostly down, due to the effects of expanded Native American gaming. Meanwhile, casino revenues at the Gold Strike Resort in Tunica County, Mississippi rose \$11.4 million, or 11%, driven by the upturn in the economy and increased marketing efforts, which have resulted in that property gaining market share.

### **Hotel Revenues**

Hotel revenues increased \$82.1 million, or 14%, in fiscal 2004. Our Las Vegas Strip properties were the source for most of the increase. REVPAR grew 14% at these properties, which accounted for approximately 20,000 rooms out of 28,258 rooms companywide (including the 50%-owned Monte Carlo). Mandalay Bay was the most significant contributor, generating an increase of \$53.9 million, or 27%, driven by a 17% increase in REVPAR. As noted earlier, with the opening of the convention

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center and THEhotel, this property has increased its emphasis on the business and convention segment of the market, which has traditionally been willing to pay a higher rate for midweek rooms. In fiscal 2004, approximately 30% of Mandalay Bay's room nights were sold to the convention segment, compared with approximately 22% in the previous year, and we expect this percentage to rise. Hotel revenues at Mandalay Bay also include revenues related to the rental of the new convention space, which amounted to \$12.4 million in fiscal 2004 compared with \$1.7 million in fiscal 2003. The following table compares average room rates, occupancy and REVPAR at our major wholly owned properties:

	FYE 1/31/2004			FYE 1/31/2003		
	Rate	Occ. %	REVPAR	Rate	Occ. %	REVPAR
Mandalay Bay	\$ 186	86%	\$ 161	\$ 171	80%	\$ 137
Luxor	\$ 105	85%	\$ 90	\$ 95	84%	\$ 79
Excalibur	\$ 76	91%	\$ 69	\$ 69	90%	\$ 62
Circus Circus-Las Vegas	\$ 55	89%	\$ 49	\$ 53	89%	\$ 47
Circus Circus-Reno	\$ 54	77%	\$ 41	\$ 53	78%	\$ 41
Colorado Belle	\$ 29	80%	\$ 23	\$ 34	73%	\$ 25
Edgewater	\$ 29	79%	\$ 23	\$ 32	73%	\$ 23
Gold Strike-Tunica	\$ 49	82%	\$ 40	\$ 53	73%	\$ 39
<b>Weighted average all wholly owned properties</b>	<b>\$ 87</b>	<b>84%</b>	<b>\$ 74</b>	<b>\$ 80</b>	<b>82%</b>	<b>\$ 65</b>
<b>Weighted average wholly owned Las Vegas Strip properties</b>	<b>\$ 104</b>	<b>88%</b>	<b>\$ 92</b>	<b>\$ 94</b>	<b>86%</b>	<b>\$ 80</b>

### Food and Beverage Revenues

Food and beverage revenues increased \$40.6 million, or 10%, in fiscal 2004. The increase was due mainly to the expansion of Mandalay Bay's convention business following the opening of the new convention center in January 2003 and subsequent opening of THEhotel in December 2003.

### Other Revenues

Other revenues come principally from entertainment, amusements and retail stores, and rose \$.7 million, or less than 1%, in fiscal 2004. While the successful February 2003 opening of *Mamma Mia!* generated additional entertainment revenue at Mandalay Bay, the increase was offset by the absence of a major boxing match that was held in the Events Center at Mandalay Bay during the prior year (the Oscar De La Hoya/Fernando Vargas fight).

### Costs and Expenses

### Depreciation and Amortization

For fiscal 2004, depreciation and amortization expense was \$175.5 million versus \$145.0 million in fiscal 2003. The increase of \$30.5 million was due primarily to the June 30, 2003 exercise of purchase options under our two operating lease agreements, pursuant to which we paid \$198.3 million to acquire the equipment under the leases. (See the discussion in "Financing Activities Other Financing Transactions" under "Financial Position and Capital Resources" for additional details.) The resulting increase was partially offset by the reduction of depreciation expense at MotorCity Casino. Based upon a Revised Development Agreement entered into with the City of Detroit on August 2, 2002 (discussed more fully under "Financial Position and Capital Resources New Projects"), depreciation expense related to the MotorCity Casino temporary facility was reduced prospectively. Previously, the cost of the temporary facility was being depreciated over its contractual operating term of four years, with annual depreciation expense approximating \$40 million. Under the Revised Development Agreement, the existing facility will be expanded into a permanent resort (as opposed to the permanent resort being developed on a separate site as was the requirement under the original development agreement). As a result, the remaining book value of the existing facility is being depreciated over its remaining

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expected life, resulting in estimated annual depreciation expense of \$10 million, pending construction of the expanded permanent facility or other equipment additions.

**Operating Lease Rent**

Operating lease rent for fiscal 2004 decreased to \$20.2 million from \$49.1 million in fiscal 2003. The decrease was related primarily to the previously discussed June 30, 2003 termination of our operating leases. See the discussion under "Off Balance Sheet Arrangements - Operating Leases" under "Financial Position and Capital Resources" for additional details regarding our operating lease agreements.

*Income from Operations*

For the year ended January 31, 2004, income from operations rose \$38.1 million, or 8%, from the previous year. The composite operating margin in fiscal 2004 was 19.7% versus 19.2% in fiscal 2003. Income from operations for fiscal 2004 benefited from improved operating results at our Las Vegas Strip properties, as discussed more fully below. Comparisons also benefited from lower depreciation and amortization expense at MotorCity Casino (see the discussion under "Depreciation and Amortization" above) and the previously discussed write-off of \$13.0 million in intangible costs associated with MotorCity Casino in fiscal 2003. The above benefits were partially offset by a decrease in earnings from unconsolidated affiliates of \$16.8 million, stemming from the impact of higher gaming taxes at the 50%-owned Grand Victoria in Elgin, Illinois, discussed in more detail below. The table below summarizes our operating results by property and is followed by a discussion of operating results by market.

	FYE 1/31/2004		FYE 1/31/2003	
	Income from Operations	Depreciation and Amortization	Income from Operations	Depreciation and Amortization
	(in millions)			
Mandalay Bay	\$ 83.6	\$ 72.3	\$ 79.5	\$ 35.0
Luxor	92.5	25.5	79.6	18.1
Excalibur	79.4	14.1	64.9	11.4
Circus Circus-Las Vegas (1)	42.3	18.8	39.5	17.4
Gold Strike-Tunica	21.6	8.7	14.0	12.2
Colorado Belle / Edgewater	4.4	9.8	5.3	10.3
Circus Circus-Reno	5.6	5.8	12.9	7.0
Gold Strike properties (2)	1.7	3.4	3.5	4.0
MotorCity Casino (3)	125.5	10.1	91.8	24.9
Unconsolidated joint ventures (4)	81.2	0.3	98.0	0.3
Other	(7.9)	0.1	(5.4)	0.5
<b>Subtotal</b>	<b>\$ 529.9</b>	<b>\$ 168.9</b>	<b>\$ 483.6</b>	<b>\$ 141.1</b>
Corporate expense	(39.5)	6.6	(31.3)	3.9
<b>Total</b>	<b>\$ 490.4</b>	<b>\$ 175.5</b>	<b>\$ 452.3</b>	<b>\$ 145.0</b>

(1) Includes Circus Circus-Las Vegas and Slots-A-Fun.

(2) Includes Gold Strike, Nevada Landing and Railroad Pass.

(3) MotorCity Casino is 53.5%-owned and its operations are consolidated for financial reporting purposes.

(4)



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Includes Monte Carlo, Grand Victoria and Silver Legacy, each of which is 50%-owned.

## Las Vegas

Our Las Vegas properties (including our 50% share of Monte Carlo) posted an overall increase in income from operations of \$37.8 million, or 13%, in fiscal 2004. At Mandalay Bay, income from operations rose \$4.1 million, or 5%. As noted previously, this property benefited from the opening of the new convention center and THEhotel, which have contributed to higher REVPAR during the slower midweek period. Furthermore, operating margins on incremental hotel revenues approach 100%, meaning for each additional dollar of room revenue, income from operations increases by nearly a like amount. However, this benefit was mitigated by higher depreciation expense stemming primarily from the purchase of previously leased equipment. On June 30, 2003, we exercised purchase options under our operating lease agreements, the majority of which related to equipment at Mandalay Bay. The resulting additional depreciation more than offset the benefit from the elimination of operating lease rent. See the discussion under "Financing Activities" under "Financial Position and Capital Resources" for additional details regarding our operating leases.

At Luxor, income from operations increased \$12.9 million, or 16%. This property also benefited from the new convention center at Mandalay Bay, though to a lesser extent. Meanwhile, income from operations at Excalibur rose \$14.5 million, or 22%, and at Circus Circus-Las Vegas, it increased \$2.8 million, or 7%. The contribution from the 50%-owned Monte Carlo rose \$3.5 million, or 10%. We believe the rebound in the national economy contributed to our higher results on the Las Vegas Strip. Excalibur also benefited from a change in its mix of pit games and slot machines.

## Reno

Income from operations at our Reno properties (including our 50% share of Silver Legacy) was down \$9.6 million, or 34%, in fiscal 2004. Expanded Native American gaming in California and the northwestern U.S. was the principal factor in the decline, most notably the June 2003 opening of a significant new Native American casino located in the heart of Reno's principal feeder market in northern California.

## Laughlin

Our two Laughlin properties, Colorado Belle and Edgewater, posted a combined decrease in income from operations of \$0.9 million, or 17%, for fiscal 2004, despite the prior year write-off of \$5.4 million of goodwill associated with Edgewater. Like the Reno market, Laughlin is facing increased competition from Native American casinos in its primary feeder markets in Arizona and southern California.

## Other Markets

In Detroit, Michigan, MotorCity Casino generated an increase in income from operations of \$33.7 million, or 37%. Depreciation expense, which decreased \$14.8 million, was a principal factor in this increase (see discussion under "Depreciation and Amortization"), along with the \$13.0 million write-off of an intangible asset in the prior year. See "New Projects" under "Financial Position and Capital Resources" for additional details regarding our Detroit operation.

In Tunica County, Mississippi, income from operations at Gold Strike rose \$7.6 million, or 54%, during fiscal 2004. Increased marketing efforts at this property have increased its market share and contributed to a \$11.4 million, or 11%, increase in casino revenues.

The contribution to income from operations from Grand Victoria (our 50%-owned riverboat casino in Elgin, Illinois) decreased \$17.9 million, or 37%, in fiscal 2004. The decrease was due primarily to the impact of gaming tax increases approved by the Illinois legislature, the first of which took effect July 1, 2002 and included a top end rate of 50% on gaming revenues exceeding \$200 million, and a

second increase that took effect July 1, 2003, which raised the top-end rate to 70% on gaming revenues exceeding \$250 million. By law, the latter increase is to be repealed after a tenth casino license is awarded and the new property commences operations, or July 1, 2005, whichever occurs first. The tenth casino license was recently awarded, however based upon a number of contingencies needed to finalize this tenth license, we cannot determine at this time when or whether a tenth property will commence operations.

#### *Interest Expense*

In fiscal 2004, interest expense decreased \$13.9 million. While average debt outstanding was higher than in the prior year (\$2.9 billion versus \$2.5 billion), the impact was offset by a higher proportion of less-expensive variable-rate debt; lower interest rates on short-term borrowings; and the amortization of gains related to the termination of interest rate swap agreements. At January 31, 2003, approximately 82% of our \$2.78 billion debt portfolio was comprised of fixed-rate obligations. Through a combination of financing transactions over the course of the year, this percentage was reduced to approximately 50% of our \$3.02 billion debt portfolio at January 31, 2004. See also "Financing Activities Interest Rate Swaps" and "Market Risk and Derivative Financial Instruments" under "Financial Position and Capital Resources."

Capitalized interest was \$7.6 million in fiscal 2004 compared to \$13.2 million in the previous year. Capitalized interest in fiscal 2004 related primarily to THEhotel and Mandalay Place. For fiscal 2003, capitalized interest related primarily to the new convention center at Mandalay Bay.

#### *Income Taxes*

The effective tax rates for fiscal 2004 and fiscal 2003 were 35.5% and 40.2%, respectively. These rates reflect the corporate statutory rate of 35% plus the effect of various nondeductible expenses. The higher effective tax rate in fiscal 2003 reflects the impact of the goodwill write-offs at Edgewater and Railroad Pass, which were not deductible for tax purposes.

#### *Recent Tax Developments*

On June 20, 2003, the Governor of Illinois signed new tax legislation providing for an increase in tax rates on Illinois gaming revenues. Under the bill, the upper tax rate on casino revenues was increased from 50% on casino revenues exceeding \$200 million to 70% on casino revenues exceeding \$250 million. The legislation also provided for increased tax rates for the lower revenue tiers as well as increased boarding fees.

New tax legislation signed into law by the Governor of Nevada on July 22, 2003, increased the taxes applicable to our Nevada operations and those of our Nevada joint ventures. Based on our evaluation of the new Nevada tax law, we believe that its impact on our income from operations will be less than \$10 million annually.

### FINANCIAL POSITION AND CAPITAL RESOURCES

#### *Operating Activities*

Net cash provided by operating activities was \$497.1 million in fiscal 2005 versus \$418.5 million in fiscal 2004 and \$364.9 million in fiscal 2003. Net cash provided by operating activities increased in fiscal 2005 due mostly to improved operating results, as net income rose \$79.2 million. The tax benefit from the exercise of employee stock options decreased by \$32.5 million, with 1.0 million options exercised in fiscal 2005 versus 6.1 million options in fiscal 2004. (For tax purposes, gains recognized by employees upon the exercise of stock options are considered additional compensation expense and are therefore deductible.) In addition, the minority interest in earnings (net of distributions) decreased \$21.0 million

since the majority of earnings at MotorCity Casino were distributed in fiscal 2005. However, the above decreases were largely offset by changes in working capital which occurred in the normal course of business.

For fiscal 2004, net cash provided by operating activities increased due primarily to improved operating results, as net income and depreciation expense rose a combined \$64.8 million. In addition, the tax benefit from the exercise of employee stock options increased by \$30.0 million in fiscal 2004, when 6.1 million options were exercised compared to 2.2 million options in fiscal 2003. These increases were partially offset by changes in working capital which occurred in the normal course of business. The fiscal 2004 comparison was also affected by two significant items which occurred in the prior year when we received a \$20.0 million special distribution from Silver Legacy (in conjunction with the restructuring of the joint venture's debt) and wrote off a \$13.0 million intangible asset at MotorCity Casino.

Mandalay had cash and cash equivalents of \$169.7 million at January 31, 2005, sufficient for normal daily operating requirements. Our cash balance has historically not been subject to significant fluctuations because we manage our cash through our revolving credit facility. To the extent excess cash is available, it is used to repay borrowings under our revolving credit facility, and to the extent additional cash is required, we borrow funds under the facility.

#### *Investing Activities*

Net cash used in investing activities was \$138.3 million in fiscal 2005 versus \$573.8 million in fiscal 2004 and \$370.3 million in fiscal 2003. For all three fiscal years, investing activities related primarily to capital expenditures, which are discussed in more detail below. We also paid amounts required under the Revised Development Agreement in Detroit (see "New Projects Detroit" for additional details). In addition, in fiscal 2005, we received \$18.1 million in insurance proceeds representing a settlement for remediation costs incurred due to the excess settling of Mandalay Bay's hotel tower during its original construction. Meanwhile, in fiscal 2003 we contributed \$43.5 million to Monte Carlo that, along with a similar contribution from our partner, was used to pay off that property's revolving credit facility.

Capital expenditures for fiscal 2005, which were funded from a combination of cash flow and additional borrowings, totaled \$133.1 million. Of this amount, \$33.4 million related to the completion of certain elements of THEhotel (the all-suites hotel tower at Mandalay Bay which opened in December 2003), \$14.4 million related to an expansion of Mandalay Place (the retail center located between Mandalay Bay and Luxor which opened in October 2003), \$7.1 million related to the Luxor room remodel, \$4.6 million related to the new Fleur De Lys restaurant at Mandalay Bay, \$7.5 million related to a parking garage expansion at Mandalay Bay and \$2.4 million related to a new spa at Excalibur.

Capital expenditures for fiscal 2004, which were funded from a combination of cash flow and additional borrowings, totaled \$545.1 million. Of this amount, \$225.6 million related to the construction of THEhotel, \$37.3 million related to the construction of Mandalay Place, and \$22.7 million related to the purchase of a new corporate aircraft (which was funded primarily through the application of a \$22.5 million deposit made in fiscal 2003). Capital expenditures for fiscal 2004 also include \$188.0 million related to the acquisition of equipment pursuant to purchase options we exercised under our operating lease agreements. See "Financing Activities Other Financing Transactions" and "Off Balance Sheet Arrangements Operating Leases" for additional details.

Capital expenditures for fiscal 2003 totaled \$300.5 million. Of this amount, \$180.4 million related to the construction of a new convention center at Mandalay Bay that opened in January 2003, \$18.5 million related to the construction of THEhotel, \$15.4 million related to the remodeling of the original suites at Mandalay Bay, and \$8.2 million related to the construction of Mandalay Place.

We estimate that capital expenditures in fiscal 2006 will be in the range of \$125-\$150 million. These estimated capital expenditures include primarily maintenance capital spending, which consists of items necessary to maintain the operating condition of our properties, such as new slot machines, carpeting, computers and similar equipment. Capital expenditures for fiscal 2006 will be funded primarily from cash flow, though we also have funds available under our revolving credit facility. Actual capital expenditures for fiscal 2006 may differ significantly from the estimated range, particularly if we proceed with the development of an expanded permanent facility in Detroit. See "New Projects Detroit" for additional details.

For information concerning an agreement to sell our 53.5% interest in this property if Mandalay's proposed merger with a wholly owned subsidiary of MGM MIRAGE is consummated, see "Pending Merger Pursuant to which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in this Item 7.

#### *Financing Activities*

For fiscal 2005, financing activities used net cash of \$342.5 million. The cash was used primarily to repay \$351.8 million in borrowings and to fund \$36.4 million in dividend payments to our shareholders. This was partially offset by the proceeds from exercises of employee stock options, which provided cash of \$19.9 million. A discussion of specific financing activities in fiscal 2005 is provided below. For fiscal 2004, financing activities provided net cash of \$160.4 million. Net borrowings provided cash of \$242.0 million, while proceeds from exercises of employee stock options provided an additional \$99.8 million. Cash was used primarily to fund the March 2003 settlement of our \$100 million equity forward agreement and to fund \$47.6 million in dividend payments to our shareholders. For fiscal 2003, financing activities provided net cash of \$47.9 million. Net borrowings provided cash of \$235.5 million, while proceeds from exercises of employee stock options provided an additional \$29.3 million. The majority of this cash was used to purchase 7.5 million shares of our common stock at a cost of \$220.9 million.

#### **Credit Facility**

Our \$850 million revolving credit facility, which is for general corporate purposes, is unsecured and provides for the payment of interest, at our option, at either (i) a Eurodollar-based rate; or (ii) a rate equal to or an increment above the higher of (a) the Bank of America prime rate, or (b) the Federal Reserve Board federal funds rate plus 50 basis points. At January 31, 2005, the effective rate of interest on the indebtedness outstanding under our revolving credit facility was 4.3%. The revolving credit facility includes financial covenants regarding total debt and interest coverage, plus covenants that limit our ability to dispose of assets, make distributions on our capital stock, engage in a merger, incur liens and engage in transactions with our affiliates. On August 21, 2006, the entire principal amount then outstanding under our revolving credit facility becomes due and payable, unless the maturity date is extended with the consent of the lenders. The balance outstanding under our revolving credit facility at January 31, 2005 was \$115 million.

In February 2003, we amended the covenants under each of our credit facilities. These amendments modified the definition of "Adjusted EBITDA" with respect to our 53.5% ownership of MotorCity Casino in Detroit, Michigan. As previously defined in our credit facilities, Adjusted EBITDA included only the cash distributions we actually received from MotorCity Casino. Under the amended definition, Adjusted EBITDA includes our 53.5% share of the Adjusted EBITDA of MotorCity Casino, whether or not distributed. These amendments also provided for a more liberal test for total debt coverage during the fiscal year ended January 31, 2004.

As of January 31, 2005, we were in compliance with all of the covenants in our revolving credit facility, including those related to total debt and interest coverage, and under the most restrictive

covenant, we had the ability to issue additional debt of approximately \$532 million. Our borrowing capacity under these covenants can fluctuate substantially from quarter to quarter depending upon our operating cash flow.

As of January 31, 2005, the senior debt of Mandalay Resort Group was rated Ba2 by Moody's Investors Service ("Moody's") and BB+ by Standard & Poors Ratings Services ("S&P"). These ratings remained stable throughout fiscal 2005. To the extent that these credit ratings change, our ability to borrow, as well as the rates at which we borrow, could be affected. However, given our current financial position, as well as our historically strong and stable cash flows, we do not anticipate any significant changes in our credit ratings in the near term. In addition, we do not believe our credit ratings, or changes in those ratings, have had a significant impact on our previous financing activities, or will have a significant impact on future financing activities.

### **Convertible Senior Debentures**

On March 21, 2003, we issued \$350 million original principal amount of floating-rate convertible senior debentures due 2033 ("convertible debentures"). An additional \$50 million original principal amount of the convertible debentures was issued on April 2, 2003, pursuant to an option granted to the initial purchasers. The convertible debentures bear interest at a floating rate equal to 3-month LIBOR (reset quarterly) plus 0.75%, subject to a maximum rate of 6.75%. The convertible debentures also provide for the payment of contingent interest after March 21, 2008 if the average market price of the convertible debentures reaches a certain threshold. Such contingent interest is considered an embedded derivative with a nominal value. The convertible debentures provide for an initial base conversion price of \$57.30 per share, reflecting a conversion premium of 100% over Mandalay's closing stock price of \$28.65 on March 17, 2003.

We may redeem all or some of the convertible debentures for cash at any time on or after March 21, 2008, at their accreted principal amount plus accrued and unpaid interest, if any, to, but not including, the redemption date. At the option of the holders, we may be required to repurchase all or some of the convertible debentures on the 5<sup>th</sup>, 10<sup>th</sup>, 15<sup>th</sup>, 20<sup>th</sup> and 25<sup>th</sup> anniversaries of their issuance, at their accreted principal amount plus accrued and unpaid interest, if any, to, but not including, the purchase date. We may choose to pay the purchase price in cash, shares of Mandalay common stock or any combination thereof.

We issued these debentures because they provide a much lower interest rate relative to other financing alternatives, which has contributed to lower interest expense, and which we expect to contribute to lower interest expense in the future. The proceeds from this issuance were used to repay borrowings under our revolving credit facility, which created additional capacity under that facility and, in turn, provided overall greater financial flexibility.

Each convertible debenture is convertible into shares of Mandalay's common stock (i) during any calendar quarter beginning after June 30, 2003, if the closing price of Mandalay's common stock is more than 120% of the base conversion price (initially 120% of \$57.30, or \$68.76) for at least 20 of the last 30 trading days of the preceding calendar quarter; (ii) during any period in which the credit rating assigned to the convertible debentures by S&P, or its successor, is at or below B+ or the equivalent, or if the credit rating assigned to the convertible debentures by Moody's, or its successor, is at or below B2 or the equivalent; (iii) if we take certain corporate actions, including a merger such as the one contemplated by our definitive merger agreement with MGM MIRAGE; or (iv) if we call the convertible debentures for redemption.

On January 3, 2005, Mandalay issued a press release announcing that the closing price of Mandalay's common stock had exceeded \$68.76 per share for at least 20 trading days of the 30 consecutive trading day period ended December 31, 2004, and as a result, the debentures were convertible during the calendar quarter ended March 31, 2005. On April 4, 2005, Mandalay issued a

press release announcing that the closing price of Mandalay's common stock had exceeded \$68.76 per share for at least 20 trading days of the 30 consecutive trading day period ended March 31, 2005, and as a result, the debentures are convertible during the calendar quarter ending June 30, 2005. In addition, upon determination of the closing date of the proposed merger of a wholly owned subsidiary of MGM MIRAGE with and into Mandalay, holders of the debentures will be able to surrender their debentures for conversion until 15 days after the effective date of the merger.

If the convertible debentures are converted, holders will be entitled to receive 17.452 shares per convertible debenture, or an aggregate of 7.0 million shares of Mandalay common stock, subject to our right to deliver cash in lieu of all or a portion of the shares, and subject to adjustment of the conversion rate for any stock dividend; any subdivision or combination, or certain reclassifications, of the shares of our common stock; any distribution to all holders of shares of our common stock of certain rights to purchase shares of our common stock for a period expiring within 60 days at less than the sale price per share of our common stock at the time; any distribution to all holders of shares of our common stock of our assets (including shares of capital stock of a subsidiary), debt securities or certain rights to purchase our securities; or any "extraordinary cash dividend." For this purpose, an extraordinary cash dividend is one the amount of which, together with all other cash dividends paid during the preceding 12-month period, is on a per share basis in excess of the sum of (i) 5% of the sale price of the shares of our common stock on the day preceding the date of declaration of such dividend and (ii) the quotient of the amount of any contingent cash interest paid on a convertible debenture during such 12-month period divided by the number of shares of common stock issuable upon conversion of a convertible debenture at the conversion rate in effect on the payment date of such contingent cash interest. In addition, if at the time of conversion the market price of Mandalay's common stock exceeds the then-applicable base conversion price, holders will be entitled to receive up to an additional 14.2789 shares of Mandalay's common stock for each \$1,000 original principal amount of convertible debentures, as determined pursuant to a specified formula, or up to an additional 5.7 million shares in the aggregate, subject to our right to deliver cash in lieu of all or a portion of the shares.

Mandalay and The Bank of New York, as trustee, executed a supplemental indenture dated as of July 26, 2004. The supplemental indenture amended the notice provisions of the indenture to permit Mandalay, at any time prior to a conversion date, to elect to exercise its right to deliver cash in lieu of shares of Mandalay common stock for all or any portion of the shares due to holders of the debentures upon conversion of the debentures. On January 3, 2005, Mandalay delivered an irrevocable cash settlement notice to The Bank of New York, the conversion agent for the debentures, which irrevocably obligates Mandalay to cash settle a number of shares of common stock equal to the base conversion rate in effect on the conversion date if the debentures are ultimately converted, provided however, that the amount of cash that we could be required to pay to cash settle the shares is limited to \$1,000 for each \$1,000 original principal amount of debentures, or a total of \$400 million. We also retain the option of delivering cash in lieu of any additional shares due upon conversion of the debentures.

Upon conversion, payment is due to a holder no later than the tenth business day following the applicable conversion date. In the event that the payment date falls after the consummation of the proposed merger, holders who convert their debentures will receive a cash settlement based on the \$71.00 per share consideration payable in the merger. The delivery to the holder of the cash due upon conversion of a debenture is deemed to satisfy Mandalay's obligation to pay the accreted principal amount of the debenture and to satisfy the obligation to pay accrued but unpaid interest, including contingent interest, if any, attributable to the period from the most recent interest payment date through the applicable conversion date. Because of this deemed satisfaction, the holder of any debenture converted after the record date for the next interest payment, but before the corresponding interest payment date, is required to pay to Mandalay an amount equal to the interest payment to be received by the holder with respect to such debenture.

## Interest Rate Swaps

In February 2003, we entered into two "reverse" interest rate swap agreements ("fair value hedges") with members of our bank group. Under one agreement, we received a fixed interest rate of 9.25% and paid a variable interest rate (based on LIBOR plus 6.35%) on \$275 million notional amount. Under the other, we received a fixed rate of 6.45% and paid a variable interest rate (based on LIBOR plus 3.57%) on \$200 million notional amount. In May 2003, we elected to terminate the \$275 million swap and received \$2.7 million in cash, representing the fair market value of the swap. Accounting rules require such gains to be treated as debt premium and amortized over the remaining life of the related debt instrument using an effective interest method. However, since the underlying \$275 million Senior Subordinated Notes were called on July 15, 2003, the unamortized portion of this gain (along with the unamortized portion of the gain related to a similar interest rate swap that was terminated in October 2002) was offset against the related loss on early retirement of debt. The total gain thus offset was \$9.0 million. Meanwhile, in June 2003, we elected to terminate the \$200 million swap. We received \$4.1 million in cash, representing the fair market value of this swap, and recorded a corresponding debt premium which will be amortized to interest expense over the then remaining life of the related debt instrument, which was approximately 2<sup>1</sup>/<sub>2</sub> years.

In July 2003, we entered into two "reverse" interest rate swap agreements ("fair value hedges") with members of our bank group. Under one agreement, we received a fixed interest rate of 6.5% and paid a variable interest rate (based on LIBOR plus 2.39%) on \$200 million notional amount. Under the other agreement, we received a fixed rate of 6.5% and paid a variable interest rate (based on LIBOR plus 2.42%) on \$50 million notional amount. These swaps were being used to hedge our \$250 million 6<sup>1</sup>/<sub>2</sub>% Senior Notes due 2009. In March 2004, we elected to terminate both of the above swaps, pursuant to which we received \$5.4 million in cash representing the fair market value of these swaps, and recorded a corresponding debt premium which will be amortized to interest expense over the remaining life of the related debt instrument, which was approximately 5<sup>1</sup>/<sub>2</sub> years.

Mandalay had an interest rate swap agreement ("cash flow hedge") of \$200 million notional amount which terminated on September 24, 2003.

In December 2003, we entered into two "reverse" interest rate swap agreements ("fair value hedges") with members of our bank group. Under one agreement, we receive a fixed interest rate of 6.375% and pay a variable interest rate (based on LIBOR plus 1.74%) on \$125 million notional amount. Under the other, we receive a fixed rate of 6.375% and pay a variable interest rate (based on LIBOR plus 1.72%) on \$125 million notional amount. These swaps are being used to hedge our \$250 million 6<sup>3</sup>/<sub>8</sub>% Senior Notes due 2011.

In April 2004, we entered into a "reverse" interest rate swap agreement ("fair value hedge") with a member of our bank group. Under this agreement, we receive a fixed interest rate of 6.5% and pay a variable interest rate (based on LIBOR plus 2.58%) on \$250 million notional amount. This swap is being used to hedge our \$250 million 6<sup>1</sup>/<sub>2</sub>% Senior Notes due 2009.

We entered into the above swap agreements, which met the criteria established by the Financial Accounting Standards Board for hedge accounting, in order to further manage our interest expense and achieve a better balance of variable to fixed rate debt in our debt portfolio. Including the effect of interest rate swaps, approximately 44% of our debt outstanding at January 31, 2005 was variable rate. This compares to approximately 50% at January 31, 2004. While we believe the company is currently better served by maintaining a higher proportion of less expensive variable rate debt, we continue to monitor and evaluate current economic conditions, along with the company's financial condition, and may adjust the percentage of variable rate debt in the future, as we consider appropriate.



### Other Financing Transaction

On June 30, 2003, we exercised our options under two operating lease agreements relating to equipment located at several of our Nevada properties, and purchased the equipment for a total purchase price of \$198.3 million, representing the equipment's estimated fair market value based on independent appraisals. Simultaneously, we entered into a new lease agreement pursuant to which we assigned a portion of the equipment acquired above to the new lessors and borrowed \$145 million. These proceeds, along with borrowings under our revolving credit facility, were used to fund the purchase of the equipment under the previous operating leases.

The new lease agreement was considered a capital lease for financial reporting purposes, and we recorded an asset and a corresponding liability equal to the fair market value of the assets at inception of the lease. An option to borrow up to an additional \$105 million under the new lease agreement expired December 31, 2003. The new lease agreement contained financial covenants regarding total debt and interest coverage that were similar to those under our revolving credit facility. The agreement also contained covenants regarding equipment maintenance, insurance requirements and prohibitions on liens. As of January 31, 2005, we were in compliance with all of the covenants in this lease agreement. On March 4, 2005, we terminated this capital lease facility and paid off the balance of \$128.6 million utilizing borrowings under our revolving credit facility.

NOTE: The discussion under "Investing Activities" above indicated that we had incurred capital expenditures of \$188.0 million related to the purchase of the equipment under our operating lease agreements. This amount differs from the \$198.3 million reported above due to \$10.3 million of unamortized deferred gain related to the December 2001 operating lease transaction. This deferred gain was reversed when the purchase option was exercised.

On July 15, 2003, we repaid our \$150 million 6<sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes due July 15, 2003, using borrowings under our revolving credit facility.

On July 15, 2003, we called our \$275 million 9<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes due 2005 at a call price of 104.625% using borrowings under our revolving credit facility.

On July 31, 2003, we issued \$250 million 6<sup>1</sup>/<sub>2</sub>% Senior Notes due 2009. The net proceeds were used to repay borrowings under our revolving credit facility. We issued these notes in order to take advantage of low interest rates in the bond market and to replenish capacity under our revolving credit facility.

On November 17, 2003, we redeemed \$145.6 million of our \$150 million aggregate principal amount of 6.70% Debentures due 2096 pursuant to the holders' one-time option, which was funded utilizing borrowings under our revolving credit facility.

On November 25, 2003, we issued \$250 million 6<sup>3</sup>/<sub>8</sub>% Senior Notes due 2011. The net proceeds, together with borrowings under our revolving credit facility, were used to permanently repay in full our then existing \$250 million term loan facility. As previously discussed, we hedged these notes by entering into swap agreements pursuant to which we pay a composite floating rate of LIBOR plus 1.73%, slightly below the LIBOR plus 1.75% rate we were paying on the term loan facility. Thus, by issuing these notes and entering into these swap agreements, we effectively extended the original July 2006 maturity date for this indebtedness to November 2011 at approximately the same interest rate.

**Dividends**

On June 12, 2003, Mandalay's board of directors' instituted a policy of quarterly cash dividends. The following table sets forth the cash dividends declared:

<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend per share</b>
June 26, 2003	August 1, 2003	\$ .23
October 15, 2003	November 1, 2003	\$ .25
January 15, 2004	February 2, 2004	\$ .27
April 16, 2004	May 3, 2004	\$ .27
July 15, 2004	August 2, 2004	\$ .27

Pursuant to the terms of the definitive merger agreement with MGM MIRAGE, additional dividends may not be declared or paid pending the consummation of the merger or the termination of the definitive merger agreement if the merger is not consummated.

*New Projects***THEhotel**

THEhotel, a 1,117-all-suites tower at Mandalay Bay, opened in December 2003. The suites average 750 square feet, among the largest room product in the Las Vegas market. The 43-story tower also includes meeting suites, a spa and fitness center, a lounge and two restaurants, including a rooftop venue "Mix-Las Vegas" created by famed chef Alain Ducasse that opened in December 2004. The total cost of the new tower was approximately \$280 million, excluding land, capitalized interest and preopening expenses.

**Mandalay Place**

In October 2003, we opened Mandalay Place, a retail center located between Mandalay Bay and Luxor. The center includes approximately 90,000 square feet of retail space and approximately 40 stores and restaurants, including internationally branded retailers like Oilily, GF Ferre, Nike Golf and Urban Outfitters, along with restaurants by celebrity chefs Pierro Selvaggio, Hubert Keller and Rick Moonen. The total cost was approximately \$65 million, excluding land, capitalized interest and preopening expenses.

**Detroit**

We participate with the Detroit-based Atwater Casino Group in a joint venture that owns and operates a casino in Detroit, Michigan. This joint venture is one of three groups which negotiated casino development agreements with the City of Detroit. We have a 53.5% ownership interest in the joint venture.

On August 2, 2002, the Detroit City Council approved a revised development agreement between the joint venture and the City of Detroit (the "Revised Development Agreement"). Under the Revised Development Agreement, MotorCity Casino is to be expanded into a permanent facility at its current location. The permanent facility is currently expected to include 100,000 square feet of casino space, a 400-room hotel, a 1,200-seat theater, convention space, and additional restaurants, retail space and parking. Depending upon market conditions, the availability of additional land and the joint venture's ability to obtain reasonable financing, the joint venture could be required to construct an additional 400 rooms. Under the terms of this agreement, the joint venture has paid the City a total of \$44.0 million. Also, beginning January 1, 2006, the joint venture is to pay the City 1% of its adjusted casino revenues. If its casino revenues top \$400 million in any given calendar year, the payment will be increased to 2% for that calendar year.

Originally, the joint venture's permanent facility was to have been located on land along the Detroit River. The City's Economic Development Corporation issued bonds to finance the City's acquisition of that land, and Bank of America issued letters of credit totaling \$49.4 million to secure (and ultimately make) the payments of principal and interest on those bonds. We then issued letters of credit totaling \$49.4 million to back Bank of America's letters of credit. We will continue to provide such letters of credit. As part of the Revised Development Agreement, the joint venture has relinquished the right to receive any of the riverfront land acquired by the City, and has transferred to the City its interest in certain real property previously purchased by the joint venture and the other casino developers. Both the joint venture and Mandalay are subject to a radius restriction prohibiting them from operating additional casinos within approximately 150 miles of Detroit, so long as the laws of the state are not amended to permit more than three casinos within the radius. Additionally, the joint venture is required to indemnify the City for up to \$20 million in claims against the City in connection with the acquisition of the riverfront land and in connection with the *Lac Vieux* litigation described below.

We have committed to contribute 20% of the costs of the permanent facility in the form of an investment in the joint venture. The joint venture will seek to borrow any additional funds (in excess of Mandalay's equity contribution) which may be necessary to complete the expanded permanent facility. Under our operating agreement, the project costs are to be reviewed every six months. As of January 31, 2005, we had contributed 20% of the project costs as most recently determined. The cost of the additional facilities (excluding land, capitalized interest and preopening expenses) is currently estimated to be \$275 million. Under the Revised Development Agreement, we have guaranteed completion of the facility and have entered into a keep-well agreement with the City that could require us to contribute additional funds to continue operation of the expanded facility until two years following the execution of the completion guarantee and keep-well agreement. There is no contractual limitation on the amount that we may be required to contribute under our completion guarantee or the keep-well agreement. However, based on the performance of the casino to date, we do not expect that our completion guarantee or keep-well agreement with the City will require the outlay of additional capital.

The joint venture's \$150 million credit facility matured June 30, 2003. We had guaranteed this credit facility.

Under the terms of the joint venture's operating agreement, Mandalay is to receive a management fee for a period of ten years equal to 1.5% of the cost of the permanent casino facility. The management committee of the joint venture initially determined that Mandalay was entitled to the management fee commencing on the date the Revised Development Agreement was signed, since that agreement provided for the existing facility to become the permanent facility. The management committee ultimately determined that the management fee should not be paid until the permanent casino expansion is completed. As a result, we reversed previously accrued management fee income of \$1.8 million in the second quarter ended July 31, 2003.

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 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 Michigan Gaming Control Board ("MGCB") took the ruling of the Sixth Circuit Court of Appeals under advisement without comment. The District Court declared that the ordinance in its current form is unconstitutional and awarded the Lac Vieux Band attorneys' fees and costs totaling \$545,094, but rejected the Lac Vieux Band's request to require a rebidding of the three casino licenses, and in addition, rejected the Lac Vieux Band's request to enjoin the City of Detroit from entering into revised development

agreements with the three casino developers, including MotorCity Casino. The Lac Vieux Band has appealed the District Court's decision to the Sixth Circuit Court of Appeals. The Sixth Circuit Court of Appeals issued an opinion granting the Lac Vieux Band's motion for an injunction pending appeal that temporarily enjoins the City of Detroit from issuing building permits for the permanent casino facilities and temporarily enjoins the casino developers from commencing construction of the permanent casino facilities.

The Lac Vieux Band filed a separate action in the Gogebic County, Michigan, Circuit Court entitled *Lac Vieux Desert Band of Lake Superior Chippewa Indians v. Michigan Gaming Control Board*, in which the Lac Vieux Band requested the Circuit Court to enter an order requiring the MGCB to revoke the casino licenses issued to the three Detroit casinos, including MotorCity Casino. As a result of the settlement agreement discussed below, this action has been dismissed.

On November 26, 2003, we announced that MotorCity Casino had signed a settlement agreement with the Lac Vieux Desert Band of Lake Superior Chippewa Indians. On April 9, 2004, the District Court approved the settlement. On April 23, 2004, MotorCity paid to the Lac Vieux Tribe \$1.5 million plus \$500,000 in attorney's fees. MGM MIRAGE has appealed the approval of the settlement and the injunction remains in place. Because approval of the settlement agreement was subsequently appealed, all further settlement payments were suspended pending resolution of the appeal. These payments include \$1.5 million due 30 days after the first payment, \$5.75 million due on the first and second anniversaries of the first payment and \$1 million due annually for 25 years, beginning on the third anniversary of the first payment. If the Sixth Circuit Court of Appeals ultimately affirms the approval of the settlement agreement, then, absent filing of another adverse claim, the payment schedule will be reinstated and MotorCity Casino will have to immediately pay all amounts that otherwise would have been due during the period of suspension (plus interest). The occurrence of certain events would suspend, lower and/or terminate the payments. There can be no assurance as to when final resolution will occur with respect to this matter, or what action the courts might take. These payments would satisfy the joint venture's obligations under an indemnity agreement with respect to the Lac Vieux litigation claims. However, the joint venture would still be liable under the indemnity agreement for claims related to the acquisition of the riverfront land, which potentially are capped at \$4 million.

Any future adverse ruling by the courts in the above lawsuits or in other lawsuits, or any adverse ruling by the MGCB, could affect the joint venture's operation of its current facility, as well as its ability to retain its certificate of suitability and casino license for its expanded permanent facility. No assurance can be given regarding the timing or outcome of any of these proceedings.

The joint venture's operation of MotorCity Casino is subject to ongoing regulatory oversight, and its ability to proceed with an expanded hotel/casino project is contingent upon the receipt of all necessary governmental approvals, successful resolution of pending litigation and satisfaction of other conditions.

For information concerning an agreement to sell our 53.5% interest in this property if Mandalay's proposed merger with a wholly owned subsidiary of MGM MIRAGE is consummated, see "Pending Merger Pursuant to which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in this Item 7.

#### *Share Purchases*

Since March 31, 2003, when we purchased 3.3 million shares under our equity forward agreements for \$100 million (discussed more fully under "Off Balance Sheet Arrangements"), we have made no additional share purchases, and, as of January 31, 2005, the number of shares we were authorized to purchase under authorizations of our Board of Directors was approximately 10.3 million. Any share purchases we may make in the future will be dependent upon cash flow, borrowing capacity and market

conditions, and are expected to be made in accordance with the volume and other limitations of Rule 10b-18 under the Securities Exchange Act of 1934.

Pursuant to the terms of the definitive merger agreement with MGM MIRAGE, we may not purchase additional shares of our common stock pending the consummation of the merger or the termination of the definitive merger agreement if the merger is not consummated.

#### *Liquidity*

We have various obligations including the following: (i) existing cash obligations; (ii) capital commitments on projects under way as well as capital commitments and other obligations relating to the proposed expansion of our Detroit joint venture property (see "New Projects - Detroit"); and (iii) the potential cash settlement of our convertible debentures. We believe we have sufficient capital resources to meet all of the above obligations. Furthermore, if the merger contemplated by our definitive merger agreement with MGM MIRAGE is not consummated, we believe we have sufficient capital resources to pay dividends to holders of our common stock, strategically purchase shares of our common stock or invest in new projects. These beliefs are based upon (i) our historically strong and dependable operating cash flows; (ii) the availability of borrowing capacity under our revolving credit facility; and (iii) the ability to raise funds in the debt and equity markets. Under our revolving bank facility, which expires August 2006, we had \$735 million of borrowing capacity available as of January 31, 2005, and under the most restrictive of our loan covenants, we had the ability to incur additional debt of approximately \$532 million. Our borrowing capacity under these covenants can fluctuate substantially from quarter to quarter, depending upon our operating cash flow.

#### *Off Balance Sheet Arrangements*

##### **Commitments Related to Our Detroit Joint Venture**

We are committed to contribute 20% of the cost of our Detroit joint venture's permanent facility in the form of an investment in the Detroit joint venture. The cost of the permanent facility is to be evaluated each January 31 and July 31. While we currently anticipate that the cost of the additional facilities (excluding land, capitalized interest, and reopening expenses) will be approximately \$275 million, the timing and the ultimate amount of the required equity contribution cannot be determined at this time.

We have guaranteed completion of our Detroit joint venture's expanded permanent facility. If we contribute additional amounts pursuant to this guarantee, there will be no proportionate increase in our ownership of the Detroit joint venture. The amount we may be required to contribute under this guarantee has no contractual limit and cannot be determined at this time.

We have entered into a keep-well agreement with the City of Detroit that could require us to contribute additional funds, to the extent needed, to continue operation of the permanent facility through two years following the execution of the keep-well agreement. If we contribute additional amounts pursuant to this guarantee, there will be no proportionate increase in our ownership of the Detroit joint venture. The amount we may be required to contribute under this agreement has no contractual limit and cannot be determined at this time.

Under the Revised Development Agreement dated August 2, 2002, the Detroit joint venture is required to indemnify the City of Detroit for up to \$20 million in claims against the City in connection with the acquisition of riverfront land and in connection with the Lac Vieux litigation. See the preceding discussion under "New Projects - Detroit" for additional details.

We entered into the above arrangements as part of our negotiations with the City of Detroit related to the operation of our Detroit joint venture.

For information concerning an agreement to sell our 53.5% interest in the Detroit joint venture if Mandalay's proposed merger with a wholly owned subsidiary of MGM MIRAGE is consummated, see "Pending Merger Pursuant to which Mandalay is to Become a Wholly Owned Subsidiary of MGM MIRAGE" in this Item 7.

### **Operating Leases**

In October 1998, we entered into a \$200 million operating lease agreement with a group of financial institutions to lease equipment at Mandalay Bay. In December 2001, we entered into a series of sale and leaseback agreements covering equipment located at several Nevada properties. These agreements, also made with a group of financial institutions, totaled \$130.5 million.

We entered into the above operating leases solely to provide greater financial flexibility under the covenants in our bank credit facilities. The rent expense related to these operating leases was reported separately in the consolidated statements of income as operating lease rent. The operating lease agreements contained financial covenants regarding total debt and interest coverage that were similar to those under our credit facilities. The agreements also contained covenants regarding maintenance of the equipment, insurance requirements and prohibitions on liens.

On June 30, 2003, we exercised our purchase options under these operating leases and purchased the equipment for a total purchase price of \$198.3 million, representing the equipment's fair market value based upon independent appraisals. The purchase was financed through a combination of borrowings under our new lease agreement and borrowings under our revolving credit facility.

### **Equity Forward Agreements**

To facilitate our purchase of shares, we 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 our outstanding common stock. Bank of America acquired a total of 6.9 million shares at a total cost (notional amount) of \$138.7 million under these agreements. Pursuant to the interim settlement provisions and an amendment to the agreements, we had received a net of 3.6 million shares and reduced the notional amount of the agreements by \$38.7 million as of January 31, 2003. On March 31, 2003, we purchased the remaining 3.3 million shares from B of A for the notional amount of \$100 million. The settlement of the contract was funded under our revolving credit facility.

We incurred quarterly interest charges on the notional amount at a rate equal to LIBOR plus 1.95%. Total interest charges incurred from inception through March 31, 2003, amounted to \$12.3 million. We also incurred structuring fees and commission charges totaling \$3.7 million. These interest charges and other fees are included in the cost of treasury stock, net of the related tax benefit.

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### *Contractual Obligations and Commitments*

The following table summarizes our contractual obligations and commitments as of January 31, 2005:

Description	Year Ending January 31,						
	2006	2007	2008	2009	2010	Thereafter	Total
(in thousands)							
Long-term debt (1)	\$ 300	\$ 315,255	\$ 500,299	\$ 200,299	\$ 250,299	\$ 1,253,324	\$ 2,519,776
Capital leases (1)	128,614						128,614
Estimated interest payments on long-term debt (2)	175	169	147	96	65	95	747
Operating leases	1,103	1,021	689	342	291	5,163	8,609
Purchase obligations	12,594						12,594
Detroit revised development agreement payments							
Letters of credit supporting Detroit revenue bonds (3)					49,360		49,360
<b>Total</b>	<b>\$ 142,786</b>	<b>\$ 316,445</b>	<b>\$ 501,135</b>	<b>\$ 200,737</b>	<b>\$ 300,015</b>	<b>\$ 1,258,582</b>	<b>\$ 2,719,700</b>

- (1) On March 4, 2005, we terminated our capital lease facility and paid off the balance of \$128.6 million utilizing borrowings under our revolving credit facility.
- (2) Estimated interest payments on long-term debt are based on principal amounts outstanding at January 31, 2005 taking into account stated interest rates and forecasted LIBOR rates for our revolving credit facility.
- (3) We have issued letters of credit totaling \$49.4 million 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 were to be used to finance costs associated with acquiring land for the joint venture's permanent facility. However, under the Revised Development Agreement with the City of Detroit dated August 2, 2002, we are obligated to repay these bonds even though the joint venture's permanent casino is not being relocated.

### *Market Risk and Derivative Financial Instruments*

Mandalay is exposed to market risk in the form of fluctuations in interest rates and their potential impact upon our variable-rate debt. We evaluate our exposure to market risk by monitoring interest rates in the marketplace. We manage this market risk by utilizing derivative financial instruments in accordance with established policies and procedures. We do not utilize derivative financial instruments for trading purposes.

Our derivative financial instruments consist exclusively of interest rate swap agreements. Interest differentials resulting from these agreements are recorded on an accrual basis as an adjustment to interest expense. Interest rate swaps related to debt are initially matched either with specific fixed-rate debt obligations or with levels of variable-rate borrowings.

To manage our exposure to counterparty credit risk in interest rate swaps, we enter into agreements with highly rated institutions that can be expected to fully perform under the terms of such agreements. Frequently, these institutions are also members of the bank group providing our credit facilities, which management believes further minimizes the risk of nonperformance.

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Reference is made to the discussion of the swap agreements we entered into during fiscal 2004 and fiscal 2005 under "Financing Activities Interest Rate Swaps" above, which is incorporated herein by this reference.

The following table provides information as of January 31, 2005 about our financial instruments (debt obligations and interest rate swaps) that are sensitive to changes in interest rates. For debt obligations, the table presents principal payments and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by contractual maturity dates. Notional amounts are used to calculate the contractual cash flows to be exchanged under the contract. Weighted-average variable rates are based on implied forward rates in the yield curve. Implied forward rates should not be considered a predictor of actual future interest rates.

	Year Ending January 31,						
	2006	2007	2008	2009	2010	Thereafter	Total
	(in millions)						
<b>Long-term debt (including current portion)</b>							
Fixed-rate	\$ .3	\$ 200.3	\$ 500.3	\$ 200.3	\$ 250.3	\$ 853.3	\$ 2,004.8
Average interest rate	6.7%	6.5%	10.2%	9.5%	6.5%	7.8%	8.3%
Variable-rate	\$ 128.6	\$ 115.0				\$ 400.0	\$ 643.6
Average interest rate	6.0%	5.8%				6.0%	6.0%

Interest rate swaps