

MANDALAY RESORT GROUP  
Form 10-K  
May 01, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended January 31, 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8570

**MANDALAY RESORT GROUP**

(Exact name of Registrant as specified in its charter)

**Nevada**

State (or other jurisdiction of  
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<sup>2</sup>/<sub>3</sub> Par Value

Common Stock Purchase Rights

New York Stock Exchange and Pacific Exchange

New York Stock Exchange and Pacific Exchange

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

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

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

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

The number of shares of Registrant's Common Stock, \$.01<sup>2</sup>/<sub>3</sub> par value, outstanding at April 22, 2002: **68,316,988**

### DOCUMENTS INCORPORATED BY REFERENCE

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

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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.*

#### Overview

We are one of the largest hotel-casino operators in the United States in terms of guest rooms and casino square footage. Our "Mandalay Mile" is the largest scaled hotel-casino resort development in Las Vegas, the world's largest gaming market. This "Mandalay Mile" consists of three interconnected megaresorts on 230 acres, including our flagship property, Mandalay Bay. We and the joint ventures in which we participate operate a total of 16 properties with more than 27,000 guest rooms and more than one million square feet of casino space in Nevada, Mississippi, Illinois and Michigan. Of these properties, 12 are wholly owned and have more than 22,400 guest rooms and more than 800,000 square feet of casino space. In addition, we own a 50% interest in each of three joint venture casino properties that have approximately 4,700 guest rooms and more than 200,000 square feet of casino space and a 53.5% interest in a fourth joint venture casino with approximately 75,000 square feet of casino space.

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We have provided below information as of January 31, 2002 about our properties and those of the joint ventures in which we participate. Except as otherwise indicated, we wholly own and operate these properties.

Location/Property	Guest Rooms	Approximate Casino Square Footage	Slots(1)	Gaming Tables(2)	Parking Spaces
<i>Las Vegas, Nevada</i>					
Mandalay Bay(3)	3,643	135,000	2,083	128	7,000
Luxor	4,408	120,000	2,007	104	3,200
Excalibur	4,002	110,000	2,199	72	4,000
Circus Circus	3,744	109,000	2,176	78	4,700
Monte Carlo (50% Owned)	3,002	90,000	2,032	73	4,000
Slots-A-Fun		16,700	566	22	

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Location/Property	Guest Rooms	Approximate Casino Square Footage	Slots(1)	Gaming Tables(2)	Parking Spaces
<i>Reno, Nevada</i>					
Circus Circus	1,572	60,000	1,608	73	3,000
Silver Legacy (50% Owned)	1,711	85,000	2,127	82	1,800
<i>Laughlin, Nevada</i>					
Colorado Belle	1,226	64,000	1,225	39	1,700
Edgewater	1,450	44,000	1,199	36	2,300
<i>Jean, Nevada</i>					
Gold Strike	812	37,000	821	17	2,100
Nevada Landing	303	36,000	805	17	1,400
<i>Henderson, Nevada</i>					
Railroad Pass	120	21,000	354	7	600
<i>Tunica County, Mississippi</i>					
Gold Strike	1,149	48,000	1,425	46	1,400
<i>Detroit, Michigan</i>					
MotorCity Casino (53.5% Owned)(4)		75,000	2,501	106	3,800
<i>Elgin, Illinois</i>					
Grand Victoria (50% Owned)		36,000	1,050	45	2,300
<b>Total</b>	<b>27,142</b>	<b>1,086,700</b>	<b>24,178</b>	<b>945</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 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.

(4) This property is being operated pending the construction of a permanent hotel-casino facility.

**Property Descriptions**

We are providing below, by market, additional information concerning the properties we operate and those operated by the joint ventures in which we are a participant.

**Las Vegas, Nevada**

Our Mandalay Mile, a 230-acre development situated at the south end of the Las Vegas Strip, is the site of our newest resort as well as our two largest resorts. Mandalay Bay and our other Mandalay Mile resorts, Luxor and Excalibur, function as a cluster of interconnected entertainment destinations with more than 12,000 guest rooms and more than 360,000 square feet of casino space that have no similarly scaled competition in the United States. Mandalay Bay, Luxor and Excalibur are connected by

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a monorail system as well as a climate-controlled walkway. Our Mandalay Mile, which has approximately one mile of frontage on the Las Vegas Strip, is a "Strip within the Strip" that offers our guests three distinctively themed hotel-casinos, complemented by an array of restaurants, shops and entertainment venues catering to a broad spectrum of Las Vegas visitors. Our most recently completed entertainment venue is Shark Reef at Mandalay Bay, an aquarium exhibit, which opened in June 2000 and is cross-marketed to guests at all of the hotel-casinos within our Mandalay Mile.

**Mandalay Bay.** Mandalay Bay, our newest megaresort, is located on approximately 60 acres 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, which opened in March 1999, has 3,643 guest rooms, including a Four Seasons Hotel with 424 guest rooms that provides visitors with the only luxury "five-diamond" hospitality experience in Las Vegas. Mandalay Bay's attractions include an 11-acre tropical lagoon featuring a sand-and-surf beach and a three-quarter-mile lazy river ride. The property also features 13 restaurants such as Charlie Palmer's Aureole, Wolfgang Puck's Trattoria Del Lupo, China Grill, Red Square and Border Grill, as well as a House of Blues nightclub and restaurant, including its signature Foundation Room situated on the resort's top floor. Additional amenities include a 125,000-square-foot convention facility and a 30,000-square-foot spa. The property offers multiple entertainment venues that include Shark Reef at Mandalay Bay featuring sharks and rare sea predators, a 1,700-seat showroom, the rumjungle nightclub and a 12,000-seat special events arena that features entertainment and sporting events.

We have commenced construction of a convention and meeting complex located adjacent to the existing Mandalay Bay Conference Center. The complex will include more than one million square feet of exhibit space. Upon completion of the project, Mandalay Bay will offer a total of almost two million gross square feet of conference and exhibit space. Following the events of September 11, construction on the facility was temporarily suspended. We have resumed construction, and the facility is currently expected to open in January 2003. The cost of the convention center, excluding land, preopening expenses and capitalized interest, is estimated to be \$235 million. As of January 31, 2002, we had incurred costs of \$61.6 million related to this project.

**Luxor.** This property is an Egyptian-themed hotel and casino complex situated on 64 acres of 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 featuring the off-Broadway show "Blue Man Group" which opened in March 2000, 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 state-of-the-art "inclinators" which 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 with a seating capacity of approximately 800, eight restaurants including three 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 on a 53-acre site immediately to the north of Luxor. Excalibur's public areas include a Renaissance fair, a medieval village, an amphitheater with a seating capacity of nearly 1,000 where nightly mock jousting tournaments and costume drama are presented, two dynamic motion theaters, various artisans' booths and medieval games of skill. In addition, Excalibur has a buffet restaurant with a seating capacity of approximately 1,000, six themed restaurants, as well as several snack bars, cocktail lounges and a variety of specialty shops.

**Circus Circus-Las Vegas.** This property, which is our original resort, is a circus-themed hotel and casino complex situated on approximately 69 acres 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. Also available to the guests at Circus Circus-Las Vegas are four specialty restaurants, a buffet with a seating capacity of approximately 1,000, a coffee shop, four fast food snack bars, several cocktail bars and a variety of gift shops and specialty shops. 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, an IMAX motion base ride, several rides and attractions designed for preschool age children, themed carnival-style midway games, a state-of-the-art arcade, a 65-foot waterfall, animated life-size dinosaurs, food kiosks and souvenir shops, all in a climate-controlled setting under a giant space-frame dome. Circus Circus-Las Vegas also offers accommodations for approximately 400 recreational vehicles at the property's Circusland Recreational Vehicle Park.

**Monte Carlo (50% owned).** Through wholly owned subsidiaries, we are a 50% participant with MRGS, a subsidiary of MGM MIRAGE, in our Las Vegas joint venture, Victoria Partners, which owns Monte Carlo, a hotel and casino resort situated on 46 acres with approximately 600 feet of frontage on the Las Vegas Strip. We are the managing partner of this joint venture. Monte Carlo is situated between Bellagio, a 3,000-room resort owned and operated by MGM MIRAGE and connected to Monte Carlo by a monorail, and New York-New York, a

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2,000-room hotel-casino resort owned 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 15,000 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 two specialty restaurants, a buffet with a seating capacity of approximately 450, 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 subsidiary, we are a 50% participant with Eldorado Limited Liability Company in Circus and Eldorado Joint Venture, a Nevada general partnership which owns and operates Silver Legacy, a hotel-casino and entertainment complex situated on two city blocks in downtown Reno, Nevada. Silver Legacy is situated between our 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 with Circus Circus-Reno and the Eldorado at the mezzanine level by enclosed climate-controlled skyways above the streets between the respective properties. The property's exterior is themed to evoke images of historical Reno. At the main pedestrian entrances to the casino (located on all four sides of the complex), patrons enter by passing store fronts reminiscent of turn-of-the-century Reno. Silver Legacy's attractions include a 120-foot tall mining rig, which is situated over a replica of a silver mine and extends up from the center of the casino floor into a 180-foot diameter dome structure. Silver Legacy also features four restaurants and several bars, a 25,000-square-foot 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.

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### ***Laughlin, Nevada***

Laughlin is situated on the Colorado River at the southern tip of Nevada approximately 90 miles south of Las Vegas.

***Colorado Belle.*** This property is situated on a 22-acre site on the bank of the Colorado River (with nearly 1,080 feet of river frontage) in Laughlin, Nevada. Colorado Belle, which features a 600-foot replica of a Mississippi riverboat, includes a 350-seat 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 situated on a 16-acre site adjacent to Colorado Belle with nearly 1,640 feet of frontage on the Colorado River. Edgewater's facilities include a specialty restaurant, a coffee shop, a 600-seat 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-Jean.*** This property is an "Old West" themed hotel-casino located on approximately 51 acres of land on the east side of Interstate-15. The property has, among other amenities, a swimming pool and spa, several restaurants, a banquet center which is equipped to serve 260 people, 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 on approximately 55 acres of land across Interstate-15 from Gold Strike. Nevada Landing includes a 70-seat Chinese restaurant, a full-service coffee shop, a buffet with a seating capacity of 140, a snack bar, a gift shop, a swimming pool and spa and a 300-guest banquet facility.

### ***Henderson, Nevada***

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Henderson is a suburb located southeast of Las Vegas.

**Railroad Pass.** This property is situated on approximately 56 acres 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 that will accommodate approximately 200 guests. In contrast with our other Nevada properties, Railroad Pass caters to local residents, particularly from Henderson, who may prefer the informal atmosphere and easy access of Railroad Pass over the casinos on the Las Vegas Strip.

### *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 situated on a 24-acre site 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 300-seat buffet, a

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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).** On December 14, 1999, along with our joint venture partner, Atwater Casino Group, we opened MotorCity Casino, a temporary casino facility in Detroit, Michigan, which is being operated pending the construction of a permanent hotel-casino. The temporary facility includes, in addition to a 75,000-square-foot casino, five restaurants and a 3,800-space parking facility. The site of the permanent facility has not yet been determined, but the facility is expected to include hotel rooms, larger casino space, convention space, retail space and dining and entertainment facilities. The cost of the permanent facility, which cannot be determined at this time, will depend on a number of factors, including the decision whether we expand the temporary facility or build on a new site and the ultimate design and schedule for completion of the facility. We are committed to contribute 20% of the development costs of any permanent facility in the form of an additional investment in the joint venture and the joint venture will seek to borrow the balance of the cost. We chose to participate in this project due to Detroit's strong demographics and limited competition and to further diversify our cash flow stream.

The current development agreement for Detroit provides that Mandalay will guarantee completion of the project and will enter into a keep-well guarantee with the city, pursuant to which we could be required to contribute additional funds, if and as needed, to continue operation of the permanent facility for a period of two years. When the permanent facility is completed and opened, we will manage the property and will receive a management fee for our services from the Detroit joint venture.

The ability to construct, open and operate the planned permanent facility is contingent upon the receipt of all necessary gaming approvals and satisfaction of other conditions. See "Regulation and Licensing Michigan Gaming Laws."

Various lawsuits have been filed in the state and federal courts challenging the constitutionality of the Detroit 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. For information concerning these legal proceedings, see "Detroit Litigation" in Item 3 of this report.

### *Elgin, Illinois*

**Grand Victoria (50% owned).** Through a wholly owned subsidiary, we are a 50% participant with RBG, L.P., an affiliate of Hyatt Development Corporation, in a joint venture which owns and operates 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 is 420 feet in length and 110 feet in width, and provides a maximum 80,000 square feet of casino space, approximately 36,000 square feet of which was being used as of January 31, 2002. As a result of gaming legislation enacted in June 1999, the boat now offers dockside gaming, which means its operation is no longer restricted by fixed cruising schedules. In addition to the boat, a dockside complex with an approximately 83,000-square-foot pavilion has an approximately 400-seat buffet, a 76-seat fine dining restaurant, a VIP lounge, three movie theaters and a gift

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shop. Grand Victoria is strategically located in Elgin among the residential suburbs of Chicago, with nearby freeway access and direct train service from downtown Chicago. Grand Victoria is located approximately 20 miles and 40 miles, respectively, from its nearest competitors in Aurora, Illinois and Joliet, Illinois, and holds one of only nine riverboat gaming licenses currently granted state-wide. Recently passed legislation in Illinois would allow a casino in Rosemont, approximately 16 miles from Grand Victoria. This legislation is

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being challenged in court. Repeal of this legislation would also repeal dockside gaming. 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.

### Marketing

We have historically followed a marketing and operating philosophy which has emphasized high-volume business by providing moderately priced hotel rooms, food and beverage and alternative entertainment in combination with our gaming operations. With the opening of Mandalay Bay, which was designed to attract a higher income customer than we had previously targeted, and to a lesser extent at Luxor, we have begun to serve higher income casino customers and to host conventions. Our philosophy remains one of providing the best value in each of the market segments where we compete.

Our Mandalay Mile provides us with a unique cross-marketing opportunity where we 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 the cross-marketing of our properties, we utilize a variety of means including video screens, in-room brochures and displays located within each property and in the skyway and monorail systems that connect the Mandalay Mile properties.

In November 2001, we unveiled One Club, our player affinity program that allows cash and complimentary awards to be accumulated and redeemed in realtime across multiple properties. Our properties in Las Vegas, Laughlin, and Reno, Nevada and Tunica County, Mississippi are currently linked through the One Club system, and we anticipate that the system will be companywide (excluding Silver Legacy, which will not be a participant in the system) by the end of fiscal 2003. We believe the One Club system will help us 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.

**Mandalay Bay.** Mandalay Bay, which opened March 2, 1999, contributed 22% of our revenues in the year ended January 31, 2002 (and 22% in each of the years ended January 31, 2001 and 2000, respectively). This property offers a level of entertainment and hotel accommodations which is designed to draw a higher-income customer than we had historically targeted. Designed with a South Seas theme, Mandalay Bay offers its guests internationally renowned restaurants which provide a wide variety of dining options. Mandalay Bay's entertainment attractions include an 11-acre lagoon with a surfing beach and a lazy river ride, Shark Reef at Mandalay Bay, a House of Blues, rumjungle, a 1,700-seat showroom and a 12,000-seat special events arena where brand-name entertainment and sporting events are offered. Additional features include a 125,000-square-foot convention facility and a 30,000-square-foot spa.

We have commenced construction of a convention and meeting complex located adjacent to the existing Mandalay Bay Conference Center. The complex will include more than one million square feet of exhibit space. Upon completion of the project, Mandalay Bay will offer a total of almost two million gross square feet of conference and exhibit space. Following the events of September 11, construction on the facility was temporarily suspended. We resumed construction in the first quarter of fiscal 2003, with the facility currently expected to open in January 2003. The cost of the convention center, excluding land, preopening expenses and capitalized interest, is estimated to be \$235 million. As of January 31, 2002, we had incurred costs of \$61.6 million related to this project.

The convention center complex will further enhance our ability to attract higher-income customers to and bolster room rates at both Mandalay Bay and Luxor, particularly during the slower midweek period.

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**Luxor.** Luxor contributed 15% of our revenues in the year ended January 31, 2002 (and 16% and 17%, respectively, in the years ended January 31, 2001 and 2000). This property offers a level of entertainment and hotel accommodations which is designed to attract the top segment of the middle-income stratum of customers. Designed with an Egyptian theme and highly decorated rooms, Luxor's 30-story pyramid offers its guests a tri-level entertainment area, including an IMAX theater, dynamic motion rides, a popular nightclub and theatrical revues. This property also has 20,000 square feet of convention space, a 1,200-seat showroom featuring the unique, off-Broadway show "Blue Man Group," which

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opened in March 2000, and a spa.

**Excalibur.** Excalibur contributed 12% of our revenues in the year ended January 31, 2002 (and 12% and 14%, respectively, in the years ended January 31, 2001 and 2000). This property attracts customers by offering guest rooms, food and entertainment at medium prices. By way of entertainment, the medieval castle-themed Excalibur offers a medieval village, an amphitheater where mock tournaments and costume drama are presented, dynamic motion theaters, various artisans' booths and medieval games of skill.

**Circus Circus-Las Vegas and Circus Circus-Reno.** Circus Circus-Las Vegas and Circus Circus-Reno together contributed 15% of our revenues in the year ended January 31, 2002 (and 15% and 18%, respectively, in the years ended January 31, 2001 and 2000). Each of these properties has a popular buffet, attractive because of its variety, quality and low price. From a "Big Top" above the casino, each of these properties offers a variety of circus acts performed free of charge to the public on a daily basis. A mezzanine area overlooking each casino has a circus midway with carnival-style games and an arcade that offers a variety of amusements and electronic games. The Adventuredome, an enclosed and climate-controlled five-acre structure, offers additional theme park attractions at Circus Circus-Las Vegas.

**Colorado Belle and Edgewater.** The Colorado Belle and Edgewater together contributed 6% of our revenues in the year ended January 31, 2002 (and 7% and 8%, respectively, in the years ended January 31, 2001 and 2000). These properties offer quality rooms, food and entertainment at moderate prices. The Colorado Belle offers a classic Mississippi riverboat theme, complete with a 60-foot paddle wheel. The Edgewater's southwestern motif provides a relaxing atmosphere to enjoy that property's casino and other facilities. Connected by a scenic walkway, the two resorts form an inviting shoreline along the Colorado River.

**Gold Strike and Nevada Landing.** Gold Strike and Nevada Landing together contributed 3% of our revenues in the year ended January 31, 2002 (and 3% and 4%, respectively, in the years ended January 31, 2001 and 2000). These properties are located on opposite sides of I-15, the primary thoroughfare between Las Vegas and southern California, approximately 25 miles south of Las Vegas and 12 miles north of the California-Nevada border. The properties are conveniently located at the only highway interchange within 12 miles in either direction and are strategically positioned to attract visitors from the large number of people traveling to and from Las Vegas.

**Gold Strike-Tunica.** Gold Strike-Tunica contributed 5% of our revenues in the year ended January 31, 2002 (and 5% and 6%, respectively, in the years ended January 31, 2001 and 2000). Gold Strike-Tunica, our only wholly owned casino outside of Nevada, is part of an integrated three casino development (Casino Center) that provides patrons with the opportunity to visit any of the three casinos without driving, a unique experience in the Tunica County market.

**MotorCity Casino.** MotorCity Casino, which opened December 14, 1999, contributed 15% of our revenues in the year ended January 31, 2002 (and 13% and 2%, respectively, in the years ended January 31, 2001 and 2000). MotorCity Casino is a temporary casino facility and is one of only three licensees in Detroit, Michigan. Designed with a classic automobile theme, MotorCity Casino offers its guests four floors of gaming, dining and entertainment experiences.

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We maintain an active media advertising program through radio, television, billboards and printed publications primarily in Nevada, California and Arizona for our Nevada properties and in the Memphis area for our Gold Strike-Tunica property. In addition, we advertise on and allow patrons to make room reservations via the Internet, where we believe we are in the forefront of our competition. We also offer complimentary hotel accommodations, meals and drinks to selected customers. See also "Competition Methods By Which We Compete."

### 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.

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

	Year Ended January 31,		
2002	2001	2000	
(Dollars in thousands)			

Revenues:(1)



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Year Ended January 31,

Casino(2)	\$	1,201,707	48.8%	\$	1,221,595	48.9%	\$	925,499	45.7%
Rooms(3)		581,551	23.6%		611,352	24.5%		534,132	26.4%
Food and beverage(3)		410,276	16.7%		418,081	16.8%		346,647	17.1%
Other(3)		332,253	13.5%		299,753	12.0%		251,509	12.4%
Earnings of unconsolidated affiliates		113,287	4.6%		114,645	4.6%		98,627	4.9%
		<u>2,639,074</u>	<u>107.2%</u>		<u>2,665,426</u>	<u>106.8%</u>		<u>2,156,414</u>	<u>106.5%</u>
Less:									
Complimentary allowances(3)		177,275	7.2%		169,642	6.8%		131,509	6.5%
Net revenues	\$	<u>2,461,799</u>	<u>100.0%</u>	\$	<u>2,495,784</u>	<u>100.0%</u>	\$	<u>2,024,905</u>	<u>100.0%</u>

- (1) Includes operations of Silver City to October 31, 1999, operations of Mandalay Bay from March 2, 1999 and MotorCity Casino from December 14, 1999.
- (2) 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.
- (3) Rooms, 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 revenue.

We maintain stringent cost controls which historically have been exemplified by a general policy of offering minimal credit to gaming customers at our properties. Since its opening in March 1999, Mandalay Bay has extended credit to gaming customers on a selective basis in an effort to appeal to a broader segment of the gaming market. We had begun following this policy at Luxor during fiscal 1998. 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, to a lesser extent, 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 collection agencies and civil litigation. Nevada gaming debts evidenced by written credit instruments are

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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 conditions in the customers' home countries.

Our current operations at each of our casinos 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.

We do not consider our business to be highly seasonal, although our operating income is typically somewhat lower in the fourth quarter, affected by slower travel leading up to the holiday period. While our business is not considered to be highly seasonal, our results from quarter-to-quarter are more event driven than a lot of other businesses. 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.

In connection with our gaming activities, we follow a policy of stringent controls and cross checks on the recording of all receipts and disbursements. The audit and 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**

As in the past, we will continue to evaluate potential new investments as opportunities arise. New investments may involve the expansion of existing facilities or the development of new properties. Projects may be undertaken in Nevada, where all but one of our wholly owned operating properties are currently located, or in other jurisdictions within the United States or abroad where gaming has been legalized. Our new investments may be in properties that are wholly owned and operated by us, or may be in properties that are developed, owned and/or operated through joint ventures with one or more other parties.

**Mandalay Mile.** We are currently constructing a 1.8 million square-foot convention and meeting complex on our Mandalay Mile, which is the site of Mandalay Bay, our most recently completed resort, as well as our Luxor and Excalibur properties. The new facility will be located adjacent to the existing Mandalay Bay Conference Center. Upon completion of the new facility, which will include more than one million square feet of exhibit space, Mandalay Bay will offer a total of almost two million gross square feet of conference and exhibit space. Following the events of September 11, construction on the new facility was temporarily suspended. We have resumed construction, and the facility is currently

expected to open in January 2003. The cost of the convention center, excluding land, preopening expenses and capitalized interest, is estimated to be \$235 million. As of January 31, 2002, we had incurred costs of \$61.6 million related to this project. At this time, we have not determined the timing, scope or design of any additional development on our Mandalay Mile.

**Detroit, Michigan.** For information concerning the planned construction of a hotel-casino in downtown Detroit, Michigan, see "Property Descriptions Detroit, Michigan."

**Construction Risks.** Any major construction project that we, or any joint venture in which we own an interest, may undertake will involve many risks, including potential shortages of materials and labor, work stoppages, labor disputes, weather interference, unforeseen engineering, environmental or geological problems and unanticipated cost increases, any of which could give rise to delays or cost overruns. Construction, equipment or staffing requirements or problems or difficulties in obtaining any of the requisite licenses, permits, allocations or authorizations from regulatory authorities could increase the cost or delay the construction or opening of the facilities or otherwise affect the planned design and features. It is possible that any budget and construction plans developed for a project may be changed for competitive or other reasons. In addition, construction by our Detroit joint venture of a proposed hotel-casino in downtown Detroit, Michigan is dependent on the approval of the Detroit City Council to allow the permanent facility to be built on the temporary casino site or the acquisition of a permanent

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site at another location and the satisfactory resolution of pending litigation. See "Detroit Litigation" in Item 3 of this report. Accordingly, there can be no assurance as to the commencement or successful completion of any projects that we, or any joint venture in which we are a participant, may undertake, including the one contemplated by the Detroit joint venture.

### **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;

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. Additionally, numerous California tribes have announced that

they intend to open gaming facilities. Most existing Native American gaming facilities in California are modest compared to the larger Las Vegas and Reno casinos. However, numerous Native American tribes have announced that they are in the process of developing or are considering establishing large-scale hotel and gaming facilities in California. We believe the operation of Native American casinos in California and Arizona has 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 under Proposition 1A, 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***

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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 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 tourists as "must see" properties. In pursuing this competitive strategy, we and our joint ventures have developed properties that are distinctively themed and that we believe provide customers with a memorable experience. To enhance our competitive position at our properties, we also offer the respective entertainment options, dining venues and other attractions described above under the caption "Property Descriptions."

The strategic locations of our resort properties in all of the markets in which we compete, particularly those properties which are interconnected along Mandalay Mile, are also a key competitive advantage. In Las Vegas, for example, our Mandalay Mile properties are located off the first major freeway exit coming 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 which represents an attractive value 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 budget-minded guest, to Mandalay Bay, which is directed to the high-end of the market. With the opening of Mandalay Bay, which includes a Four Seasons hotel, we increased our commitment to providing additional amenities for our upscale clientele and expanded our target market to include premium clientele.

In November 2001, we unveiled One Club, our player affinity program that allows cash and complimentary awards to be accumulated and redeemed in realtime across multiple properties. Our properties in Las Vegas, Laughlin, and Reno, Nevada and Tunica County, Mississippi are currently linked through the One Club system, and we anticipate that the system will be companywide (excluding Silver Legacy, which will not be a participant in the system) by the end of fiscal 2003. We believe the One Club system will help us 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.

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

We believe Mandalay is one of the four largest hotel/casino operators in the U.S., in terms of revenues, room base and casino space.

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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 one of the three largest casino operators in Las Vegas, which together make up nearly two-thirds of this market. We are the second largest hotel operator in Las Vegas (with four of our resorts ranking among the five largest in Las Vegas) in terms of the number of guest rooms. Our Las Vegas operations, which are conducted from properties located along the Las Vegas Strip, compete with a large number of other hotel-casinos in the Las Vegas area. Currently there are over 25 hotel-casinos, including our own, that are 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, approximately five miles from the center of the Strip, 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.

In recent years, casino and guest room capacity increased significantly in the Las Vegas market. During the period from October 1998 through August 2000, five major hotel-casino resorts, including our own Mandalay Bay, opened on the Las Vegas Strip. As a result of these openings, the number of guest rooms increased by approximately 15,000, including those at Mandalay Bay. During calendar 2001, the number of guest rooms in Las Vegas increased by approximately 2,300, or approximately 2%. Additional new hotel-casinos and expansion projects at existing Las Vegas properties have been proposed, and it is anticipated that others will be. The impact on our future operations of Las Vegas' increased hotel and casino capacity and any capacity subsequently opened in or around Las Vegas cannot be determined at this time, nor can we determine at this time the impact on our future operations in Las Vegas of any additional growth in Native American gaming, particularly in southern California and Arizona.

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The three resorts located on our Mandalay Mile, which is the site of our newest resort as well as our two largest ones, also compete with other Las Vegas properties by offering their guests the ability to experience three distinctively themed resorts that are conveniently connected by a monorail system as well as a climate-controlled skyway system with strategically positioned moving walkways.

Our new convention center complex, described above under the caption "Property Descriptions Mandalay Bay," will further enhance our ability to attract higher-income customers to and bolster room rates at both Mandalay Bay and Luxor, particularly during the slower mid-week period.

**Reno, Nevada.** Circus Circus-Reno, our only wholly owned resort in Reno, competes principally with eight other hotel-casinos that, like Circus Circus-Reno, each 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, to a lesser extent, with casinos and hotels in Lake Tahoe and other parts of Nevada and Native American casinos in northern California and the Northwest. The Reno market has begun to encounter increased competition from Native American casinos in northern California. Following the approval of Proposition 1A, these Native American casinos began adding more and newer (i.e., more competitive) slot machines, which has had a negative impact on our Reno area properties, and numerous Native American tribes are at various stages of planning new or further expanded facilities and some have

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announced that they are in the process of developing or are considering establishing large-scale hotel and gaming facilities in northern California.

**Laughlin, Nevada.** In Laughlin, the Colorado Belle and the Edgewater, which together accounted for approximately 25% of the rooms in Laughlin as of January 31, 2002, compete with eight other Laughlin casinos. The 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. As a result of the downturn in operating results, we recognized an impairment loss in the current fiscal year. See Note 1 of Notes to Consolidating Financial Statements in Item 8 of this report. 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, than any of the other facilities currently in operation in Tunica County. Gold Strike-Tunica's hotel tower provides this property with the second largest number of guest rooms in the Tunica County market. We believe the slow economy has had a more pronounced effect on this region, creating heightened competition for business.

**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 holds one of only nine riverboat gaming licenses currently granted in Illinois, and produces the highest casino revenues of any riverboat in that market (based on results for calendar 2001). It is located approximately 20 miles and 40 miles, respectively, from its nearest competitors in Aurora, Illinois and Joliet, Illinois. Recently passed legislation in Illinois would allow a casino in Rosemont, approximately 16 miles from Grand Victoria. This legislation is being challenged in court. Repeal of this legislation would also repeal dockside gaming.

**Detroit, Michigan.** MotorCity Casino, a 53.5% owned temporary 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.

## 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.

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. 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:

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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:

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 January 25, 2001, 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.

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 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

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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 casino entertainment tax is also paid by casino operations where entertainment is furnished in connection with the selling or serving 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 6.25% 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;

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

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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 affect 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, 2002, 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.

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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 and August 21, 2000. 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 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 Mississippi Gaming Commission has adopted a policy that may permit institutional investors to own beneficially up to 15% of a registered public or private company's common stock without a finding of suitability.

Under certain circumstances, an "institutional investor," as defined by the Mississippi Gaming Commission's Policy on Findings of Suitability of Institutional Shareholders (adopted January 20, 2000 and amended June 21, 2001), 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;

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serving as a member of any committee of creditors or security holders;

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

accepting appointment or election (or having a representative accept 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.

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;

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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 February 18, 2002, 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 February 18, 2002 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.

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:

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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.

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.

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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.

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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 grandfathered 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

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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.

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.



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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. Pursuant to the amended Illinois Act, the former owner and operator of the East Dubuque riverboat has applied for renewal of its license and to relocate its operation to Rosemont, Illinois. The Illinois Board recently voted to deny this renewal application. Pursuant to Illinois Board rules, this entity filed a Request for Hearing, thereby challenging the Illinois Board's action. Therefore, this license may be the subject of on-going litigation. 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 amended Illinois Act was challenged. The lawsuit was dismissed because the court determined that the plaintiff lacked standing to challenge the amended act. The Plaintiff has appealed this decision. Because there is no assurance that the circuit court decision will be

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affirmed on appeal. If there is on-going litigation, there is no assurance that the amended Illinois Act will be upheld as constitutional. If the amended Illinois Act is deemed unconstitutional, all of the new provisions would no longer be in effect. Specifically, in that situation, riverboats would have to return to cruising in order to conduct gaming.

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;

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. 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

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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;

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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;

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 amended Illinois Act, a \$2.00 admission tax is imposed for each admission to a riverboat casino. Additionally, a wagering tax is imposed on the adjusted gross receipts, as defined in the Illinois Act, of a riverboat operation. As of January 1, 1998, the wagering tax is as follows:

15% of adjusted gross receipts up to and including \$25,000,000;

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20% of adjusted gross receipts in excess of \$25,000,000 but not exceeding \$50,000,000;

25% of adjusted gross receipts in excess of \$50,000,000 but not exceeding \$75,000,000;

30% of adjusted gross receipts in excess of \$75,000,000 but not exceeding \$100,000,000; and

35% of adjusted gross receipts in excess of \$100,000,000.

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,

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or that would discredit or tend to discredit the Illinois gaming industry or the State of Illinois. Any 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;

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

pay all secured and unsecured obligations;

institute or define 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:

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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.

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

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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.

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;

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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

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;

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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 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*

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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.

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.

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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:

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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.

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.

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.



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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 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

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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

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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.

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;

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;

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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.

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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.

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 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 has a Development Agreement with the City of Detroit, which is currently in effect. Over the course of our negotiations with the City regarding a permanent facility, which are currently ongoing, the term of the Development Agreement has been extended by a series of amendments, most recently from April 30, 2002 to June 15, 2002.

MotorCity Casino has constructed a temporary casino in accordance with the terms of the Development Agreement. This temporary casino opened on December 14, 1999. Under a plan agreed to by the City of Detroit development authorities but not yet approved by the Detroit City Council, we would expand our temporary facility into a permanent facility by adding hotel rooms, expanding our gaming areas, adding additional restaurants, retail space, convention space and other amenities. There can be no assurance that the Detroit City Council will approve the proposed plan, in which event the existing agreement to build a permanent casino at a different location would remain in effect.

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

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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.

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.

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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;

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

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.

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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

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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.

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. No assurance can be given whether additional legislation will be enacted 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 Detroit 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. See "Detroit Litigation" in Item 3 of this report.

If it is ultimately determined that either the Michigan Act or the Detroit ordinance is defective, this could result in the termination of the license to operate our temporary casino or otherwise adversely impact our ability to continue to operate that facility and could prevent or otherwise adversely impact our ability to construct, open or operate our proposed permanent hotel-casino in downtown Detroit. This may have an impact upon the validity of the Development Agreement entered into between the City of Detroit and Detroit Entertainment, L.L.C., and the casino license issued to Detroit Entertainment, L.L.C.

Litigation challenging the condemnation of real property by the City of Detroit for the permanent casino construction site near the Detroit Riverfront has been initiated. As a result of this litigation, 47 pending land condemnations initiated by the City of Detroit have been dismissed. The litigation surrounding the condemnation of land near the Detroit Riverfront for use in construction of the permanent casinos in the City of Detroit could substantially delay the construction of the permanent casino by Detroit Entertainment, L.L.C. The Mayor of Detroit has entered into negotiations with the three casino licensees, including MotorCity Casino, regarding placement of the permanent casinos. The Mayor of Detroit has proposed that MotorCity Casino be permitted to develop its permanent casino at or near the site of MotorCity Casino's temporary casino. This proposal must be approved by the Detroit City Council. No assurance can be given regarding what action, if any, the Detroit City Council will take regarding the Mayor of Detroit's proposal. In addition, no assurance can be given regarding the location of the permanent casino, the final cost for construction of the permanent casino or when, or whether, the permanent casino will be constructed.

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### ***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 required licenses and permits and that our businesses and those of our joint ventures are conducted in substantial compliance with applicable laws.

### ***The National Gambling Impact Study Commission's Recommendations***

On April 28, 1999, the National Gambling Impact Study Commission established by the United States Congress to conduct a comprehensive study of the social and economic impact of gaming in the United States voted to recommend that the expansion of gambling be curtailed. In June 1999, the National Commission issued a final report of its findings and conclusions, together with recommendations for legislative and administrative actions, including a recommendation to restrict legal gaming to those at least 21 years of age. Any additional regulation of the gaming industry which may result from the National Commission's report may have an adverse affect on the gaming industry, including Mandalay.

### ***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 aliens. 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, 2002, we and the joint ventures in which we participate employed approximately 33,300 persons. As of January 31, 2002, approximately 42% of these employees were employed pursuant to the terms of collective bargaining agreements. The agreement with the Hotel Employees and Restaurant Employees International Union covering approximately 10,000 of our employees at our six Las Vegas Strip properties expires May 31, 2002, and a new agreement is currently being negotiated. The union's collective bargaining agreements with other major Las Vegas operators also expire May 31, 2002. The union has indicated that it is currently planning a strike authorization vote on May 15, 2002

that would authorize its negotiating committee to call a strike after the current contract expires (if the parties are not successful negotiating a new contract) without requiring a second vote by union members. There can be no assurances as to our ability to successfully negotiate a new contract to avoid a work stoppage. The last work stoppage experienced at any property we own or at any property owned by any joint venture in which we participate was an industry-wide strike in 1975. The contracts with our other major unions have remaining terms ranging from one to four years.

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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 could affect our ability to attract and retain qualified employees for gaming operations we or joint ventures in which we participate conduct outside Nevada.

### 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 Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by us, including our 2002 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.

Such 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, in Mandalay's Annual Report to Stockholders for fiscal 2002 and 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

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could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

As described under "Competition," we and the joint ventures in which we participate operate in a very competitive environment, particularly in Las Vegas. 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.

Legalization of gaming in any additional jurisdictions from which our properties or those of one of our joint ventures draw their visitors, including jurisdictions near our joint venture properties located near Detroit, Michigan and Elgin, Illinois, or



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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.

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. 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.

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 have been ruled illegal by Mississippi state trial court judges. The proponents of the most recent referendum appealed the trial court ruling, which was affirmed by the Mississippi Supreme Court. Any such referendum must be approved by the Mississippi Secretary of State and signatures of approximately 91,700 registered voters must be gathered and certified in order for such a proposal to be included on a statewide ballot for consideration by the voters. An affirmative vote representing both a majority of the votes cast with respect to the initiative and at least 40% of the voters casting votes on any matter in the election is required to pass any Mississippi initiative. The next election for which the proponents could attempt to place such a proposal on the ballot would be in November 2003. 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 gaming joint ventures in which we participate. As a result of federal legislation passed in 1996, the National Gambling Impact Study Commission conducted a two-year study of the gaming industry in the United States and reported its findings and recommendations to Congress in June 1999. It is possible that this report may result in additional regulation and taxation of the gaming industry.

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

Our Nevada properties and those of the two Nevada joint ventures in which we participate are affected by economic conditions in California. Our operations at Mandalay Bay may also be susceptible to the effects of economic conditions in the Far East, from where a majority of our high-end players originate.

During the past year, utility costs in California and Nevada increased significantly and areas of California experienced mandated periods without electrical power, commonly referred to as "blackouts," necessitated by power shortages. Elimination of the power shortages which have caused the recent rate increases and blackouts require longer-term solutions which will be complicated by continued population growth in the southwestern United States, including California and Nevada. Further rate increases and/or blackouts, should they occur in California and/or Nevada, could have a material negative effect on our operations and the operations of the Nevada joint ventures in which we participate.

We and the joint ventures in which we participate are large consumers of electricity and other energy. Accordingly, the substantial increases in energy costs which occurred at our Nevada properties over the past year and any additional increases that may occur may have a negative impact on our future operating results. Additionally, higher energy and gasoline prices

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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.

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

Any construction, including the convention center currently being constructed at Mandalay Bay and the permanent facility our Detroit joint venture proposes to build, 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. From time to time, various state and federal legislators and officials have proposed changes in tax laws, or in the administration of the laws, affecting the gaming industry. Proposals in recent years that have not been enacted included a federal gaming tax and increases in state or local taxes.

We believe that our recorded tax balances are adequate. However, it is not possible to determine with certainty the likelihood of possible changes in the tax laws or their administration. These changes, 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 and the ratings which national rating agencies assign to outstanding debt securities. In addition, 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

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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 these attacks as well as any similar attacks and/or future security alerts 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.

Any significant interruption in, or interference with, operations at one or more of our properties, or those of the joint ventures in which we participate, whether caused by a work stoppage or otherwise, could adversely impact our operations.

### ITEM 2. PROPERTIES.

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**Mandalay Bay.** We own approximately 60 acres of land, with approximately 1,300 feet of frontage, on the Las Vegas Strip and Mandalay Bay which is situated on the site. For additional information concerning Mandalay Bay, see "Overview" and "Property Descriptions Las Vegas, Nevada Mandalay Bay" in Item 1 of this report.

**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, which is situated on the northern portion of the parcel, and Luxor, which is situated on such site to the south of Excalibur. For additional information concerning Luxor and Excalibur, see "Overview" and "Property Descriptions Las Vegas, Nevada Luxor" and Excalibur" in Item 1 of this report.

**Circus Circus-Las Vegas.** We own approximately 69 acres of land, with approximately 375 feet of frontage on the Las Vegas Strip, and Circus Circus-Las Vegas which is situated on the site. For additional information concerning Circus Circus-Las Vegas, see "Overview" and "Property Descriptions Las Vegas, Nevada Circus Circus-Las Vegas" in Item 1 of this report.

**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. For additional information concerning Circus Circus-Reno, see "Overview" and "Property Descriptions Reno, Nevada Circus Circus-Reno" in Item 1 of this report.

**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. For additional information concerning the Colorado Belle Hotel and Casino, see "Overview" and "Property Descriptions Laughlin, Nevada Colorado Belle" in Item 1 of this report.

**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. For additional information concerning the Edgewater Hotel and Casino, see "Overview" and "Property Descriptions Laughlin, Nevada Edgewater" in Item 1 of this report.

**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. For additional information concerning

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Gold Strike, see "Overview" and "Property Descriptions Jean, Nevada Gold Strike-Jean" in Item 1 of this report.

**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. For additional information concerning Nevada Landing, see "Overview" and "Property Descriptions Jean, Nevada Nevada Landing" in Item 1 of this report.

**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. For additional information concerning Railroad Pass, see "Overview" and "Property Descriptions Henderson, Nevada Railroad Pass" in Item 1 of this report.

**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. For additional information concerning Gold Strike-Tunica, see "Overview" and "Property Descriptions Tunica County, Mississippi Gold Strike-Tunica" in Item 1 of this report.

**MotorCity Casino.** We hold a 53.3% interest in the joint venture that owns and operates MotorCity Casino, a temporary casino facility. MotorCity Casino and its related amenities are located on approximately 12 acres of land which we own or lease 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 additional information concerning MotorCity Casino, see "Overview" and "Property Descriptions Detroit, Michigan MotorCity Casino" in Item 1 of this report.

**Other Real Property.** Slots-A-Fun is situated on a 30,000-square-foot parcel that we own and has approximately 100 feet of frontage on the Las Vegas Strip.

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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 the site on which we are constructing a new convention center, and approximately 15 acres located across the Las Vegas Strip from Luxor.

We own 60 acres of land in Jean, Nevada to the north of Gold Strike and approximately 89 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, 2002, none of the aforementioned properties we own was subject to any encumbrance securing the repayment of indebtedness.

**Joint Venture Interests.** Mandalay, either directly or through wholly owned subsidiaries, owns:

a 50% interest in the Elgin 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;

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

a 53.5% interest in the joint venture entity which owns and operates MotorCity Casino, a temporary casino in Detroit, Michigan.

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Reference is made to the information concerning these joint venture properties appearing under the captions "Overview" and "Property Descriptions" in Item 1 of this report, which information is hereby incorporated in this Item 2 by this reference.

The following table sets forth for each of our joint venture properties the principal amount of indebtedness secured by encumbrances on that property as of January 31, 2002.

<b>Property</b>	<b>Amount</b>
	<b>(in millions)</b>
Silver Legacy	\$ 146.5*
Monte Carlo	87.0
MotorCity Casino	64.0
Grand Victoria	

\*

On March 5, 2002, Silver Legacy issued \$160 million of 10<sup>1</sup>/<sub>8</sub>% Mortgage Notes due 2012. Contemporaneously with the issuance of the notes, Silver Legacy entered into a new senior secured credit facility, comprised of a \$20 million revolving credit facility and a \$20 million amortizing term loan. The net proceeds of the note offering, combined with draws under the new credit facility, were used to repay the prior credit facility (\$152.3 million) and to fund a \$30 million distribution to the Silver Legacy partners (\$20 million of which was distributed to Mandalay). Immediately following the transactions, total long-term debt of Silver Legacy was approximately \$187 million, all of which was secured by encumbrances on substantially all of Silver Legacy's assets.

### 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. The plaintiffs have filed supplemental authorities in support of the motion for class certification and defendants have responded to those authorities. The plaintiffs' motion for class certification has been fully briefed and is pending before the court for a ruling. The court had previously stayed all discovery as to the merits of this case pending determination of the motion for class certification. However, on March 27, 2002, the court announced that it would permit merit discovery limited only to those particular casinos which the named plaintiffs identify as places where they played video poker or electronic slot machines. Otherwise, merit discovery has been stayed. We are aware that the named

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plaintiffs contend that they played video poker or electronic slot machines at Circus Circus-Las Vegas. Thus, merit discovery can begin as to that property.

#### *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 plaintiff is taking the position in the District Court that all three Detroit casino licenses, including the MotorCity Casino license, should be rebid in a new competitive selection process and, in addition, that pending completion of the rebidding process, all three casinos should be placed in conservatorship under the Michigan Act. MotorCity Casino and the other two Detroit casinos have each filed briefs with the District Court stating that, for various legal and equitable reasons, the plaintiff is not entitled to the relief it has requested. The matter is presently pending before the District Court which has declared that "the Ordinance in its current form is unconstitutional." The effect of the rulings in this case is uncertain. The plaintiff has also requested the Michigan Gaming Control Board to place the three Detroit casinos, including MotorCity Casino, into conservatorship under the Michigan Act. The Michigan Gaming Control Board has taken the ruling of the Sixth Circuit Court of Appeals and the plaintiff's request under advisement without comment. The plaintiff filed a lawsuit on April 12, 2002, against the Michigan Gaming Control Board in the Circuit Court of Gogebic County, Michigan, seeking to compel the Board to place the three Detroit casinos into conservatorship. While Mandalay is not a party, our Detroit Joint Venture has intervened in the *Lac Vieux* lawsuit. Depending on the eventual outcome of this litigation, the continued operation of our Detroit joint venture's temporary facility, and/or its ability to retain its certificate of suitability and casino license for its permanent facility, could be adversely affected or even precluded.

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On February 13, 2002, John Ren filed suit in the Circuit Court of Wayne County, Michigan against our Detroit joint venture and the other two casino operations in Detroit. The plaintiff purports to represent himself and a class consisting of all persons who lost money and/or incurred debts that remain unpaid at any of the three Detroit casinos. Relying on the Sixth Circuit Court of Appeal's *Lac Vieux* decision, the plaintiff alleges that the three casinos have been operating illegally and continue to do so. The relief sought by the plaintiff includes an injunction to restrain the three casinos from remaining open until properly licensed, compensatory damages, and disgorgement of all profits "unjustly obtained." On April 9, 2002, the Wayne County Circuit Court dismissed the plaintiff's lawsuit. The plaintiff has the right to appeal the dismissal of the lawsuit.

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

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.

No matter was submitted to a vote of Mandalay's security holders during the fourth quarter of the fiscal year ended January 31, 2002.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

*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 2002</b>	<b>Low</b>	<b>High</b>
First Quarter	\$ 18.79	\$ 23.95
Second Quarter	\$ 23.35	\$ 27.89
Third Quarter	\$ 13.90	\$ 25.60
Fourth Quarter	\$ 16.16	\$ 27.39
<b>Fiscal 2001</b>	<b>Low</b>	<b>High</b>
First Quarter	\$ 12.88	\$ 19.44
Second Quarter	\$ 18.50	\$ 24.94
Third Quarter	\$ 19.00	\$ 28.38
Fourth Quarter	\$ 18.00	\$ 22.44

*Holders.* On April 22, 2002 there were 2,966 holders of record of Mandalay's common stock.

*Dividends.* During fiscal 2001 and fiscal 2002, Mandalay did not pay any cash dividend on its common stock, which is Mandalay's only outstanding class of equity securities. While we did not pay any cash dividends during those periods, 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 our share repurchase authorizations. For information concerning our recent share repurchase activity and our current share repurchase authorizations, 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

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Financial Condition and Results of Operations under the captions "Share Repurchases" and "Equity Forward Agreements."

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**ITEM 6. SELECTED FINANCIAL DATA.**

	Year ended January 31,				
	2002	2001	2000	1999	1998
(amounts in thousands, except per share amounts)					
<b>Operating Results:(1)</b>					
Net Revenues	\$ 2,461,799	\$ 2,495,784	\$ 2,024,905	\$ 1,454,465	\$ 1,335,686
Income from operations	351,060	431,534	273,736	242,779	236,500
Pretax income	93,006	194,392	103,116	140,815	147,922
Net income	53,044	119,700	42,163	85,198	89,908
Basic earnings per share	\$ .73	\$ 1.53	\$ .47	\$ .90	\$ .95
Diluted earnings per share	\$ .71	\$ 1.50	\$ .46	\$ .90	\$ .94
<b>Balance Sheet Data:</b>					
Total assets	\$ 4,037,034	\$ 4,248,266	\$ 4,329,476	\$ 3,869,707	\$ 3,263,548
Long-term debt	2,482,087	2,623,597	2,691,292	2,259,149	1,788,818
Stockholders' equity	940,609	1,068,940	1,187,780	1,157,628	1,123,749

(1) Mandalay Bay opened on March 2, 1999 and MotorCity Casino opened on December 14, 1999. Silver City, a small casino on the Las Vegas Strip, was operated under a lease which expired October 31, 1999.

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

*Fiscal 2002 Compared with Fiscal 2001*

**SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS IN FISCAL 2002**

*September 11, 2001*

The terrorist attacks of September 11, 2001, had a pronounced effect on our operating results for the year ended January 31, 2002. This effect was felt primarily at our Las Vegas properties, which generate approximately two-thirds of our operating income. Our Las Vegas properties, with almost 19,000 hotel rooms, are dependent on air travel for a significant portion of their customers. This is particularly true at our more upscale resorts, Mandalay Bay and Luxor, where over 50% of the hotel customers arrive via plane. As a result of the terrorist attacks, air travel plummeted nationally. Passenger counts at McCarran International Airport in Las Vegas fell almost 20% over the last four months of 2001, leading to an overall 4.5% decline for the year. Visitor volume to Las Vegas declined 2.3% in 2001, despite being up 1% for the year-to-date period prior to September 11. The decreases in air traffic and visitor volume caused declines in the number of customers staying at and visiting our Las Vegas properties. This situation was particularly acute immediately following the attacks, when occupancy levels at our Las Vegas properties fell to the mid-60% range, compared to a normal occupancy above 90%. These factors led to declines in revenues and operating income at our Las Vegas properties during the fiscal year.

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Our operations in Reno, Laughlin and Jean, Nevada, were not as vulnerable to the aftermath of September 11. These markets are essentially drive-in markets. While air traffic fell sharply following the attacks, automobile traffic to Laughlin and Jean actually rose, while traffic to Reno showed a modest drop.

Our joint venture properties in Elgin, Illinois, and Detroit, Michigan, did not reflect any adverse impact from the terrorist attacks, as their revenues and operating income after September 11 were higher than they had been in the previous year. These properties serve essentially locals markets (a majority of our customers live within a relatively short distance of the properties) and so were minimally affected by travel concerns in the aftermath of the attacks. Detroit also benefitted from the temporary closure of the U.S./Canadian border immediately following the terrorist attacks (and from subsequently increased security), which impeded access from the U.S. to a competing property in Windsor, Ontario.

In response to the terrorist attacks, we took several steps to minimize their effect on our operations and our financial position. We temporarily (until February 2002) suspended construction of our new convention center at Mandalay Bay (see "Financial Position and Capital Resources" for more details); delayed or suspended all other discretionary capital spending; and laid off a portion of our workforce. We laid off approximately 4,500 employees at the beginning of October (out of a total workforce of over 30,000 employees, including those at our joint ventures), mostly at our Las Vegas properties. Additionally, wage levels were frozen for nonunion personnel and bonuses were reduced for many management level employees. We also made several financing decisions designed to enhance our liquidity, such as amending our credit facilities to ease financial covenants, issuing additional senior subordinated notes and entering into additional operating lease arrangements. (See "Financial Position and Capital Resources" for additional details regarding these financing activities.) We cannot predict the extent to which the events of September 11 will continue to directly or indirectly impact our operating results in the future, nor can we predict the extent to which future security alerts and/or additional terrorist attacks may impact our operations.

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### *Economic Recession*

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 substantial portion of our customers (e.g., California). However, we believe the broad economic recession that affected the country throughout most of 2001 and into 2002, and that was exacerbated by the terrorist attacks on September 11, contributed to the downturn in our results for fiscal 2002.

### *Expansion of Native American Gaming*

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 ones. Significant expansion occurred in the latter part of fiscal 2001 and the early part of fiscal 2002. The result has been a decline in operating results at our properties in the secondary markets of Reno, Laughlin and Jean, Nevada. The impact of expanded Native American gaming has been particularly significant at the Gold Strike and Nevada Landing in Jean, and was the principal factor behind the impairment loss that was recognized at those properties in fiscal 2002 (see discussion under "Results of Operations"). While most existing Native American gaming facilities in California are modest compared to our Nevada casinos, numerous Native American tribes have announced they are developing or are considering establishing large-scale hotel and gaming facilities in California. Numerous other tribes are at various stages of planning new or expanded facilities. The continued growth of Native American gaming establishments in California (as well as elsewhere in the country) could have a material adverse effect on our operations.

## **RESULTS OF OPERATIONS**

### *Earnings per Share*

For the year ended January 31, 2002, we reported net income of \$53.0 million, or \$.71 per diluted share, versus \$119.7 million, or \$1.50 per diluted share, for the year ended January 31, 2001.

The decrease in earnings per share was attributable primarily to an impairment loss of \$52.0 million in fiscal 2002 related to the write-down of the carrying value of our two Jean properties, Gold Strike and Nevada Landing. This write-down reflects the downturn in operating results at these properties over the past few years due to the continued expansion of Native American casinos in California. The write-down was made in accordance with Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121"). Of the \$52.0 million write-down, \$17.9 million represented goodwill. Results for fiscal 2002 also include preopening expenses of \$2.2 million related to the new convention center currently under construction at Mandalay Bay.



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Fiscal 2002 earnings were affected as well by the September 11 attacks, the recession, the expansion of Native American gaming and higher utility costs. Utility costs rose \$12.7 million, or 28%, at our wholly owned properties, with most of the increase attributable to our Las Vegas Strip properties. Utility costs were higher due to the spillover effect from the California energy crisis.

The negative effect of all of the above factors on our earnings per share was partially offset by a lower number of average diluted shares outstanding (74.5 million in fiscal 2002 versus 79.7 million in fiscal 2001) due to our purchase of shares. See "Financial Position and Capital Resources" for a discussion of our share purchase activity.

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Results for fiscal 2001 included preopening expenses of \$1.8 million related to the Shark Reef at Mandalay Bay, which opened June 20, 2000. Results also included \$3.6 million in income related to reducing a liability assumed when the Mandalay Bay site was acquired in 1995.

### Revenues

Revenues decreased \$34.0 million, or 1%, for the year ended January 31, 2002. The decrease was due primarily to the effect of September 11 on our Las Vegas Strip properties, whose revenues were down \$33.6 million, or 2% (including our 50% share of the operating income of Monte Carlo). Revenues also declined at our other Nevada properties, mainly because of expanded Native American gaming in California. In Reno revenues decreased \$6.2 million, or 4% (including our 50% share of the operating income of Silver Legacy); in Laughlin they were down \$11.5 million, or 7%; and in Jean they were down \$14.4 million, or 17%. These declines were partially offset by a \$33.5 million, or 10%, increase in revenues at MotorCity Casino in Detroit, Michigan.

### Casino Revenues

Casino revenues declined \$19.9 million, or 2%, in fiscal 2002. Casino revenues declined at all of our major wholly owned properties due to the impact of the significant factors discussed previously. These declines were partially offset by a \$35.4 million, or 11%, increase in casino revenues at MotorCity Casino.

### Room Revenues

Room revenues fell \$29.8 million, or 5%, in fiscal 2002. Our Las Vegas properties experienced strong growth in revenue per available room ("REVPAR") through the first part of the year, mainly as a result of increases in room rates. However, following September 11, occupancy rates declined dramatically and room rates were discounted in order to stimulate demand. As a result, REVPAR fell noticeably in the last quarter of the year. The following table compares average room rates, occupancy and REVPAR at our major wholly owned properties:

	FYE 1/31/2002			FYE 1/31/2001		
	Avg. Rate	Occ.%	REVPAR	Avg. Rate	Occ.%	REVPAR
Mandalay Bay	\$ 167	80%	\$ 134	\$ 154	86%	\$ 133
Luxor	\$ 98	83%	\$ 81	\$ 98	93%	\$ 92
Excalibur	\$ 70	92%	\$ 64	\$ 70	94%	\$ 66
Circus Circus Las Vegas	\$ 55	89%	\$ 49	\$ 57	95%	\$ 54
Circus Circus Reno	\$ 54	81%	\$ 44	\$ 53	82%	\$ 43
Colorado Belle	\$ 31	80%	\$ 25	\$ 30	84%	\$ 25
Edgewater	\$ 30	78%	\$ 23	\$ 27	85%	\$ 23
Gold Strike Tunica	\$ 62	78%	\$ 48	\$ 69	76%	\$ 52
<b>Weighted average all wholly owned properties</b>	<b>\$ 81</b>	<b>83%</b>	<b>\$ 67</b>	<b>\$ 79</b>	<b>89%</b>	<b>\$ 70</b>
<b>Weighted average wholly owned Las Vegas Strip properties</b>	<b>\$ 95</b>	<b>86%</b>	<b>\$ 82</b>	<b>\$ 93</b>	<b>92%</b>	<b>\$ 85</b>
<b>Food and Beverage Revenues</b>						

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Food and beverage revenues decreased \$7.8 million, or 2%, in fiscal 2002, attributable principally to the impact that September 11 had on our Las Vegas Strip properties.

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### Other Revenues

Other revenues rose \$32.5 million, or 11%, in fiscal 2002. Other revenues come principally from amusements, retail stores and entertainment. Most of the increase was due to the success of Blue Man Group, the unique off-Broadway production which debuted in March 2000 at Luxor. The April 2001 opening of our new production, "Storm," in the Mandalay Bay Showroom also contributed to the increase, as did the Shark Reef at Mandalay Bay (which opened June 2000).

### Earnings of Unconsolidated Affiliates

We record our 50% share of the operating income of our unconsolidated joint ventures (Grand Victoria, Monte Carlo and Silver Legacy) as revenue under "Earnings of Unconsolidated Affiliates." (Results from the 53.5%-owned MotorCity Casino are consolidated for financial reporting purposes.) Earnings of unconsolidated affiliates decreased \$1.4 million, or 1%, in fiscal 2002. Decreases in results at Monte Carlo and Silver Legacy were largely offset by an increase at Grand Victoria.

### Income from Operations

For the year ended January 31, 2002, income from operations declined \$80.5 million, or 19%, from the previous year. The composite operating margin in fiscal 2002 was 14.3% versus 17.3% in fiscal 2001. The previously discussed impairment loss of \$52.0 million recognized at our Jean properties was a principal cause of the declines in operating income and operating margin. Our Las Vegas Strip properties also contributed to the declines, as the effects of September 11 depressed results in that market, particularly in the hotel department where our operating margins are typically the highest. The table below summarizes operating results by property and is followed by a discussion of operating results by market.

	FYE 1/31/2002			FYE 1/31/2001		
	Operating Income	Depreciation	EBITDA(1)	Operating Income	Depreciation	EBITDA(1)
(in millions)						
Mandalay Bay	\$ 41.6	\$ 43.4	\$ 85.0	\$ 38.4	\$ 40.8	\$ 79.2
Luxor	74.9	33.8	108.7	85.9	37.3	123.2
Excalibur	67.6	17.9	85.5	79.0	16.9	95.9
Circus Circus Las Vegas(2)	39.8	23.0	62.8	47.7	23.6	71.3
Gold Strike Tunica	11.0	12.8	23.8	19.4	12.8	32.2
Colorado Belle/Edgewater	10.5	11.5	22.0	13.6	11.3	24.9
Circus Circus Reno	14.4	9.2	23.6	18.9	9.8	28.7
Gold Strike properties(3)	(55.6)	10.2	(45.4)	7.7	10.4	18.1
MotorCity Casino(4)	72.2	39.1	111.3	49.3	37.5	86.8
Unconsolidated joint ventures(5)	107.1	6.5	113.6	108.5	6.5	115.0
Other	(3.7)	0.9	(2.8)	(4.9)	0.3	(4.6)
<b>Subtotal</b>	<b>379.8</b>	<b>208.3</b>	<b>588.1</b>	<b>463.5</b>	<b>207.2</b>	<b>670.7</b>
Corporate expense	(28.7)	7.7	(21.0)	(32.0)	10.8	(21.2)
<b>Total</b>	<b>\$ 351.1</b>	<b>\$ 216.0</b>	<b>\$ 567.1</b>	<b>\$ 431.5</b>	<b>\$ 218.0</b>	<b>\$ 649.5</b>

(1)

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Earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is included because, as in other entertainment industries, many investors consider it a key benchmark, since it factors out the impact of depreciation and goodwill amortization, the principal noncash expenses affecting our income. EBITDA is not an accepted measure of performance under GAAP and should not be considered an alternative to GAAP measures of performance.

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- (2) Includes Circus Circus Las Vegas and Slots-A-Fun.
  - (3) Includes Gold Strike, Nevada Landing and Railroad Pass.
  - (4) MotorCity Casino is 53.5%-owned and its operations are consolidated for financial reporting purposes.
  - (5) 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 decrease in operating income of \$32.5 million, or 11%, for fiscal 2002. At Mandalay Bay, operating income rose \$3.2 million, or 8%, due primarily to increases in room rates that were achieved during the first part of the fiscal year, prior to the events of September 11. Because of the upscale clientele at this property, it possesses greater pricing leverage than our other properties. Operating income at our other Las Vegas properties declined for the year, tracking the lower revenues that followed September 11. At Excalibur operating income was down \$11.4 million, or 14%; at Luxor it was down \$11.0 million, or 13%; and at Circus Circus it was off by \$7.9 million, or 17%. The contribution from Monte Carlo also declined, falling \$5.4 million, or 14%, for the year.

### Reno

Operating income from our Reno properties (including our 50% share of Silver Legacy) was down \$5.5 million, or 15%, in fiscal 2002, despite the presence in Reno of the men's national bowling tournament. Operating results at our Reno properties have been adversely impacted by the expansion of Native American gaming in California and the northwestern U.S. The events of September 11 also contributed to the decline in operating income.

### Laughlin

Our two Laughlin properties, Colorado Belle and Edgewater, posted a combined decrease in operating income of \$3.1 million, or 23%, for fiscal 2002. While REVPAR was flat, casino revenues decreased 8%. 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 operating income of \$72.2 million, an increase of 46% over the prior year. Results at this property have steadily improved since its December 1999 opening. The property also benefitted from the temporary closure of the U.S./Canadian border immediately following the September 11 attacks. This measure, along with subsequently increased security, impeded access from the U.S. to a competing property in Windsor, Ontario. We believe MotorCity Casino has been able to attract a significant number of customers who previously frequented the competing property in Windsor. See "Financial Position and Capital Resources" for additional details regarding our Detroit operation.

In Tunica County, Mississippi, operating income at Gold Strike decreased \$8.4 million, or 43%, during fiscal 2002. We believe the slow economy has had a more pronounced effect on this region, and especially on Memphis, Tennessee, which accounts for over half the property's customer base.

The contribution to income from operations from Grand Victoria (a 50%-owned riverboat casino in Elgin, Illinois) increased \$5.0 million, or 9%, for fiscal 2002. This market was apparently not negatively impacted by the terrorist attacks on September 11. It may have actually benefitted to the extent potential customers in this market were less willing to travel outside the region.

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*Depreciation and Amortization*

For fiscal 2002, depreciation and amortization expense was \$216.0 million versus \$218.0 million in fiscal 2001. These amounts include goodwill amortization of \$11.8 million in each year. In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 provides that goodwill will no longer be amortized, but will instead be reviewed for impairment upon adoption and at least annually thereafter. SFAS 142 took effect for the company beginning February 1, 2002. We have begun our review of existing goodwill for impairment. After the review is complete, any impairment will be recognized as a cumulative effect of a change in accounting principle in the quarter ended April 30, 2002. For fiscal 2003, we estimate that our depreciation expense will be approximately \$175 million.

*Interest Expense*

In fiscal 2002, interest expense (excluding interest expense of unconsolidated joint ventures and without reduction for capitalized interest) increased \$0.8 million over fiscal 2001. The increase was due to the issuance of \$500 million principal amount of 10<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes in July 2000, the issuance of \$200 million principal amount of 9<sup>1</sup>/<sub>2</sub>% Senior Notes in August 2000, and the issuance of \$300 million principal amount of 9<sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes in December 2001. The net proceeds from these offerings were used to pay down lower-cost borrowings outstanding under our bank facility. The higher interest rates on the notes we issued were largely offset by lower average interest rates on our bank facility, as well as lower average borrowings outstanding.

We recorded interest expense related to unconsolidated joint ventures of \$8.5 million in fiscal 2002 compared with \$11.3 million in the prior year. These amounts reflect our 50% share of the interest expense of Silver Legacy and Monte Carlo. The decrease was attributable primarily to lower average interest rates.

On March 5, 2002, Silver Legacy issued \$160 million of 10<sup>1</sup>/<sub>8</sub>% Mortgage Notes due 2012. Contemporaneously with the issuance of the notes, Silver Legacy entered into a new senior secured credit facility, comprised of a \$20 million revolving credit facility and a \$20 million amortizing term loan. The net proceeds of the note offering, combined with draws under the new credit facility, were used to repay the prior credit facility (\$152.3 million) and to fund a \$30 million distribution to the Silver Legacy partners (\$20 million of which was distributed to Mandalay). Immediately following the transactions, total long-term debt for Silver Legacy was approximately \$187 million.

At January 31, 2002, long-term debt (including current portion) stood at \$2.52 billion compared to \$2.67 billion at January 31, 2001. The fiscal 2002 total included \$64.0 million of debt related to MotorCity Casino, while the fiscal 2001 total included \$127.0 million of debt related to MotorCity. Capitalized interest was \$1.0 million in fiscal 2002 compared to \$1.6 million in the previous year. Capitalized interest in fiscal 2002 related primarily to the new convention center at Mandalay Bay. Capitalized interest in the prior year was associated with the Shark Reef at Mandalay Bay.

*Income Taxes*

The effective tax rates for fiscal 2002 and fiscal 2001 were 43.0% and 38.4%. These rates reflect the corporate statutory rate of 35% plus the effect of various nondeductible expenses, primarily the amortization of goodwill. The higher rate in fiscal 2002 was due to the impairment loss of \$52.0 million. As previously discussed, \$17.9 million of this loss represented the write-off of goodwill, which is not deductible for tax purposes. For fiscal 2003, we estimate our effective tax rate will be 36%-37%, with the reduction attributable to the elimination of goodwill amortization pursuant to SFAS 142, as discussed previously.

*Fiscal 2001 Compared with Fiscal 2000***RESULTS OF OPERATIONS***Earnings per Share*

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For the year ended January 31, 2001, we reported net income of \$119.7 million, or \$1.50 per diluted share, versus \$42.2 million, or \$.46 per diluted share, for the year ended January 31, 2000.

The increase in earnings was due mostly to strong operating performances at our Las Vegas Strip properties and at Grand Victoria in Elgin, Illinois. MotorCity Casino, our 53.5%-owned joint venture in Detroit, Michigan, was also a factor, as it contributed a full year of operations in fiscal 2001 against less than two months of operations in fiscal 2000 (the casino opened December 14, 1999). Higher interest expense, stemming from higher average debt outstanding and higher average interest rates, offset some of the operating gains. Share purchases also benefitted earnings per share comparisons, as average diluted shares outstanding decreased to 79.7 million from 91.9 million in the prior year.

Results for fiscal 2001 include preopening expenses of \$1.8 million related to our saltwater aquarium attraction, the Shark Reef at Mandalay Bay, which opened June 20, 2000. Results for fiscal 2001 also include \$3.6 million in income related to reducing a liability assumed when the Mandalay Bay site was acquired in 1995. Results for fiscal 2000 include preopening expenses of \$83.0 million related primarily to Mandalay Bay and MotorCity Casino (including the write-off of \$33.8 million of previously capitalized preopening costs) and the write-off of \$5.4 million related to a timeshare project we decided not to pursue.

### Revenues

Revenues for fiscal 2001 increased \$470.9 million, or 23%, from the prior year. The increase was attributable primarily to MotorCity Casino, which generated revenues of \$330.1 million in fiscal 2001 versus \$38.8 million in fiscal 2000, when it was open only one month. Mandalay Bay, which was open an additional month in fiscal 2001, also contributed in a significant fashion, with a revenue increase of \$99.0 million, or 22%.

### Casino Revenues

Casino revenues rose \$296.1 million, or 32%, during fiscal 2001 due primarily to a full year of operations at MotorCity Casino. Casino revenues at that property rose to \$309.0 million from \$35.9 million the previous year. Meanwhile, casino revenues at our Las Vegas Strip properties rose a combined 4%. The increase was driven by Mandalay Bay, whose casino revenues grew \$19.3 million, or 11%, mainly because of the additional month of operations and an upturn in high-budget play.

### Room Revenues

Room revenues in fiscal 2001 rose \$77.2 million, or 14%. The growth came principally from our Las Vegas Strip properties, whose revenue per available room ("REVPAR") increased \$9 over the prior year. Mandalay Bay again led the way, with an average room rate of \$154 compared to \$128 in the prior year. The growth in REVPAR was driven by increased demand stemming from a continued rise

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in the number of visitors to Las Vegas (up 6% for calendar year 2000). The following table compares average room rates, occupancy and REVPAR at our major wholly owned properties:

	FYE 1/31/2001			FYE 1/31/2000		
	Avg. Rate	Occ.%	REVPAR	Avg. Rate	Occ.%	REVPAR
Mandalay Bay	\$ 154	86%	\$ 133	\$ 128	84%	\$ 108
Luxor	\$ 98	93%	\$ 92	\$ 90	92%	\$ 82
Excalibur	\$ 70	94%	\$ 66	\$ 67	92%	\$ 62
Circus Circus Las Vegas	\$ 57	95%	\$ 54	\$ 56	96%	\$ 54
Circus Circus Reno	\$ 53	82%	\$ 43	\$ 49	84%	\$ 41
Colorado Belle	\$ 30	84%	\$ 25	\$ 29	85%	\$ 24
Edgewater	\$ 27	85%	\$ 23	\$ 27	83%	\$ 23
Gold Strike Tunica	\$ 69	76%	\$ 52	\$ 69	72%	\$ 50
<b>Weighted average all wholly owned properties</b>	<b>\$ 79</b>	<b>89%</b>	<b>\$ 70</b>	<b>\$ 71</b>	<b>88%</b>	<b>\$ 63</b>

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FYE 1/31/2001

FYE 1/31/2000

**Weighted average wholly owned Las Vegas Strip properties** \$ 93 92% \$ 85 \$ 83 91% \$ 76  
**Food and Beverage Revenues**

Food and beverage revenues increased \$71.4 million, or 21%, from the previous year. This increase was driven largely by a full year of operations at MotorCity Casino, where food and beverage revenues increased \$41.5 million over the prior year. Also stimulating food and beverage revenues were selective price increases at our Las Vegas Strip properties.

**Other Revenues**

Other revenues rose \$48.2 million, or 19%, in fiscal 2001. Other revenues come principally from amusements, retail stores and entertainment. Most of the increase was attributable to Luxor, where these revenues rose \$19.6 million due primarily to the success of Blue Man Group, our unique off-Broadway production which debuted in March 2000. The Shark Reef at Mandalay Bay, another instant success, opened in June 2000 and contributed to a \$14.4 million increase in other revenues at the property.

**Earnings of Unconsolidated Affiliates**

We record our share of the operating income of our unconsolidated joint ventures (Grand Victoria, Monte Carlo and Silver Legacy) as revenue under "Earnings of Unconsolidated Affiliates." (Results for MotorCity Casino are consolidated for financial reporting purposes.) Earnings of unconsolidated affiliates increased \$16.0 million in fiscal 2001, with most of the increase attributable to the 50%-owned Grand Victoria. The contribution from this property increased \$10.7 million, or 23%, from fiscal 2000. This property benefitted from more profitable dockside gaming operations throughout all of fiscal 2001, whereas it was limited to cruising operations in the first half of fiscal 2000.

*Income from Operations*

For the year ended January 31, 2001, income from operations rose \$157.8 million, or 58%, from the previous year. The composite operating margin was 17.3% versus 13.5% in fiscal 2000. Our Las Vegas Strip properties, along with MotorCity Casino and Grand Victoria, were the principal drivers of

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this growth. The table below summarizes operating results by property and is followed by a discussion of operating results by market.

	FYE 1/31/2001			FYE 1/31/2000		
	Operating Income	Depreciation	EBITDA(1)	Operating Income	Depreciation	EBITDA(1)
(in millions)						
Mandalay Bay	\$ 38.4	\$ 40.8	\$ 79.2	(\$ 4.7)	\$ 33.9	\$ 29.2
Luxor	85.9	37.3	123.2	67.3	36.8	104.1
Excalibur	79.0	16.9	95.9	67.2	16.6	83.8
Circus Circus Las Vegas(2)	47.7	23.6	71.3	38.7	24.0	62.7
Gold Strike Tunica	19.4	12.8	32.2	21.2	13.4	34.6
Colorado Belle/Edgewater	13.6	11.3	24.9	18.7	10.7	29.4
Circus Circus Reno	18.9	9.8	28.7	14.9	10.8	25.7
Gold Strike properties(3)	7.7	10.4	18.1	12.2	10.4	22.6
MotorCity Casino(4)	49.3	37.5	86.8	1.8	5.9	7.7
Unconsolidated joint ventures(5)	108.5	6.5	115.0	92.5	6.5	99.0
Other	(4.9)	0.3	(4.6)	(24.5)	0.2	(24.3)
<b>Subtotal</b>	<b>463.5</b>	<b>207.2</b>	<b>670.7</b>	<b>305.3</b>	<b>169.2</b>	<b>474.5</b>
Corporate expense	(32.0)	10.8	(21.2)	(31.6)	9.1	(22.5)

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	FYE 1/31/2001			FYE 1/31/2000		
<b>Total</b>	<b>\$ 431.5</b>	<b>\$ 218.0</b>	<b>\$ 649.5</b>	<b>\$ 273.7</b>	<b>\$ 178.3</b>	<b>\$ 452.0</b>

- (1) Earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is included because, as in other entertainment industries, many investors consider it a key benchmark, since it factors out the impact of depreciation and goodwill amortization, the principal noncash expenses affecting our income. EBITDA is not an accepted measure of performance under GAAP and should not be considered an alternative to GAAP measures of performance.
- (2) Includes Circus Circus Las Vegas and Slots-A-Fun.
- (3) Includes Gold Strike, Nevada Landing and Railroad Pass.
- (4) MotorCity Casino is 53.5%-owned and its operations are consolidated for financial reporting purposes.
- (5) 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 operating income of \$90.3 million, or 46%, during fiscal 2001. This increase was driven by an uptrend in the number of visitors to the Las Vegas Strip, as discussed previously. At Mandalay Bay, operating income rose \$43.1 million in fiscal 2001. Mandalay Bay benefitted from an extra month of operations in fiscal 2001 compared to the prior year (the property opened March 2, 1999). Mandalay Bay's fiscal 2000 operating income was also affected by preopening expenses. At Luxor, operating income rose \$18.6 million, or 28%. Meanwhile, operating income at Excalibur rose \$11.8 million, or 17%; while at Circus Circus Las Vegas it rose \$9.0 million, or 23%. The contribution from Monte Carlo also rose, up \$7.8 million, or 26%, compared with the prior year.

**Reno**

Circus Circus posted an increase in operating income of \$4.0 million, or 27%. Meanwhile, our share of operating income from Silver Legacy declined \$2.5 million from fiscal 2000 (see note below).

Fiscal 2001 results were boosted by a national bowling tournament which Reno hosts two out of every three years. The city hosted the women's national tournament from March through July 2000, but did not host any tournament in the prior year. This contributed to modest increases in casino revenues and REVPAR at both properties. We believe the Reno market encountered increased competition from Native American casinos in northern California. In the latter half of fiscal 2001, following the passage of Proposition 5, these Native American casinos began adding more and newer (i.e., more competitive) slot machines.

NOTE: In fiscal 2000, we recorded approximately two-thirds of Silver Legacy's operating income as a priority return on our investment. In fiscal 2001, we recorded our normal 50% share of Silver Legacy's operating income. Had we recorded 50% of Silver Legacy's operating income in fiscal 2000 instead of two-thirds, our share of operating income from Silver Legacy would have increased by \$2.0 million instead of declining by \$2.5 million.

**Laughlin**

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Our two Laughlin properties, Colorado Belle and Edgewater, together posted a decrease in operating income of \$5.1 million, or 27%, for fiscal 2001. While REVPAR was essentially flat for the year, casino revenues were down 2%. Like the Reno market, Laughlin is facing increased competition from Native American casinos in its primary feeder markets in Arizona and southern California. Furthermore, a lack of health care options in this small community contributed to a 20% rise in health care costs.

### Other Markets

In Detroit, Michigan, MotorCity Casino delivered operating income of \$49.3 million in fiscal 2001 compared to \$1.8 million in fiscal 2000. This comparison reflects a full 12 months of operation in fiscal 2001 as against one and one-half months in fiscal 2000.

In Tunica County, Mississippi, operating income at Gold Strike decreased \$1.8 million, or 9%, during fiscal 2001. Growth in this market continued to slow as competition for business heightened leading to a flattening of results.

The contribution to income from operations by Grand Victoria (a 50%-owned riverboat casino in Elgin, Illinois) grew by \$10.7 million, or 25%. This property benefitted from more profitable dockside gaming operations throughout all of fiscal 2001, whereas it was limited to cruising operations in the first half of fiscal 2000.

### Depreciation and Amortization

In fiscal 2001, depreciation and amortization expense rose \$39.7 million, to \$218.0 million. This increase derived primarily from the addition of MotorCity Casino.

### Interest Expense

In fiscal 2001, interest expense (excluding interest expense of unconsolidated joint ventures and without reduction for capitalized interest) climbed \$46.2 million. The increase was due partially to higher average borrowings (approximately \$2.8 billion in fiscal 2001 against approximately \$2.5 billion in fiscal 2000), which were partly related to the purchase of approximately 14.5 million shares of our common stock during fiscal 2001. Average borrowings also increased due to borrowings associated with MotorCity Casino. Additionally, interest expense reflected higher interest rates on our credit line borrowings, as well as the effect of the issuance of \$500 million principal amount of 10<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes in July 2000 and the issuance of \$200 million principal amount of 9<sup>1</sup>/<sub>2</sub>% Senior

Notes in August 2000. The proceeds from these two offerings were used to pay down borrowings outstanding under our credit facility.

At January 31, 2001, long-term debt (including current portion) stood at \$2.67 billion compared to \$2.70 billion at January 31, 2000. The fiscal 2001 total included \$127.0 million of debt related to MotorCity Casino, while the fiscal 2000 figure included \$150.0 million of debt related to MotorCity. Capitalized interest was \$1.6 million in fiscal 2001 compared to \$11.0 million in fiscal 2000. Capitalized interest was higher in the prior year due to the inclusion of one month of capitalized interest on Mandalay Bay, which opened March 2, 1999.

We recorded interest expense related to unconsolidated joint ventures of \$11.3 million in fiscal 2001 compared with \$11.1 million in the previous year. These amounts reflect our 50% share of the interest expense of Silver Legacy and Monte Carlo.

### Income Taxes

The effective tax rates for fiscal 2001 and fiscal 2000 were 38.4% and 39.1%. These rates reflect the corporate statutory rate of 35% plus the effect of various nondeductible expenses, primarily the amortization of goodwill.

## FINANCIAL POSITION AND CAPITAL RESOURCES

### Operating Activities

For fiscal 2002, net cash provided by operating activities was \$358.2 million versus \$435.6 million in fiscal 2001 and \$225.0 million in fiscal 2000. The decrease in fiscal 2002 was attributable to several factors, including a decrease in deferred taxes, a smaller increase in interest payable, lower distributions from unconsolidated affiliates and lower net income stemming from September 11. Deferred taxes decreased \$11.9 million in fiscal 2002 due primarily to the write-down of our Jean properties, which is not deductible for tax purposes until the assets are



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actually disposed of. The increase in fiscal 2001 from fiscal 2000 was due to improved results at our Las Vegas Strip properties (Mandalay Bay was open for a full year versus only 11 months in fiscal 2000) and improved results at Grand Victoria in Elgin, Illinois. MotorCity Casino was also a factor, contributing a full year of operations in fiscal 2001 against less than two months in fiscal 2000.

Mandalay had cash and cash equivalents of \$105.9 million at January 31, 2002, sufficient for normal daily operating requirements.

### *Investing Activities*

Net cash used in investing activities was \$159.9 million in fiscal 2002 versus \$153.8 million in fiscal 2001 and \$464.6 million in fiscal 2000. Capital expenditures and the related increase or decrease in construction payables accounted for most of these amounts.

Capital expenditures for fiscal 2002, which were funded primarily from cash flow, totaled \$156.7 million. Of this amount, \$61.6 million related to the construction of a new convention center at Mandalay Bay scheduled to open in January 2003 (see "New Projects" for additional details). Another \$8.4 million related to the completion of the renovation of the pyramid rooms at Luxor. Capital expenditures also included \$13.0 million related to the acquisition of land adjacent to our temporary casino facility in Detroit. For fiscal 2001, capital expenditures totaled \$110.2 million. Of this amount, \$24.7 million related to the Shark Reef at Mandalay Bay, a saltwater aquarium attraction which opened June 20, 2000, and \$15.6 million related to the renovation of the Luxor rooms. Capital expenditures for fiscal 2000 were \$352.1 million, of which \$213.5 million related to the completion of Mandalay Bay and other core components of Mandalay Mile, and \$23.6 million related to the Shark Reef.

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With respect to fiscal 2003, we estimate that capital expenditures will be in the range of \$250-\$300 million. The majority of these expenditures will relate to the completion of the new convention center at Mandalay Bay. These estimated capital expenditures also include 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 2003 will be funded primarily from cash flow, though we also have funds available under our bank credit facilities. Actual capital expenditures for fiscal 2003 may differ significantly from the estimated range.

### *Financing Activities*

For fiscal 2002, financing activities used net cash of \$198.4 million, which included the purchase of 5.2 million shares of our common stock at a cost of \$125.9 million. See "Share Purchases" for further discussion of our share purchase activity. We also paid \$45.5 million related to interim settlements and interest under our equity forward agreements with Bank of America. See the discussion under "Equity Forward Agreements" for more details. For fiscal 2001, financing activities used net cash of \$292.4 million, most of which related to the purchase of 14.5 million shares of our common stock at a cost of \$247.1 million. For fiscal 2000, financing activities provided net cash of \$274.9 million, stemming primarily from an increase in net borrowings to fund the construction of Mandalay Bay.

### **Credit Facilities**

In August 2001, we replaced our \$1.8 billion unsecured credit facility, dated May 23, 1997, with three separate facilities that totaled \$1.25 billion. These credit facilities included a \$150 million capital markets term loan facility which was paid in full using a portion of the net proceeds we received from the issuance of \$300 million of Senior Subordinated Notes in December 2001 (discussed more fully below). By paying off the capital markets term loan facility, we reduced our borrowing capacity to \$1.1 billion under the two remaining facilities. The remaining credit facilities, which are for general corporate purposes, include a \$250 million term loan facility (the entire amount of which was outstanding at January 31, 2002) and an \$850 million revolving facility (\$130 million of which was outstanding at January 31, 2002). Each of our credit facilities is unsecured and provides for the payment of interest, at our option, either at (1) a rate equal to or an increment above the higher of the Bank of America prime rate and the Federal Reserve Board federal funds rate plus 50 basis points, or (2) a Eurodollar-based rate. At January 31, 2002, the effective rate of interest on the indebtedness outstanding under our credit facilities was 3.6%. Each of our credit facilities 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. The entire principal amount then outstanding under our credit facilities becomes due and payable on August 21, 2006, unless the maturity date is extended with the consent of the lenders.

In December 2001, we amended the covenants under each of our credit facilities to provide for more liberal tests for total debt and interest coverage. These amendments were obtained to address the impact of the events of September 11. The amended covenants were effective with the quarter ended January 31, 2002, and will continue to provide relief through the quarter ending April 30, 2003. As of January 31, 2002, we

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were in compliance with all of the covenants in our credit facilities, 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 \$250 million. Our borrowing capacity under these covenants can fluctuate substantially from quarter to quarter depending upon our operating cash flow.

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### Senior Subordinated/Senior Notes

On July 24, 2000, the Company issued \$500 million principal amount of 10<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes due August 2007. And on August 16, 2000, the Company issued \$200 million principal amount of 9<sup>1</sup>/<sub>2</sub>% Senior Notes due August 2008. These notes are not subject to any sinking fund requirements. The net proceeds from these offerings were used to repay a portion of the borrowings under our then-existing credit facility.

On December 20, 2001, we issued \$300 million principal amount of 9<sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes due February 2010. These notes are not subject to any sinking fund requirements. The net proceeds from this offering were used to repay a portion of the borrowings under our credit facilities.

### 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. Pursuant to the terms of the lease agreement, the commitment under our then-existing bank credit facility was permanently reduced by \$200 million.

In December 2001, we entered into a series of additional operating lease agreements totaling \$130.5 million with a group of financial institutions. These leases cover equipment located at several Nevada properties. Since this equipment was originally purchased by us, the transaction constituted a sale and leaseback of this equipment. The sale of the equipment resulted in the recognition of a net deferred gain of \$28.3 million. The proceeds from these leases were used to reduce borrowings outstanding under our credit facilities, thereby providing additional borrowing capacity and improving leverage under our bank covenants.

We entered into the above operating leases solely to provide greater financial flexibility; they are not considered a material source of financing. The rent expense related to these operating leases is reported separately in the consolidated statements of income as operating lease rent. The operating lease agreements contain financial covenants regarding total debt and interest coverage that are identical to those under our credit facilities. The agreements also contain covenants regarding maintenance of the equipment, insurance requirements and prohibitions on liens. As of January 31, 2002, we were in compliance with all of the covenants in these agreements.

The leases provide that, at maturity, we may elect to purchase the equipment for a stated purchase option amount which is equal to the estimated fair value of the equipment at that date, as determined by an independent appraisal. If we choose not to purchase the equipment, we may be obligated to pay additional amounts under the lease provisions. We are exposed to risks under these lease agreements as follows: (1) To the extent we are unable to make required lease payments, the equipment could be foreclosed, which could have a detrimental impact on our operating results; and (2) to the extent we are financially unable to purchase the equipment (or similar replacement equipment) at maturity, our ability to operate our properties could be impaired, which could likewise have a negative impact on our operating results. We do not consider these risks to be significant due to our historically strong

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production of cash flow and our access to various other forms of capital. The following table summarizes these operating lease agreements:

### Summary of Operating Lease Agreements (in thousands)

Date of agreement	10/30/98	12/21/01	12/28/01	12/28/01	Total
Initial value of leased equipment	\$200,000	\$112,500	\$12,500	\$5,500	\$330,500
Purchase option at January 31, 2002(1)	\$139,600	\$112,500	\$12,500	\$5,500	\$270,100

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<b>Current termination date</b>	<b>6/30/03</b>	<b>12/21/04</b>	<b>12/28/04</b>	<b>12/28/04</b>	
Purchase option at current termination(1)	\$118,200	\$56,300	\$8,400	\$3,700	<b>\$186,600</b>
<b>Maximum extended termination date(2)</b>	<b>6/30/03</b>	<b>12/21/05</b>	<b>12/28/06</b>	<b>12/28/06</b>	
Purchase option at maximum termination(1)	\$118,200	\$45,000	\$6,200	\$2,800	<b>\$172,200</b>
<b>Frequency of rent payments</b>	<b>Quarterly</b>	<b>Quarterly</b>	<b>Monthly</b>	<b>Monthly</b>	
Estimated rent expense fiscal 2003(3)	\$23,000	\$24,500	\$2,500	\$1,000	<b>\$51,000</b>

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

(2) Assumes election of all available renewal periods.

(3) Estimated based on forward implied LIBOR.

*New Projects*

**Mandalay Bay Convention Center**

We have commenced construction of a convention and meeting complex located on land adjacent to the existing Mandalay Bay Conference Center. The complex will include more than one million square feet of exhibit space. Upon completion of the project, Mandalay Bay will offer a total of almost two million gross square feet of conference and exhibit space. Following the events of September 11, construction of the facility was temporarily suspended. We resumed construction in February and currently expect the facility to open in January 2003. The cost of the convention center, excluding land, preopening expenses and capitalized interest, is estimated to be \$235 million. As of January 31, 2002, we had incurred costs of \$61.6 million related to this project.

**Detroit**

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

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

We are currently negotiating with the City of Detroit concerning the location and scope of the permanent facility; however, we expect it to include hotel rooms, larger casino space, convention and meeting space, and dining and entertainment facilities. We have committed to contribute 20% of the cost of the permanent facility in the form of an investment in the joint venture. The joint venture will seek to borrow the funds necessary to complete the permanent facility. Because of the uncertainty about the location and scope of the permanent facility, its cost has yet to be determined. The current development agreement provides that we will guarantee completion of the permanent facility and will enter into a keep-well agreement with the city, pursuant to which we could be required to contribute additional funds to continue operation of the permanent facility for a period of two years. This keep-well agreement also applies to the temporary casino. There is no contractual limitation on

the amount that we may be required to contribute to the joint venture in order to guarantee the completion of the permanent facility or to keep the project in operation for a period of two years. However, based on the performance of the temporary casino to date, we do not expect that these guarantees will require the outlay of additional capital. We have issued letters of credit totaling \$50 million for the benefit of Bank of America in order to back letters of credit issued by Bank of America for the same total amount. The Bank of America letters of credit were issued to secure payments of principal and interest on bonds issued by the Economic Development Corporation of the City of Detroit. The proceeds of the bonds are to be used to finance costs associated with activities (including acquisition) relating to land located along the Detroit River (including the site where the joint venture's permanent facility originally was to be located). However, this restriction on the use of proceeds may be modified as a result of negotiations with the City of Detroit.

Various lawsuits have been filed in the state and federal courts challenging the constitutionality of the Casino Development Competitive Selection Process Ordinance and the Michigan Gaming Control and Revenue Act, and seeking to appeal the issuance of a certificate of suitability and casino license to MotorCity Casino. 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 plaintiff is taking the position in the District Court that all three Detroit casino licenses, including the MotorCity Casino license, should be rebid in a new competitive selection process and, in addition, that pending completion of the rebidding process, all three casinos should be placed in conservatorship under the Michigan Act. MotorCity Casino and the other two Detroit casinos have each filed briefs with the District Court stating that, for various legal and equitable reasons, the plaintiff is not entitled to the relief it has requested. The matter is presently pending before the District Court which has declared that "the Ordinance in its current form is unconstitutional." The effect of the rulings in this case is uncertain. The plaintiff has also requested the Michigan Gaming Control Board to place the three

Detroit casinos, including MotorCity Casino, into conservatorship under the Michigan Act. The Michigan Gaming Control Board has taken the ruling of the Sixth Circuit Court of Appeals and the plaintiff's request under advisement without comment. The plaintiff filed a lawsuit on April 12, 2002, against the Michigan Gaming Control Board in the Circuit Court of Gogebic County, Michigan, seeking to compel the Board to place the three Detroit casinos into conservatorship. While Mandalay is not a party, our Detroit Joint Venture has intervened in the *Lac Vieux* lawsuit. Depending on the eventual outcome of this litigation, the continued operation of our Detroit joint venture's temporary facility, and/or its ability to retain its certificate of suitability and casino license for its permanent facility, could be adversely affected or even precluded.

On February 13, 2002, John Ren filed suit in the Circuit Court of Wayne County, Michigan against our Detroit joint venture and the other two casino operations in Detroit. The plaintiff purports to represent himself and a class consisting of all persons who lost money and/or incurred debts that remain unpaid at any of the three Detroit casinos. Relying on the Sixth Circuit Court of Appeal's *Lac Vieux* decision, the plaintiff alleges that the three casinos have been operating illegally and continue to do so. The relief sought by the plaintiff includes an injunction to restrain the three casinos from remaining open until properly licensed, compensatory damages, and disgorgement of all profits "unjustly obtained." On April 9, 2002, the Wayne County Circuit Court dismissed the plaintiff's lawsuit. The plaintiff has the right to appeal the dismissal of the lawsuit.

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

#### *Share Purchases*

In May 2000, our Board of Directors authorized the purchase of up to 15% of our then-outstanding shares of common stock, as market conditions and other factors warranted. In June 2001, the Board announced an additional authorization enabling us to purchase up to 15% of our

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shares of common stock which remain outstanding after we have fully utilized the May 2000 authorization. Assuming we purchase all of the shares pursuant to the equity forward agreements discussed below, the additional shares that may be purchased as of January 31, 2002, as authorized by the Board of Directors, would be approximately 7.8 million shares.

During fiscal 2002, we acquired 5.2 million shares of our common stock at a total cost of \$125.9 million. During fiscal 2001, we acquired 14.5 million shares of our common stock at a total cost of \$247.1 million.

### *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. (Such purchases were to be in accordance with the volume and other limitations of Rule 10b-18 under the Securities Exchange Act of 1934.) The agreements, as amended, provide that on the settlement date, we will purchase from B of A the shares that the Bank then holds. For those shares, we will pay to B of A its acquisition cost (as adjusted by any interim settlements) plus accrued fees (the "Settlement Amount"). At our option, we may acquire all or a portion of the shares at an earlier date, or we may become obligated to acquire all or a portion of the shares at an earlier date under certain circumstances specified in the agreements. The agreements provide for interim settlements whereby we may deliver or receive shares at the end of each calendar quarter so that the aggregate market value of the shares held by B of A is equal to the remaining notional amounts of the

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agreements. The shares held by B of A at each interim settlement date are valued at the closing price of the stock on that date. To the extent that the value of the shares exceeds the notional amount, B of A delivers equivalent shares to us. To the extent the notional amount exceeds the value, we deliver equivalent shares to B of A.

Bank of America acquired a total of 6.9 million shares at a total cost of \$138.7 million under these agreements. Pursuant to the interim settlement provisions and an amendment to the agreements, we have received a net of 3.2 million shares and reduced the notional amount of the agreements by \$38.7 million. As of February 28, 2002, we were entitled to purchase the remaining 3.7 million shares from B of A for the notional amount of \$100 million on the settlement date (which was extended to March 31, 2003 by amendment of the agreements), subject to any future adjustment of the notional amount and/or the number of shares under the agreements' interim settlement provisions. The table below summarizes the share purchase and interim settlement activity under these equity forward agreements through the most recent interim settlement date.

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

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Date	Description	Shares Acquired (Delivered) by BofA	Shares Acquired (Delivered) by Mandalay	Increase (Decrease) in Notional Amount
	Net amounts	3,697	3,159	\$ 100,000

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

We incur quarterly interest charges on the notional amount at a current rate equal to LIBOR plus 1.95%. Total interest charges incurred from inception through January 31, 2002, amounted to \$7.8 million, of which \$6.5 million was incurred in fiscal 2002. In addition, we also incurred structuring

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fees and commissions totaling \$3.7 million, of which \$2.0 million was incurred in fiscal 2002. These interest charges and other fees are included in the cost of treasury stock.

*Liquidity*

We believe we have sufficient capital resources to meet all of our obligations. These obligations include existing cash obligations, funding of capital commitments on projects under way, and any obligations that may arise pursuant to our equity forward agreements or our operating lease agreements (both discussed above). We also believe our capital resources are sufficient to provide for additional strategic purchases of our common stock or investments in new projects. This belief is based upon our historically strong and dependable operating cash flows and our revolving credit facility. We have also repeatedly demonstrated the ability to raise funds in the debt and equity markets, as most recently evidenced by our issuance in December 2001 of \$300 million of Senior Subordinated Notes due 2010. Our operating cash flows are exposed to the risk of a significant downturn in our business. However, we do not believe this poses a significant liquidity risk because of the historical magnitude and stability of our cash flows. Furthermore, as of January 31, 2002, we had \$670 million of borrowing capacity available under our revolving bank facility (which expires July 2006), of which we could utilize \$250 million under the most restrictive of our loan covenants. Our borrowing capacity under these covenants can fluctuate substantially from quarter to quarter depending upon our operating cash flow.

*Contractual Obligations and Commitments*

The following table summarizes our contractual obligations and commitments as of January 31, 2002:

Description	2003	2004	2005	2006	2007	Thereafter
(in thousands)						
Long-term debt	\$ 39,251	\$ 325,179	\$ 289	\$ 275,289	\$ 580,112	\$ 1,301,218
Operating leases	52,202	36,825	27,926	661	610	5,419
Other long-term obligations						
<b>Total contractual cash obligations</b>	<b>\$ 91,453</b>	<b>\$ 362,004</b>	<b>\$ 28,215</b>	<b>\$ 275,950</b>	<b>\$ 580,722</b>	<b>\$ 1,306,637</b>
Equity forward agreements(1)	\$	\$ 100,000	\$	\$	\$	\$

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Description	2003	2004	2005	2006	2007	Thereafter
Guarantee of Detroit credit facility						
Letters of credit supporting Detroit revenue bonds(2)						
Detroit permanent casino equity contribution(3)						
Detroit permanent casino completion guarantee(4)						
Detroit permanent casino make-well agreement(5)						
<b>Total other commitments</b>	<b>\$</b>	<b>\$ 100,000</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

(1) Assumes we purchase the remaining shares held by Bank of America pursuant to the equity forward agreements at the maturity date of March 31, 2003.

(2) We have issued letters of credit totaling \$50 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 are to be used to finance costs associated with acquiring land for the joint venture's permanent facility.

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(3) We are committed to contribute 20% of the cost of the permanent facility in the form of an investment in the Detroit joint venture. The scope of the permanent casino cannot be determined at this time; consequently, the timing and the amount of the required equity contribution cannot be determined.

(4) The current development agreement with the City of Detroit provides that we will guarantee completion of our joint venture's 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. There is no contractual limit on the amount we may be required to contribute under this guarantee.

(5) The current development agreement with the City of Detroit provides that we will enter into a keep-well agreement with the city pursuant to which we could be required to contribute additional funds, to the extent needed, to continue operation of the facility for a period of two years. If we contribute additional amounts pursuant to this guarantee, there will be no proportionate increase in our ownership of the Detroit joint venture. There is no contractual limit on the amount we may be required to contribute under this agreement.

*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 manage this market risk by utilizing derivative financial instruments in accordance with established policies and procedures. We evaluate our exposure to market risk by monitoring interest rates in the marketplace. We do not utilize derivative financial instruments for trading purposes. There were no material quantitative changes in our market risk exposure, or in how such risks were managed, during fiscal 2002.

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.

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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.

The following table provides information about our financial instruments (both interest rate swaps and debt obligations) that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows 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

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the yield curve. Implied forward rates should not be considered a predictor of actual future interest rates.

	Year ending January 31,						
	2003	2004	2005	2006	2007	Thereafter	Total
	(in millions)						
Long-term debt (including current portion)							
Fixed-rate	\$ 0.3	\$ 300.2	\$ 0.3	\$ 275.3	\$ 200.1	\$ 1,301.1	\$ 2,077.3
Average interest rate	6.7%	6.7%	6.6%	9.2%	6.5%	9.2%	8.6%
Variable-rate	\$ 39.0	\$ 25.0	\$	\$	\$ 380.0	\$	\$ 444.0
Average interest rate	2.2%	4.3%			6.5%		6.0%
Interest rate swaps							
Pay fixed	\$ 350.0	\$ 200.0	\$	\$	\$	\$	\$ 550.0
Average payable rate	6.4%	6.4%					6.4%
Average receivable rate	2.6%	4.7%					3.4%
<i>Forward-Looking Statements</i>							

This report includes forward-looking statements which we have based on our current expectations about future events. They 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. These forward-looking statements are subject to risks, uncertainties, and assumptions about us and our operations that are subject to change based on various important factors, some of which are beyond our control. Factors that could cause our financial performance to differ materially from the goals, plans, objectives, intentions and expectations expressed in our forward-looking statements include the following: (i) our development and construction activities and those of the joint ventures in which we participate, (ii) competition, (iii) our dependence on existing management, (iv) leverage and debt service (including sensitivity to fluctuations in interest rates and ratings which national rating agencies assign to our outstanding debt securities), (v) domestic and global economic, credit and capital market conditions, (vi) changes in federal or state tax laws or the administration of those laws, (vii) changes in gaming laws or regulations (including the legalization or expansion of gaming in certain jurisdictions), (viii) expansion of gaming on Native American lands, including such lands in California, (ix) applications for licenses and approvals under applicable laws and regulations (including gaming laws and regulations), (x) regulatory or judicial proceedings, and (xi) consequences of any future security alerts and/or terrorist attacks such as those that occurred on September 11, 2001. Additional information concerning potential factors that we think could cause our actual results to differ materially from expected and historical results is included under the caption "Factors that May Affect Our Future Results" in Item 1 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2002. If one or more of the assumptions underlying our forward-looking statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking statements contained in this report. Therefore, we caution you not to place undue reliance on our forward-looking statements. This statement is provided as permitted by the Private Securities Litigation Reform Act of 1995.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

The information in Item 7 of this report under the caption "Market Risk and Derivative Financial Instruments" is incorporated herein by this reference.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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**MANDALAY RESORT GROUP AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

	<b>January 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(in thousands, except share data)</b>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 105,905	\$ 105,941
Accounts receivable, net of allowance	58,372	78,359
Income tax receivable	18,089	
Inventories	30,555	31,180
Prepaid expenses	40,848	40,986
Deferred income tax	13,218	30,164
<b>Total current assets</b>	<b>266,987</b>	<b>286,630</b>
Property, equipment and leasehold interests, at cost, net	3,049,812	3,236,824
Other assets		
Excess of purchase price over fair market value of net assets acquired, net	45,445	65,778
Investments in unconsolidated affiliates	554,086	560,987
Other investments	35,751	27,021

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	January 31,	
	2014	2013
Deferred charges and other assets	84,953	71,026
Total other assets	720,235	724,812
Total assets	\$ 4,037,034	\$ 4,248,266
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 39,251	\$ 42,262
Accounts and contracts payable		
Trade	33,473	37,275
Construction	8,284	3,920
Accrued liabilities		
Salaries, wages and vacations	52,680	51,866
Progressive jackpots	11,556	11,334
Advance room deposits	13,242	14,069
Interest	58,592	53,122
Other	92,163	82,827
Total current liabilities	309,241	296,675
Long-term debt, net of current portion	2,482,087	2,623,597
Other liabilities		
Deferred income tax	199,478	235,763
Deferred gain	28,339	
Other long-term liabilities	80,919	41,966
Total other liabilities	308,736	277,729
Total liabilities	3,100,064	3,198,001
Commitments and contingent liabilities		
Minority interest	(3,639)	(18,675)
Stockholders' equity		
Common stock \$.01 2/3 par value		
Authorized 450,000,000 shares		
Issued 113,634,013 shares	1,894	1,894
Preferred stock \$.01 par value		
Authorized 75,000,000 shares		
Additional paid-in capital	572,992	572,207
Retained earnings	1,374,376	1,321,332
Accumulated other comprehensive loss	(21,902)	(6,804)
Treasury stock (45,278,193 and 37,357,777 shares), at cost	(986,751)	(819,689)
Total stockholders' equity	940,609	1,068,940

	<b>January 31,</b>	
Total liabilities and stockholders' equity	\$ 4,037,034	\$ 4,248,266

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

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## MANDALAY RESORT GROUP AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

	<b>Year ended January 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(in thousands, except share data)</b>		
<b>Revenues</b>			
Casino	\$ 1,201,707	\$ 1,221,595	\$ 925,499
Rooms	581,551	611,352	534,132
Food and beverage	410,276	418,081	346,647
Other	332,253	299,753	251,509
Earnings of unconsolidated affiliates	113,287	114,645	98,627
	<u>2,639,074</u>	<u>2,665,426</u>	<u>2,156,414</u>
Less-complimentary allowances	(177,275)	(169,642)	(131,509)
	<u>2,461,799</u>	<u>2,495,784</u>	<u>2,024,905</u>
<b>Costs and expenses</b>			
Casino	669,719	670,243	494,054
Rooms	197,300	203,352	189,419
Food and beverage	283,864	299,726	276,261
Other	219,358	200,236	170,654
General and administrative	417,149	409,603	339,455
Corporate general and administrative	20,981	21,153	22,464
Depreciation and amortization	216,001	217,984	178,301
Operating lease rent	32,185	40,121	25,994
Preopening expenses	2,155	1,832	49,134
Impairment loss	52,027		
Abandonment loss			5,433
	<u>2,110,739</u>	<u>2,064,250</u>	<u>1,751,169</u>
Income from operations	<u>351,060</u>	<u>431,534</u>	<u>273,736</u>
<b>Other income (expense)</b>			
Interest, dividends and other income	(1,163)	8,339	2,369
Guarantee fees from unconsolidated affiliate	2,264	2,498	2,775

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	Year ended January 31,		
	2002	2001	2000
Interest expense	(221,352)	(219,940)	(164,387)
Interest expense from unconsolidated affiliates	(8,451)	(11,293)	(11,085)
	(228,702)	(220,396)	(170,328)
Minority interest	(29,352)	(16,746)	(292)
Income before provision for income taxes	93,006	194,392	103,116
Provision for income taxes	39,962	74,692	38,959
Income before cumulative effect of change in accounting principle	53,044	119,700	64,157
Cumulative effect of change in accounting for preopening expenses, net of tax benefit of \$11,843			(21,994)
Net income	\$ 53,044	\$ 119,700	\$ 42,163
Basic earnings per share:			
Income before cumulative effect of change in accounting principle	\$ .73	\$ 1.53	\$ .71
Cumulative effect of change in accounting principle			(.24)
Net income	\$ .73	\$ 1.53	\$ .47
Diluted earnings per share:			
Income before cumulative effect of change in accounting principle	\$ .71	\$ 1.50	\$ .70
Cumulative effect of change in accounting principle			(.24)
Net income	\$ .71	\$ 1.50	\$ .46
Average shares outstanding (basic)	72,798,916	78,334,735	90,607,487
Average shares outstanding (diluted)	74,459,831	79,700,614	91,896,224

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

**MANDALAY RESORT GROUP AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended January 31,		
	2002	2001	2000
Increase (decrease) in cash and cash equivalents			
Cash flows from operating activities			
Net income	\$ 53,044	\$ 119,700	\$ 42,163

(in thousands)

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	Year ended January 31,		
	2019	2018	2017
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	216,001	217,984	178,301
Provision for bad debts	20,381	21,329	13,856
Increase (decrease) in deferred income tax	(11,864)	25,023	(8,104)
Increase (decrease) in interest payable	5,470	33,727	(8,372)
Increase in accrued pension cost	7,536	4,363	2,888
Loss on sale of fixed assets	1,973	290	2,903
Impairment loss	52,027		
Increase in other current assets	(17,720)	(33,381)	(67,653)
Increase in other current liabilities	5,743	18,584	42,930
(Increase) decrease in other noncurrent assets	13,404	(551)	32,556
Decrease in other noncurrent liabilities			(49)
Unconsolidated affiliates' (earnings in excess of distributions) distributions in excess of earnings	(2,783)	22,077	(6,419)
Minority interest in earnings, net of distributions	15,036	6,421	
	<u>305,204</u>	<u>315,866</u>	<u>182,837</u>
Net cash provided by operating activities	358,248	435,566	225,000
Cash flows from investing activities			
Capital expenditures	(156,742)	(110,220)	(352,133)
Increase (decrease) in construction payable	4,364	(29,495)	(63,474)
Increase in other investments	(10,802)	(16,755)	(10,267)
Decrease in investments in unconsolidated affiliates			10,728
Net cash paid for additional ownership interest in joint venture			(25,225)
(Increase) decrease in notes receivable	1,667	(145)	(24,952)
Proceeds from sale of equipment and other assets	1,734	2,408	697
Other	(126)	370	
	<u>(159,905)</u>	<u>(153,837)</u>	<u>(464,626)</u>
Net cash used in investing activities	(159,905)	(153,837)	(464,626)
Cash flows from financing activities			
Proceeds from issuance of senior and senior subordinated notes	297,836	700,000	
Proceeds from sale-leaseback transactions	130,500		
Net effect on cash of issuances and payments of debt with initial maturities of three months or less	(380,000)	(715,576)	294,990
Principal payments of debt with initial maturities in excess of three months	(62,498)	(23,000)	(3,425)
Debt issuance costs	(16,233)	(16,325)	(1,072)
Exercise of stock options	5,054	17,797	17,616
Purchases of treasury stock	(125,910)	(247,128)	(29,627)
Interim settlements and interest under equity forward agreements	(45,517)	(2,405)	
Other	(1,611)	(5,768)	(3,628)
	<u>(198,379)</u>	<u>(292,405)</u>	<u>274,854</u>
Net cash provided by (used in) financing activities	(198,379)	(292,405)	274,854
Net increase (decrease) in cash and cash equivalents	(36)	(10,676)	35,228
Cash and cash equivalents at beginning of year	105,941	116,617	81,389
	<u>\$ 105,905</u>	<u>\$ 105,941</u>	<u>\$ 116,617</u>
Cash and cash equivalents at end of year	\$ 105,905	\$ 105,941	\$ 116,617

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	Year ended January 31,		
	1999	2000	2001
Supplemental cash flow disclosures			
Cash paid for interest (net of amounts capitalized)	\$ 209,418	\$ 183,638	\$ 170,272
Cash paid for income taxes	\$ 58,132	\$ 38,731	\$ 42,551
Noncash items			
Decrease in market value of interest rate swaps	\$ 24,119	\$	\$
Decrease in market value of pension investment	\$ 2,073	\$	\$
Minimum pension liability adjustment	\$ 8,735	\$ 23,179	\$
Acquisition of additional ownership interest in joint venture			
Cash paid	\$	\$	\$ (38,386)
Current assets, other than cash			(13,462)
Property and equipment			(152,037)
Other assets			(14,092)
Current liabilities			33,693
Long-term debt			179,180
Stockholders' equity			(20,121)
Net cash paid for acquisition	\$	\$	\$ (25,225)

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

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MANDALAY RESORT GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

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	<u>Common Stock Issued</u>				<u>Accumulated Other Comprehensive Loss</u>			
Treasury stock acquired (14,534 shares), at cost								
Interest under equity forward agreements						(2,405)	(2,405)	
Balance, January 31, 2001	113,634	1,894	572,207	1,321,332	(6,804)	(819,689)	1,068,940	
Net income				53,044			53,044	
Minimum pension liability adjustment					1,005		1,005	
Interest rate swap market adjustment					(16,103)		(16,103)	
Total comprehensive income							37,946	
Exercise of stock options			689			4,365	5,054	
Treasury stock acquired (5,186 shares), at cost						(125,910)	(125,910)	
Interim settlements and interest under equity forward agreements						(45,517)	(45,517)	
Other			96				96	
Balance, January 31, 2002	113,634	\$ 1,894	\$ 572,992	\$ 1,374,376	\$ (21,902)	\$ (986,751)	\$ 940,609	

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

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**MANDALAY RESORT GROUP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

**PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION**

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

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

**CASH EQUIVALENTS**

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

**INVENTORIES**

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

### PROPERTY AND EQUIPMENT

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

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

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

### CAPITALIZED INTEREST

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

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

### LONG-LIVED ASSETS

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

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

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

### TREASURY STOCK

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

### CASINO REVENUES



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

### COMPLIMENTARY ALLOWANCES

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

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

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

### PLAYER CLUB POINTS

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

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

### PREOPENING EXPENSES

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

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

### ABANDONMENT LOSS

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

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### INCOME TAXES

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

### EARNINGS PER SHARE

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

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

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

### COMPREHENSIVE INCOME

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

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net of tax. The accumulated other comprehensive loss reflected on the balance sheet consisted of the following:

	January 31,	
	2002	2001
	(in thousands)	
Minimum pension liability adjustment	\$ 5,799	\$ 6,804
Adjustment to interest rate swaps	16,103	
Accumulated other comprehensive loss	\$ 21,902	\$ 6,804

### USE OF ESTIMATES

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

### RECLASSIFICATIONS

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

### Note 2. Accounts Receivable

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

Accounts receivable consisted of the following:

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

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

**Note 3. Property, Equipment and Leasehold Interests**

Property, equipment and leasehold interests consisted of the following:

	January 31,	
	2002	2001
	(in thousands)	
Land and land leases	\$ 395,805	\$ 382,793
Buildings and improvements	3,037,800	3,088,717
Equipment, furniture and fixtures	674,830	809,616
Leasehold interests and improvements	8,664	8,664
	<u>4,117,099</u>	<u>4,289,790</u>
Less accumulated depreciation and amortization	(1,162,203)	(1,077,322)
	2,954,896	3,212,468
Construction in progress	94,916	24,356
	<u>\$ 3,049,812</u>	<u>\$ 3,236,824</u>

**Note 4. Goodwill**

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

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

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

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

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

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

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

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

### Note 5. Investments in Unconsolidated Affiliates

The Company has investments in unconsolidated affiliates that are accounted for under the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Company's share of earnings, losses and distributions of these companies. The investment balance also includes interest capitalized during construction. The investment balances for Grand Victoria and Monte Carlo are greater than the carrying values of the net assets of the respective unconsolidated affiliates due primarily to goodwill recognized when the Company acquired the investments. (See Note 4 Goodwill.) Investments in unconsolidated affiliates consisted of the following:

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

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

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

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

	December 31, 2001			
	Silver Legacy	Grand Victoria	Monte Carlo	Total
	(in thousands)			
Revenues	\$ 164,677	\$ 410,248	\$ 256,586	\$ 831,511
Expenses	130,595	284,101	189,737	604,433
Operating income	34,082	126,147	66,849	227,078

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	December 31, 2001			
Net income	21,120	127,594	62,575	211,289
	December 31, 2000			
	Silver Legacy	Grand Victoria	Monte Carlo	Total
	(in thousands)			
Revenues	\$ 177,489	\$ 394,438	\$ 276,558	\$ 848,485
Expenses	140,246	278,571	198,002	616,819
Operating income	37,243	115,867	78,556	231,666
Net income	21,770	117,594	72,348	211,712

**Note 6. Other Investments**

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

**Note 7. Deferred Charges and Other Assets**

Deferred charges and other assets consisted of the following:

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

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

With respect to the intangible asset related to the SERP, the Company accounts for the SERP according to Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87"). SFAS 87 requires the recognition of an intangible asset in an amount equal to the additional minimum liability, provided that such intangible asset may not exceed the amount of unrecognized prior service cost and unrecognized net obligation. The amount by which the additional

minimum liability exceeds unrecognized prior service cost and unrecognized net obligation is recorded as a negative component of stockholders' equity through comprehensive income (net of related tax benefits).

**Note 8. Long-term Debt**

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Long-term debt consisted of the following:

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

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

rolling basis as various instruments come due and to have such borrowings outstanding for longer than one year.

Each of the credit facilities includes financial covenants regarding total debt and interest coverage and contains covenants that limit the Company's ability, among other things, to dispose of assets, make distributions on its capital stock, engage in a merger, incur liens and engage in transactions with its affiliates. In December 2001, the Company amended the covenants under each of its credit facilities to provide for more liberal tests for total debt and interest coverage. These amendments were obtained to address the impact of the terrorist attacks on September 11, 2001. The amended covenants were effective with the quarter ended January 31, 2002 and will continue to provide relief through the quarter ending April 30, 2003. At January 31, 2002, the Company was in compliance with all of the covenants in its credit facilities and, under the most restrictive loan covenant, was restricted from issuing additional debt in excess of approximately \$250 million.

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On December 14, 1999, the Company acquired an additional 8.5% ownership interest in the joint venture that owns and operates MotorCity Casino in Detroit, Michigan, bringing the total ownership interest to 53.5%. Therefore, long-term debt of that joint venture is reflected as an obligation of the Company. In June 1999, the joint venture entered into a \$150 million reducing revolving credit facility which matures on June 30, 2003. The credit facility reduces by fixed amounts quarterly (which began on December 31, 2000) and contains financial covenants regarding total debt, capital expenditures and investments. At January 31, 2002, the joint venture was in compliance with all of these covenants. The credit facility, which is guaranteed by the Company, was used primarily to develop and construct the temporary casino facility. The fair value of the debt issued under the credit facility approximates the carrying amount of the debt.

On December 20, 2001, the Company issued \$300 million principal amount of 9<sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes due February 15, 2010 (the "9<sup>3</sup>/<sub>8</sub>% Notes"), with interest payable each February and August. The 9<sup>3</sup>/<sub>8</sub>% Notes are redeemable prior to maturity at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium. The 9<sup>3</sup>/<sub>8</sub>% Notes, which were discounted to \$297.8 million, are not subject to any sinking fund requirements. The net proceeds from this offering were used to repay borrowings under the Company's credit facilities. As of January 31, 2002, the estimated fair value of the 9<sup>3</sup>/<sub>8</sub>% Notes was \$307.5 million, based on their trading price.

On August 16, 2000, the Company issued \$200 million principal amount of 9<sup>1</sup>/<sub>2</sub>% Senior Notes due August 2008 (the "9<sup>1</sup>/<sub>2</sub>% Notes"), with interest payable each February and August. The 9<sup>1</sup>/<sub>2</sub>% Notes are redeemable prior to maturity at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium. The 9<sup>1</sup>/<sub>2</sub>% Notes are not subject to any sinking fund requirements. The net proceeds from this offering were used to repay borrowings under the Company's credit facility. As of January 31, 2002, the estimated fair value of the 9<sup>1</sup>/<sub>2</sub>% Notes was \$214.3 million, based on their trading price.

On July 24, 2000, the Company issued \$500 million principal amount of 10<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes due August 2007 (the "10<sup>1</sup>/<sub>4</sub>% Notes"), with interest payable each February and August. The 10<sup>1</sup>/<sub>4</sub>% Notes are redeemable prior to maturity at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium. A portion of the 10<sup>1</sup>/<sub>4</sub>% Notes are also redeemable at the option of the Company prior to August 1, 2003 with the proceeds of a public offering of equity securities. The 10<sup>1</sup>/<sub>4</sub>% Notes are not subject to any sinking fund requirements. The net proceeds from this offering were used to repay borrowings under the Company's credit facility. As of January 31, 2002, the estimated fair value of the 10<sup>1</sup>/<sub>4</sub>% Notes was \$532.5 million, based on their trading price.

In November 1998, the Company issued \$275 million principal amount of 9<sup>1</sup>/<sub>4</sub>% Senior Subordinated Notes due December 2005 (the "9<sup>1</sup>/<sub>4</sub>% Notes"), with interest payable each June and December. The 9<sup>1</sup>/<sub>4</sub>% Notes are redeemable at the option of the Company, in whole, at 100% of the

principal amount plus a make-whole premium at any time prior to December 1, 2002. The 9<sup>1</sup>/<sub>4</sub>% Notes are also redeemable at the option of the Company, in whole or in part, beginning December 1, 2002 at prices declining annually to 100% on or after December 1, 2004. The 9<sup>1</sup>/<sub>4</sub>% Notes are not subject to any sinking fund requirements. As of January 31, 2002, the estimated fair value of the 9<sup>1</sup>/<sub>4</sub>% Notes was \$280.5 million, based on their trading price.

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

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

In July 1993, the Company issued \$150 million principal amount of 6<sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes (the "6<sup>3</sup>/<sub>4</sub>% Notes") due July 2003 and \$150 million principal amount of 7<sup>5</sup>/<sub>8</sub>% Senior Subordinated Debentures (the "7<sup>5</sup>/<sub>8</sub>% Debentures") due July 2013, with interest payable each July and January. The 6<sup>3</sup>/<sub>4</sub>% Notes, which were discounted to \$149.8 million, and the 7<sup>5</sup>/<sub>8</sub>% Debentures are not redeemable prior to maturity and are not subject to any sinking fund requirements. As of January 31, 2002, the estimated fair value of the 6<sup>3</sup>/<sub>4</sub>% Notes was \$148.5 million and the estimated fair value of the 7<sup>5</sup>/<sub>8</sub>% Debentures was \$129.0 million, based on their trading prices.



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

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

### Note 9. Interest Rate Swaps

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

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

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

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

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

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

**Note 10. Leasing Arrangements**

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

In December 2001, the Company entered into a series of additional operating lease agreements totaling \$130.5 million with a group of financial institutions. These leases cover equipment located at several Nevada properties. Since this equipment was originally purchased by the Company, the transaction constituted a sale and leaseback of this equipment. The sale of the equipment resulted in the recognition of a net deferred gain of \$28.3 million. The proceeds from these leases were used to reduce borrowings outstanding under the Company's credit facilities, thereby providing additional borrowing capacity and improving leverage under the Company's bank covenants.

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

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

**Summary of Operating Lease Agreements (in thousands)**

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

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

(2) Assumes election of all available renewal periods.

(3) Estimated based on forward implied LIBOR.

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The Company also leases various storage facilities and has various air space under operating leases expiring individually through 2032. A portion of the Circus Circus facility in Reno is built on leased land with various operating leases expiring through 2033. The following is a schedule of future minimum rental payments required as of January 31, 2002 under operating leases that have lease terms in excess of one year:

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

### Note 11. Income Taxes

The Company accounts for income taxes according to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of

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deferred tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences. The standard requires recognition of a future tax benefit to the extent that realization of such benefit is more likely than not. Otherwise, a valuation allowance is applied. At January 31, 2002, the Company believes that its deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income. Accordingly, there is no valuation allowance at January 31, 2002.

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

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

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

The components of deferred income tax expense were as follows:

Year ended January 31,

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

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

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

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

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

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	January 31,	
Pension plan	5,176	2,538
Other	7,785	6,558
Gross deferred tax assets	35,438	41,106
Net deferred tax liabilities	\$ 186,260	\$ 205,599

**Note 12. Employee Retirement Plans**

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

On June 18, 1998, the Company adopted a Supplemental Executive Retirement Plan ("SERP"). The SERP is a defined benefit plan pursuant to which the Company will pay supplemental pension

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benefits to certain key employees upon retirement based upon the employees' years of service, compensation and SERP tier.

The following information summarizes activity in the SERP:

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