

MANDALAY RESORT GROUP  
Form 10-Q/A  
October 08, 2004

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

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**FORM 10-Q/A**

**Amendment No. 1**

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

**For the quarterly period ended July 31, 2004**

**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**

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**MANDALAY RESORT GROUP**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**3950 Las Vegas Boulevard South, Las Vegas, Nevada 89119**

(Address of principal executive offices)

**88-0121916**  
(I.R.S. employer  
identification no.)

**(702) 632-6700**

(Registrant's telephone number, including area code)

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

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

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

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

Class	Outstanding at August 31, 2004
Common Stock, \$.01-2/3 par value	67,506,070 shares

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**MANDALAY RESORT GROUP AND SUBSIDIARIES**

**Form 10-Q/A**

**(Amendment No. 1)**

**Explanatory Note**

This amendment is being filed solely for the purpose of correcting the amount reported as "Cash paid for income taxes" for the six months ended July 31, 2004, appearing under the caption "Supplemental cash flow disclosures" on the Condensed Consolidated Statements of Cash Flows. The Condensed Consolidated Balance Sheets and the Condensed Consolidated Statements of Income are not affected by this change.

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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**MANDALAY RESORT GROUP AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share data)  
(Unaudited)

	July 31, 2004	January 31, 2004
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 189,499	\$ 153,490
Receivables, net of allowance	80,127	87,112
Inventories	40,259	35,166
Prepaid expenses and other	55,634	74,099
<b>Total current assets</b>	<b>365,519</b>	<b>349,867</b>
Property, equipment and leasehold interests, at cost, net	3,547,377	3,590,699
Other assets		
Excess of purchase price over fair value of net assets acquired	37,965	37,965
Investments in unconsolidated affiliates	575,224	573,306
Other investments	73,743	60,886
Intangible development costs	97,693	95,610
Deferred charges and other assets	68,077	74,163
<b>Total other assets</b>	<b>852,702</b>	<b>841,930</b>
<b>Total assets</b>	<b>\$ 4,765,598</b>	<b>\$ 4,782,496</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current portion of long-term debt	\$ 16,687	\$ 16,681
Accounts and contracts payable		
Trade	47,671	39,016
Construction	6,298	10,122
Accrued liabilities	275,779	265,132
<b>Total current liabilities</b>	<b>346,435</b>	<b>330,951</b>
Long-term debt, net of current portion	2,792,060	3,001,975
Deferred income tax	229,946	230,324
Accrued intangible development costs	49,360	49,360
Other long-term liabilities	117,648	96,393
<b>Total liabilities</b>	<b>3,535,449</b>	<b>3,709,003</b>
Minority interest	49,340	43,223
Stockholders' equity		

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	<u>July 31, 2004</u>	<u>January 31, 2004</u>
Common stock \$.01-2/3 par value		
Authorized 450,000,000 shares		
Issued 114,786,988 and 113,654,263 shares	1,913	1,894
Preferred stock \$.01 par value		
Authorized 75,000,000 shares		
Additional paid-in capital	617,920	549,022
Retained earnings	1,701,299	1,592,199
Deferred compensation	(61,326)	(540)
Accumulated other comprehensive loss	(23,293)	(23,293)
Treasury stock (47,280,918 and 48,242,286 shares), at cost	(1,055,704)	(1,089,012)
	<u>1,180,809</u>	<u>1,030,270</u>
Total stockholders' equity	<u>1,180,809</u>	<u>1,030,270</u>
Total liabilities and stockholders' equity	<u>\$ 4,765,598</u>	<u>\$ 4,782,496</u>

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

**MANDALAY RESORT GROUP AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except share data)  
(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2004	2003	2004	2003
<b>REVENUES:</b>				
Casino	\$ 332,452	\$ 308,745	\$ 678,571	\$ 612,162
Hotel	193,951	164,798	405,147	325,637
Food and beverage	128,312	122,104	260,408	234,414
Other	105,145	92,784	194,691	173,498
	<u>759,860</u>	<u>688,431</u>	<u>1,538,817</u>	<u>1,345,711</u>
Less complimentary allowances	(46,020)	(43,596)	(95,609)	(84,366)
	<u>713,840</u>	<u>644,835</u>	<u>1,443,208</u>	<u>1,261,345</u>
<b>COSTS AND EXPENSES:</b>				
Casino	174,703	162,510	342,091	321,234
Hotel	69,499	59,847	137,327	115,808
Food and beverage	90,596	84,224	178,669	161,511
Other operating expenses	61,844	54,921	114,246	103,494
General and administrative	122,790	113,935	238,147	220,682
Corporate general and administrative	13,378	7,742	23,650	16,211
Depreciation and amortization	46,139	39,635	96,163	74,772
Operating lease rent		8,955		20,172
Preopening expenses		269		357
	<u>578,949</u>	<u>532,038</u>	<u>1,130,293</u>	<u>1,034,241</u>
<b>EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES</b>				
	<u>20,655</u>	<u>23,007</u>	<u>42,317</u>	<u>45,747</u>
<b>INCOME FROM OPERATIONS</b>				
	<u>155,546</u>	<u>135,804</u>	<u>355,232</u>	<u>272,851</u>
<b>OTHER INCOME (EXPENSE):</b>				
Interest, dividend and other income	961	3,910	2,308	2,704
Interest expense	(46,366)	(50,803)	(93,128)	(101,906)
Loss on early extinguishment of debt, net of related gain on swap terminations		(6,327)		(6,327)
Net interest expense from unconsolidated affiliates	(2,117)	(1,739)	(4,199)	(3,798)
	<u>(47,522)</u>	<u>(54,959)</u>	<u>(95,019)</u>	<u>(109,327)</u>
<b>MINORITY INTEREST</b>				
	<u>(15,890)</u>	<u>(15,358)</u>	<u>(33,541)</u>	<u>(29,214)</u>
<b>INCOME BEFORE PROVISION FOR INCOME TAX</b>				
Provision for income tax	(33,920)	(23,151)	(81,130)	(47,928)
<b>NET INCOME</b>				
	<u>\$ 58,214</u>	<u>\$ 42,336</u>	<u>\$ 145,542</u>	<u>\$ 86,382</u>

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	Three Months Ended July 31,		Six Months Ended July 31,	
<b>BASIC EARNINGS PER SHARE</b>				
Net income per share	\$ .86	\$ .71	\$ 2.18	\$ 1.42
<b>DILUTED EARNINGS PER SHARE</b>				
Net income per share	\$ .85	\$ .67	\$ 2.16	\$ 1.36
Average shares outstanding basic	67,483,319	59,964,927	66,861,530	60,768,050
Average shares outstanding diluted	68,126,064	63,028,375	67,529,745	63,662,019

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

**MANDALAY RESORT GROUP AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	Six Months Ended July 31,	
	2004	2003
<b>Cash flows from operating activities</b>		
Net income	\$ 145,542	\$ 86,382
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	96,163	74,772
Provision for bad debts	2,935	2,056
Decrease in deferred income tax	(378)	(15,774)
Tax benefit from stock option exercises	12,031	34
Increase (decrease) in interest payable	7,161	(3,279)
Increase in accrued pension cost	7,770	5,275
Loss on disposition of fixed assets	1,068	601
Unconsolidated affiliates' (earnings in excess of distributions) distributions in excess of earnings	(2,125)	8,983
Minority interest in earnings, net of distributions	6,117	21,735
Changes in assets and liabilities:		
Other current assets	17,422	1,190
Other current liabilities	16,391	31,772
Other noncurrent assets	7,124	8,412
Other	(2,456)	(2,903)
	<u>169,223</u>	<u>132,874</u>
Net cash provided by operating activities	<u>314,765</u>	<u>219,256</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(72,775)	(346,002)
(Decrease) increase in construction payable	(3,824)	13,112
Increase in other investments	(10,401)	(10,179)
Intangible development costs	(6,333)	(10,334)
Other	18,449	1,251
	<u>(74,884)</u>	<u>(352,152)</u>
Net cash used in investing activities	<u>(74,884)</u>	<u>(352,152)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of senior notes and convertible senior debentures		650,000
Proceeds from equipment financing		145,000
Net effect on cash of issuances and payments of debt with initial maturities of three months or less	(190,000)	(90,000)
Principal payments of debt with initial maturities in excess of three months	(8,488)	(445,139)
Debt premium on reverse interest rate swap termination	5,424	6,812
Debt issuance costs	(132)	(16,536)
Exercise of stock options	19,240	30,219
Settlements and interest under equity forward agreements, net of tax benefit		(100,582)
Reversal of deferred gain		(10,339)
Payment of cash dividend	(36,442)	(13,748)
Other	6,526	(13,239)
	<u>(203,872)</u>	<u>142,448</u>
Net cash (used in) provided by financing activities	<u>(203,872)</u>	<u>142,448</u>
Net increase in cash and cash equivalents	36,009	9,552
Cash and cash equivalents at beginning of year	153,490	148,442
	<u>\$ 189,499</u>	<u>\$ 157,994</u>
Cash and cash equivalents at end of year	<u>\$ 189,499</u>	<u>\$ 157,994</u>



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**Six Months  
Ended July 31,**

Supplemental cash flow disclosures		
Cash paid for interest (net of amounts capitalized of \$361 and \$2,818)	\$ 80,854	\$ 104,345
Cash paid for income taxes	\$ 49,144	\$ 31,631
Noncash items		
Increase in market value of investment in insurance contracts	\$ (2,456)	\$ (2,903)
Decrease in market value of interest rate swaps	\$	\$ 3,211
Application of deposit for purchase of equipment	\$	\$ 22,500

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

**MANDALAY RESORT GROUP AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**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 casino. 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 2 Investments in Unconsolidated Affiliates.)

The condensed 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. The Company views each casino property as an operating segment and all such operating segments have been aggregated into one reporting segment.

Minority interest, as reflected on the condensed consolidated financial statements, represents the 46.5% interest of the minority partner in MotorCity Casino in Detroit, Michigan.

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary for a fair statement of results for the interim periods have been made. The results for the three and six months ended July 31, 2004 are not necessarily indicative of results to be expected for the full fiscal year.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended January 31, 2004.

**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.

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2004	2003	2004	2003
Net income	\$ 58,214	\$ 42,336	\$ 145,542	\$ 86,382
Weighted-average shares outstanding (basic)	67,483	59,965	66,862	60,768
Dilutive effect of stock options	643	3,063	668	2,894
Weighted-average shares outstanding (diluted)	68,126	63,028	67,530	63,662
Basic earnings per share	\$ .86	\$ .71	\$ 2.18	\$ 1.42
Diluted earnings per share	\$ .85	\$ .67	\$ 2.16	\$ 1.36

#### STOCK-BASED COMPENSATION

The Company has various employee stock option plans. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") provides that companies may elect to account for employee stock options using a fair value method or continue to apply the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). The Company has elected to continue to apply APB 25 and related interpretations in accounting for its stock option plans using the intrinsic value method. Intrinsic value represents the excess, if any, of the market price of the underlying common stock at the grant date over the exercise price of the stock option. Since all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant, no compensation expense related to stock options was reflected in net income. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. Had compensation expense related to stock options been determined in accordance with the fair value recognition

provisions of SFAS 123, the effect on the Company's net income and basic and diluted earnings per share would have been as follows:

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2004	2003	2004	2003
Net income as reported	\$ 58,214	\$ 42,336	\$ 145,542	\$ 86,382
Less total stock-based employee compensation expense determined under the fair value method, net of tax	(247)	(667)	(641)	(1,553)
Pro forma net income	\$ 57,967	\$ 41,669	\$ 144,901	\$ 84,829
Net income per share (basic)				
As reported	\$ .86	\$ .71	\$ 2.18	\$ 1.42
Pro forma	.86	.69	2.17	1.40
Net income per share (diluted)				
As reported	\$ .85	\$ .67	\$ 2.16	\$ 1.36
Pro forma	.85	.66	2.15	1.33

The Company has also issued restricted stock pursuant to one of its stock incentive plans. The total value of each restricted stock grant, based upon the fair market value of the stock on the date of grant, is initially reported as deferred compensation under stockholders' equity. This deferred compensation is then amortized to compensation expense over the related vesting period. Total deferred compensation amounted to \$61.3 million at July 31, 2004 (net of amortization). The following table shows the amount of compensation expense reflected in the income statement related to grants of restricted stock (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2004	2003	2004	2003
Compensation expense	\$ 4,870	\$ 22	\$ 6,669	\$ 22
<b>COMPREHENSIVE INCOME</b>				

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 accounting principles generally accepted in the United States. Other comprehensive income for the Company includes adjustments for minimum pension liability and adjustments to interest rate swaps, net of tax.

Comprehensive income consisted of the following (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2004	2003	2004	2003
Net income	\$ 58,214	\$ 42,336	\$ 145,542	\$ 86,382
Change in fair value of interest rate swaps		1,622		3,179
Comprehensive income	\$ 58,214	\$ 43,958	\$ 145,542	\$ 89,561

The accumulated comprehensive loss reflected on the balance sheet at July 31, 2004 and January 31, 2004 consisted solely of the minimum pension liability adjustment.

## RECLASSIFICATIONS

The condensed consolidated financial statements for the prior year reflect certain other reclassifications to conform to classifications adopted in the current year. These reclassifications had no effect on previously reported net income.

## Note 2. 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. Investments in unconsolidated affiliates consisted of the following (in thousands):

	July 31, 2004	January 31, 2004
Circus and Eldorado Joint Venture (50%) (Silver Legacy, Reno, Nevada)	\$ 62,208	\$ 60,032
Elgin Riverboat Resort (50%) (Grand Victoria, Elgin, Illinois)	245,482	246,637
Victoria Partners (50%) (Monte Carlo, Las Vegas, Nevada)	267,534	266,637
	\$ 575,224	\$ 573,306

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The Company's unconsolidated affiliates operate with fiscal years ending on December 31. Selected results of operations for each of the unconsolidated affiliates are as follows:

Six months ended June 30, 2004 (in thousands)	Silver Legacy	Grand Victoria	Monte Carlo	Total
Revenues	\$ 77,465	\$ 194,503	\$ 144,894	\$ 416,862
Expenses	62,209	170,356	96,481	329,046
Income from operations	15,256	24,147	48,413	87,816
Net income	6,758	24,243	48,432	79,433

Six months ended June 30, 2003 (in thousands)	Silver Legacy	Grand Victoria	Monte Carlo	Total
Revenues	\$ 74,309	\$ 187,484	\$ 132,624	\$ 394,417
Expenses	61,605	143,760	93,911	299,276
Income from operations	12,704	43,724	38,713	95,141
Net income	5,088	43,898	38,810	87,796

### Note 3. Intangible Development Costs

On August 2, 2002, the Detroit City Council approved a revised development agreement pursuant to which MotorCity Casino is to expand its current facility by December 31, 2005. Under the revised development agreement, MotorCity Casino had paid the City of Detroit \$44.0 million as of July 31, 2004. MotorCity is further obligated, through letters of credit issued by the Company, to fund approximately \$49.4 million to repay bonds issued by the Economic Development Corporation of the City of Detroit ("EDC"). The Company recorded an intangible asset of \$93.4 million, representing the total of the above payments and obligations. As of July 31, 2004, the remaining unpaid obligation is \$49.4 million.

MotorCity is also obligated under an indemnity agreement to indemnify the EDC and the City of Detroit with respect to certain liabilities. As of July 31, 2004, MotorCity had paid \$4.3 million under this indemnity agreement. These payments are also considered to be part of the intangible development costs.

The above intangible development costs have an indefinite life. See Note 10 Commitments and Contingent Liabilities for additional details regarding the Company's Detroit joint venture.

**Note 4. Long-term Debt**

Long-term debt consisted of the following:

(in thousands)	July 31, 2004	January 31, 2004
Amounts due under bank credit agreements at floating interest rates, weighted average of 3.2% and 2.9%	\$ 260,000	\$ 450,000
6.45% Senior Notes due 2006 (net of unamortized discount of \$66 and \$88)	199,934	199,912
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
6 <sup>1</sup> / <sub>2</sub> % Senior Notes due 2009	250,000	250,000
9 <sup>3</sup> / <sub>8</sub> % Senior Subordinated Notes due 2010 (net of unamortized discount of \$1,480 and \$1,612)	298,520	298,388
6 <sup>3</sup> / <sub>8</sub> % Senior Notes due 2011 (net of unamortized discount of \$1,787 and \$1,907)	248,213	248,093
7 <sup>5</sup> / <sub>8</sub> % Senior Subordinated Debentures due 2013	150,000	150,000
Amounts due under Convertible Senior Debentures due 2033 at floating interest rates, weighted average of 2.3% and 1.9%	400,000	400,000
7.0% Debentures due 2036 (net of unamortized discount of \$58 and \$65)	149,942	149,935
6.70% Debentures due 2096	4,265	4,415
Obligation under capital lease	136,807	145,000
Other notes	3,744	3,888
	<u>2,801,425</u>	<u>2,999,631</u>
Current portion of long-term debt	(16,687)	(16,681)
Debt premium from termination of reverse interest rate swaps	19,577	17,711
Market value of reverse interest rate swaps	(12,255)	1,314
	<u>\$ 2,792,060</u>	<u>\$ 3,001,975</u>

With respect to the Convertible Senior Debentures due 2033, Mandalay and The Bank of New York, as trustee, executed a supplemental indenture dated as of July 26, 2004. The supplemental indenture amends the notice provisions of the indenture to permit Mandalay, at any time prior to a conversion date, to elect to exercise its right to deliver cash in lieu of shares of Mandalay common stock for all or any portion of the shares due to holders of the debentures upon conversion of the debentures. Thereafter, Mandalay delivered an irrevocable cash settlement notice to The Bank of New York, the conversion agent for the debentures, which irrevocably obligates Mandalay to cash settle a number of shares of common stock equal to the base conversion rate in effect on the conversion date if the debentures are ultimately converted, provided however, that the amount of cash that Mandalay could be required to pay to cash settle the shares is limited to \$1,000 for each \$1,000 original principal amount of debentures, or a total of \$400 million. Any additional obligation to holders who elect conversion will be settled, at the option of Mandalay, in cash or shares of Mandalay common stock.

At July 31, 2004, the Company was in compliance with all of the covenants in its credit facilities and lease agreement and, under the most restrictive covenant, was restricted from issuing additional debt in excess of approximately \$557 million.

#### **Note 5. 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 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.

In February 2003, the Company entered into two "reverse" interest rate swap agreements ("fair value hedges") with members of its bank group. Under one agreement, the Company received a fixed interest rate of 9.25% and paid a variable interest rate (based on LIBOR plus 6.35%) on \$275 million notional amount. Under the other, the Company received a fixed rate of 6.45% and paid a variable interest rate (based on LIBOR plus 3.57%) on \$200 million notional amount. In May 2003, the Company elected to terminate the \$275 million swap and received \$2.7 million in cash, representing the fair market value of the swap. Accounting rules require such gains to be treated as debt premium and amortized over the remaining life of the related debt instrument using an effective interest method. However, since the underlying \$275 million Senior Subordinated Notes were called on July 15, 2003, the unamortized portion of this gain (along with the unamortized portion of the gain related to a similar interest rate swap that was terminated in October 2002) was offset against the related loss on



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early retirement of debt. The total gain thus offset was \$9.0 million. Meanwhile, in June 2003, the Company elected to terminate the \$200 million swap. The Company received \$4.1 million in cash, representing the fair market value of this swap, and recorded a corresponding debt premium which will be amortized to interest expense over the then remaining life of the related debt instrument, which was approximately 2<sup>1</sup>/<sub>2</sub> years.

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

In December 2003, the Company entered into two "reverse" interest rate swap agreements ("fair value hedges") with members of its bank group. Under one agreement, the Company receives a fixed interest rate of 6.375% and pays a variable interest rate (based on LIBOR plus 1.74%, or 3.7% at July 31, 2004) on \$125 million notional amount. Under the other, the Company receives a fixed rate of 6.375% and pays a variable interest rate (based on LIBOR plus 1.72%, or 3.7% at July 31, 2004) on \$125 million notional amount. These swaps are being used to hedge the Company's \$250 million 6<sup>3</sup>/<sub>8</sub>% Senior Notes due 2011.

In April 2004, the Company entered into a "reverse" interest rate swap agreement ("fair value hedge") with a member of its bank group. Under this agreement, the Company receives a fixed interest rate of 6.5% and pays a variable interest rate (based on LIBOR plus 2.58%, or 4.6% at July 31, 2004) on \$250 million notional amount. This swap is being used to hedge the Company's \$250 million 6<sup>1</sup>/<sub>2</sub>% Senior Notes due 2009.

The net effect of all swaps resulted in a reduction of interest expense of \$4.1 million in the quarter and \$9.1 million in the six months ended July 31, 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 of its then-existing swaps as of July 31, 2004, the Company would have had to pay a net amount of \$12.3 million based on quoted market values from the various financial institutions holding the swaps.

Our 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"), which the Company adopted in fiscal 2002. The Company reports its swap related assets and liabilities on a net basis in "Other Long-term Liabilities". The fair market value of the swaps designated as fair value hedges decreased \$13.6 million during the six months ended July 31, 2004, which increased the net liability with a corresponding decrease in long-term debt.

**Note 6. Leasing Arrangements**

On June 30, 2003, the Company exercised its purchase options under previously existing operating leases and purchased equipment for a total purchase price of \$198.3 million, representing the equipment's fair market value based upon independent appraisals. Of this amount, \$188.0 million was reflected as capital expenditures, with the balance of \$10.3 million representing the reversal of unamortized deferred gain related to the December 2001 sale and leaseback transaction. The purchase price was financed utilizing the \$145 million the Company received under its new capital lease agreement, with the balance being borrowed under the revolving credit facility.

**Note 7. Stock Options and Restricted Stock**

The Company has various stock incentive plans for executive, managerial and supervisory personnel, as well as the Company's outside directors and consultants. All of the plans permit grants of options, and two of the plans also permit the grant of performance shares and restricted stock awards relating to the Company's common stock. As of July 31, 2004, the awards granted pursuant to these plans were stock options, which are generally exercisable in one or more installments beginning not less than six months after the grant date, and restricted stock, which generally vests ratably over three or five years. As of July 31, 2004, the total remaining shares available for grant under these plans (as options, performance shares, or restricted stock) was 2,065,749.

Summarized information for stock options was as follows:

	<b>Six Months Ended July 31, 2004</b>	
	<b>Options</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at beginning of period	1,744,302	\$ 21.19
Granted		
Exercised	(961,368)	20.01
Canceled		
<b>Outstanding at end of period</b>	<b>782,934</b>	<b>22.64</b>
Exercisable at end of period	222,234	22.98

Summarized information for restricted stock was as follows:

	<b>Six Months Ended July 31, 2004</b>
Unvested at beginning of period	20,250
Granted	1,133,425
Vested	(6,750)
Canceled	(700)
<b>Unvested at end of period</b>	<b>1,146,225</b>

During the six months ended July 31, 2004, the Company did not purchase any shares of its common stock. In the prior year period, the Company did not purchase any shares of its common stock, though it did settle its equity forward agreements (see Note 9).

**Note 8. Stock Related Matters**

On June 16, 2004, Mandalay and MGM MIRAGE jointly announced that they had entered into a definitive merger agreement pursuant to which MGM MIRAGE will acquire Mandalay for \$71.00 in cash for each outstanding share of common stock of Mandalay. The transaction is structured as a merger of a wholly owned subsidiary of MGM MIRAGE with and into Mandalay and is subject to the approval of Mandalay's stockholders and to the satisfaction of customary closing conditions contained in the definitive merger agreement, including the receipt of all necessary regulatory and governmental approvals. Accordingly, there can be no assurance as to when, or if, the transaction will be consummated.

On June 15, 2004, Mandalay amended its rights plan to provide, among other things, that neither MGM MIRAGE, nor MGM MIRAGE Acquisition #61 or any affiliate or associate of either shall be deemed to be an acquiring person either individually or collectively, by virtue of (i) the announcement of the merger, (ii) the acquisition of common stock of Mandalay pursuant to that merger, (iii) the execution of the related merger agreement, or (iv) the consummation of the merger or the other transactions contemplated by the merger agreement. On August 2, 2004 the rights agreement was further amended to extend from August 15, 2004 to August 15, 2014 the date the rights issued under the rights plan will expire, subject to Mandalay's right to extend that date, unless the rights are earlier redeemed or exchanged by Mandalay or terminated.

**Note 9. Equity Forward Agreements**

To facilitate the purchase of shares of its common stock, the Company entered into equity forward agreements with Bank of America ("B of A" or "the Bank") providing for the Bank's purchase of up to an agreed amount of the Company's outstanding common stock. Bank of America acquired a total of 6.9 million shares at a total cost of \$138.7 million under these agreements. Pursuant to the interim settlement provisions and an amendment to the agreements, the Company received a net of 3.6 million shares and reduced the notional amount of the agreements by \$38.7 million as of January 31, 2003. On March 31, 2003, the Company purchased the remaining 3.3 million shares from B of A for the notional amount of \$100 million. The settlement of the contract was funded under the Company's revolving credit facility.

The Company incurred quarterly interest charges on the notional amount at a rate equal to LIBOR plus 1.95%. Total interest charges incurred from inception through March 31, 2003, amounted to \$12.3 million, of which \$0.7 million was incurred during fiscal 2004. The Company also incurred structuring fees and commission charges totaling \$3.7 million. These interest charges and other fees were included in the cost of treasury stock, net of the related tax benefit.

**Note 10. Commitments and Contingent Liabilities**

**THEhotel**

THEhotel, the new 1,117-all-suites tower at Mandalay Bay, opened in December 2003. The new suites average 750 square feet, among the largest room product in the Las Vegas market. The 43-story tower also includes meeting suites, a spa and fitness center, a lounge and two restaurants, including a rooftop venue "Mix-Las Vegas" created by famed chef Alain Ducasse that will open later this fall. The total cost of the new tower is estimated to be \$270 million, excluding land, capitalized interest and preopening expenses. As of July 31, 2004, the Company had incurred costs of \$265.5 million related to this project.

### **Mandalay Place**

In October 2003, the Company opened Mandalay Place, a retail center located between Mandalay Bay and Luxor. The center includes approximately 90,000 square feet of retail space and approximately 40 stores and restaurants, including internationally branded retailers like Oilily, GF Ferre, Nike Golf and Urban Outfitters, along with restaurants by celebrity chefs Pierro Selvaggio, Hubert Keller and Rick Moonen. The cost is estimated to be approximately \$60 million, excluding land, capitalized interest and preopening expenses. As of July 31, 2004, the Company had incurred costs of \$54.5 million related to this project.

### **Detroit**

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

On August 2, 2002, the Detroit City Council approved a revised development agreement between the joint venture and the City of Detroit (the "Revised Development Agreement"). Under the Revised Development Agreement, MotorCity Casino is to be expanded into a permanent facility at its current location by December 31, 2005. The permanent facility is currently expected to include 100,000 square feet of casino space, a 400-room hotel, a 1,200-seat theater, convention space, and additional restaurants, retail space and parking. Depending upon market conditions, the availability of additional land and the joint venture's ability to obtain reasonable financing, the joint venture could be required to construct an additional 400 rooms. Under the terms of this agreement, the joint venture had paid the City a total of \$44.0 million as of July 31, 2004. Also, beginning January 1, 2006, the joint venture is to pay the City 1% of its adjusted casino revenues. If its casino revenues top \$400 million in any given calendar year, the payment will be increased to 2% for that calendar year.

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

The Company has committed to contribute 20% of the costs of the permanent facility in the form of an investment in the joint venture. The joint venture will seek to borrow any additional funds (above Mandalay's equity contribution) which may be necessary to complete the expanded permanent facility. Under the operating agreement, the project costs are to be reviewed every six months. As of July 31,

2004, the Company had contributed 20% of the project costs as most recently determined. The cost of the additional facilities (excluding land, capitalized interest and preopening expenses) is currently estimated to be \$275 million. Under the Revised Development Agreement, the Company guaranteed completion of the expanded facility and entered into a keep-well agreement with the City that could require it to contribute additional funds to continue operation of the facility until two years following the execution of the completion guarantee and keep-well agreement. There is no contractual limitation on the amount that the Company may be required to contribute under the completion guarantee or the keep-well agreement. However, based on the performance of the casino to date, the Company does not expect that its completion guarantee or keep-well agreement with the City will require the outlay of additional capital.

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

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

Various lawsuits have been filed in the state and federal courts challenging the constitutionality of the Casino Development Competitive Selection Process Ordinance and the Michigan Gaming Control and Revenue Act, and seeking to appeal the issuance of a certificate of suitability and casino license to MotorCity Casino. A decision by the Sixth Circuit Court of Appeals in *Lac Vieux Desert Band of Lake Superior Chippewa Indians v. The Michigan Gaming Control Board et al.* held that the ordinance in its current form was unconstitutional and remanded the case to the District Court. The Michigan Gaming Control Board ("MGCB") took the ruling of the Sixth Circuit Court of Appeals under advisement without comment. The District Court declared that the ordinance in its current form is unconstitutional and awarded the Lac Vieux Band attorneys' fees and costs totaling \$545,094, but rejected the Lac Vieux Band's request to require a rebidding of the three casino licenses, and in addition, rejected the Lac Vieux Band's request to enjoin the City of Detroit from entering into revised development agreements with the three casino developers, including MotorCity Casino. The Lac Vieux Band has appealed the District Court's decision to the Sixth Circuit Court of Appeals. The Sixth Circuit Court of Appeals issued an opinion granting the Lac Vieux Band's motion for an injunction pending appeal that temporarily enjoins the City of Detroit from issuing building permits for the permanent casino facilities and temporarily enjoins the casino developers from commencing construction of the permanent casino facilities.

The Lac Vieux Band has filed a separate action in the Gogebic County, Michigan, Circuit Court entitled *Lac Vieux Desert Band of Lake Superior Chippewa Indians v. Michigan Gaming Control Board*, in which the Lac Vieux Band has requested the Circuit Court to enter an order requiring the MGCB to revoke the casino licenses issued to the three Detroit casinos, including MotorCity Casino. The action has been stayed pending resolution by the Sixth Circuit Court of Appeals of the Lac Vieux Band's appeal of the District Court decision referenced above.

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

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

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

On August 17, 2004, the Governor of Michigan signed new legislation providing for an increase in the gaming tax rate from 18% to 24% effective September 1, 2004. The new law provides for an additional one percent increase in the tax rate on each of July 1, 2009, 2010 and 2011. Once a permanent facility is fully operational, the tax is reduced to 19%. The legislation further provides that the tax increase is eliminated if the Michigan Lottery Act is amended and video lottery terminals at horse racetracks become operational.

## **Legal Proceedings**

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

As previously reported, 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.*

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*Caesars World, Inc. et al.* The court consolidated the three cases in the U.S. District Court for the District of Nevada under the case captioned *William H. Poulos, et al. v. Caesars World, Inc. et al.*

The consolidated complaints allege that the defendants are involved in a scheme to induce people to play electronic video poker and slot machines based on false beliefs regarding how such machines operate and the extent to which a player is likely to win on any given play. The actions included claims under the Federal Racketeering Influenced and Corrupt Organizations Act, as well as claims of common law fraud, unjust enrichment and negligent misrepresentation, and seek unspecified compensatory and punitive damages. A motion for class certification was filed in March 1998. On June 26, 2002, the Motion for Class Certification was denied. Subsequently, the Plaintiffs sought permission from the Ninth Circuit Court of Appeals to appeal the issue of class certification. The Court of Appeals granted the Plaintiffs' motion. On August 10, 2004, the Ninth Circuit entered its order affirming the district court's denial of the motion for class certification. The time period for filing a motion for rehearing of that ruling has since passed.

### ***Shareholder Litigation***

The Company and its directors were named defendants in *Stephen Ham, Trustee for the J.C. Ham Residuary Trust v. Mandalay Resort Group, et al.*, Case No. A487100, which was filed on June 11, 2004 in the 8<sup>th</sup> Judicial District Court for Clark County, Nevada, and *Robert Lowinger v. Mandalay Resort Group, et al.*, Case No. A486782, which was filed on June 7, 2004 also in the 8<sup>th</sup> Judicial District Court for Clark County, Nevada. Both of these actions make claims concerning the announced merger between the Company and MGM MIRAGE, including claims of breach of fiduciary duty against the Company's directors, and seek injunctive relief and unspecified monetary damages. At this time, the plaintiffs in both actions have agreed that the Company and the directors do not need to respond to the pending complaints, as they intend to file a joint amended complaint and consolidate both actions. It is unknown when the plaintiffs will file an amended complaint. Once that happens, the Company and its directors will be required to either answer the complaint or file a dispositive motion.

The Company is a defendant in various other pending litigation. In management's opinion, the ultimate outcome of such litigation will not have a material effect on the results of operations or the financial position of the Company.

**PART II. OTHER INFORMATION**

**Item 6. Exhibits.**

The following exhibits are filed as part of this report:

- 10.1 Amended and Restated Joint Venture Agreement dated as of June 25, 2002 by and among Nevada Landing Partnership and RBG, L.P.\*
  - 31.1 Certification of Michael S. Ensign, Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Glenn Schaeffer, Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification of Michael S. Ensign Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification of Glenn Schaeffer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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\*

Included as Exhibit 10.1 to this report as originally filed.



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MANDALAY RESORT GROUP

(Registrant)

October 7, 2004

By: /s/ GLENN SCHAEFFER

Glenn Schaeffer  
President and Chief Financial Officer

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