

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

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 t