

MGM MIRAGE  
Form 10-Q  
August 09, 2006

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**UNITED STATES SECURITIES & EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2006**

**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 No. 0-16760  
MGM MIRAGE**

(Exact name of registrant as specified in its charter)

Delaware

88-0215232

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

3600 Las Vegas Boulevard South, Las Vegas, Nevada 89109

(Address of principal executive offices Zip Code)

(702) 693-7120

(Registrant's telephone number, including area code)

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

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes  No   
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class  
Common Stock, \$.01 par value

Outstanding at August 7, 2006  
283,292,018 shares

**MGM MIRAGE AND SUBSIDIARIES  
FORM 10-Q  
I N D E X**

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CONSOLIDATED BALANCE SHEETS***(In thousands, except share data)**(Unaudited)*

|  | <b>June 30,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|--|--------------------------|------------------------------|
| <b>ASSETS</b>                            |                          |                              |
| <b>Current assets</b>                    |                          |                              |
| Cash and cash equivalents                | \$ 294,992               | \$ 377,933                   |
| Accounts receivable, net                 | 312,932                  | 352,673                      |
| Inventories                              | 118,144                  | 111,825                      |
| Deferred income taxes                    | 64,875                   | 65,518                       |
| Prepaid expenses and other               | 114,918                  | 110,634                      |
| Total current assets                     | 905,861                  | 1,018,583                    |
| <b>Real estate under development</b>     | 115,887                  |                              |
| <b>Property and equipment, net</b>       | 16,801,647               | 16,541,651                   |
| <b>Other assets</b>                      |                          |                              |
| Investments in unconsolidated affiliates | 1,053,474                | 931,154                      |
| Goodwill                                 | 1,309,131                | 1,314,561                    |
| Other intangible assets, net             | 375,681                  | 377,479                      |
| Deposits and other assets, net           | 509,979                  | 515,992                      |
| Total other assets                       | 3,248,265                | 3,139,186                    |
|  | \$ 21,071,660            | \$ 20,699,420                |

**LIABILITIES AND STOCKHOLDERS EQUITY**

|                                    |            |            |
|------------------------------------|------------|------------|
| <b>Current liabilities</b>         |            |            |
| Accounts payable                   | \$ 366,812 | \$ 265,601 |
| Income taxes payable               | 8,822      | 125,503    |
| Current portion of long-term debt  |            | 14         |
| Accrued interest on long-term debt | 236,951    | 229,930    |
| Other accrued liabilities          | 843,933    | 913,520    |
| Total current liabilities          | 1,456,518  | 1,534,568  |
| <b>Deferred income taxes</b>       | 3,345,368  | 3,378,371  |

|   |               |               |
|---|---------------|---------------|
| <b>Long-term debt</b>   | 12,604,145    | 12,355,433    |
| <b>Other long-term obligations</b>  | 200,236       | 195,976       |
| <b>Commitments and contingencies (Note 9)</b>   |               |               |
| <b>Stockholders equity</b>  |               |               |
| Common stock, \$.01 par value: authorized 600,000,000 shares; issued 359,215,605 and 357,262,405 shares; outstanding 283,250,865 and 285,069,516 shares | 3,592         | 3,573         |
| Capital in excess of par value  | 2,675,169     | 2,586,587     |
| Deferred compensation   | (436)         | (3,618)       |
| Treasury stock, at cost 75,964,740 and 72,192,889 shares  | (1,490,775)   | (1,338,394)   |
| Retained earnings   | 2,278,156     | 1,987,725     |
| Accumulated other comprehensive loss  | (313)         | (801)         |
| Total stockholders equity   | 3,465,393     | 3,235,072     |
|   | \$ 21,071,660 | \$ 20,699,420 |

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

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**MGM MIRAGE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
*(In thousands, except per share amounts)*  
*(Unaudited)*

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |              |
|--|---------------------------|-------------|-------------------------|--------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |              |
|  | <b>2006</b>               | <b>2005</b> | <b>2006</b>             | <b>2005</b>  |
| <b>Revenues</b>                              |                           |             |                         |              |
| Casino                                       | \$ 796,373                | \$ 764,378  | \$ 1,643,338            | \$ 1,379,191 |
| Rooms  | 524,047                   | 455,761     | 1,044,297               | 729,815      |
| Food and beverage                            | 387,527                   | 352,184     | 774,266                 | 595,662      |
| Entertainment                                | 105,457                   | 115,711     | 205,110                 | 203,858      |
| Retail                                       | 72,336                    | 69,463      | 138,903                 | 114,342      |
| Other  | 133,445                   | 106,973     | 256,873                 | 167,808      |
|  | 2,019,185                 | 1,864,470   | 4,062,787               | 3,190,676    |
| Less: Promotional allowances                 | (152,002)                 | (148,514)   | (317,071)               | (270,585)    |
|  | 1,867,183                 | 1,715,956   | 3,745,716               | 2,920,091    |
| <b>Expenses</b>                              |                           |             |                         |              |
| Casino                                       | 412,710                   | 389,767     | 857,789                 | 700,556      |
| Rooms  | 141,484                   | 125,405     | 278,611                 | 194,884      |
| Food and beverage                            | 233,585                   | 220,466     | 460,381                 | 354,777      |
| Entertainment                                | 76,740                    | 84,801      | 150,270                 | 144,866      |
| Retail                                       | 47,391                    | 45,233      | 92,887                  | 74,817       |
| Other  | 76,600                    | 64,517      | 145,904                 | 103,982      |
| General and administrative                   | 276,602                   | 249,713     | 546,606                 | 408,077      |
| Corporate expense                            | 38,579                    | 31,651      | 75,231                  | 58,442       |
| Preopening and start-up expenses             | 15,044                    | 3,897       | 21,225                  | 6,421        |
| Restructuring costs (credit)                 | 231                       | (4)         | 1,035                   | (70)         |
| Property transactions, net                   | 12,575                    | 1,793       | 36,044                  | 5,996        |
| Depreciation and amortization                | 164,984                   | 151,673     | 320,257                 | 262,168      |
|  | 1,496,525                 | 1,368,912   | 2,986,240               | 2,314,916    |
| <b>Income from unconsolidated affiliates</b> | 57,081                    | 30,885      | 92,635                  | 65,930       |
| <b>Operating income</b>                      | 427,739                   | 377,929     | 852,111                 | 671,105      |
| <b>Non-operating income (expense)</b>        |                           |             |                         |              |
| Interest income                              | 3,027                     | 5,319       | 5,772                   | 7,016        |
| Interest expense, net                        | (195,345)                 | (167,348)   | (392,731)               | (268,816)    |
|  | (3,341)                   | (4,404)     | (6,936)                 | (7,191)      |

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Non-operating items from unconsolidated affiliates |            |            |            |            |
| Other, net   | (3,333)    | (1,781)    | (6,377)    | (17,472)   |
|  | (198,992)  | (168,214)  | (400,272)  | (286,463)  |
| <b>Income before income taxes</b>                  | 228,747    | 209,715    | 451,839    | 384,642    |
| Provision for income taxes                         | (82,353)   | (68,547)   | (161,408)  | (132,395)  |
| <b>Net income</b>                                  | \$ 146,394 | \$ 141,168 | \$ 290,431 | \$ 252,247 |
| <b>Basic earnings per share of common stock</b>    |            |            |            |            |
| Net income per share                               | \$ 0.51    | \$ 0.49    | \$ 1.02    | \$ 0.89    |
| <b>Diluted earnings per share of common stock</b>  |            |            |            |            |
| Net income per share                               | \$ 0.50    | \$ 0.48    | \$ 0.99    | \$ 0.85    |

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

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**MGM MIRAGE AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(In thousands)*  
*(Unaudited)*

|   | <b>Six Months Ended</b> |             |
|---|-------------------------|-------------|
|   | <b>June 30,</b>         |             |
|   | <b>2006</b>             | <b>2005</b> |
| <b>Cash flows from operating activities</b>                                       |                         |             |
| Net income  | \$ 290,431              | \$ 252,247  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |             |
| Depreciation and amortization   | 320,257                 | 262,168     |
| Amortization of debt discounts, premiums and issuance costs                       | (1,138)                 | 8,131       |
| Provision for doubtful accounts   | 30,357                  | 15,761      |
| Stock-based compensation  | 40,818                  | 3,799       |
| Property transactions, net  | 36,044                  | 5,996       |
| Loss on early extinguishment of debt  |                         | 18,139      |
| Income from unconsolidated affiliates   | (80,556)                | (56,332)    |
| Distributions from unconsolidated affiliates                                      | 62,584                  | 43,039      |
| Deferred income taxes   | (32,752)                | (27,239)    |
| Tax benefit from stock-based compensation   |                         | 60,833      |
| Change in assets and liabilities:   |                         |             |
| Accounts receivable   | 5,318                   | (7,492)     |
| Inventories   | (6,920)                 | (5,153)     |
| Prepaid expenses and other  | (4,284)                 | 13,168      |
| Real estate under development   | (17,179)                |             |
| Accounts payable and accrued liabilities  | (59,257)                | (5,715)     |
| Income taxes payable  | (112,830)               | 53,635      |
| Hurricane Katrina insurance proceeds  | 2,893                   |             |
| Change in Hurricane Katrina insurance receivable                                  | (34,261)                |             |
| Other   | (21,474)                | (16,060)    |
| Net cash provided by operating activities   | 418,051                 | 618,925     |
| <b>Cash flows from investing activities</b>                                       |                         |             |
| Acquisition of Mandalay Resort Group, net of cash acquired                        |                         | (4,427,085) |
| Capital expenditures  | (794,948)               | (232,242)   |
| Hurricane Katrina insurance proceeds  | 113,947                 |             |
| Dispositions of property and equipment  | 5,814                   | 654         |
| Investments in unconsolidated affiliates  | (62,655)                | (177,000)   |
| Change in construction payable  | 98,100                  | (38,539)    |
| Other   | (8,409)                 | (10,851)    |
| Net cash used in investing activities   | (648,151)               | (4,885,063) |
| <b>Cash flows from financing activities</b>                                       |                         |             |



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|  |             |             |
|--|-------------|-------------|
| Net borrowings (repayments) under bank credit facilities maturities of 90 days or less | (90,300)    | 1,200,000   |
| Borrowings under bank credit facilities maturities longer than 90 days                 | 3,500,000   | 3,500,000   |
| Repayments under bank credit facilities maturities longer than 90 days                 | (3,700,000) |             |
| Issuance of long-term debt   | 750,000     | 500,000     |
| Repayment of long-term debt  | (200,000)   | (1,102,171) |
| Debt issuance costs  | (5,828)     | (47,126)    |
| Issuance of common stock   | 28,066      | 97,554      |
| Purchases of treasury stock  | (141,038)   |             |
| Excess tax benefits from stock-based compensation                                      | 18,361      |             |
| Other  | (12,102)    | (10,752)    |
| Net cash provided by financing activities  | 147,159     | 4,137,505   |
| <b>Cash and cash equivalents</b>   |             |             |
| Net decrease for the period  | (82,941)    | (128,633)   |
| Balance, beginning of period   | 377,933     | 435,128     |
| Balance, end of period   | \$ 294,992  | \$ 306,495  |

**Supplemental cash flow disclosures**

|  |            |            |
|--|------------|------------|
| Interest paid, net of amounts capitalized                    | \$ 386,848 | \$ 228,849 |
| Federal, state and foreign income taxes paid, net of refunds | 286,786    | 41,684     |

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

**Table of Contents****MGM MIRAGE AND SUBSIDIARIES****CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION**

**Organization.** MGM MIRAGE (the Company) is a Delaware corporation, incorporated on January 29, 1986. As of June 30, 2006, approximately 56% of the outstanding shares of the Company's common stock were owned by Tracinda Corporation, a Nevada corporation wholly owned by Kirk Kerkorian. MGM MIRAGE acts largely as a holding company and, through wholly-owned subsidiaries, owns and/or operates casino resorts. On April 25, 2005, the Company completed its merger with Mandalay Resort Group (Mandalay) see Note 2.

The Company owns and operates the following casino resorts in Las Vegas, Nevada: Bellagio, MGM Grand Las Vegas, Mandalay Bay, The Mirage, Luxor, Treasure Island (TI), New York-New York, Excalibur, Monte Carlo, Circus Circus Las Vegas and Slots-A-Fun. Boardwalk was closed in January 2006 in preparation for Project CityCenter (see below). The Company owns three resorts in Primm, Nevada, at the California/Nevada state line Whiskey Pete's, Buffalo Bill's and the Primm Valley Resort as well as two championship golf courses located near the resorts. Other Nevada operations include Circus Circus Reno, Colorado Belle and Edgewater in Laughlin, Gold Strike and Nevada Landing in Jean, and Railroad Pass in Henderson. The Company has a 50% investment in Silver Legacy in Reno, which is adjacent to Circus Circus Reno. In addition, the Company owns a 50% interest in the entity developing The Signature at MGM Grand, which is adjacent to MGM Grand Las Vegas. The Signature is a condominium-hotel development, with one tower currently in the closing process and two towers currently under construction. The Company also owns Shadow Creek, an exclusive world-class golf course located approximately ten miles north of its Las Vegas Strip resorts.

The Company and its local partners own MGM Grand Detroit, LLC, which operates a casino in an interim facility located in downtown Detroit, Michigan. The Company also owns and operates two resorts in Mississippi Beau Rivage in Biloxi and Gold Strike Tunica. Beau Rivage sustained significant damage in late August 2005 as a result of Hurricane Katrina and has been closed since. The Company expects to reopen Beau Rivage in stages beginning in the third quarter of 2006. The Company has 50% interests in two resorts outside of Nevada Borgata and Grand Victoria. Borgata is a casino resort located on Renaissance Point in the Marina area of Atlantic City, New Jersey. Boyd Gaming Corporation owns the other 50% of Borgata and also operates the resort. The Company owns additional land adjacent to Borgata, a portion of which consists of common roads, landscaping and master plan improvements, a portion of which is being utilized for an expansion of Borgata, and a portion of which is available for future development. Grand Victoria is a riverboat in Elgin, Illinois an affiliate of Hyatt Gaming owns the other 50% of Grand Victoria and also operates the resort.

The Company owns 50% of MGM Grand Paradise Limited, a joint venture with Pansy Ho Chiu-king formed to develop, build and operate a hotel-casino resort, MGM Grand Macau, in Macau S.A.R. MGM Grand Macau is estimated to cost approximately \$1.1 billion, including land and license rights and preopening costs, and the resort is anticipated to open in late 2007.

The Company owns 66 acres adjacent to Bellagio on which it is developing Project CityCenter. Project CityCenter will feature a 4,000-room casino resort designed by world-famous architect Cesar Pelli; two 400-room non-gaming boutique hotels, one of which will be managed by luxury hotelier Mandarin Oriental; approximately 470,000 square feet of retail shops, dining and entertainment venues; and approximately 2.3 million square feet of residential space in approximately 2,800 luxury condominium and condominium-hotel units in multiple towers. The overall cost of Project CityCenter is estimated at approximately \$7 billion, excluding preopening and land costs. After estimated proceeds of \$2.5 billion from the sale of residential units, net project cost is estimated at approximately \$4.5 billion. Project CityCenter is expected to open in late 2009.

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**Basis of presentation.** As permitted by 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 have been condensed or omitted. These consolidated financial statements should be read in conjunction with the Company's 2005 annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments which include only normal recurring adjustments necessary to present fairly the Company's financial position as of June 30, 2006, the results of its operations for the three and six month periods ended June 30, 2006 and 2005, and cash flows for the six month periods ended June 30, 2006 and 2005. The results of operations for such periods are not necessarily indicative of the results to be expected for the full year. Certain reclassifications, which have no effect on previously reported net income, have been made to the 2005 financial statements to conform to the 2006 presentation.

**Point-loyalty programs.** The Company operates two primary point-loyalty programs Players Club and One Club. One Club is the point-loyalty program at Mandalay resorts, and that program will be phased out in 2006 and 2007, with customers transferred into Players Club.

In Players Club, customers earn points based on their slots play, which can be redeemed for cash. The Company records a liability based on the points earned times the redemption value and records a corresponding reduction in casino revenue since the awards earned are cash. The expiration of unused points results in a reduction of the liability. Customers' overall level of table games and slots play is also tracked and used by management in awarding discretionary complimentary free rooms, food and beverage and other services for which no accrual is recorded.

In One Club, customers earn points based on both their slots and table games play, with slots play contributing to a points balance which can be redeemed for cash and both table games and slots play contributing to a points balance which can be redeemed for complimentary. The Company records a liability based on the points earned times the redemption value. For cash points, the redemption value is the cash value, and the offsetting entry is a reduction in casino revenue. For complimentary points, the redemption value is based on the average departmental cost of the free rooms, food and beverage and other services and estimated redemption patterns, and the offsetting entry is a casino operating expense. The expiration of unused points results in a reduction of the liability.

**Financial statement impact of Hurricane Katrina.** The Company maintains insurance covering both property damage and business interruption as a result of wind and flood damage sustained at Beau Rivage. The deductible under this coverage is \$15 million, based on the amount of damage incurred. Based on current estimates, insurance proceeds are expected to exceed the net book value of damaged assets and clean-up and demolition costs; therefore, the Company has not recorded an impairment charge related to the storm and upon ultimate settlement of the claim will likely record a gain. Damaged assets with a net book value of \$126 million have been written off, clean-up and demolition costs of \$34 million have been incurred, and a corresponding insurance receivable has been recorded.

Business interruption coverage covers lost profits and other costs incurred during the construction period and up to six months following the re-opening of the facility. Expected costs during the interruption period are less than the anticipated business interruption proceeds; therefore, post-storm costs of \$77 million through June 30, 2006 are being offset by the expected recoveries and a corresponding insurance receivable has been recorded. Post-storm costs and expected recoveries are recorded net within General and administrative expenses in the accompanying consolidated statements of income, except for depreciation of non-damaged assets, which is classified as Depreciation and amortization.

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The insurance receivable is recorded within Deposits and other assets, net in the accompanying consolidated balance sheets. Through June 30, 2006, the Company has received \$163 million from its insurers, leaving a net receivable of \$74 million at June 30, 2006. Insurance proceeds are classified in the statement of cash flows based on the coverage the proceeds relate to; however, the Company's insurance policy includes undifferentiated coverage for both property damage and business interruption. The Company treated proceeds as being related to property damage, and therefore classified the proceeds as an investing cash flow, until the full \$160 million of damaged assets and demolition costs were recovered. The Company is treating subsequent proceeds up to the amount of the recorded receivable as being related to business interruption, and therefore classifying these proceeds as an operating cash flow. Proceeds in excess of the recorded receivable will be segregated between property damage and business interruption based on the ultimate negotiation and resolution of the claim.

**Real estate under development.** Real estate under development represents capitalized costs of wholly-owned real estate projects to be sold, which consists entirely of condominium and condominium-hotel developments. Real estate under development includes land, direct construction and development costs, property taxes, interest and direct selling costs. Indirect selling costs are expensed as incurred. Substantially all of the balance in real estate under development at June 30, 2006 represents the cost balance of land upon which development of condominium or condominium-hotel towers began in the first quarter of 2006.

**NOTE 2 ACQUISITION**

On April 25, 2005, the Company closed its merger with Mandalay under which the Company acquired 100% of the outstanding common stock of Mandalay for \$71 in cash for each share of Mandalay's common stock. The acquisition expands the Company's portfolio of resorts on the Las Vegas Strip, provides additional sites for future development and expands the Company's employee and customer bases significantly. These factors result in the recognition of certain intangible assets, discussed below, and significant goodwill. The total merger consideration included (in thousands):

|   |              |
|---|--------------|
| Cash consideration for Mandalay's outstanding shares and stock options      | \$ 4,831,944 |
| Estimated fair value of Mandalay's long-term debt                           | 2,849,225    |
| Transaction costs and expenses and other                                    | 111,944      |
|   | 7,793,113    |
| Less: Net proceeds from the sale of Mandalay's interest in MotorCity Casino | (526,597)    |
|   | \$ 7,266,516 |

Cash paid, net of cash acquired, was \$4.4 billion. The transaction was accounted for as a purchase and, accordingly, the purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values.

The following table sets forth the allocation of purchase price (in thousands):

|   |              |
|---|--------------|
| Current assets (including cash of \$134,245)  | \$ 413,502   |
| Property and equipment                        | 7,130,376    |
| Goodwill                                      | 1,225,373    |
| Other intangible assets                       | 245,940      |
| Other assets                                  | 340,930      |
| Assumed liabilities, excluding long-term debt | (602,127)    |
| Deferred taxes                                | (1,487,478)  |
|   | \$ 7,266,516 |



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The amount allocated to intangible assets includes existing Mandalay intangible assets and the recognition of customer relationships with a value of \$12 million and an estimated useful life of five years and trade names and trademarks with a value of \$234 million and an indefinite life. Goodwill and indefinite-lived intangible assets are not amortized.

The operating results for Mandalay are included in the accompanying consolidated statements of income from the date of the acquisition. The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the Mandalay acquisition had occurred on January 1, 2005.

| <b>For the periods ended June 30,</b> | <b>Three<br/>Months<br/>2005</b>                    | <b>Six Months<br/>2005</b> |
|---------------------------------------|---|----------------------------|
|                                       | <i>(In thousands, except<br/>per share amounts)</i> |                            |
| Net revenues                          | \$ 1,921,772  | \$ 3,822,750               |
| Operating income                      | 412,728   | 832,842                    |
| Net income                            | 142,314   | 273,716                    |
| Basic earning per share:              |   |                            |
| Net income                            | \$ 0.50   | \$ 0.96                    |
| Diluted earning per share:            |   |                            |
| Net income                            | \$ 0.48   | \$ 0.93                    |

**NOTE 3 INVESTMENTS IN UNCONSOLIDATED AFFILIATES**

Investments in unconsolidated affiliates consisted of the following:

|  | <b>June 30,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |
|--|--------------------------|----------------------------------|
|  | <i>(In thousands)</i>    |                                  |
| Marina District Development Company Borgata (50%)            | \$ 457,727               | \$ 461,211                       |
| Elgin Riverboat Resort Riverboat Casino Grand Victoria (50%) | 299,500                  | 241,279                          |
| MGM Grand Paradise Limited Macau (50%)                       | 248,109                  | 187,568                          |
| Circus and Eldorado Joint Venture Silver Legacy (50%)        | 28,456                   | 26,492                           |
| Other  | 9,082                    | 14,604                           |
|  | 1,042,874                | 931,154                          |
| Turnberry/MGM Grand Towers The Signature at MGM Grand (50%)  | 10,600                   | (7,400)                          |
|  | \$ 1,053,474             | \$ 923,754                       |

The Company's investment in MGM Grand Paradise Limited consists of equity and subordinated debt. The Company is committed to loaning the venture up to an additional \$45 million, which will be treated as an additional investment in the venture.

The negative investment balance in The Signature at MGM Grand at December 31, 2005, represented cumulative losses of the venture, and was classified as Other long-term obligations in the accompanying consolidated balance sheets along with deferred income related to the excess of proceeds received over carrying value of land the Company transferred to the venture. Due to the recognition of profits on a portion of the condominium units of Tower 1, which was completed in May 2006, the investment balance is positive at June 30, 2006 and is classified as Investments in unconsolidated affiliates in the accompanying consolidated balance sheets.

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The Company recorded its share of the results of operations of unconsolidated affiliates as follows (including the Company's share of Monte Carlo's results in 2005):

| For the periods ended June 30,                     | Three Months          |           | Six Months |           |
|--|-----------------------|-----------|------------|-----------|
|  | 2006                  | 2005      | 2006       | 2005      |
|  | <i>(In thousands)</i> |           |            |           |
| Income from unconsolidated affiliates              | \$ 57,081             | \$ 30,885 | \$ 92,635  | \$ 65,930 |
| Preopening and start-up expenses                   | (2,425)               | (2,338)   | (5,143)    | (2,407)   |
| Non-operating items from unconsolidated affiliates | (3,341)               | (4,404)   | (6,936)    | (7,191)   |
|  | \$ 51,315             | \$ 24,143 | \$ 80,556  | \$ 56,332 |

**Table of Contents****NOTE 4 LONG-TERM DEBT**

Long-term debt consisted of the following:

|  | June 30,<br>2006      | December 31,<br>2005 |
|--|-----------------------|----------------------|
|  | <i>(In thousands)</i> |                      |
| Senior credit facility   | \$ 4,484,700          | \$ 4,775,000         |
| \$200 million 6.45% senior notes, repaid at maturity in 2006       |                       | 200,223              |
| \$244.5 million 7.25% senior notes, due 2006, net                  | 242,946               | 240,353              |
| \$710 million 9.75% senior subordinated notes, due 2007, net       | 708,850               | 708,223              |
| \$200 million 6.75% senior notes, due 2007, net                    | 195,070               | 192,977              |
| \$492.2 million 10.25% senior subordinated notes, due 2007, net    | 516,940               | 527,879              |
| \$180.4 million 6.75% senior notes, due 2008, net                  | 174,044               | 172,238              |
| \$196.2 million 9.5% senior notes, due 2008, net                   | 209,859               | 212,895              |
| \$226.3 million 6.5% senior notes, due 2009, net                   | 228,241               | 228,518              |
| \$1.05 billion 6% senior notes, due 2009, net                      | 1,054,596             | 1,055,232            |
| \$297.6 million 9.375% senior subordinated notes, due 2010, net    | 322,354               | 325,332              |
| \$825 million 8.5% senior notes, due 2010, net                     | 822,951               | 822,705              |
| \$400 million 8.375% senior subordinated notes, due 2011           | 400,000               | 400,000              |
| \$132.4 million 6.375% senior notes, due 2011, net                 | 133,628               | 133,725              |
| \$550 million 6.75% senior notes, due 2012                         | 550,000               | 550,000              |
| \$150 million 7.625% senior subordinated debentures, due 2013, net | 155,670               | 155,978              |
| \$500 million 6.75% senior notes, due 2013                         | 500,000               |                      |
| \$525 million 5.875% senior notes, due 2014, net                   | 522,720               | 522,604              |
| \$875 million 6.625% senior notes, due 2015, net                   | 879,791               | 879,989              |
| \$250 million 6.875% senior notes, due 2016                        | 250,000               |                      |
| \$100 million 7.25% senior debentures, due 2017, net               | 83,117                | 82,699               |
| Floating rate convertible senior debentures due 2033               | 8,472                 | 8,472                |
| \$150 million 7% debentures due 2036, net                          | 155,931               | 155,961              |
| \$4.3 million 6.7% debentures, due 2096                            | 4,265                 | 4,265                |
| Other notes  |                       | 179                  |
|  | 12,604,145            | 12,355,447           |
| Less: Current portion  |                       | (14)                 |
|  | \$ 12,604,145         | \$ 12,355,433        |

Amounts due within one year of the balance sheet date are classified as long-term in the accompanying consolidated balance sheets because the Company has both the intent and ability to repay these amounts with available borrowings under the senior credit facility.

Total interest incurred for the three month periods ended June 30, 2006 and 2005 was \$223 million and \$174 million, respectively, of which \$28 million and \$7 million, respectively, was capitalized. Total interest incurred for the six month periods ended June 30, 2006 and 2005 was \$439 million and \$279 million, respectively, of which \$46 million and \$10 million, respectively, was capitalized.

At June 30, 2006, the senior credit facility had total capacity of \$7.0 billion. The senior credit facility matures in 2010 and consists of a \$5.5 billion revolving credit facility and \$1.5 billion term loan facility. At June 30, 2006, the Company had approximately \$2.5 billion of available borrowing capacity under the senior credit facility.

In February 2006, the Company repaid the \$200 million 6.45% senior notes at their maturity with borrowings under the senior credit facility.



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In April 2006, the Company issued \$500 million of 6.75% senior notes due 2013 and \$250 million of 6.875% senior notes due 2016, both through a Rule 144A offering. As required by the indenture, the Company has initiated exchange offers to exchange the Rule 144A notes for notes registered under the Securities Act of 1933. The proceeds were used to repay outstanding borrowings under the senior credit facility.

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In the 2005 six month period, the Company recorded a net \$19 million loss on early retirement of debt, classified as "Other, net" in the accompanying consolidated statements of income. The February 2005 redemption of the Company's 6.875% senior notes due February 2008 resulted in a loss of \$20 million. The May 2005 tender offer for several issuances of Mandalay's senior notes resulted in a net gain of \$1 million.

The Company's long-term debt obligations contain customary covenants requiring the Company to maintain certain financial ratios. At June 30, 2006, the Company was required to maintain a maximum leverage ratio (debt to EBITDA, as defined) of 6.75:1 and a maximum senior leverage ratio of 5.75:1. Also at June 30, 2006, the Company was required to maintain a minimum coverage ratio (EBITDA to interest charges, as defined) of 2.0:1. At June 30, 2006, the Company's leverage, senior leverage and interest coverage ratios were 5.4:1, 4.5:1 and 2.7:1, respectively.

**NOTE 5 INCOME PER SHARE OF COMMON STOCK**

The weighted-average number of common and common equivalent shares used in the calculation of basic and diluted earnings per share consisted of the following:

| For the periods ended June 30,   | Three Months          |         | Six Months |         |
|--|-----------------------|---------|------------|---------|
|  | 2006                  | 2005    | 2006       | 2005    |
|  | <i>(In thousands)</i> |         |            |         |
| Weighted-average common shares outstanding (used in the calculation of basic earnings per share)             | 284,285               | 285,546 | 284,239    | 284,031 |
| Potential dilution from stock options and restricted stock   | 8,677                 | 11,179  | 8,629      | 11,654  |
| Weighted-average common and common equivalent shares (used in the calculation of diluted earnings per share) | 292,962               | 296,725 | 292,868    | 295,685 |

**NOTE 6 COMPREHENSIVE INCOME**

Comprehensive income consisted of the following:

| For the periods ended June 30,                              | Three Months          |            | Six Months |            |
|---|-----------------------|------------|------------|------------|
|   | 2006                  | 2005       | 2006       | 2005       |
|   | <i>(In thousands)</i> |            |            |            |
| Net income  | \$ 146,394            | \$ 141,168 | \$ 290,431 | \$ 252,247 |
| Currency translation adjustment                             | 388                   | (831)      | 485        | (1,152)    |
| Derivative income from unconsolidated affiliate, net of tax |                       | 393        | 3          | 1,005      |
|   | \$ 146,782            | \$ 140,730 | \$ 290,919 | \$ 252,100 |

**NOTE 7 STOCKHOLDERS' EQUITY**

**Stock repurchases.** In the six months ended June 30, 2006, the Company repurchased 3.5 million shares of common stock at a total cost of \$141 million, leaving 11 million shares available under a July 2004 authorization. The Company did not repurchase any shares in the six months ended June 30, 2005.

**Table of Contents****NOTE 8 STOCK-BASED COMPENSATION**

**Adoption of SFAS 123(R).** Effective January 1, 2006, the Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS 123(R) ). The Company previously accounted for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and the Financial Accounting Standards Board's Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25, and disclosed supplemental information in accordance with Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ( SFAS 123 ). Under these standards, the Company did not incur compensation expense for employee stock options when the exercise price was at least 100% of the market value of the Company's common stock on the date of grant. SFAS 123(R) requires that all stock-based compensation, including shares and share-based awards to employees, be valued at fair value. The Company measures fair value of share-based awards using the Black-Scholes model.

Under SFAS 123(R), compensation is attributed to the periods of associated service. For awards granted prior to January 1, 2006, such expense is being recognized on an accelerated basis since that is the method the Company previously applied in its supplemental disclosures. Beginning with awards granted on January 1, 2006, such expense is being recognized on a straight-line basis over the vesting period of the awards. Forfeitures are estimated at the time of grant, with such estimate updated periodically and with actual forfeitures recognized currently to the extent they differ from the estimate.

The Company adopted SFAS 123(R) by applying the modified-prospective transition method. Under this method, the Company began applying the valuation and other criteria of SFAS 123(R) on January 1, 2006, and began recognizing expense for the unvested portion of previously issued grants at the same time, based on the valuation and attribution methods originally used to calculate the disclosures.

The impact of adopting SFAS 123(R) was as follows, due to the incremental compensation cost recognized for employee stock options and stock appreciation rights:

| <b>For the periods ended June 30,</b>                 | <b>Three<br/>Months<br/>2006</b>                | <b>Six Months<br/>2006</b> |
|---|---|----------------------------|
|   | <i>(In thousands, except per share amounts)</i> |                            |
| Incremental stock-based compensation under SFAS123(R) | \$ 16,460                                       | \$ 38,322                  |
| Less: Amounts capitalized                             | (275)   | (616)                      |
| Reduction of income before income taxes               | \$ 16,185                                       | \$ 37,706                  |
| Reduction in net income                               | \$ 10,520                                       | \$ 24,509                  |
| Reduction in basic earning per share                  | \$ 0.04   | \$ 0.09                    |
| Reduction in diluted earnings per share               | \$ 0.04   | \$ 0.08                    |

In addition, SFAS 123(R) requires the excess tax benefits from stock option exercises tax deductions in excess of compensation cost recognized to be classified as a financing activity. Previously, all tax benefits from stock option exercises were classified as operating activities. Had the Company not adopted SFAS 123(R), the \$18 million of excess tax benefits classified as a financing cash inflow would have been classified as an operating cash inflow.

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**Information about the Company's share-based awards.** The Company adopted an omnibus incentive plan in 2005 which allows for the granting of stock options, stock appreciation rights, restricted stock, and other stock-based awards to eligible directors, officers and employees. The plans are administered by the Compensation and Stock Option Committee (the Committee) of the Board of Directors. Salaried officers, directors and other key employees of the Company and its subsidiaries are eligible to receive awards. The Committee has discretion under the omnibus plan regarding which type of awards to grant, the vesting and service requirements, exercise price and other conditions, in all cases subject to certain limits, including:

The omnibus plan allowed for the issuance of up to 20 million shares or share-based awards;

For stock options and stock appreciation rights, the exercise price of the award must equal the fair market value of the stock on the date of grant and the maximum term of such an award is ten years.

To date, the Committee has only awarded stock options and stock appreciation rights under the omnibus plan. The Company's practice has been to issue new shares upon the exercise of stock options. Under the Company's previous plans, the Committee had issued stock options and restricted stock. Stock options and stock appreciation rights granted under all plans generally have either 7-year or 10-year terms, and in most cases are exercisable in either four or five equal annual installments. Restrictions on restricted shares granted under a previous plan lapse 50% on the third anniversary date after the grant and 50% on the fourth anniversary date after the grant.

As of June 30, 2006, the aggregate number of share-based awards available for grant under the omnibus plan was 5.2 million. A summary of activity under the Company's share-based payment plans for the six months ended June 30, 2006 is presented below:

*Stock options and stock appreciation rights*

|                                | Shares<br>(000 s) | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value<br>(\$000 s) |
|--------------------------------|-------------------|--|---|--|
| Outstanding at January 1, 2006 | 34,825            | \$ 22.93                                 |   |  |
| Granted                        | 1,514             | 42.87                                    |   |  |
| Exercised                      | (1,953)           | 14.37                                    |   |  |
| Forfeited or expired           | (269)             | 28.08                                    |   |  |
| Outstanding at June 30, 2006   | 34,117            | 24.26                                    | 6.1   | \$ 564,147                                   |
| Exercisable at June 30, 2006   | 13,553            | 18.18                                    | 5.6   | \$ 306,508                                   |

The total intrinsic value of stock options and stock appreciation rights exercised during the six month periods ended June 30, 2006 and 2005 was \$54 million and \$161 million, respectively. The total income tax benefits from stock option exercises during the six month periods ended June 30, 2006 and 2005 were \$19 million and \$57 million, respectively. As of June 30, 2006, there was a total of \$103 million of unamortized compensation related to stock options and stock appreciation rights, which cost is expected to be recognized over a weighted-average period of 3.0 years. As noted earlier, the Company is recognizing expense for awards granted prior to January 1, 2006 on an accelerated basis, so a disproportionate share of the unamortized expense will be recognized in the first 12 months of this weighted-average period.

*Restricted stock*

| Shares | Weighted<br>Average<br>Grant-Date |
|--------|-----------------------------------|
|--------|-----------------------------------|

|                              | <b>(000 s)</b> | <b>Fair Value</b> |
|------------------------------|----------------|-------------------|
| Nonvested at January 1, 2006 | 834            | \$ 17.59          |
| Granted                      |                |                   |
| Vested                       | (818)          | 17.59             |
| Forfeited                    | (4)            | 17.62             |
| Nonvested at June 30, 2006   | 12             | 17.45             |

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During the six months ended June 30, 2006, restrictions lapsed with respect to 818,000 shares with a total fair value of \$34 million. During the six months ended June 30, 2005, restrictions lapsed with respect to 840,000 shares with a total fair value of \$33 million. In the six month periods ended June 30, 2006 and 2005, certain recipients of restricted shares elected to use a portion of the shares in which restrictions lapsed to pay required withholding taxes. Approximately 277,000 and 258,000 shares, respectively, were surrendered in the six month periods ended June 30, 2006 and 2005, respectively. As of June 30, 2006, there was less than \$1 million of unamortized compensation related to restricted stock, all of which will be recognized in 2006.

**Recognition of compensation cost.** The following table shows information about compensation cost recognized:

| For the periods ended June 30,              | Three Months          |          | Six Months |          |
|---|-----------------------|----------|------------|----------|
|   | 2006                  | 2005     | 2006       | 2005     |
|   | <i>(In thousands)</i> |          |            |          |
| Compensation cost:                          |                       |          |            |          |
| Stock options and stock appreciation rights | \$ 16,510             | \$ 19    | \$ 38,422  | \$ 39    |
| Restricted stock                            | 1,178                 | 1,880    | 3,012      | 3,760    |
| Total compensation cost                     | 17,688                | 1,899    | 41,434     | 3,799    |
| Less: Compensation cost capitalized         | (275)                 |          | (616)      |          |
| Compensation cost recognized as expense     | 17,413                | 1,899    | 40,818     | 3,799    |
| Less: Related tax benefit                   | (5,779)               | (215)    | (13,616)   | (584)    |
| Compensation expense, net of tax benefit    | \$ 11,634             | \$ 1,684 | \$ 27,202  | \$ 3,215 |

Compensation cost for stock options and stock appreciation rights was based on the fair value of each award, measured by applying the Black-Scholes model on the date of grant, using the following weighted-average assumptions (assumptions in 2005 were used to compute the pro forma compensation for disclosure purposes only):

| For the periods ended June 30,                 | Three Months |           | Six Months |           |
|--|--------------|-----------|------------|-----------|
|  | 2006         | 2005      | 2006       | 2005      |
| Expected volatility                            | 33%          | 37%       | 33%        | 37%       |
| Expected term                                  | 4.1 years    | 4.3 years | 4.1 years  | 4.4 years |
| Expected dividend yield                        | 0%           | 0%        | 0%         | 0%        |
| Risk-free interest rate                        | 4.9%         | 3.8%      | 4.9%       | 3.8%      |
| Forfeiture rate                                | 4.6%         | 0%        | 4.6%       | 0%        |
| Weighted-average fair value of options granted | \$ 14.89     | \$ 12.42  | \$ 14.65   | \$ 12.57  |

Expected volatility is based in part on historical volatility and in part on implied volatility based on traded options on the Company's stock. The expected term considers the contractual term of the option as well as historical exercise and forfeiture behavior. The risk-free interest rate is based on the rates in effect on the grant date for US Treasury instruments with maturities matching the relevant expected term of the award.

**Pro forma disclosures.** Had the Company accounted for these plans during 2005 under the fair value method allowed by SFAS 123, the Company's net income and earnings per share would have been reduced to recognize the fair value of employee stock options, as follows:

| For the periods ended June 30, | Three  | Six Months |
|--------------------------------|--------|------------|
|                                | Months | 2005       |
|                                | 2005   | 2005       |

|   | <i>(In thousands, except per share amounts)</i> |            |
|---|---|------------|
| Net income  |   |            |
| As reported   | \$ 141,168                                      | \$ 252,247 |
| Incremental stock-based compensation under SFAS 123, net of tax benefit | (12,168)  | (16,350)   |
| Pro forma   | \$ 129,000                                      | \$ 235,897 |
| Basic earnings per share  |   |            |
| As reported   | \$ 0.49   | \$ 0.89    |
| Pro forma   | \$ 0.45   | \$ 0.83    |
| Diluted earning per share   |   |            |
| As reported   | \$ 0.48   | \$ 0.85    |
| Pro forma   | \$ 0.43   | \$ 0.80    |

**Table of Contents****NOTE 9 COMMITMENTS AND CONTINGENCIES**

**New York Racing Association.** The Company has entered into a definitive agreement with the New York Racing Association ( NYRA ) to manage video lottery terminals ( VLTs ) at NYRA s Aqueduct horseracing facility in metropolitan New York. Subject to receipt of requisite New York State approvals, the Company will assist in the development of the facility, including providing project financing up to \$190 million, and will manage the facility for a term of five years (extended automatically if the financing provided by the Company is not fully repaid) for a fee. Recent legislative changes will allow the Company to operate the VLTs past the expiration date of the current NYRA franchise agreement.

**United Kingdom.** In November 2003, the Company entered into an agreement with Newcastle United PLC to create a 50-50 joint venture which would build a major new mixed-use development, including a regional casino, on a site adjacent to Newcastle United s football stadium. The Company made an equity investment of £5 million (\$9 million based on exchange rates at June 30, 2006). The agreement is cancelable, and the equity investment refundable, if certain conditions are not met within specified time frames, including obtaining a regional casino license and regulatory approvals, and the implementation of an acceptable tax regime.

**The Signature at MGM Grand.** In 2004, the venture obtained construction financing for up to \$210 million for the development of Tower 1. The Company has provided a guaranty for up to 50% of the interest and principal obligations on the construction financing. The remaining 50% of interest and principal obligations is guaranteed by affiliates of the venture s other member. These affiliates and the Company have also jointly and severally provided a completion guaranty.

In 2005, the venture obtained construction financing for up to \$230 million for the development of Tower 2. The Company has provided a guaranty for up to 50% of the interest and principal obligations on the construction financing, with such guaranty decreasing by 50% relative to the principal when construction is 50% complete. The remaining 50% of interest and principal obligations is guaranteed by affiliates of the venture s other investor. These affiliates and the Company have also jointly and severally provided a completion guaranty. At June 30, 2006, the Company had a liability for its guaranty obligations for Towers 1 and 2 of approximately \$2 million, classified in Other long-term obligations in the accompanying consolidated balance sheets.

**Mashantucket Pequot Tribal Nation.** The Company has agreed to enter a strategic alliance, subject to definitive agreements, with the Mashantucket Pequot Tribal Nation ( MPTN ). The strategic alliance has several elements, one of which calls for the creation of a joint venture to seek future development opportunities. The Company has agreed to provide a development subsidiary of MPTN with a loan of up to \$200 million intended to fund a portion of that subsidiary s investment in any future joint development projects.

**NOTE 10 PROPERTY TRANSACTIONS, NET**

Net property transactions consisted of the following:

| For the periods ended June 30,                 | Three Months          |          | Six Months |          |
|--|-----------------------|----------|------------|----------|
|  | 2006                  | 2005     | 2006       | 2005     |
|  | <i>(In thousands)</i> |          |            |          |
| Write-downs and impairments                    | \$ 10,179             | \$       | \$ 33,645  | \$       |
| Demolition costs                               | 184                   | 1,155    | 198        | 4,265    |
| Net losses on sale or disposal of fixed assets | 2,212                 | 638      | 2,201      | 1,731    |
|  | \$ 12,575             | \$ 1,793 | \$ 36,044  | \$ 5,996 |

Write-downs and impairments in 2006 includes \$22 million related to the write-off of the tram connecting Bellagio and Monte Carlo, including the stations at both resorts, in preparation for construction of Project CityCenter. Project CityCenter will feature a state-of-the-art people mover system that will reconnect Bellagio with Monte Carlo, with the stations at each resort completely redesigned as well. Other write-downs related to assets being replaced in connection with several smaller capital projects, primarily at MGM Grand Las Vegas, Mandalay Bay and The Mirage, as well as the \$4 million write-off of Luxor s investment in the *Hairspray* show.



During 2005, demolition costs relate primarily to room remodel activity at MGM Grand Las Vegas and construction of a new showroom at The Mirage.

**Table of Contents****NOTE 11 CONSOLIDATING CONDENSED FINANCIAL INFORMATION**

The Company's subsidiaries (excluding MGM Grand Detroit, LLC and certain minor subsidiaries) have fully and unconditionally guaranteed, on a joint and several basis, payment of the senior credit facility, the senior notes and the senior subordinated notes. Separate condensed financial statement information for the subsidiary guarantors and non-guarantors as of June 30, 2006 and December 31, 2005 and for the three and six month periods ended June 30, 2006 and 2005 is as follows:

**CONDENSED CONSOLIDATING BALANCE SHEET INFORMATION**

|  | <b>As of June 30, 2006</b>     |                                   |                                       |                    |                     |
|--|--------------------------------|-----------------------------------|---------------------------------------|--------------------|---------------------|
|  | <b>Parent</b>                  | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|  | <i>(In thousands)</i>          |                                   |                                       |                    |                     |
| Current assets                           | \$ 81,095                      | \$ 798,087                        | \$ 26,679                             | \$                 | \$ 905,861          |
| Real estate under development            |                                | 115,887                           |                                       |                    | 115,887             |
| Property and equipment, net              |                                | 16,497,689                        | 315,930                               | (11,972)           | 16,801,647          |
| Investments in subsidiaries              | 15,337,197                     | 249,333                           |                                       | (15,586,530)       |                     |
| Investments in unconsolidated affiliates | 127,902                        | 968,237                           | 299,500                               | (342,165)          | 1,053,474           |
| Other non-current assets                 | 88,528                         | 2,002,764                         | 103,499                               |                    | 2,194,791           |
|  | \$ 15,634,722                  | \$ 20,631,997                     | \$ 745,608                            | \$ (15,940,667)    | \$ 21,071,660       |
| Current liabilities                      | \$ 240,188                     | \$ 1,160,454                      | \$ 55,876                             | \$                 | \$ 1,456,518        |
| Intercompany accounts                    | (1,572,130)                    | 1,436,940                         | 135,190                               |                    |                     |
| Deferred income taxes                    | 3,345,368                      |                                   |                                       |                    | 3,345,368           |
| Long-term debt                           | 10,153,908                     | 2,430,537                         | 19,700                                |                    | 12,604,145          |
| Other non-current liabilities            | 1,995                          | 148,313                           | 49,928                                |                    | 200,236             |
| Stockholders' equity                     | 3,465,393                      | 15,455,753                        | 484,914                               | (15,940,667)       | 3,465,393           |
|  | \$ 15,634,722                  | \$ 20,631,997                     | \$ 745,608                            | \$ (15,940,667)    | \$ 21,071,660       |
|  | <b>As of December 31, 2005</b> |                                   |                                       |                    |                     |
|  | <b>Parent</b>                  | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|  | <i>(In thousands)</i>          |                                   |                                       |                    |                     |
| Current assets                           | \$ 89,153                      | \$ 885,991                        | \$ 43,439                             | \$                 | \$ 1,018,583        |
| Property and equipment, net              | 7,113                          | 16,373,113                        | 173,397                               | (11,972)           | 16,541,651          |
| Investments in subsidiaries              | 14,569,623                     | 183,208                           |                                       | (14,752,831)       |                     |
| Investments in unconsolidated affiliates | 127,902                        | 904,138                           | 241,279                               | (342,165)          | 931,154             |
| Other non-current assets                 | 86,011                         | 2,018,809                         | 103,212                               |                    | 2,208,032           |
|  | \$ 14,879,802                  | \$ 20,365,259                     | \$ 561,327                            | \$ (15,106,968)    | \$ 20,699,420       |
| Current liabilities                      | \$ 345,195                     | \$ 1,148,306                      | \$ 41,067                             | \$                 | \$ 1,534,568        |
| Intercompany accounts                    | (1,794,833)                    | 1,726,415                         | 68,418                                |                    |                     |

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|                               |               |               |            |                 |               |
|-------------------------------|---------------|---------------|------------|-----------------|---------------|
| Deferred income taxes         | 3,378,371     |               |            |                 | 3,378,371     |
| Long-term debt                | 9,713,754     | 2,641,679     |            |                 | 12,355,433    |
| Other non-current liabilities | 2,243         | 143,733       | 50,000     |                 | 195,976       |
| Stockholders equity           | 3,235,072     | 14,705,126    | 401,842    | (15,106,968)    | 3,235,072     |
|                               | \$ 14,879,802 | \$ 20,365,259 | \$ 561,327 | \$ (15,106,968) | \$ 20,699,420 |

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION**

|                                       | <b>For the Three Months Ended June 30, 2006</b> |                                   |                                       |                    |                     |
|---------------------------------------|---|-----------------------------------|---------------------------------------|--------------------|---------------------|
|                                       | <b>Parent</b>                                   | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|                                       |   |                                   | <i>(In thousands)</i>                 |                    |                     |
| Net revenues                          | \$  | \$ 1,753,276                      | \$ 113,907                            | \$                 | \$ 1,867,183        |
| Equity in subsidiaries earnings       | 431,345   | 39,901                            |                                       | (471,246)          |                     |
| Expenses:                             |   |                                   |                                       |                    |                     |
| Casino and hotel operations           | 4,902   | 921,682                           | 61,926                                |                    | 988,510             |
| General and administrative            | 4,777   | 259,029                           | 12,796                                |                    | 276,602             |
| Corporate expense                     | 11,678  | 26,901                            |                                       |                    | 38,579              |
| Preopening and start-up expenses      | 119   | 14,241                            | 684                                   |                    | 15,044              |
| Restructuring costs                   |   | 231                               |                                       |                    | 231                 |
| Property transactions, net            | 3,394   | 9,178                             | 3                                     |                    | 12,575              |
| Depreciation and amortization         | 684   | 161,063                           | 3,237                                 |                    | 164,984             |
|                                       | 25,554  | 1,392,325                         | 78,646                                |                    | 1,496,525           |
| Income from unconsolidated affiliates |   | 51,750                            | 5,331                                 |                    | 57,081              |
| Operating income                      | 405,791   | 452,602                           | 40,592                                | (471,246)          | 427,739             |
| Interest income (expense), net        | (178,949)                                       | (13,402)                          | 33                                    |                    | (192,318)           |
| Other, net                            | 890   | (7,855)                           | 291                                   |                    | (6,674)             |
| Income before income taxes            | 227,732   | 431,345                           | 40,916                                | (471,246)          | 228,747             |
| Provision for income taxes            | (81,338)  |                                   | (1,015)                               |                    | (82,353)            |
| Net income                            | \$ 146,394                                      | \$ 431,345                        | \$ 39,901                             | \$ (471,246)       | \$ 146,394          |

|                                  | <b>For the Three Months Ended June 30, 2005</b> |                                   |                                       |                    |                     |
|----------------------------------|---|-----------------------------------|---------------------------------------|--------------------|---------------------|
|                                  | <b>Parent</b>                                   | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|                                  |   |                                   | <i>(In thousands)</i>                 |                    |                     |
| Net revenues                     | \$  | \$ 1,606,254                      | \$ 109,702                            | \$                 | \$ 1,715,956        |
| Equity in subsidiaries earnings  | 343,429   | 31,477                            |                                       | (374,906)          |                     |
| Expenses:                        |   |                                   |                                       |                    |                     |
| Casino and hotel operations      |   | 872,955                           | 57,234                                |                    | 930,189             |
| General and administrative       |   | 236,303                           | 13,410                                |                    | 249,713             |
| Corporate expense                | 2,874   | 28,777                            |                                       |                    | 31,651              |
| Preopening and start-up expenses |   | 3,897                             |                                       |                    | 3,897               |
| Restructuring costs (credit)     |   | (4)                               |                                       |                    | (4)                 |
| Property transactions, net       |   | 1,491                             | 302                                   |                    | 1,793               |
| Depreciation and amortization    | 606   | 144,670                           | 6,397                                 |                    | 151,673             |

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|                                       |            |            |           |              |            |
|---------------------------------------|------------|------------|-----------|--------------|------------|
|                                       | 3,480      | 1,288,089  | 77,343    |              | 1,368,912  |
| Income from unconsolidated affiliates |            | 26,033     | 4,852     |              | 30,885     |
| Operating income                      | 339,949    | 375,675    | 37,211    | (374,906)    | 377,929    |
| Interest income (expense), net        | (131,488)  | (31,563)   | 1,022     |              | (162,029)  |
| Other, net                            |            | (6,287)    | 102       |              | (6,185)    |
| Income before income taxes            | 208,461    | 337,825    | 38,335    | (374,906)    | 209,715    |
| Provision for income taxes            | (67,293)   |            | (1,254)   |              | (68,547)   |
| Net income                            | \$ 141,168 | \$ 337,825 | \$ 37,081 | \$ (374,906) | \$ 141,168 |

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION****For the Six Months Ended June 30, 2006**

|                                       | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries<br/>(In thousands)</b> | <b>Elimination</b> | <b>Consolidated</b> |
|---------------------------------------|---------------|-----------------------------------|--|--------------------|---------------------|
| Net revenues                          | \$            | \$ 3,516,716                      | \$ 229,000   | \$                 | \$ 3,745,716        |
| Equity in subsidiaries earnings       | 848,153       | 84,266                            |  | (932,419)          |                     |
| Expenses:                             |               |                                   |  |                    |                     |
| Casino and hotel operations           | 10,705        | 1,850,188                         | 124,949  |                    | 1,985,842           |
| General and administrative            | 11,413        | 508,018                           | 27,175   |                    | 546,606             |
| Corporate expense                     | 23,443        | 51,788                            |  |                    | 75,231              |
| Preopening and start-up expenses      | 277           | 19,671                            | 1,277  |                    | 21,225              |
| Restructuring costs                   |               | 1,035                             |  |                    | 1,035               |
| Property transactions, net            | 3,394         | 32,649                            | 1  |                    | 36,044              |
| Depreciation and amortization         | 1,499         | 312,604                           | 6,154  |                    | 320,257             |
|                                       | 50,731        | 2,775,953                         | 159,556  |                    | 2,986,240           |
| Income from unconsolidated affiliates |               | 76,377                            | 16,258   |                    | 92,635              |
| Operating income                      | 797,422       | 901,406                           | 85,702   | (932,419)          | 852,111             |
| Interest income (expense), net        | (348,484)     | (38,611)                          | 136  |                    | (386,959)           |
| Other, net                            | 842           | (14,642)                          | 487  |                    | (13,313)            |
| Income before income taxes            | 449,780       | 848,153                           | 86,325   | (932,419)          | 451,839             |
| Provision for income taxes            | (159,349)     |                                   | (2,059)  |                    | (161,408)           |
| Net income                            | \$ 290,431    | \$ 848,153                        | \$ 84,266  | \$ (932,419)       | \$ 290,431          |

**For the Six Months Ended June 30, 2005**

|                                  | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries<br/>(In thousands)</b> | <b>Elimination</b> | <b>Consolidated</b> |
|----------------------------------|---------------|-----------------------------------|--|--------------------|---------------------|
| Net revenues                     | \$            | \$ 2,696,689                      | \$ 223,402   | \$                 | \$ 2,920,091        |
| Equity in subsidiaries earnings  | 627,590       | 66,987                            |  | (694,577)          |                     |
| Expenses:                        |               |                                   |  |                    |                     |
| Casino and hotel operations      |               | 1,456,696                         | 117,186  |                    | 1,573,882           |
| General and administrative       |               | 379,801                           | 28,276   |                    | 408,077             |
| Corporate expense                | 6,863         | 51,579                            |  |                    | 58,442              |
| Preopening and start-up expenses |               | 6,421                             |  |                    | 6,421               |
| Restructuring costs (credit)     |               | (70)                              |  |                    | (70)                |
| Property transactions, net       |               | 5,692                             | 304  |                    | 5,996               |
| Depreciation and amortization    | 977           | 247,779                           | 13,412   |                    | 262,168             |

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|                                       |            |            |           |              |            |
|---------------------------------------|------------|------------|-----------|--------------|------------|
|                                       | 7,840      | 2,147,898  | 159,178   |              | 2,314,916  |
| Income from unconsolidated affiliates |            | 61,078     | 4,852     |              | 65,930     |
| Operating income                      | 619,750    | 676,856    | 69,076    | (694,577)    | 671,105    |
| Interest income (expense), net        | (218,017)  | (44,989)   | 1,206     |              | (261,800)  |
| Other, net                            | (19,500)   | (5,100)    | (63)      |              | (24,663)   |
| Income before income taxes            | 382,233    | 626,767    | 70,219    | (694,577)    | 384,642    |
| Provision for income taxes            | (129,986)  |            | (2,409)   |              | (132,395)  |
| Net income                            | \$ 252,247 | \$ 626,767 | \$ 67,810 | \$ (694,577) | \$ 252,247 |

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS INFORMATION**

|   | <b>For the Six Months Ended June 30, 2006</b> |                                   |                                       |                    |                     |
|---|---|-----------------------------------|---------------------------------------|--------------------|---------------------|
|   | <b>Parent</b>                                 | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|   |   |                                   |                                       |                    |                     |
|   | <i>(In thousands)</i>                         |                                   |                                       |                    |                     |
| Net cash provided by (used in) operating activities | \$ (575,883)                                  | \$ 916,682                        | \$ 77,252                             | \$                 | \$ 418,051          |
| Net cash provided by (used in) investing activities | 5,300   | (525,440)                         | (125,727)                             | (2,284)            | (648,151)           |
| Net cash provided by (used in) financing activities | 564,929                                       | (456,946)                         | 36,892                                | 2,284              | 147,159             |

  

|   | <b>For the Six Months Ended June 30, 2005</b> |                                   |                                       |                    |                     |
|---|---|-----------------------------------|---------------------------------------|--------------------|---------------------|
|   | <b>Parent</b>                                 | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|   |   |                                   |                                       |                    |                     |
|   | <i>(In thousands)</i>                         |                                   |                                       |                    |                     |
| Net cash provided by (used in) operating activities | \$ (181,632)                                  | \$ 740,512                        | \$ 60,045                             | \$                 | \$ 618,925          |
| Net cash used in investing activities               | (4,587,820)                                   | (292,843)                         | (2,210)                               | (2,190)            | (4,885,063)         |
| Net cash provided by (used in) financing activities | 4,761,697                                     | (421,781)                         | (204,601)                             | 2,190              | 4,137,505           |

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Results of Operations**

*Overview*

At June 30, 2006, our primary operations consisted of 23 wholly-owned casino resorts and 50% investments in three other casino resorts, including:

Las Vegas, Nevada: Bellagio, MGM Grand Las Vegas, Mandalay Bay, The Mirage, Luxor, TI, New York-New York, Excalibur, Monte Carlo, Circus Circus Las Vegas and Slots-A-Fun. Boardwalk closed in early 2006 in preparation for Project CityCenter see Other Factors Affecting Liquidity.

Other domestic: The Primm Valley Resorts (Whiskey Pete's, Buffalo Bill's and Primm Valley Resort) in Primm, Nevada; Circus Circus Reno and Silver Legacy (50% owned) in Reno, Nevada; Colorado Belle and Edgewater in Laughlin, Nevada; Gold Strike and Nevada Landing in Jean, Nevada; Railroad Pass in Henderson, Nevada; MGM Grand Detroit; Beau Rivage in Biloxi, Mississippi and Gold Strike Tunica in Tunica, Mississippi; Borgata (50% owned) in Atlantic City, New Jersey; and Grand Victoria (50% owned) in Elgin, Illinois.

Other operations include the Shadow Creek golf course in North Las Vegas; two golf courses at Primm Valley; a 50% investment in The Signature at MGM Grand, a condominium-hotel development in Las Vegas; and a 50% investment in MGM Grand Paradise Limited, which is constructing a casino resort in Macau.

On April 25, 2005, we closed our merger with Mandalay Resort Group (Mandalay) under which we acquired Mandalay for \$71 in cash for each share of common stock of Mandalay. The total acquisition cost of \$7.3 billion included equity value of approximately \$4.8 billion, the assumption or repayment of outstanding Mandalay debt with a fair value of approximately \$2.9 billion and \$0.1 billion of transaction costs, offset by the \$0.5 billion received by Mandalay from the sale of its interest in Motor City Casino in Detroit, Michigan.

The Mandalay acquisition expands our portfolio of resorts on the Las Vegas Strip, provides additional sites for future development and expands our employee and customer bases significantly. These factors result in the recognition of certain intangible assets and significant goodwill. We did not incur any significant employee termination costs or other exit costs in connection with the Mandalay acquisition.

We operate primarily in one segment, the operation of casino resorts, which includes offering gaming, hotel, dining, entertainment, retail and other resort amenities. Over half of our net revenue is derived from non-gaming activities, a higher percentage than many of our competitors, as our operating philosophy is to provide a complete resort experience for our guests, including non-gaming amenities which command a premium price based on their quality. We believe that we own several of the premier casino resorts in the world, and a main focus of our strategy is to continually reinvest in these resorts to maintain that competitive advantage.

As a resort-based company, our operating results are highly dependent on the volume of customers at our resorts, which in turn impacts the price we can charge for our hotel rooms and other amenities. We also generate a significant portion of our operating income from high-end gaming customers, which can cause variability in our results. Key performance indicators related to revenue are:



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Gaming revenue indicators table games drop and slots handle (volume indicators); win or hold percentage, which is not fully controllable by us. Our normal table games win percentage is in the range of 18% to 22% of table games drop and our normal slots win percentage is in the range of 6.5% to 7.5% of slots handle;

Hotel revenue indicators hotel occupancy (volume indicator); average daily rate (ADR, price indicator); revenue per available room (REVPAR), a summary measure of hotel results combining ADR and occupancy rate.

Most of our revenue is essentially cash-based, through customers wagering with cash or paying for non-gaming services with cash or credit cards. Our resorts, like many in the industry, generate significant operating cash flow. Our industry is capital intensive and we rely heavily on the ability of our resorts to generate operating cash flow to repay debt financing, fund maintenance capital expenditures and provide excess cash for future development.

We generate a majority of our net revenues and operating income from our resorts in Las Vegas, Nevada, which exposes us to certain risks outside of our control, such as competition from other recently opened or expanded Las Vegas resorts, and the impact from expansion of gaming in California. We are also exposed to risks related to tourism and the general economy, including national and global economic conditions and terrorist attacks or other global events.

Our results of operations do not tend to be seasonal in nature, though a variety of factors can affect the results of any interim period, including the timing of major Las Vegas conventions, the amount and timing of marketing and special events for our high-end customers, and the level of play during major holidays, including New Year and Chinese New Year. Our results do not depend on key individual customers, though our success in marketing to customer groups, such as convention customers, or the financial health of customer groups, such as business travelers or high-end gaming customers from a particular country or region, can impact our results.

*Financial Results*

The following discussion is based on our consolidated financial statements for the three and six months ended June 30, 2006 and 2005. References to same-store results exclude the Mandalay resorts and Monte Carlo for all periods. Same-store results also exclude Beau Rivage and Boardwalk for all periods. On a consolidated basis, the most important factors and trends contributing to our operating performance for the period were:

The addition of Mandalay's resorts on April 25, 2005. For the three months ended June 30, 2006, net revenue for the Mandalay resorts was \$732 million and operating income was \$180 million, compared to net revenue of \$524 million and operating income of \$131 million in the 2005 quarter. For the six months ended June 30, 2006, net revenue for the Mandalay resorts was \$1.5 billion and operating income was \$357 million, compared to net revenue of \$524 million and operating income of \$131 million in 2005.

The closure of Beau Rivage in August 2005 as a result of Hurricane Katrina. Beau Rivage earned operating income of \$20 million for the three months ended June 30, 2005 and \$35 million for the six months ended June 30, 2005.

The adoption of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)). We recorded \$16 million and \$38 million of additional stock compensation expense in the three and six month periods ended June 30, 2006, respectively, as a result of adopting SFAS 123(R). We adopted SFAS 123(R) using the modified-prospective transition method and began applying the valuation and other criteria to stock options granted beginning January 1, 2006. Under the modified-prospective method, we are recognizing expense for the unvested portion of previously issued grants based on the valuation and attribution methods originally used to calculate the pro forma disclosures. Prior to January 1, 2006, we did not recognize expense for employee stock options.

Recognition of our share of profits from the completion of Tower 1 of The Signature at MGM Grand. The venture records revenue and cost of sales as units close. Tower 1 was completed in May 2006, and profits on a portion of the condominium units was recognized in the second quarter and the remainder will be recognized in the third quarter. For the quarter ended June 30, 2006, we recognized income of approximately \$28 million related to units closed and the pro rata recognition of deferred profit on land contributed to the venture. Such income is classified in

Income from unconsolidated affiliates in the accompanying consolidated statements of income.

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Our net revenue increased 9% in the second quarter over the prior year quarter. On a same-store basis, revenue growth was 4% in the quarter. We achieved modest REVPAR growth against difficult prior year comparisons, increases in food and beverage revenue and solid casino results. Benefiting the second quarter 2006 revenue results was a higher table games hold percentage than the prior year.

Our operating income in 2006 increased 13% for the quarter to \$428 million, due to the addition of Mandalay, the positive revenue trends described above, and increased operating margins. Operating income comparisons were negatively affected by the \$16 million of additional stock compensation expense in the second quarter of 2006 and the closure of Beau Rivage. In addition, we incurred higher preopening and start-up expenses, restructuring and property transactions in the current year \$28 million versus \$6 million. Operating income was positively impacted by the profit recognition on Tower 1 of The Signature at MGM Grand. Our operating margin was 23% in the 2006 quarter versus 22% in the 2005 quarter.

Net income increased 4% over the 2005 quarter. Increased operating income was offset in part by higher interest expense resulting from the Mandalay merger.

Trends for the six month periods were very similar to those noted above for the second quarter. Table games hold percentages were more comparable between periods, but trends in volume and pricing indicators were otherwise in line with the second quarter trends, as were trends in profitability.

*Operating Results Detailed Revenue Information*

The following table presents details of our net revenues:

|                                 | Three Months Ended June 30,   |                   |              | Six Months Ended June 30, |                   |              |
|---------------------------------|-------------------------------|-------------------|--------------|---------------------------|-------------------|--------------|
|                                 | 2006                          | Percentage Change | 2005         | 2006                      | Percentage Change | 2005         |
|                                 | <i>(Dollars in thousands)</i> |                   |              |                           |                   |              |
| Casino revenue, net:            |                               |                   |              |                           |                   |              |
| Table games                     | \$ 305,496                    | 4%                | \$ 294,402   | \$ 650,537                | 16%               | \$ 558,509   |
| Slots                           | 464,932                       | 4%                | 445,869      | 934,122                   | 20%               | 776,410      |
| Other                           | 25,945                        | 8%                | 24,107       | 58,679                    | 33%               | 44,272       |
| Casino revenue, net             | 796,373                       | 4%                | 764,378      | 1,643,338                 | 19%               | 1,379,191    |
| Non-casino revenue:             |                               |                   |              |                           |                   |              |
| Rooms                           | 524,047                       | 15%               | 455,761      | 1,044,297                 | 43%               | 729,815      |
| Food and beverage               | 387,527                       | 10%               | 352,184      | 774,266                   | 30%               | 595,662      |
| Entertainment, retail and other | 311,238                       | 7%                | 292,147      | 600,886                   | 24%               | 486,008      |
| Non-casino revenue              | 1,222,812                     | 11%               | 1,100,092    | 2,419,449                 | 34%               | 1,811,485    |
|                                 | 2,019,185                     | 8%                | 1,864,470    | 4,062,787                 | 27%               | 3,190,676    |
| Less: Promotional allowances    | (152,002)                     | 2%                | (148,514)    | (317,071)                 | 17%               | (270,585)    |
|                                 | \$ 1,867,183                  | 9%                | \$ 1,715,956 | \$ 3,745,716              | 28%               | \$ 2,920,091 |

On a same-store basis, table games revenue increased 9% in the second quarter, as baccarat volume was very strong, and hold percentages were higher in the current year, near the top of the Company's normal range compared to the mid-point of the range in 2005. Slots revenue increased 4% on a same-store basis. These increases are similar to those experienced for the six month periods as well.

Non-casino revenue increased in 2006 primarily due to modest increases in room rates in all customer segments, as well as the focus on increasing occupancy to drive visitor volume in other operating areas, particularly at the

Mandalay resorts. In the second quarter of 2006, same-store REVPAR was \$152, up 3% from the prior year quarter. REVPAR at our Las Vegas Strip resorts was \$172 in the 2006 quarter on a same-store basis, an increase of 3%. On a six-month basis, the same-store REVPAR increase is also 3% company-wide, but same-store hotel revenue increased 5% as we had 50,000 more rooms available in the 2006 period.

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Food and beverage revenue increased 4% on a same-store basis in the second quarter, generally consistent with the increase in occupied rooms and also benefiting from new restaurants at The Mirage. Entertainment revenue decreased 2% in the quarter on a same-store basis a 5% decrease excluding revenues from the recently opened *Love* show at The Mirage due to increased competition from new shows and nightclubs in Las Vegas.

*Operating Results Details of Certain Charges*

Stock compensation expense is recorded within the department of the recipient of the stock compensation award. In periods prior to January 1, 2006, such expense consisted only of restricted stock amortization and expense associated with stock options granted to non-employees. Beginning January 1, 2006, stock compensation expense includes the cost of stock options and stock appreciation rights awarded to employees.

The following table shows the amount of incremental compensation related to employee stock options and stock appreciation rights included within each income statement expense caption:

| For the periods ended June 30, | Three                 | Six Months |
|--------------------------------|-----------------------|------------|
|                                | Months                | 2006       |
|                                | 2006                  | 2006       |
|                                | <i>(In thousands)</i> |            |
| Casino                         | \$ 3,297              | \$ 6,984   |
| Other operating departments    | 1,605                 | 3,722      |
| General and administrative     | 4,777                 | 11,413     |
| Corporate expense and other    | 6,506                 | 15,587     |
|                                | \$ 16,185             | \$ 37,706  |

Preopening and start-up expenses were \$15 million in the 2006 quarter versus \$4 million in 2005, and included amounts related primarily to The Signature at MGM Grand, the *Love* show at The Mirage, Project CityCenter and Borgata's expansion. For the six month periods, preopening and start-up expenses were \$21 million in 2006 compared to \$6 million in 2005, consisting of largely the same components.

Property transactions, net consisted of the following:

| For the periods ended June 30,                 | Three Months          |          | Six Months |          |
|--|-----------------------|----------|------------|----------|
|  | 2006                  | 2005     | 2006       | 2005     |
|  | <i>(In thousands)</i> |          |            |          |
| Write-downs and impairments                    | \$ 10,179             | \$       | \$ 33,645  | \$       |
| Demolition costs                               | 184                   | 1,155    | 198        | 4,265    |
| Net losses on sale or disposal of fixed assets | 2,212                 | 638      | 2,201      | 1,731    |
|  | \$ 12,575             | \$ 1,793 | \$ 36,044  | \$ 5,996 |

Write-downs and impairments in 2006 includes \$22 million related to the write-off of the tram connecting Bellagio and Monte Carlo, including the stations at both resorts, in preparation for construction of Project CityCenter. Project CityCenter will feature a state-of-the-art people mover system that will reconnect Bellagio with Monte Carlo, with the stations at each resort completely redesigned as well. Other write-downs related to assets being replaced in connection with several smaller capital projects, primarily at MGM Grand Las Vegas, Mandalay Bay and The Mirage, as well as the \$4 million write-off of Luxor's investment in the *Hairspray* show.

During 2005, demolition costs related primarily to room remodel activity at MGM Grand Las Vegas and construction of the new showroom at The Mirage.

*Non-operating Results*

Net interest expense increased to \$195 million in the 2006 second quarter from \$167 million in the 2005 period due primarily to the additional debt outstanding after the Mandalay acquisition. For the six month periods, net interest

expense increased from \$269 million in 2005 to \$393 million in 2006. In the 2005 six months, Other, net includes a \$20 million loss on early retirement of debt related to the early redemption of our 6.875% senior notes due 2008, and \$7 million of income from the favorable resolution of a pre-acquisition contingency related to the Mirage Resorts acquisition.

**Table of Contents****Liquidity and Capital Resources***Cash Flows – Operating Activities*

Operating cash flow was \$418 million for the six months ended June 30, 2006, a decrease from \$619 million in the prior year period. This decrease was expected, despite the increased operating income in the period, due to higher interest payments resulting from the debt financing for the Mandalay merger and higher tax payments, including a \$112 million tax payment for the gain on Mandalay's sale of Motor City Casino, which was sold in April 2005. In addition, the prior year results include a \$61 million tax benefit from stock compensation. Under SFAS 123(R), the current year benefit is shown partially in operating activities and partially in financing activities. At June 30, 2006, we held cash and cash equivalents of \$295 million.

*Cash Flows – Investing Activities*

Capital expenditures in the six months ended June 30, 2006 primarily consisted of the following, excluding capitalized interest:

Project CityCenter \$231 million;

The permanent casino in Detroit \$140 million;

Beau Rivage \$228 million.

Remaining 2006 capital expenditures consisted of capital expenditures at existing resorts, including spending on the new theatre and new restaurants at The Mirage. Investments in unconsolidated affiliates of \$63 million in the 2006 period primarily represent partial funding of a required loan, in an amount up to \$100 million, to MGM Grand Macau. We are accounting for the loan as additional capital investment due to the subordinated nature of our repayment rights under the loan. Offsetting these expenditures was \$114 million in insurance proceeds related to Hurricane Katrina.

In 2005, capital expenditures were \$232 million, and included room enhancements and other projects at MGM Grand Las Vegas and spending on the Mirage theatre. Also in the 2005 period, we completed the acquisition of Mandalay, with net cash paid of \$4.4 billion, and invested \$177 million in MGM Grand Macau.

*Cash Flows – Financing Activities*

In the six months ended June 30, 2006, we borrowed net debt of \$260 million, with net repayments of \$290 million under our senior credit facility and the repayment of \$200 million of senior notes at their scheduled maturity offset by the April 2006 issuance of \$500 million of 6.75% senior notes due 2013 and \$250 million of 6.875% senior notes due 2016. The increase in net debt was due primarily to the level of capital expenditures, share repurchases and the \$112 million tax payment for the Motor City casino gain. At June 30, 2006 our senior credit facility had a balance of \$4.5 billion, with available liquidity of \$2.5 billion.

We repurchased 3.5 million shares of our common stock in the six month ended June 30, 2006 at a cost of \$141 million, leaving 11 million shares available under our current share repurchase authorization. We received proceeds of \$28 million from the exercise of stock options in the six months ended June 30, 2006.

*Other Factors Affecting Liquidity*

**Distributions from The Signature at MGM Grand.** Tower 1 of The Signature at MGM Grand was completed in the second quarter of 2006. Tower 2 is expected to be completed in the fourth quarter of 2006. We expect to receive distributions totaling in excess of \$100 million from the profits on sale of these two towers' condominium units in 2006 and early 2007. Through June 30, 2006, we had received \$4 million of such distributions.

**Long-term Debt Payable in 2006.** We repaid \$200 million of long-term debt at maturity in February 2006 with available borrowings under our senior credit facility. Another \$245 million of long-term debt matures later in 2006.

**Project CityCenter.** In November 2004 we announced a plan to develop a multi-billion dollar urban metropolis, Project CityCenter, on 66 acres of land on the Las Vegas Strip, between Bellagio and Monte Carlo. Project CityCenter will feature a 4,000-room casino resort designed by world-famous architect Cesar Pelli; two 400-room boutique hotels, one of which will be managed by luxury hotelier Mandarin Oriental; approximately 470,000 square feet of retail shops, dining and entertainment venues; and approximately 2.3 million square feet of residential space in approximately 2,800 luxury condominium and condominium-hotel units in multiple towers.





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As currently contemplated, we believe Project CityCenter will cost approximately \$7 billion, excluding preopening and land costs. After estimated proceeds of \$2.5 billion from the sale of residential units, we believe the net project cost will be approximately \$4.5 billion. We expect the project to open in late 2009. The complete design, timing and cost of Project CityCenter are still subject to change, and are subject to risks attendant to large-scale projects.

**Detroit Permanent Casino.** The permanent casino at MGM Grand Detroit is expected to open in late 2007 at a cost of \$765 million, including land and preopening costs, and will feature a 400-room hotel, 100,000-square foot casino, numerous restaurant and entertainment amenities, and spa and convention facilities. The complete design, timing and cost of the permanent facility are still subject to change, and are subject to risks attendant to large-scale projects.

**MGM Grand Macau.** We own 50% of MGM Grand Paradise Limited, an entity which is developing, and will operate, MGM Grand Macau, a hotel-casino resort in Macau S.A.R. Pansy Ho Chiu-king owns the other 50% of MGM Grand Paradise Limited. MGM Grand Macau will be located on a prime waterfront site and will feature at least 345 table games and 1,035 slots with room for significant expansion. Other features will include a 600-room hotel, a luxurious spa, convention space, a variety of dining destinations, and other attractions. Construction of MGM Grand Macau, which is estimated to cost \$1.1 billion including license and land rights and preopening costs, began in the second quarter of 2005 and the resort is anticipated to open in late 2007. The complete design, timing and cost of the project are still subject to change, and are subject to the risks attendant to large-scale projects. We have invested \$235 million in the venture and are committed to loaning the venture up to an additional \$45 million. The venture has obtained a \$700 million bank credit facility which, along with equity contributions and shareholder loans, is expected to be sufficient to fund the construction of MGM Grand Macau.

**Beau Rivage Rebuilding.** We are in the process of rebuilding Beau Rivage. Damage was extensive on the main levels of the resort, largely destroying the casino floor and gaming equipment, the resort's restaurants, the retail area and a portion of the parking garage. There was also damage, though to a lesser extent, in the hotel tower. We expect to reopen the resort in stages beginning in the third quarter of 2006. When fully reopened, Beau Rivage will include 1,740 guestrooms, over 2,000 slot machines and 90 table games, new and restored restaurants, a state-of-the-art convention center, and pool and spa amenities.

We believe that a large portion of the costs to rebuild Beau Rivage will be covered under our insurance policies. However, we cannot determine the exact amount of reimbursement until we submit our claims and receive notice of approval from our insurers. It is also uncertain as to the timing of such reimbursements, and we have been funding the rebuilding costs in advance of receiving reimbursements from our insurers.

**New York Racing Association.** We have entered into a definitive agreement with the New York Racing Association ( NYRA ) to manage video lottery terminals ( VLTs ) at NYRA's Aqueduct horseracing facility in metropolitan New York. Subject to receipt of requisite New York State approvals, we will assist in the development of the facility, including providing project financing up to \$190 million, and will manage the facility for a term of five years (extended automatically if the financing provided by us is not fully repaid) for a fee. Recent legislative changes will allow us to operate the VLTs past the expiration date of the current NYRA franchise agreement.

**Mashantucket Pequot Tribal Nation.** We have agreed to enter a strategic alliance, subject to definitive agreements, with the Mashantucket Pequot Tribal Nation ( MPTN ). The strategic alliance has several elements, one of which calls for the creation of a joint venture to seek future development opportunities. We have agreed to provide a development subsidiary of MPTN with a loan of up to \$200 million intended to fund a portion of that subsidiary's investment in any future joint development projects.

**Table of Contents****Recently Issued Accounting Standards***Uncertain Tax Positions*

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109, ( FIN 48 ). FIN 48 requires that tax positions be assessed using a two-step process. A tax position is recognized if it meets a more likely than not threshold and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. Uncertain tax position must be reviewed at each balance sheet date. Liabilities recorded as a result of this analysis must generally be recorded separately from any current or deferred income tax accounts, and are classified based on the time until expected payment.

FIN 48 also requires additional disclosures related to uncertain tax positions, including a reconciliation of changes in the beginning and ending aggregate amounts of liability recorded for uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently analyzing the impact of FIN 48. Any changes to our recorded liabilities will be recorded as a cumulative effect adjustment to the opening balance of retained earnings.

**Market Risk**

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our variable rate long-term debt. We attempt to limit our exposure to interest rate risk by managing the mix of our long-term fixed rate borrowings and short-term borrowings under our bank credit facilities.

As of June 30, 2006, long-term fixed rate borrowings represented approximately 64% of our total borrowings. Assuming a 100 basis-point change in LIBOR at June 30, 2006, our annual interest cost would change by approximately \$45 million.

**Forward-looking Statements**

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

This Form 10-Q contains some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They contain words such as anticipate, estimate, expect, project, intend, plan, may, could, might and other words or phrases of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, new projects, future performance, the outcome of contingencies such as legal proceedings and future financial results. From time to time, we also provide oral or written forward-looking statements in our Forms 10-K, Annual Reports to Stockholders, Forms 8-K, press releases and other materials we release to the public. Any or all of our forward-looking statements in this Form 10-Q and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in this Form 10-Q for example, government regulation and the competitive environment will be important in determining our future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may differ materially.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Forms 10-K, 10-Q and 8-K reports to the Securities and Exchange Commission. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

You should also be aware that while we from time to time communicate with securities analysts, we do not disclose to them any material non-public information, internal forecasts or other confidential business information. Therefore, you should not assume that we agree with any statement or report issued by any analyst, irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain projections, forecasts or opinions, those reports are not our responsibility.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We incorporate by reference the information appearing under **Market Risk** in Part I, Item 2 of this Form 10-Q.

**Item 4. Controls and Procedures**

Our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have concluded that the design and operation of our disclosure controls and procedures are effective as of June 30, 2006. This conclusion is based on an evaluation conducted under the supervision and with the participation of Company management. Disclosure controls and procedures are those controls and procedures which ensure that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported in a timely manner and in accordance with Securities and Exchange Commission rules and regulations.

During the quarter ended June 30, 2006, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. In making our assessment of changes in internal control over financial reporting as of June 30, 2006, we have excluded the Mandalay operations. These operations represent approximately 45% of our total assets at June 30, 2006 and approximately 39% of our total net revenues for the quarter ended June 30, 2006. We intend to disclose any material changes in internal control over financial reporting at the Mandalay operations in the first annual assessment of internal control over financial reporting in which we are required to include Mandalay, which will be as of December 31, 2006.

**Table of Contents****Part II. OTHER INFORMATION****Item 1. Legal Proceedings**

For a complete description of the facts and circumstances surrounding material litigation we are a party to, see our Annual Report on Form 10-K for the year ended December 31, 2005. There have been no significant developments in any of the cases disclosed in our Form 10-K in the six months ended June 30, 2006.

We and our subsidiaries are also defendants in various other lawsuits most of which relate to routine matters incidental to our business. We do not believe that the outcome of this other pending litigation, considered in the aggregate, will have a material adverse effect on the Company.

**Item 1A. Risk Factors**

A complete description of certain factors that may affect our future results and risk factors is set forth in our Annual Report on Form 10-K for the year ended December 31, 2005. There have been no material changes to those factors in the six months ended June 30, 2006.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Our share repurchases are only conducted under repurchase programs approved by our Board of Directors and publicly announced. The following table includes information about our share repurchases for the quarter ended June 30, 2006:

|                          | <b>Total</b>     | <b>Average</b> | <b>Shares</b>             | <b>Maximum</b>       |
|--------------------------|------------------|----------------|---------------------------|----------------------|
|                          | <b>Shares</b>    | <b>Price</b>   | <b>Purchased</b>          | <b>Shares Still</b>  |
|                          | <b>Purchased</b> | <b>Per</b>     | <b>As Part of a</b>       | <b>Available for</b> |
|                          |                  | <b>Share</b>   | <b>Publicly-Announced</b> | <b>Repurchase</b>    |
|                          |                  |                | <b>Program</b>            |                      |
| April 1 - April 30, 2006 |                  | \$             |                           | 13,500,000(1)        |
| May 1 - May 31, 2006     | 1,500,000        | 41.47          | 1,500,000                 | 12,000,000(1)        |
| June 1 - June 30, 2006   | 1,000,000        | 40.35          | 1,000,000                 | 11,000,000(1)        |
|                          | 2,500,000        |                | 2,500,000                 |                      |

(1) The July 2004 repurchase program was announced in July 2004 for up to 20 million shares with no expiration.

The amounts in the above table exclude approximately 277,000 shares surrendered by certain recipients of restricted shares who elected to use a portion of the shares on which restrictions lapsed in June 2006 to pay required withholding taxes.

**Table of Contents****Item 4. Submission of Matters to a Vote of Security Holders**

(a) The Company's 2006 Annual Meeting of Stockholders was held on May 9, 2006.

(c) At the Annual Meeting, the following individuals were elected to serve one-year terms as members of the Board of Directors:

| Name                   | Shares Voted<br>For | Shares<br>Withheld |
|------------------------|---------------------|--------------------|
| James D. Aljian        | 241,713,711         | 32,441,258         |
| Robert H. Baldwin      | 238,976,457         | 35,178,512         |
| Willie D. Davis        | 244,052,605         | 30,102,364         |
| Alexander M. Haig, Jr. | 243,699,211         | 30,455,758         |
| Alexis Herman          | 270,854,337         | 3,300,632          |
| Roland Hernandez       | 270,795,593         | 3,359,376          |
| Gary N. Jacobs         | 240,849,818         | 33,305,151         |
| Kirk Kerkorian         | 243,591,418         | 30,563,551         |
| J. Terrence Lanni      | 243,150,203         | 31,004,766         |
| Rose McKinney-James    | 271,004,310         | 3,150,659          |
| James J. Murren        | 239,541,890         | 34,613,079         |
| Ronald M. Popeil       | 270,962,222         | 3,192,747          |
| John T. Redmond        | 241,038,009         | 33,116,960         |
| Melvin B. Wolzinger    | 270,971,647         | 3,183,322          |

Additionally, a proposal to approve the Company's Amended and Restated Annual Performance-Based Incentive Plan for Executive Officers was approved, by a vote of 265,492,674 shares in favor, 8,318,402 shares opposed, and 343,893 shares abstaining.

Additionally, a proposal to ratify the selection of Deloitte & Touche LLP to serve as the Company's independent registered public accounting firm for the year ending December 31, 2006 was approved, by a vote of 273,793,922 shares in favor, 58,782 shares opposed and 302,265 shares abstaining.

**Item 6. Exhibits**

31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).

31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

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**SIGNATURES**

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.

MGM MIRAGE

Date: August 9, 2006

By: /s/ J. TERRENCE LANNI  
J. Terrence Lanni  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: August 9, 2006

/s/ JAMES J. MURREN  
James J. Murren  
President, Chief Financial Officer and  
Treasurer (Principal Financial and  
Accounting Officer)

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