

MANDALAY RESORT GROUP
Form 10-K/A
June 26, 2003

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

FORM 10-K/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended **January 31, 2003**

OR

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

For the transition period from _____ to _____

Commission File Number 1-8570

MANDALAY RESORT GROUP

(Exact name of registrant as specified in its charter)

Nevada

State (or other jurisdiction of
incorporation or organization)

88-0121916

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

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

(Address of principal executive offices)

89119

(Zip Code)

Registrant's telephone number, including area code: **(702) 632-6700**

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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, \$.01-2/3 Par Value	New York Stock Exchange and Pacific Exchange
Common Stock Purchase Rights	New York Stock Exchange and Pacific Exchange

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by persons other than the registrant's directors and executive officers as of July 31, 2002 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the last reported sale price on the New York Stock Exchange on such date, was \$1,652,908,035.

The number of shares of registrant's Common Stock, \$.01-2/3 par value, outstanding at April 28, 2003: 59,342,260.

DOCUMENTS INCORPORATED BY REFERENCE

PART III - Portions of the Registrant's definitive proxy statement relating to the annual meeting of stockholders to be held on June 26, 2003, are incorporated by reference into Items 10 through 13, inclusive.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

EXPLANATION: Item 8 is amended herein solely for the purpose of including the audit report of Arthur Andersen LLP on the financial statements of Victoria Partners as of December 31, 2001 and for the years ended December 31, 2001 and 2000.

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MANDALAY RESORT GROUP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	January 31,	
	2003	2002
ASSETS		
Current assets		
Cash and cash equivalents	\$ 148,442	\$ 105,905
Accounts receivable, net of allowance	55,303	58,372
Income tax receivable	13,107	13,531
Inventories	30,625	30,555
Prepaid expenses	47,404	40,848
Deferred income tax	16,523	13,220
Total current assets	311,404	262,431
Property, equipment and leasehold interests, at cost, net	3,201,635	3,049,812
Other assets		
Excess of purchase price over fair market value of net assets acquired, net	38,330	45,445
Investments in unconsolidated affiliates	573,345	554,086
Other investments	43,625	35,751
Intangible development costs	93,360	
Deferred charges and other assets	92,965	84,953
Total other assets	841,625	720,235
Total assets	\$ 4,354,664	\$ 4,032,478
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current portion of long term debt	\$ 20,284	\$ 39,251
Accounts and contracts payable		
Trade	36,952	33,473
Construction	10,031	8,284
Accrued liabilities		
Salaries, wages, vacations and bonuses	56,427	52,680
Progressive jackpots	13,267	11,556
Advance room deposits	14,384	13,242
Interest	67,731	58,592
Other	98,301	92,163
Total current liabilities	317,377	309,241
Long-term debt, net of current portion	2,763,593	2,482,087
Other liabilities		

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Deferred income tax	227,652	194,922
Accrued intangible development costs	55,027	
Deferred gain	10,339	28,339
Other long-term liabilities	79,160	80,919
Total other liabilities	372,178	304,180
Total liabilities	3,453,148	3,095,508
Commitments and contingent liabilities		
Minority interest	18,587	(3,639)
Stockholders' equity		
Common stock \$.01-2/3 par value		
Authorized 450,000,000 shares		
Issued 113,634,013 shares	1,894	1,894
Preferred stock \$.01 par value		
Authorized 75,000,000 shares		
Additional paid-in capital	581,166	572,992
Retained earnings	1,489,979	1,374,376
Accumulated other comprehensive loss	(16,920)	(21,902)
Treasury stock (51,061,847 and 45,278,193 shares), at cost	(1,173,190)	(986,751)
Total stockholders' equity	882,929	940,609
Total liabilities and stockholders' equity	\$ 4,354,664	\$ 4,032,478

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

MANDALAY RESORT GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Year ended January 31,		
	2003	2002	2001
Revenues			
Casino	\$ 1,205,163	\$ 1,201,707	\$ 1,221,595
Rooms	570,236	581,551	611,352
Food and beverage	414,051	410,276	418,081
Other	333,979	332,253	299,753
	2,523,429	2,525,787	2,550,781
Less - complimentary allowances	(169,311)	(177,275)	(169,642)
	2,354,118	2,348,512	2,381,139
Costs and expenses			
Casino	647,195	669,719	670,243
Rooms	201,630	197,300	203,352
Food and beverage	285,153	283,864	299,726
Other	212,075	219,358	200,236
General and administrative	409,166	417,149	409,603
Corporate general and administrative	27,439	20,981	21,153
Depreciation and amortization	144,995	216,001	217,984
Operating lease rent	49,073	32,185	40,121
Preopening expenses	4,614	2,155	1,832
Impairment loss	5,422	52,027	
Write-off of intangible asset	13,000		
	1,999,762	2,110,739	2,064,250
Equity in earnings of unconsolidated affiliates	97,950	113,287	114,645
Income from operations	452,306	351,060	431,534
Other income (expense)			
Interest, dividends and other income	(2,229)	(2,113)	6,934
Guarantee fees from unconsolidated affiliate	193	2,264	2,498
Interest expense	(207,114)	(221,352)	(219,940)
Net interest from unconsolidated affiliates	(7,172)	(7,501)	(9,888)
	(216,322)	(228,702)	(220,396)
Minority interest	(40,650)	(29,352)	(16,746)
Income before provision for income taxes	195,334	93,006	194,392
Provision for income taxes	(77,869)	(39,962)	(74,692)
Income before cumulative effect of a change in accounting principle	117,465	53,044	119,700

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Cumulative effect of a change in accounting for goodwill		(1,862)			
Net income	\$	115,603	\$	53,044	\$ 119,700
Basic earnings per share:					
Income before cumulative effect of a change in accounting principle	\$	1.74	\$.73	\$ 1.53
Cumulative effect of a change in accounting principle		(.03)			
Net income	\$	1.71	\$.73	\$ 1.53
Diluted earnings per share:					
Income before cumulative effect of a change in accounting principle	\$	1.68	\$.71	\$ 1.50
Cumulative effect of a change in accounting principle		(.03)			
Net income	\$	1.65	\$.71	\$ 1.50
Average shares outstanding (basic)		67,555,934		72,798,916	78,334,735
Average shares outstanding (diluted)		70,158,204		74,459,831	79,700,614

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

MANDALAY RESORT GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year ended January 31,		
	2003	2002	2001
Increase (decrease) in cash and cash equivalents			
Cash flows from operating activities			
Net income	\$ 115,603	\$ 53,044	\$ 119,700
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	144,995	216,001	217,984
Provision for bad debts	7,165	20,381	21,329
Increase (decrease) in deferred income tax	26,744	(16,420)	25,023
Increase in interest payable	9,139	5,470	33,727
Increase in accrued pension cost	8,420	7,536	4,363
Loss on disposition of fixed assets	1,747	1,973	290
Impairment loss	5,422	52,027	
Write-off of intangible asset	13,000		
Cumulative effect of accounting change	1,862		
Increase in other current assets	(10,298)	(13,164)	(33,381)
(Decrease) increase in other current liabilities	(2,616)	5,743	18,584
(Increase) decrease in other noncurrent assets	(20,294)	13,404	(551)
Unconsolidated affiliates distributions in excess of earnings (earnings in excess of distributions)	23,827	(2,783)	22,077
Minority interest in earnings, net of distributions	22,226	15,036	6,421
Other	2,981		
Total adjustments	234,320	305,204	315,866
Net cash provided by operating activities	349,923	358,248	435,566
Cash flows from investing activities			
Capital expenditures	(300,532)	(156,742)	(110,220)
Increase (decrease) in construction payable	1,747	4,364	(29,495)
Increase in other investments	(10,793)	(10,802)	(16,755)
Increase in investments in unconsolidated affiliates	(43,500)		
Development agreement costs	(19,500)		
Other	2,295	3,275	2,633
Net cash used in investing activities	(370,283)	(159,905)	(153,837)
Cash flows from financing activities			
Proceeds from issuance of senior and senior subordinated notes		297,836	700,000
Proceeds from sale-leaseback transactions		130,500	
	280,000	(380,000)	(715,576)

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Net effect on cash of issuances and payments of debt with initial maturities of three months or less

Principal payments of debt with initial maturities in excess of three months	(44,478)	(62,498)	(23,000)
Debt premium on reverse interest swap termination	28,892		
Debt issuance costs	(1,574)	(16,233)	(16,325)
Exercise of stock options	44,286	5,054	17,797
Purchases of treasury stock	(220,866)	(125,910)	(247,128)
Interim settlements and interest under equity forward agreements	(1,656)	(45,517)	(2,405)
Reversal of deferred gain	(16,414)		
Other	(5,293)	(1,611)	(5,768)
Net cash provided by (used in) financing activities	62,897	(198,379)	(292,405)
Net increase (decrease) in cash and cash equivalents	42,537	(36)	(10,676)
Cash and cash equivalents at beginning of year	105,905	105,941	116,617
Cash and cash equivalents at end of year	\$ 148,442	\$ 105,905	\$ 105,941
Supplemental cash flow disclosures			
Cash paid for interest (net of amounts capitalized)	\$ 190,395	\$ 209,418	\$ 183,638
Cash paid for income taxes	\$ 33,265	\$ 58,132	\$ 38,731
Noncash items			
(Increase) decrease in market value of interest rate swaps	\$ (16,494)	\$ 24,119	\$
Decrease in market value of investment in insurance contracts	\$ 2,919	\$ 2,073	\$
Minimum pension liability adjustment	\$ 7,412	\$ 8,735	\$ 23,179
Accrual of development agreement costs	\$ 73,860	\$	\$

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

MANDALAY RESORT GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)	Common Stock Issued		Additional	Retained	Accumulated	Treasury	Total
	Shares	Amount	Paid-in	Earnings	Other Comp-	Stock	Stock-
			Capital		rehensive		holders
					Loss		Equity
Balance, January 31, 2000	113,634	\$ 1,894	\$ 565,925	\$ 1,201,632	\$	\$ (581,671)	\$ 1,187,780
Net income				119,700			119,700
Minimum pension liability adjustment					(6,804)		(6,804)
Total comprehensive income							112,896
Exercise of stock options			6,282			11,515	17,797
Treasury stock acquired (14,534 shares), at cost						(247,128)	(247,128)
Interest under equity forward agreements						(2,405)	(2,405)
Balance, January 31, 2001	113,634	1,894	572,207	1,321,332	(6,804)	(819,689)	1,068,940
Net income				53,044			53,044
Minimum pension liability adjustment					1,005		1,005
Interest rate swap market adjustment					(16,103)		(16,103)
Total comprehensive income							37,946
Exercise of stock options			689			4,365	5,054
Treasury stock acquired (5,186 shares), at cost						(125,910)	(125,910)
Interim settlements and interest under equity forward agreements						(45,517)	(45,517)
Other			96				96
Balance, January 31, 2002	113,634	1,894	572,992	1,374,376	(21,902)	(986,751)	940,609
Net income				115,603			115,603
Minimum pension liability adjustment					(5,571)		(5,571)
Interest rate swap market adjustment					10,553		10,553
Total comprehensive income							120,585
Exercise of stock options			8,203			36,083	44,286

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Treasury stock acquired (7,470 shares), at cost								(220,866)	(220,866)				
Interim settlements and interest under equity forward agreements								(1,656)	(1,656)				
Other				(29)					(29)				
Balance, January 31, 2003	113,634	\$	1,894	\$	581,166	\$	1,489,979	\$	(16,920)	\$	(1,173,190)	\$	882,929

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

MANDALAY RESORT GROUP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

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

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. On a regular basis, management evaluates its estimates, including those related to bad debts, intangible assets, self-insurance liabilities, income taxes, contingencies and litigation. Actual results could differ from those estimates.

CASH EQUIVALENTS

At January 31, 2003 and 2002, cash equivalents (consisting principally of money market funds and instruments with maturities at date of purchase of three months or less) had a cost approximately equal to market value.

INVENTORIES

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

PROPERTY AND EQUIPMENT

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

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

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

CAPITALIZED INTEREST

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. When debt is not specifically identified as being incurred in connection with a construction project, the Company capitalizes interest on amounts expended on the project at the Company's average cost of borrowed money. Capitalization of interest ceases when a project is substantially complete or construction activities are no longer underway. The amounts capitalized during the years ended January 31, 2003, 2002 and 2001, were \$13.2 million, \$1.0 million and \$1.6 million, respectively.

LONG-LIVED ASSETS

Long-lived assets are comprised of goodwill, indefinite-life intangible assets, property and equipment and other assets. Accounting for goodwill and indefinite-life intangible assets is discussed in Note 4 and Note 7, respectively. Property and equipment and other assets are reviewed for impairment, on a property by property basis (the lowest level for which there are identifiable cash flows), whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Pursuant to applicable accounting rules, an estimate of undiscounted future cash flows produced by the asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether an impairment exists. If an asset is determined to be impaired based on expected future cash flows, a loss, measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized in the consolidated statements of income. Assets to be disposed of are reported at the lower of the carrying amount or their estimated net realizable value.

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

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

SELF-INSURANCE

The Company is self-insured up to certain limits for workers' compensation and employee medical claims. Self-insurance reserves are estimated based on the Company's claims experience and are included in accrued liabilities on the consolidated balance sheets.

TREASURY STOCK

Shares purchased and placed in treasury are valued at cost. Shares are removed from treasury using the first-in, first-out method. Interest charges and other fees related to the Company's equity forward agreements are included in treasury stock, net of the related tax benefit. (See Note 16 - Equity Forward Agreements.)

REVENUE RECOGNITION

Casino revenue is derived primarily from patrons wagering on slot machines, table games and other gaming activities. Table games typically include Blackjack or Twenty One, Craps, Baccarat and Roulette. Other gaming activities include Keno, Poker and Race and Sports. Casino revenues represent the net difference between the sums received as winnings and the sums paid as losses. Incentives, such as discounts to induce casino play and player club points (discussed more fully below), are deducted from gross casino revenues.

Hotel, food and beverage, entertainment and other operating revenues are recognized as services are performed. Advance deposits on rooms and advance ticket sales are recorded as accrued liabilities until services are provided to the customer. The retail value of accommodations, food and beverage, and other services furnished to hotel-casino guests without charge is included in gross revenue and then deducted as complimentary allowances.

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

(in thousands)	Year ended January 31,		
	2003	2002	2001
Rooms	\$ 17,368	\$ 19,341	\$ 18,580
Food and beverage	89,218	93,405	94,440
Other	10,972	13,405	11,042
	\$ 117,558	\$ 126,151	\$ 124,062

PLAYERS CLUB POINTS

The Company's players club allows customers to earn points based on the volume of their gaming activity. These points are redeemable for cash rebates and/or certain complimentary services. Points are accrued based upon their historical redemption rate multiplied by the cash value or the cost of providing the applicable complimentary services. Casino revenues were reduced by the value of player club points earned of \$30.0 million, \$28.3 million and \$28.4 million in the years ended January 31, 2003, 2002 and 2001, respectively.

PREOPENING EXPENSES

Preopening expenses consist principally of direct incremental personnel costs and advertising and marketing expenses. In accordance with the American Institute of Certified Public Accountants' Statement of Position 98-5, preopening expenses are expensed as incurred.

For the year ended January 31, 2003, preopening expenses of \$4.6 million related primarily to the new convention center at Mandalay Bay that opened in January 2003. For the year ended January 31, 2002, preopening expenses of \$2.2 million also related primarily to the new convention center. For the year ended January 31, 2001, preopening expenses of \$1.8 million related to the Shark Reef at Mandalay Bay, which opened June 2000.

INCOME TAXES

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

EARNINGS PER SHARE

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

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

(in thousands, except per share data)	Year ended January 31,		
	2003	2002	2001
Net income	\$ 115,603	\$ 53,044	\$ 119,700
Weighted average shares outstanding (basic earnings per share)	67,556	72,799	78,335
Stock options	2,524	1,661	1,366
Equity forward contract	78		
Weighted average shares outstanding (diluted earnings per share)	70,158	74,460	79,701
Basic earnings per share	\$ 1.71	\$.73	\$ 1.53
Diluted earnings per share	\$ 1.65	\$.71	\$ 1.50

STOCK-BASED COMPENSATION

The Company has various employee stock option plans as more fully described in Note 14 - Stock Options. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123) provides that companies may elect to account for employee stock options using a fair value method or continue to apply the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). The Company has elected to continue to apply APB 25 and related interpretations in accounting for its stock option plans using the intrinsic value method. Intrinsic value represents the excess, if any, of the market price of the underlying common stock at the grant date over the exercise price of the stock option. Since all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant, no compensation expense related to stock options was reflected in net income. Had compensation expense related to stock options been determined in accordance with the fair value recognition provisions of SFAS 123, the effect on the Company's net income and basic and diluted earnings per share would have been as follows:

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(in thousands, except share data)	Year ended January 31,		
	2003	2002	2001
Net income as reported	\$ 115,603	\$ 53,044	\$ 119,700
Less total stock-based employee compensation expense determined under the fair value method, net of tax	(8,224)	(10,415)	(5,296)
Pro forma net income	\$ 107,379	\$ 42,629	\$ 114,404
Net income per share (basic)			
As reported	\$ 1.71	\$.73	\$ 1.53
Pro forma	1.59	.59	1.46
Net income per share (diluted)			
As reported	\$ 1.65	\$.71	\$ 1.50
Pro forma	1.53	.57	1.44

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	Year ended January 31,		
	2003	2002	2001
Expected stock price volatility	40.7%	41.9%	45.1%
Risk-free interest rate	2.3%	4.2%	4.6%
Expected option lives (years)	4.1	2.9	3.4
Dividend yield	0.0%	0.0%	0.0%
Estimated fair value of options granted (per share)	\$ 9.58	\$ 6.10	\$ 6.25

COMPREHENSIVE INCOME

Comprehensive income is a broad concept of an enterprise's financial performance that includes all changes in equity during a period that arise from transactions and economic events from nonowner sources. Comprehensive income is net income plus other comprehensive income, which consists of revenues, expenses, gains and losses that do not affect net income under accounting principles generally accepted in the United States. Other comprehensive income for the Company includes adjustments for minimum pension liability and adjustments to interest rate swaps, net of tax.

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

(in thousands)	January 31,	
	2003	2002
Minimum pension liability adjustment	\$ 11,370	\$ 5,799
Adjustment to interest rate swaps	5,550	16,103

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Accumulated other comprehensive loss	\$	16,920	\$	21,902
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RECLASSIFICATIONS

During fiscal 2003, the Company changed its presentation of equity in earnings of unconsolidated affiliates, which was previously reported as a component of revenues. The Company now reports equity in earnings of unconsolidated affiliates as a separate component of income from operations on the consolidated statements of income under a separate caption titled Equity in Earnings of Unconsolidated Affiliates. Prior years have been reclassified to conform with the new presentation. This reclassification had no effect on previously reported income from operations or net income.

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan, as previously required under Emerging Issues Task Force Issue 94-3. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company believes that SFAS 146 will not have a significant impact on its results of operations or financial position.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of SFAS Nos. 5, 57 and 107 and a rescission of FASB Interpretation No. 34 (Interpretation 45). Interpretation 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The provisions of Interpretation 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure requirements are generally effective for financial statements of interim or annual periods ending after December 15, 2002. The Company believes that Interpretation 45 will not have a significant impact on its results of operations or financial position.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123 (SFAS 148). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has elected to continue to account for stock-based employee compensation using the intrinsic value method under APB Opinion 25 (see Stock-Based Compensation above).

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (Interpretation 46). Interpretation 46 addresses consolidation by business enterprises where equity investors do not bear the residual economic risks and rewards. These entities are commonly referred to as special purpose entities. The provisions of Interpretation 46 are required to be applied prospectively for all variable interest entities created after January 31, 2003. The Company believes that Interpretation 46 will not have a significant impact on its results of operations or financial position.

Note 2. Accounts Receivable

The Company extends credit to approved casino customers. These receivables are the principal financial instruments that potentially subject the Company to concentration of credit risk. The Company maintains an allowance for doubtful accounts to reduce the receivables to their estimated collectible amount, which approximates fair value. As of January 31, 2003, management believes that there are no concentrations of credit risk for which an allowance has not been established and recorded. The collectibility of foreign and domestic receivables could be affected by future business or economic conditions or other significant events in the United States or in the countries in which foreign customers reside. Bad debt expense was \$7.2 million, \$20.4 million and \$21.3 million for the years ended January 31, 2003, 2002 and 2001, respectively.

Accounts receivable consisted of the following:

(in thousands)	January 31,	
	2003	2002
Casino	\$ 47,307	\$ 64,036
Hotel	28,129	20,601
Other	7,137	9,139
	82,573	93,776
Less-allowance for doubtful accounts	(27,270)	(35,404)
	\$ 55,303	\$ 58,372

The above allowance for doubtful accounts includes \$25.7 million and \$32.8 million related to casino receivables at January 31, 2003 and 2002, respectively.

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

Property, equipment and leasehold interests consisted of the following:

(in thousands)	January 31,	
	2003	2002
Land and land leases	\$ 396,794	\$ 395,805
Buildings and improvements	3,263,074	3,037,800
Equipment, furniture and fixtures	737,566	674,830
Leasehold interests and improvements	8,646	8,664
	4,406,080	4,117,099
Less - accumulated depreciation and amortization	(1,266,465)	(1,162,203)
	3,139,615	2,954,896
Construction in progress	62,020	94,916
	\$ 3,201,635	\$ 3,049,812

Note 4. **Goodwill**

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 142 provides that goodwill will no longer be amortized, but will instead be reviewed for impairment at least annually. SFAS 142 was adopted by the Company on February 1, 2002.

As of February 1, 2002, the Company had approximately \$45.4 million of unamortized goodwill. Most of this total related to the fiscal 2000 purchase of an additional ownership interest in the joint venture which operates MotorCity Casino. In accordance with SFAS 142, each property with assigned goodwill is to be valued as an operating entity. If the fair value of the operating entity is greater than the book value, including assigned goodwill, no further testing is required. However, if the book value, including goodwill, is greater than the fair value of the operating entity, the assets and liabilities of the operating entity need to be valued. The difference between the fair value of the operating entity and the fair value of the assets represents the implied fair value of goodwill. To the extent that the implied fair value of goodwill is less than the book value of goodwill, an impairment charge must be recognized as a cumulative effect of a change in accounting principle upon adoption.

The Company previously completed its implementation analysis of the goodwill arising from its prior acquisitions. For purposes of this analysis, the fair value of the operating entities was determined using a combination of a discounted cash flow model and a valuation multiple or, in certain instances, an independent appraisal. Based upon this analysis, the Company recorded an impairment charge of \$1.9 million, representing the unamortized goodwill associated with the June 1, 1995 acquisition of the Railroad Pass Hotel and Casino. This charge was reflected as a cumulative effect of a change in accounting principle in the first quarter of fiscal 2003.

The Company has also completed its annual review of impairment for fiscal 2003, pursuant to which it recorded an impairment loss of \$5.4 million, representing the unamortized goodwill associated with the February 1, 1983 acquisition of the Edgewater Hotel and Casino in Laughlin, Nevada. A decline in income from operations at that property, along with lowered expectations for the Laughlin market, indicated impairment.

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

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

When the Gold Strike acquisition was consummated, the Company recorded the entire excess of the purchase price over the fair market value of net assets acquired as goodwill. However, the majority of the excess related to the value of the investments in Grand Victoria and Monte Carlo. Since the amount was not assigned to the specific assets (e.g., property and equipment) of the joint ventures, it was properly treated as goodwill. With the adoption of SFAS 142, it was determined that goodwill related to investments in unconsolidated affiliates should be reviewed differently for impairment than other goodwill. Therefore, unamortized goodwill of \$309.2 million at January 31, 2002 was reclassified to investment in unconsolidated affiliates. This reclassification had no impact on the Company's reported net income.

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

The Company recorded goodwill amortization of \$11.8 million in each of the years ended January 31, 2002 and 2001. Had SFAS 142 been in effect for these prior periods, the Company would have reported the following:

(in thousands)	Year ended January 31,	
	2002	2001
Net income as reported	\$ 53,044	\$ 119,700
Goodwill amortization	11,801	11,801
Adjusted net income	\$ 64,845	\$ 131,501
Adjusted net income per share - basic	\$.89	\$ 1.68
Adjusted net income per share - diluted	\$.87	\$ 1.65

Note 5. **Investments in Unconsolidated Affiliates**

The Company has investments in unconsolidated affiliates that are accounted for under the equity method. Under the equity method, original investments are recorded at cost and adjusted by the Company's share of earnings, losses and distributions of these companies. The investment balance also includes interest capitalized during construction. Investments in unconsolidated affiliates consisted of the following:

(in thousands)	January 31,	
	2003	2002
Circus and Eldorado Joint Venture (50%) (Silver Legacy, Reno, Nevada)	\$ 57,615	\$ 77,029
Elgin Riverboat Resort (50%) (Grand Victoria, Elgin, Illinois)	249,040	251,022
Victoria Partners (50%) (Monte Carlo, Las Vegas, Nevada)	266,690	226,035
	\$ 573,345	\$ 554,086

The investment balances for Grand Victoria and Monte Carlo are greater than the carrying values of the net assets of the respective unconsolidated affiliates due primarily to goodwill recognized when the Company acquired the investments. (See Note 4 - Goodwill.) In July 2002, the Company made an additional equity contribution of \$43.5 million to Victoria Partners. These funds, along with an identical equity contribution by the Company's partner, were used to payoff the remaining balance on Monte Carlo's credit facility.

The Company's unconsolidated affiliates operate with fiscal years ending on December 31. Summarized balance sheet information of the unconsolidated affiliates as of December 31, 2002 and 2001 is as follows:

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(in thousands)	2002		2001	
Current assets	\$	118,791	\$	116,709
Property and other assets, net		643,854		655,147
Current liabilities		86,876		182,193
Long-term debt and other liabilities		170,285		135,000
Equity		505,484		454,663

Selected results of operations for each of the unconsolidated affiliates for the years ended December 31, 2002, 2001 and 2000 are as follows:

December 31, 2002 (in thousands)	Silver Legacy		Grand Victoria		Monte Carlo		Total
Revenues	\$	159,432	\$	402,869	\$	250,317	\$ 812,618
Expenses		129,124		300,803		184,268	614,195
Operating income		30,308		102,066		66,049	198,423
Net income		16,766		102,683		64,979	184,428

December 31, 2001 (in thousands)	Silver Legacy		Grand Victoria		Monte Carlo		Total
Revenues	\$	164,677	\$	410,248	\$	256,586	\$ 831,511
Expenses		130,595		284,101		189,737	604,433
Operating income		34,082		126,147		66,849	227,078
Net income		21,120		127,594		62,575	211,289

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

Note 6. Other Investments

The Company has adopted a Supplemental Executive Retirement Plan (SERP), a defined benefit plan pursuant to which the Company pays supplemental pension benefits to certain key employees upon retirement. The SERP is an unfunded plan. However, the Company is informally funding the plan through life insurance contracts on the participants. These life insurance contracts had cash surrender values of \$35.2 million and \$28.6 million at January 31, 2003 and 2002, respectively. (See Note 13 - Employee Retirement Plans for additional information regarding the SERP.)

Note 7. Intangible Development Costs

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On August 2, 2002, the Detroit City Council approved a revised development agreement pursuant to which MotorCity Casino will expand its current facility by December 31, 2005. Under the revised development agreement, MotorCity Casino paid the City of Detroit \$17 million in October 2002.

MotorCity is required to pay another \$10 million in four equal installments before June 2003, and an additional \$17 million in 12 equal monthly installments beginning June 1, 2003. MotorCity is further obligated, through letters of credit issued by the Company, to fund approximately \$49.4 million to repay bonds issued by the Economic Development Corporation of the City of Detroit. The Company recorded an intangible asset of \$93.4 million, representing the total of the above obligations. As of January 31, 2003, the remaining unpaid obligation is \$73.9 million (\$18.9 million current portion). These intangible development costs have an indefinite life. (See Note 17 - Commitments and Contingent Liabilities for additional details regarding the Company's Detroit joint venture.)

Note 8. **Deferred Charges and Other Assets**

Deferred charges and other assets consisted of the following:

(in thousands)	January 31,	
	2003	2002
Debt issuance costs, net	\$ 31,877	\$ 38,893
Intangible asset related to SERP	21,833	22,992
Other	39,255	23,068
	\$ 92,965	\$ 84,953

The Company incurs discounts, structuring fees and other costs in connection with its issuance of debt and in connection with its credit facilities. Debt issuance costs are capitalized when incurred and amortized to interest expense based on the anticipated debt maturities using the straight-line method, which approximates the effective interest method. The amortization of debt issuance costs included in interest expense was \$7.6 million, \$6.5 million and \$4.9 million for the years ended January 31, 2003, 2002 and 2001, respectively.

The Company accounts for its SERP according to Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (SFAS 87). SFAS 87 requires the recognition of an intangible asset in an amount equal to the additional minimum liability, provided that such intangible asset may not exceed the amount of unrecognized prior service cost and unrecognized net obligation. The amount by which the additional minimum liability exceeds unrecognized prior service cost and unrecognized net obligation is recorded as a negative component of stockholders' equity through comprehensive income (net of related tax benefits). (See Note 13 - Employee Retirement Plans for additional information regarding the SERP.)

Note 9. **Long-term Debt**

Long-term debt consisted of the following:

(in thousands)	January 31,	
	2003	2002
	\$ 660,000	\$ 380,000

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Amounts due under bank credit agreements at floating interest rates, weighted average of 3.2% and 3.6%			
Amounts due under majority-owned joint venture revolving credit facility at floating interest rates, weighted average of 2.8% and 3.3%			
	20,000		64,000
6-3/4% Senior Subordinated Notes due 2003 (net of unamortized discount of \$7 and \$23)	149,993		149,977
9-1/4% Senior Subordinated Notes due 2005	275,000		275,000
6.45% Senior Notes due 2006 (net of unamortized discount of \$132 and \$176)	199,868		199,824
10-1/4% Senior Subordinated Notes due 2007	500,000		500,000
9-1/2% Senior Notes due 2008	200,000		200,000
9-3/8% Senior Subordinated Notes due 2010 (net of unamortized discount of \$1,877 and \$2,142)	298,123		297,858
7-5/8% Senior Subordinated Debentures due 2013	150,000		150,000
7.0% Debentures due 2036 (net of unamortized discount of \$79 and \$92)	149,921		149,908
6.70% Debentures due 2096 (net of unamortized discount of \$40 and \$88)	149,960		149,912
Other notes	4,381		4,859
	2,757,246		2,521,338
Current portion of long-term debt	(20,284)		(39,251)
Debt premium from termination of reverse interest rate swaps (see Note 10)	26,631		
	\$ 2,763,593	\$	2,482,087

In August 2001, the Company replaced its \$1.8 billion unsecured credit facility, dated May 23, 1997, with three separate facilities that totaled \$1.25 billion. These credit facilities included a \$150 million capital markets term loan facility which was paid in full using a portion of the net proceeds received from the issuance of \$300 million of Senior Subordinated Notes in December 2001 (discussed more fully below), thus reducing the borrowing capacity to \$1.1 billion under the two remaining facilities. The remaining credit facilities, which are for general corporate purposes, include a \$250 million term loan facility, the entire amount of which was outstanding at January 31, 2003, and an \$850 million revolving facility, \$410 million of which was outstanding at January 31, 2003. Each of the credit facilities is unsecured and provides for the payment of interest, at the Company's option, either at a rate equal to or an increment above the higher of the Bank of America, N.A. prime rate and the Federal Reserve Board Federal Funds Rate plus 50 basis points or, alternatively, at a Eurodollar-based rate. The entire principal amount outstanding under the credit facilities becomes due and payable on August 21, 2006, unless the maturity date is extended with the consent of the lenders. While the debt instruments issued under the above credit facilities are short term in tenor, they are classified as long-term debt because it is management's intention to continue to replace such borrowings on a rolling basis as various instruments come due and to have such borrowings outstanding for longer than one year. The fair value of the debt issued under the credit facilities approximates the carrying value of the debt.

Each of the credit facilities includes financial covenants regarding total debt and interest coverage and contains covenants that limit the Company's ability, among other things, to dispose of assets, make distributions on its capital stock, engage in a merger, incur liens and engage in transactions with its affiliates. In December 2001, the Company amended the covenants under each of its credit

facilities to provide for more liberal tests for total debt and interest coverage. These amendments were obtained to address the impact of the terrorist attacks that occurred on September 11, 2001. In February 2003, the Company again amended the covenants under each of its credit facilities. These amendments modify the definition of Adjusted EBITDA with respect to the Company's 53.5% ownership in MotorCity Casino in Detroit, Michigan. As previously defined in the credit facilities, Adjusted EBITDA included only the cash distributions the Company actually received from MotorCity Casino. Under the amended definition, Adjusted EBITDA will include the Company's 53.5% share of the Adjusted EBITDA of MotorCity Casino, whether or not distributed. These amendments also provide for a more liberal test for total debt coverage during the fiscal year ending January 31, 2004. At January 31, 2003, the Company was in compliance with all of the covenants in its credit facilities and, under the most restrictive loan covenant, was restricted from issuing additional debt in excess of approximately \$273.1 million.

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

On December 20, 2001, the Company issued \$300 million principal amount of 9-3/8% Senior Subordinated Notes due February 2010 (the 9-3/8% Notes), with interest payable each February and August. The 9-3/8% Notes are redeemable prior to maturity at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium. The 9-3/8% Notes, which were discounted to \$297.8 million, are not subject to any sinking fund requirements. The net proceeds from this issuance were used to repay borrowings under the Company's credit facilities. As of January 31, 2003, the estimated fair value of the 9-3/8% Notes was \$318.0 million, based on their trading price.

On August 16, 2000, the Company issued \$200 million principal amount of 9-1/2% Senior Notes due August 2008 (the 9-1/2% Notes), with interest payable each February and August. The 9-1/2% Notes are redeemable prior to maturity at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium. The 9-1/2% Notes are not subject to any sinking fund requirements. The net proceeds from this issuance were used to repay borrowings under the Company's credit facility. As of January 31, 2003, the estimated fair value of the 9-1/2% Notes was \$222.0 million, based on their trading price.

On July 24, 2000, the Company issued \$500 million principal amount of 10-1/4% Senior Subordinated Notes due August 2007 (the 10-1/4% Notes), with interest payable each February and August. The 10-1/4% Notes are redeemable prior to maturity at the option of the Company, in whole, at 100% of the principal amount plus a make-whole premium. A portion of the 10-1/4% Notes are also redeemable at the option of the Company prior to August 1, 2003 with the proceeds of a public offering of equity securities. The 10-1/4% Notes are not subject to any sinking fund requirements. The net proceeds from this issuance were used to repay borrowings under the Company's credit facility. As of January 31, 2003, the estimated fair value of the 10-1/4% Notes was \$540.0 million, based on their trading price.

In November 1998, the Company issued \$275 million principal amount of 9-1/4% Senior Subordinated Notes due December 2005 (the 9-1/4% Notes), with interest payable each June and December. The 9-1/4% Notes are redeemable at the option of the Company, in whole or in part, beginning December 1, 2002 at prices declining annually to 100% on or after December 1, 2004. The 9-1/4% Notes are not subject to any sinking fund requirements. As of January 31, 2003, the estimated fair value of the 9-1/4% Notes was \$283.3 million, based on their trading price.

In November 1996, the Company issued \$150 million principal amount of 7.0% Debentures due November 2036 (the 7.0% Debentures). The 7.0% Debentures may be redeemed at the option of the holder in November 2008. Also in November 1996, the Company issued \$150 million principal amount of 6.70% Debentures due November 2096 (the 6.70% Debentures). The 6.70% Debentures may be redeemed at the option of the holder in November 2003. Both the 7.0% Debentures, which were discounted to \$149.8 million, and the 6.70% Debentures, which were discounted to \$149.7 million, have interest payable each May and November, are not redeemable by the Company prior to maturity and are not subject to any sinking fund requirements. As of January 31, 2003, the estimated fair value of the 7.0% Debentures was \$147.8 million and the estimated fair value of the 6.70% Debentures was \$150.8 million, based on their trading prices.

In February 1996, the Company issued \$200 million principal amount of 6.45% Senior Notes due February 1, 2006 (the 6.45% Notes), with interest payable each February and August. The 6.45% Notes, which were discounted to \$199.6 million, are not redeemable prior to maturity and are not subject to any sinking fund requirements. As of January 31, 2003, the estimated fair value of the 6.45% Notes was \$200.0 million, based on their trading price.

In July 1993, the Company issued \$150 million principal amount of 6-3/4% Senior Subordinated Notes (the 6-3/4% Notes) due July 2003 and \$150 million principal amount of 7-5/8% Senior Subordinated Debentures (the 7-5/8% Debentures) due July 2013, with interest payable each July and January. The 6-3/4% Notes, which were discounted to \$149.8 million, and the 7-5/8% Debentures are not redeemable prior to maturity and are not subject to any sinking fund requirements. As of January 31, 2003, the estimated fair value of the 6-3/4% Notes was \$151.5 million and the estimated fair value of the 7-5/8% Debentures was \$145.5 million, based on their trading prices.

Required annual principal payments as of January 31, 2003 are as follows:

Year ending January 31, (in thousands)		
2004	\$	20,284
2005		284
2006		275,284
2007		1,160,105
2008		500,284
Thereafter		801,005
	\$	2,757,246

Note 10. Interest Rate Swaps

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

The Company has entered into various interest rate swaps, principally with its bank group, to manage interest expense, which is subject to fluctuation due to the variable-rate nature of the debt under the Company's credit facilities. The Company has an interest rate swap agreement under which it pays a fixed interest rate of 6.4% and receives a variable interest rate of 1.4% at January 31, 2003 on \$200 million notional amount, which terminates in fiscal 2004. Three swaps with a combined notional amount of \$350 million terminated in fiscal 2003.

In June 2002, the Company entered into two reverse interest rate swap agreements (fair value hedges) with a member of its bank group. Pursuant to these agreements, the Company received a fixed interest rate of 9.25% and paid a variable interest rate (based on LIBOR plus 4.31%) on \$275 million notional amount, and received a fixed rate of 6.45% and paid a variable interest rate (based on

LIBOR plus 1.63%) on \$200 million notional amount. The \$275 million swap was scheduled to terminate in December 2005 and the \$200 million swap was scheduled to terminate in February 2006.

In August 2002, the Company entered into two additional reverse interest rate swap agreements (fair value hedges) with members of its bank group. Pursuant to these agreements, the Company received a fixed interest rate of 10.25% and paid a variable interest rate (based on LIBOR plus 5.97%) on \$250 million notional amount, and received a fixed rate of 10.25% and paid a variable interest rate (based on LIBOR plus 5.86%) on \$250 million notional amount. Both of these swaps were scheduled to terminate in August 2007.

In October 2002, the Company elected to terminate the four reverse swaps. The Company received \$28.9 million, in cash, representing the fair market value of the swaps and recorded corresponding debt premiums which will be amortized to interest expense, using an effective interest rate method, over the remaining lives of the related debt instruments. The amortization of the debt premium for the fiscal year ended January 31, 2003 was \$2.3 million. This amortization is estimated to be \$7.1 million in the fiscal year ending January 31, 2004.

The net effect of all the above swaps resulted in additional interest expense of \$12.9 million for the year ended January 31, 2003.

The Company is exposed to credit loss in the event of nonperformance by the counterparties to the interest rate swap agreements. However, the Company considers the risk of nonperformance by the counterparties to be minimal because the parties to the swaps are predominantly members of the Company's bank group. If the Company had terminated all swaps as of January 31, 2003, the Company would have had to pay a net amount of \$7.6 million based on quoted market values from the various financial institutions holding the swaps.

The above swaps meet the criteria for hedge accounting established by Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), which the Company adopted in fiscal 2002. The Company reports its swap related assets and liabilities on a net basis in Other Long-term Liabilities . The fair market value of the swaps designated as cash flow hedges increased by \$16.5 million (\$10.6 million, net of tax) during the year ended January 31, 2003, which decreased the net liability, with the corresponding income included as other comprehensive income. The above increase in the fair market value included \$12.7 million representing the effect of the swaps that terminated during fiscal 2003. With respect to swaps designated as fair value hedges, because these swaps were terminated, the corresponding fair values of \$9.4 million recorded in the second quarter have been removed from the net liability and long-term debt. The fair value received from the early termination was recorded as a debt premium and will be amortized to interest expense, as discussed previously.

Note 11. Leasing Arrangements

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

In December 2001, the Company entered into a series of sale and leaseback agreements totaling \$130.5 million with a group of financial institutions, covering equipment located at several Nevada properties. The sale of the equipment resulted in the recognition of a net deferred gain of \$28.3 million, a substantial portion of which was subsequently reversed when the Company exercised its purchase option on some of the equipment (see below). The remaining unamortized deferred gain of approximately \$10.3 million will be reversed upon termination of the lease, assuming the Company again exercises its purchase option. The proceeds from these leases were used to reduce borrowings outstanding under the Company's revolving credit facility.

On July 31, 2002, the Company exercised its purchase option under a \$12.5 million aircraft lease agreement (part of the \$130.5 million lease agreements entered into in December 2001) pursuant to which it paid \$12.0 million to reacquire the aircraft and reversed \$11.5 million of related deferred gain, which represented the remaining unamortized balance. On September 30, 2002, the Company exercised its purchase option under a \$5.5 million aircraft lease agreement (also part of the \$130.5 million lease agreements entered into in December 2001). Pursuant to this purchase option, the Company paid \$5.1 million to reacquire the aircraft and reversed \$4.9 million of related deferred gain, which represented the remaining unamortized balance.

The Company entered into the above operating leases solely to provide greater financial flexibility. The rent expense related to these operating leases is reported separately in the consolidated statements of income as operating lease rent. The operating lease agreements contain financial covenants regarding total debt and interest coverage that are similar to those under the Company's credit facilities. The agreements also contain covenants regarding equipment maintenance, insurance requirements and prohibitions on liens. As of January 31, 2003, the Company was in compliance with all of the covenants in these agreements.

The leases provide that, at termination, the Company may elect to purchase the equipment for a stated purchase option amount which is equal to the estimated fair value of the equipment at that date, as determined by an independent appraisal. If the Company chooses not to purchase the equipment, it may be obligated to pay additional amounts under the lease provisions if such equipment cannot be sold for the appraised fair value.

The following table summarizes these operating lease agreements. The two aircraft operating lease agreements dated December 28, 2001 are not reflected in the table since the purchase option under each agreement has been exercised, as discussed previously.

Summary of Operating Lease Agreements

(in thousands)

Date of agreement	10/30/98	12/21/01	Total
Initial value of leased equipment	\$ 200,000	\$ 112,500	\$ 312,500
Purchase option at January 31, 2003 (1)	\$ 122,500	\$ 93,700	\$ 216,200
Current termination date	6/30/03	12/21/04	
Purchase option at current termination (1)	\$ 113,900	\$ 56,300	\$ 170,200
Maximum extended termination date (2)	6/30/03	12/21/05	
Purchase option at maximum termination (1)	\$ 113,900	\$ 45,000	\$ 158,900

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

(2) Assumes election of all available renewal periods.

The Company also leases various storage facilities and has various air space under operating leases expiring individually through 2032. A portion of the Circus Circus facility in Reno is built on leased land with various operating leases expiring through 2033. The following is a schedule of future minimum rental payments required as of January 31, 2003 under operating leases that have lease terms in excess of one year:

Year ending January 31, (in thousands)	
2004	\$ 32,917
2005	22,152
2006	722
2007	386
2008	247
Thereafter	5,610
	\$ 62,034

Rent expense for all leases accounted for as operating leases was as follows:

(in thousands)	Year ended January 31,		
	2003	2002	2001
Operating rent expense	\$ 51,125	\$ 34,071	\$ 43,222

Note 12.

Income Taxes

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

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deferred tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences. The standard requires recognition of a future tax benefit to the extent that realization of such benefit is more likely than not. Otherwise, a valuation allowance is applied. At January 31, 2003, the Company believes that its deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and projected taxable income in the future. Accordingly, there is no valuation allowance at January 31, 2003.

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

(in thousands)	Year ended January 31,		
	2003	2002	2001
Current			
Federal	\$ 46,446	\$ 39,147	\$ 53,716
State	1,504	1,438	1,417
	47,950	40,585	55,133
Deferred (see below)			
Federal	29,919	(623)	19,559
	\$ 77,869	\$ 39,962	\$ 74,692

The Company recognized a tax benefit of \$15.0 million, \$1.3 million and \$2.7 million related to the exercise of stock options for the fiscal years ended January 31, 2003, 2002 and 2001, respectively. Such amounts reduced current taxes payable and increased additional paid-in capital.

The components of deferred income tax expense were as follows:

(in thousands)	Year ended January 31,		
	2003	2002	2001
Additional depreciation resulting from the use of accelerated methods for tax purposes	\$ 15,077	\$ 10,064	\$ 20,956
Nondeductible loss resulting from asset impairment		(11,935)	
Effect of expensing preopening costs for financial statement purposes versus amortizing over five years for tax purposes	3,830	3,832	4,409
Pension plan expense not deductible for tax purposes and market value adjustment	(3,969)	(5,594)	(1,587)
Book reserve for bad debts not deductible for tax purposes until written off	2,884	6,344	(6,643)
Difference between book and tax basis of investments in unconsolidated affiliates	1,797	(2,553)	(1,822)
Prepaid gaming taxes	1,289	49	314
Entertainment production costs	1,314	(1,127)	
Property tax	1,382	94	(271)
Other, net	6,315	203	4,203
	\$ 29,919	\$ (623)	\$ 19,559

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

	Year ended January 31,		
	2003	2002	2001
Federal statutory tax rate	35.0%	35.0%	35.0%
Nondeductible goodwill impairment	1.3	6.7	
Nondeductible goodwill amortization		3.8	1.8
Other, net	3.9	(2.5)	1.6
Effective tax rate	40.2%	43.0%	38.4%

The income tax effects of temporary differences between financial and income tax reporting that gave rise to deferred income tax assets and liabilities at January 31, 2003 and 2002, were as follows:

(in thousands)	January 31,	
	2003	2002
Deferred tax liabilities		
Property and equipment	\$ 221,662	\$ 205,434
Investments in unconsolidated affiliates	14,205	10,671
Other	12,982	1,061
Gross deferred tax liabilities	248,849	217,166
Deferred tax assets		
Accrued vacation benefits	8,137	9,232
Bad debt reserve	9,159	3,510
Preopening expenses	4,875	9,762
Pension plan	8,122	5,176
Other	7,427	7,784
Gross deferred tax assets	37,720	35,464
Net deferred tax liabilities	\$ 211,129	\$ 181,702

Note 13. Employee Retirement Plans

Approximately 36% of the Company's employees (excluding unconsolidated affiliates) are covered by union-sponsored, collectively bargained, multi-employer defined benefit pension plans. The Company contributed \$11.0 million, \$9.2 million and \$13.2 million during the years ended January 31, 2003, 2002 and 2001, respectively, for such plans. These contributions are determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked.

The Company also has a profit sharing and investment plan covering primarily nonunion employees who are at least 21 years of age and have at least one year of service. The plan is a voluntary defined contribution plan and is subject to the provisions of the Employee Retirement Income Security Act of 1974. The plan allows for investments in the Company's common stock as one of the investment alternatives. The Company's contributions to this plan include automatic contributions based on employees' years of service, and matching contributions based on employees' contributions. Employees vest in Company contributions over a period of six years. MotorCity Casino also has a profit sharing and investment plan covering primarily union employees. Contributions to both plans are funded with cash and totaled approximately \$7.2 million, \$6.3 million and \$5.4 million in the years ended January 31, 2003, 2002 and 2001.

On June 18, 1998, the Company adopted a Supplemental Executive Retirement Plan (SERP). The SERP is a defined benefit plan pursuant to which the Company pays supplemental pension benefits to certain key employees upon retirement based upon the employees' years of service, compensation and SERP tier.

The following information summarizes activity in the SERP:

(in thousands)	Year ended January 31,		
	2003	2002	2001
Changes in Projected Benefit Obligation			
Projected benefit obligation at beginning of year	\$ 55,498	\$ 31,548	\$ 20,763
Service cost	3,490	3,089	1,783
Interest cost	3,979	3,329	1,713
Additional liability (1)	244	11,622	1,100
Actuarial losses (5)	12,106	6,630	6,436
Benefits paid	(1,212)	(720)	(247)
Projected benefit obligation at end of year	\$ 74,105	\$ 55,498	\$ 31,548
Fair Value of Plan Assets (2)	\$	\$	\$
Reconciliation of Funded Status			
Funded status	\$ (74,105)	\$ (55,498)	\$ (31,548)
Unrecognized actuarial loss	29,065	17,719	11,585
Unrecognized prior service cost	21,833	22,992	12,712
Accrued net periodic pension cost	\$ (23,207)	\$ (14,787)	\$ (7,251)
Amounts Recognized in the Consolidated Balance Sheets			
Accrued net periodic pension cost	\$ (23,207)	\$ (14,787)	\$ (7,251)
Additional minimum liability	(39,326)	(31,914)	(23,179)
Intangible asset	21,833	22,992	12,712
Accumulated other comprehensive loss (3)	17,493	8,922	10,467
Net liability reflected in the consolidated balance sheet	\$ (23,207)	\$ (14,787)	\$ (7,251)
Components of Net Periodic Pension Cost			
Current period service cost	\$ 3,490	\$ 3,089	1,783
Interest cost	3,979	3,329	1,713
Amortization of prior service cost	1,402	1,342	933

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Recognized net actuarial loss		761		496		181
Net expense (4)	\$	9,632	\$	8,256	\$	4,610
Weighted Average Assumptions						
Discount rate		6.7%		7.3%		8.0%
Rate of compensation increase		3.0%		3.0%		3.0%

-
- (1) Consists of liability for prior service cost for new participants, plus certain prior year adjustments relating to years of credited service and compensation.
- (2) While the SERP is an unfunded plan, the Company is informally funding the plan through life insurance contracts on the participants. The life insurance contracts had cash surrender values of \$35.2 million, \$28.6 million and \$20.6 million at January 31, 2003, 2002 and 2001, respectively. The life insurance contracts had a face value of \$178.2 million at January 31, 2003.
- (3) Amount recorded in the Consolidated Statement of Stockholders' Equity is net of income tax of \$6.1 million, \$3.1 million and \$3.7 million in the years ended January 31, 2003, 2002 and 2001, respectively.
- (4) The periodic pension expense is included in departmental expenses.
- (5) The increase in actuarial losses in fiscal 2003 was due primarily to the use of a lower discount rate to project benefit obligations. The change in this assumption reflects the decline in long-term fixed income investment returns.

Note 14.

Stock Options

The Company has various stock incentive plans for executive, managerial and supervisory personnel, as well as the Company's outside directors and consultants. All of the plans permit grants of options, and two of the plans also permit the grant of performance shares and restricted stock awards relating to the Company's common stock. As of January 31, 2003, the only awards granted pursuant to these plans were stock options, which are generally exercisable in one or more installments beginning not less than six months after the grant date.

Summarized information for stock options was as follows:

	Year ended January 31,					
	2003		2002		2001	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	9,897,371	\$ 16.24	5,615,940	\$ 13.46	6,029,959	\$ 13.70
Granted	185,000	27.22	4,631,500	19.33	655,500	15.99
Exercised	(2,232,668)	13.12	(308,269)	12.27	(940,061)	16.06
Canceled	(43,534)	16.88	(41,800)	14.92	(129,458)	18.36
Outstanding at end of year	7,806,169	17.39	9,897,371	16.24	5,615,940	13.46
Options exercisable at end of year	5,098,535	15.79	3,484,629	13.01	2,422,600	12.52
Options available for grant at end of year	3,257,324		6,790		4,885,990	

The following table summarizes information about stock options outstanding and exercisable at January 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 11.25 to \$13.00	2,674,602	5.98	\$ 12.90	2,467,468	\$ 12.94	
14.50 to 20.00	1,776,900	8.35	17.16	1,660,600	17.10	
20.20 to 28.65	3,354,667	8.03	21.09	970,467	20.80	
	7,806,169	7.40	17.39	5,098,535	15.79	

Note 15.

Stock Related Matters

On July 14, 1994, the Company declared a dividend of one common stock purchase right (the Rights) for each share of common stock outstanding at the close of business on August 15, 1994. Each Right entitles the holder to purchase from the Company one share of common stock at an exercise price of \$125, subject to certain antidilution adjustments. The Rights become exercisable ten days after the earlier of an announcement that an individual or group has acquired 15% or more of the Company's outstanding common stock or the announcement of commencement of a tender offer for 15% or more of the Company's common stock.

In the event the Rights become exercisable, each Right (except the Rights beneficially owned by the acquiring individual or group, which become void) would entitle the holder to purchase, for the exercise price, a number of shares of the Company's common stock having an aggregate current market value equal to two times the exercise price. The Rights expire August 15, 2004, and may be redeemed by the Company at a price of \$.01 per Right any time prior to their expiration or the acquisition of 15% or more of the Company's common stock. The Rights should not interfere with any merger or other business combination approved by the Company's Board of Directors and are intended to cause substantial dilution to a person or group that attempts to acquire control of the Company on terms not approved by the Board of Directors.

The Company is authorized to issue up to 75 million shares of \$.01 par value preferred stock in one or more series having such respective terms, rights and preferences as are designated by the Board of Directors. No preferred stock has yet been issued.

In June 2001, the Board of Directors authorized the purchase of up to 15% of Mandalay's common stock which remained outstanding after a prior share purchase authorization was fully utilized. Assuming the Company purchases all of the shares it is entitled to acquire pursuant to the equity forward agreements discussed in Note 16, the additional shares that may be purchased as of January 31, 2003, as authorized by the Board of Directors, would be approximately .3 million. (See Note 18 - Subsequent Events for information regarding the settlement of the equity forward agreements.) In March 2003, the Board authorized the purchase of up to an additional 10 million shares of Mandalay's common stock. Any share purchases the Company may make in the future pursuant to this authorization will be dependent upon market conditions, and are expected to be made in accordance with the volume and other limitations of Rule 10b-18 under the Securities Exchange Act of 1934.

During the year ended January 31, 2003, the Company purchased 7.5 million shares of its common stock at a cost of \$220.9 million. In fiscal 2002 and 2001, the Company purchased 5.2 million shares of its common stock at a cost of \$125.9 million and 14.5 million shares of its common stock at a cost of \$247.1 million, respectively. These amounts do not include interim settlements under the Company's equity forward agreements.

Note 16.

Equity Forward Agreements

To facilitate its purchase of shares of its common stock, the Company entered into equity forward agreements with Bank of America (B of A or the Bank) providing for the Bank's purchase of up to an agreed amount of the outstanding common stock. Such purchases were in accordance with the volume and other limitations of Rule 10b-18 under the Securities Exchange Act of 1934. The agreements, as amended, provide that on the settlement date of March 31, 2003, the Company will purchase from B of A the shares that the Bank then holds. For those shares, the Company will pay to B of A its acquisition cost (as adjusted by any interim settlements) plus accrued fees (the Settlement Amount). At its option, the Company may acquire all or a portion of the shares at an earlier date, or the Company may become obligated to acquire all or a portion of the shares at an earlier date under certain circumstances specified in the agreements. The agreements provide for interim settlements whereby the Company may deliver or receive shares at the end of each calendar quarter so that the aggregate market value of the shares held by B of A is equal to the remaining notional amounts of the agreements. The shares held by B of A at each interim settlement date are valued at the closing price of the stock on that date. To the extent that the value of the shares exceeds the notional amount, B of A delivers equivalent shares to the Company. To the extent the notional amount exceeds the value, the Company delivers equivalent shares to B of A.

Bank of America acquired a total of 6.9 million shares at a total cost of \$138.7 million under these agreements. Pursuant to the interim settlement provisions and an amendment to the agreements, the Company received a net of 3.6 million shares and reduced the notional amount of the agreements by \$38.7 million as of January 31, 2003. As of January 31, 2003, the Company was entitled to purchase the remaining 3.3 million shares from B of A for the notional amount of \$100 million on the settlement date. (See Note 18 - Subsequent Events for information regarding the settlement of the equity forward agreements.) The table below summarizes the share purchase and interim settlement activity under these equity forward agreements through January 31, 2003.

(in thousands)

Date	Description	Shares Acquired (Delivered) by BoFA	Shares Acquired (Delivered) by Mandalay	Increase (Decrease) in Notional Amount
9/8/00	Original agreement	4,856		\$ 100,000
3/21/01	Amendment (increase of notional amount)	1,246		24,933
6/30/01	Interim settlement	(1,543)	1,543	
9/15/01	Amendment (increase of notional amount)	754		13,741
10/31/01	Interim settlement	938	(938)	(35,527)
1/31/02	Interim settlement	(2,438)	2,438	
2/6/02	Amendment (contract extension to 3/31/03)	(116)	116	(3,147)
3/31/02	Interim settlement	(440)	440	
6/30/02	Interim settlement	370	(370)	
9/30/02	Interim settlement	(647)	647	
12/31/02	Interim settlement	286	(286)	
	Net amounts	3,266	3,590	\$ 100,000

The Company incurs quarterly interest charges on the notional amount at a rate equal to LIBOR plus 1.95%. Total interest charges incurred from inception through January 31, 2003, amounted to \$11.6 million, of which \$3.8 million was incurred in fiscal 2003. In addition, the Company incurred structuring fees and commissions totaling \$3.7 million, none of which were incurred in fiscal 2003. These interest charges and other fees are included in the cost of treasury stock, net of the related tax benefit.

Note 17. Commitments and Contingent Liabilities

Mandalay Bay Suites Tower

The Company is currently building a new 1,122-suite hotel tower at Mandalay Bay. The 43-story tower will be located on the west side of the property. The new suites will average 750 square

feet, among the largest room product in the Las Vegas market. The tower will also include meeting suites, a spa and fitness center, two restaurants and a lounge. The Company expects that the new suites will serve the demand generated by the new convention center. The tower broke ground during the third quarter of fiscal 2003 and should open in November 2003. The total cost of the project is estimated to be \$230 million, excluding land, capitalized interest and preopening expenses. As of January 31, 2003, the Company had incurred costs of \$18.5 million related to this project.

Retail Center

The Company is constructing a retail center between Mandalay Bay and Luxor. The center will include approximately 90,000 square feet of retail space and approximately 35 stores and restaurants, including several upscale, internationally-branded retailers. Construction began in the third quarter, with an expected opening in Fall 2003. The cost is estimated to be approximately \$30-\$40 million, excluding land, capitalized interest and preopening expenses. As of January 31, 2003, the Company had incurred costs of \$10.7 million related to this project.

Detroit

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

Pending the development of a permanent hotel/casino, the joint venture constructed a temporary casino (MotorCity Casino) in downtown Detroit, which opened December 14, 1999. The cost of the temporary casino, including land and capitalized interest but excluding preopening expenses, was approximately \$150 million. This cost was financed through the joint venture's \$150 million credit facility, which is secured by the assets associated with the temporary casino. The Company has guaranteed this credit facility, which had a balance of \$20 million at January 31, 2003. The joint venture's operation of the casino is subject to ongoing regulatory oversight, and its ability to proceed with an expanded permanent hotel/casino project is contingent upon the receipt of all necessary governmental approvals, successful resolution of pending litigation and satisfaction of other conditions.

Results for fiscal 2003, include the write-off of \$13.0 million of intangible costs associated with MotorCity Casino in Detroit. These intangible costs represent amounts paid by Mandalay to its partner, Atwater Casino Group, in exchange for a so-called "preference" (applicable to predecessors of Atwater Casino Group) to develop a casino in Detroit. Mandalay paid \$13.0 million to Atwater Casino Group for its right to this preference, and ultimately, a gaming license was awarded to MotorCity Casino. However, in early 2002, preferences of this nature were declared unconstitutional by the federal courts. Furthermore, on August 2, 2002, MotorCity signed a Revised Development Agreement with the City of Detroit which provided for the development of a permanent casino on the site of the current temporary facility. As a result of these events, it was determined that the intangible preference had no value and should be written off.

Under the Revised Development Agreement, MotorCity Casino is to be expanded into a permanent facility at its current location by December 31, 2005. This permanent facility is currently expected to include 100,000 square feet of casino space, a 400-room hotel, a 1,200-seat theater, convention space and additional restaurants, retail and parking. Depending upon market conditions, the availability of additional land and the joint venture's ability to obtain reasonable financing, the joint venture could be required to construct an additional 400 rooms.

Under the terms of the Revised Development Agreement, the joint venture paid the City \$17 million in October 2002, and is to pay another \$10 million in four equal installments before June 2003, and an additional \$17 million in 12 equal monthly installments beginning June 1, 2003. Also, beginning January 1, 2006, the joint venture is to pay the City 1% of its adjusted casino revenues. If its casino revenues top \$400 million in any given calendar year, the payment will be increased to 2% for that calendar year.

Under the terms of the operating agreement, the Company is to receive a management fee for a period of ten (10) years equal to 1.5% of the costs of the permanent casino facility. The management committee of the joint venture has made a preliminary determination that the management fee should be paid commencing on the date the Revised Development Agreement was signed, since that agreement provides for the existing facility to become the permanent facility. Pursuant to this determination, the Company recognized a management fee of \$2.3 million in fiscal 2003 and expects to recognize approximately \$4.5 million in management fees in fiscal 2004. Since the Company owns 53.5% of the joint venture, the net benefit of the management fees to the Company is 46.5% of the amounts shown.

Originally, the joint venture's permanent facility was to have been located on land along the Detroit River. The City's Economic Development Corporation issued bonds to finance the City's acquisition of that land, and Bank of America issued letters of credit totaling \$50 million to secure (and ultimately make) the payments of principal and interest on those bonds. The Company then issued letters of credit totaling \$50 million to back Bank of America's letters of credit. The Company will continue to provide such letters of credit. As part of the Revised Development Agreement, the joint venture will forego the right to receive any of the riverfront land acquired by the City, and will transfer to the City its interest in certain real property previously purchased by the joint venture and the other casino developers. Both the joint venture and Mandalay are subject to a radius restriction prohibiting them from operating additional casinos within approximately 150 miles of Detroit. Additionally, they are required to indemnify the City for up to \$20 million in claims against the City in connection with the acquisition of the riverfront land and in connection with the *Lac Vieux* litigation described below.

The Company has committed to contribute 20% of the costs of the permanent facility in the form of an investment in the joint venture. The joint venture will seek to borrow any additional funds (above Mandalay's equity contribution) which may be necessary to complete the expanded permanent facility. The cost of the additional facilities (excluding land, capitalized interest and preopening expenses), is currently estimated to be \$275 million. Under the Revised Development Agreement, the Company has guaranteed completion of the expanded facility and has entered into a keep-well agreement with the City that could require the Company to contribute additional

funds to continue operation of the expanded facility for two years. There is no contractual limitation on the amount that the Company may be required to contribute under its completion guarantee or to keep the project operating for two years. However, based on the performance of the casino to date, the Company does not expect that these obligations will require the outlay of additional capital.

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

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

In a separate action, on February 13, 2002, John Ren filed suit in the Circuit Court of Wayne County, Michigan, against the Detroit joint venture and the other two casino operators in Detroit. The plaintiff purports to represent himself and a class consisting of all persons who lost money and/or incurred debts that remain unpaid at any of the three Detroit casinos. Relying on the Sixth Circuit Court of Appeals' *Lac Vieux* decision, the plaintiff alleges that the three casinos have been operating illegally and continue to do so. The relief sought by the plaintiff includes an injunction to restrain the three casinos from remaining open until properly licensed, compensatory damages, and disgorgement of all profits unjustly obtained. The court dismissed this action on the basis that the plaintiff should first seek relief from the MGCB. The plaintiff has filed a claim with the MGCB, which is still pending. The joint venture continues to operate MotorCity Casino.

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

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

Note 18. **Subsequent Events**

Convertible Senior Debentures

On March 21, 2003, the Company issued \$350 million principal amount of floating-rate convertible senior debentures due 2033 (convertible debentures). An additional \$50 million principal amount of the convertible debentures were issued on April 2, 2003, pursuant to an option granted to the initial purchasers. The convertible debentures bear interest at a floating rate equal to 3-month LIBOR (reset quarterly) plus 0.75%, subject to a maximum of 6.75%. The convertible debentures also provide for the payment of contingent interest if the average market price of the convertible debentures reaches a certain threshold. The convertible debentures provide for an initial base conversion price of \$57.30 per share, reflecting a conversion premium of 100% over Mandalay's closing stock price of \$28.65 on March 17, 2003. The proceeds of the offering were used to repay borrowings under the Company's revolving credit facility.

Each convertible debenture will be convertible into shares of Mandalay's common stock (i) during any calendar quarter beginning after June 30, 2003, if the closing price of Mandalay's common stock is more than 120% of the base conversion price for at least 20 of the last 30 trading days of the preceding calendar quarter; (ii) if a credit rating assigned to the convertible securities falls below a specified level; (iii) if the Company takes certain corporate actions; or (iv) if the Company calls the convertible debentures for redemption. If the securities are converted, holders will receive 17.452 shares per convertible debenture, or an aggregate of 7.0 million shares of Mandalay common stock. In addition, if at the time of conversion the market price of Mandalay's common stock exceeds the then-applicable base conversion price, holders will receive up to an additional 14.2789 shares of Mandalay's common stock per convertible debenture, as determined pursuant to a specified formula, or up to an additional 5.7 million shares in the aggregate.

The Company may redeem all or some of the convertible debentures for cash at any time on or after March 21, 2008, at their accreted principal amount plus accrued and unpaid interest, if any, to, but excluding, the redemption date. At the option of the holders, the Company may be required to repurchase the convertible securities on the 5th, 10th, 15th, 20th and 25th anniversaries of their issuance, at their accreted principal amount plus accrued and unpaid interest, if any, to, but excluding, the purchase date. The Company may choose to pay the purchase price in cash, shares of Mandalay common stock or any combination thereof.

Equity Forward Agreements

On March 31, 2003, the Company settled the equity forward agreements discussed in Note 16. Pursuant to this settlement, the Company paid \$100 million notional amount to Bank of America in exchange for the remaining 3.3 million shares of Mandalay common stock held by Bank of America. The settlement was funded under the Company's revolving credit facility. The acquired shares will be included in treasury stock.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Mandalay Resort Group:

We have audited the accompanying consolidated balance sheets of Mandalay Resort Group and subsidiaries (the "Company") as of January 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 2003. Our audits also included the consolidated financial statement schedule listed in the index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We did not audit the financial statements of Elgin Riverboat Resort-Riverboat Casino, owner of Grand Victoria Casino, the Company's investment in which is accounted for by use of the equity method. The Company's equity of \$249,040,000 and \$251,022,000 in the Grand Victoria Casino's net assets as of January 31, 2003 and 2002, respectively, and of \$48,998,000, \$63,564,000 and \$58,856,000 in that entity's net income for each of the three years in the period ended January 31, 2003 are included in the accompanying financial statements. The financial statements of Grand Victoria Casino were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such company, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Mandalay Resort Group and subsidiaries as of January 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As described in Note 10 and Note 4, respectively, to the consolidated financial statements, the Company adopted Statements of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB Statement No. 133, as of

February 1, 2001, and adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, as of February 1, 2002.

DELOITTE & TOUCHE LLP

Las Vegas, Nevada

March 6, 2003, except for Note 18, as to which the date is April 2, 2003

Management's Report on Financial Statements

The Company is responsible for preparing the consolidated financial statements and related information appearing in this report. Management believes that the financial statements present fairly the Company's financial position, results of operations and cash flows in conformity with Accounting Principles Generally Accepted in the United States. In preparing its financial statements, the Company is required to include amounts based on estimates and judgments which management believes are reasonable under the circumstances.

The Company maintains accounting and other control systems designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. Compliance with these systems and controls is reviewed through a program of audits by an internal audit staff.

The Board of Directors fulfills its responsibility for the Company's financial statements through its audit committee, which is composed solely of directors who are not Company officers or employees. The audit committee meets from time to time with the independent public accountants, management and the internal auditors. The independent public accountants have direct access to the audit committee, with or without the presence of management representatives.

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**Fiscal year ended January 31, 2003**

(in thousands, except per share amounts)	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Total
Net revenues (1)	\$ 610,597	\$ 603,659	\$ 595,635	\$ 544,227	\$ 2,354,118
Income from operations	146,594	108,538	116,383	80,791	452,306
Income before provision for income taxes	79,442	47,217	52,575	16,100	195,334
Net income (2)	48,858	29,334	33,220	4,191	115,603
Basic earnings per share (3)	\$ 0.71	\$ 0.43	\$ 0.49	\$ 0.06	\$ 1.71
Diluted earnings per share (3)	\$ 0.68	\$ 0.41	\$ 0.47	\$ 0.06	\$ 1.65

Fiscal year ended January 31, 2002

(in thousands, except per share amounts)	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Total
Net revenues (1)	\$ 637,836	\$ 614,407	\$ 580,511	\$ 515,758	\$ 2,348,512
Income from operations	138,104	111,540	100,349	1,067	351,060
Income (loss) before provision for income taxes	75,095	48,508	36,377	(66,974)	93,006
Net income (loss)	47,362	30,527	23,311	(48,156)	53,044
Basic earnings (loss) per share (3)	\$ 0.62	\$ 0.41	\$ 0.33	\$ (0.68)	\$ 0.73
Diluted earnings (loss) per share (3)	\$ 0.61	\$ 0.40	\$ 0.32	\$ (0.66)	\$ 0.71

(1) During fiscal 2003, we reclassified equity in earnings of unconsolidated affiliates from revenues to a separate component within income from operations. Quarterly results in fiscal 2003 and 2002 have been reclassified to conform to the new presentation. This reclassification had no impact on previously reported quarterly income from operations or net income.

(2) Net income includes a charge for the cumulative effect of an accounting change of \$1.9 million related to goodwill in fiscal 2003. In accordance with the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* on February 1, 2002, Mandalay no longer amortizes goodwill.

(3) Because earnings (loss) per share amounts are calculated using the weighted average number of common and dilutive common equivalent shares outstanding during each quarter, the sum of the per share amounts for the four quarters may not equal the total earnings per share amounts for the year.

Elgin Riverboat Resort - Riverboat Casino

Balance Sheets

December 31, 2002 and 2001

	2002	2001
ASSETS		
<i>Current assets:</i>		
<i>Cash and cash equivalents</i>	\$ 62,170,699	\$ 63,624,380
<i>Accounts receivable, net of allowance for doubtful accounts of \$91,500 and \$250,000, respectively</i>	666,543	801,350
<i>Inventories</i>	570,551	419,027
<i>Prepaid expenses</i>	1,671,977	1,343,425
<i>Total current assets</i>	65,079,770	66,188,182
<i>Property and equipment, net</i>	69,513,062	71,508,881
<i>Other assets</i>	68,900	56,400
<i>Total assets</i>	\$ 134,661,732	\$ 137,753,463
LIABILITIES AND PARTNERS EQUITY		
<i>Current liabilities:</i>		
<i>Accounts payable</i>	\$ 805,661	\$ 406,868
<i>Accrued liabilities</i>	47,515,769	52,189,471
<i>Total current liabilities</i>	48,321,430	52,596,339
<i>Total liabilities</i>	48,321,430	52,596,339
<i>Commitments and contingencies</i>		
<i>Partners equity</i>	86,340,302	85,157,124
<i>Total liabilities and partners equity</i>	\$ 134,661,732	\$ 137,753,463

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

Elgin Riverboat Resort - Riverboat Casino

Statements of Operations

For Each of the Three Years Ended December 31, 2002

	2002	2001	2000
Revenues:			
Casino	\$ 392,973,373	\$ 399,574,280	\$ 370,299,913
Food and beverage	28,093,250	29,542,892	27,397,113
Admissions and other	12,052,427	11,375,386	10,807,332
	433,119,050	440,492,558	408,504,358
Less: promotional allowances	(30,250,504)	(30,244,503)	(27,402,778)
	402,868,546	410,248,055	381,101,580
Operating expenses:			
Casino	228,234,291	202,885,894	188,533,577
Food and beverage	6,513,115	6,823,873	6,821,673
General and administrative	44,947,987	50,563,689	48,258,404
Depreciation and amortization	8,422,486	8,671,916	7,686,148
Other operating expenses	12,684,712	15,155,268	13,934,750
	300,802,591	284,100,640	265,234,552
Operating income	102,065,955	126,147,415	115,867,028
Other income (expense):			
Interest income	617,223	1,446,685	1,767,562
(Loss) gain on asset disposal			(40,306)
	617,223	1,446,685	1,727,256
Net income	\$ 102,683,178	\$ 127,594,100	\$ 117,594,284

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

Elgin Riverboat Resort - Riverboat Casino

Statements of Partners Equity

For Each of the Three Years Ended December 31, 2002

	Nevada Landing Partnership	RBG, L.P.	Total
Balance, January 1, 2000	\$ 41,734,370	\$ 41,734,370	\$ 83,468,740
Net income	58,797,142	58,797,142	117,594,284
Distributions to partners	(61,750,000)	(61,750,000)	(123,500,000)
Balance, December 31, 2000	38,781,512	38,781,512	77,563,024
Net income	63,797,050	63,797,050	127,594,100
Distributions to partners	(60,000,000)	(60,000,000)	(120,000,000)
Balance, December 31, 2001	42,578,562	42,578,562	85,157,124
Net income	51,341,589	51,341,589	102,683,178
Distributions to partners	(50,750,000)	(50,750,000)	(101,500,000)
Balance, December 31, 2002	\$ 43,170,151	\$ 43,170,151	\$ 86,340,302

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

Elgin Riverboat Resort - Riverboat Casino

Statements of Cash Flows

For Each of the Three Years Ended December 31, 2002

	2002		2001		2000
<i>Cash flows from operating activities:</i>					
<i>Net income</i>	\$ 102,683,178	\$	127,594,100	\$	117,594,284
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>					
<i>Depreciation and amortization</i>	8,422,486		8,671,916		7,686,148
<i>Net loss (gain) from sale of asset</i>					40,306
<i>Changes in assets and liabilities:</i>					
<i>Accounts receivable</i>	134,807		(457,634)		346,353
<i>Inventories</i>	(151,524)		53,143		(51,584)
<i>Prepaid expenses</i>	(328,552)		(196,756)		(58,841)
<i>Other assets</i>	(12,500)				(1,000)
<i>Accounts payable</i>	398,793		13,740		447
<i>Accrued liabilities</i>	(4,673,702)		4,020,104		9,554,003