MGM MIRAGE
Form 10-Q
May 10, 2006

Table of Contents

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

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from __________ to __________

Commission File No. 0-16760
MGM MIRAGE

(Exact name of registrant as specified in its charter)

Delaware	88-0215232
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3600 Las Vegas Boulevard South, Las Vegas, Nevada 89109

(Address of principal executive offices Zip Code)
(702) 693-7120

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act):

Yes o No þ

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

Class	Outstanding at May 8, 2006
Common Stock, $.01 par value	285,541,423 shares

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

Table of Contents

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

MGM MIRAGE AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 297,034	$ 377,933
Accounts receivable, net	314,148	352,673
Inventories	117,451	111,825
Deferred income taxes	66,254	65,518
Prepaid expenses and other	116,382	110,634
Total current assets	911,269	1,018,583
Real estate under development	105,175	
Property and equipment, net	16,584,518	16,541,651
Other assets		
Investments in unconsolidated affiliates	964,800	931,154
Goodwill	1,312,194	1,314,561
Other intangible assets, net	376,580	377,479
Deposits and other assets, net	589,573	515,992
Total other assets	3,243,147	3,139,186
	$ 20,844,109	$ 20,699,420
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 295,578	$ 265,601
Income taxes payable	78,134	125,503
Current portion of long-term debt		14
Accrued interest on long-term debt	173,515	229,930
Other accrued liabilities	847,220	913,520
Total current liabilities	1,394,447	1,534,568
Deferred income taxes	3,346,026	3,378,371

Long-term debt	12,504,752	12,355,433
Other long-term obligations	213,110	195,976
Commitments and contingencies (Note 9)		
Stockholders equity		
Common stock, $.01 par value: authorized 600,000,000 shares; issued 358,186,455 and 357,262,405 shares; outstanding 284,993,566 and 285,069,516 shares	3,582	3,573
Capital in excess of par value	2,629,743	2,586,587
Deferred compensation	(1,734)	(3,618)
Treasury stock, at cost 73,192,889 and 72,192,889 shares	(1,376,878)	(1,338,394)
Retained earnings	2,131,762	1,987,725
Accumulated other comprehensive loss	(701)	(801)
Total stockholders equity	3,385,774	3,235,072
	$ 20,844,109	$ 20,699,420

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

1

Table of Contents

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

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenues		
Casino	$ 846,965	$ 614,813
Rooms	520,250	274,054
Food and beverage	386,739	243,478
Entertainment	99,653	88,147
Retail	66,567	44,879
Other	123,428	60,835
	2,043,602	1,326,206
Less: Promotional allowances	(165,069)	(122,071)
	1,878,533	1,204,135
Expenses		
Casino	445,079	310,789
Rooms	137,127	69,479
Food and beverage	226,796	134,311
Entertainment	73,530	60,065
Retail	45,496	29,584
Other	69,304	39,465
General and administrative	270,004	158,364
Corporate expense	36,652	26,791
Preopening and start-up expenses	6,181	2,524
Restructuring costs (credit)	804	(66)
Property transactions, net	23,469	4,203
Depreciation and amortization	155,273	110,495
	1,489,715	946,004
Income from unconsolidated affiliates	35,554	35,045
Operating income	424,372	293,176
Non-operating income (expense)		
Interest income	2,745	1,697
Interest expense, net	(197,386)	(101,468)
Non-operating items from unconsolidated affiliates	(3,595)	(2,787)

Other, net		(3,044)		(15,691)
		(201,280)		(118,249)
Income before income taxes		223,092		174,927
Provision for income taxes		(79,055)		(63,848)
Net income	$	144,037	$	111,079
Basic earnings per share of common stock				
Net income per share	$	0.51	$	0.39
Diluted earnings per share of common stock				
Net income per share	$	0.49	$	0.38

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

Table of Contents

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

	Three Months Ended March 31, 2006	2005
Cash flows from operating activities		
Net income	$ 144,037	$ 111,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	155,273	110,495
Amortization of debt discounts, premiums and issuance costs	(765)	6,921
Provision for doubtful accounts	16,325	8,483
Stock-based compensation	23,405	1,900
Property transactions, net	23,469	4,203
Loss on early extinguishment of debt		19,500
Income from unconsolidated affiliates	(29,241)	(32,327)
Distributions from unconsolidated affiliates	32,048	20,222
Deferred income taxes	(32,414)	(10,783)
Tax benefit from stock-based compensation		50,445
Change in assets and liabilities:		
Accounts receivable	18,134	(23,589)
Inventories	(5,627)	(219)
Prepaid expenses and other	(5,749)	(4,271)
Real estate under development	(6,466)	
Accounts payable and accrued liabilities	(128,965)	(94,828)
Income taxes payable	(45,331)	10,770
Change in Hurricane Katrina insurance receivable	(11,247)	
Other	(7,131)	(10,838)
Net cash provided by operating activities	139,755	167,163
Cash flows from investing activities		
Capital expenditures	(355,394)	(107,863)
Hurricane Katrina insurance proceeds	3,750	
Dispositions of property and equipment	94	368
Investments in unconsolidated affiliates	(32,000)	
Change in construction payable	38,275	(35,643)
Other	(10,611)	(5,129)
Net cash used in investing activities	(355,886)	(148,267)
Cash flows from financing activities		
Net borrowings under bank credit facilities maturities of 90 days or less	355,000	550,000
Borrowings under bank credit facilities maturities longer than 90 days	3,500,000	

Repayments under bank credit facilities maturities longer than 90 days	(3,500,000)	
Repayment of long-term debt	(200,000)	(694,832)
Debt issuance costs	(140)	(407)
Issuance of common stock	13,177	87,377
Purchases of treasury stock	(38,484)	
Excess tax benefits from stock option exercises	6,181	
Other	(502)	(416)
Net cash provided by (used in) financing activities	135,232	(58,278)
Cash and cash equivalents		
Net decrease for the period	(80,899)	(39,382)
Balance, beginning of period	377,933	435,128
Balance, end of period	$ 297,034	$ 395,746
Supplemental cash flow disclosures		
Interest paid, net of amounts capitalized	$ 254,566	$ 128,716
Federal, state and foreign income taxes paid, net of refunds	150,139	11,482

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

Table of Contents

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

Organization. MGM MIRAGE (the Company) is a Delaware corporation, incorporated on January 29, 1986. As of March 31, 2006, approximately 56% of the outstanding shares of the Company s common stock were owned by Tracinda Corporation, a Nevada corporation wholly-owned by Kirk Kerkorian. MGM MIRAGE acts largely as a holding company and, through wholly owned subsidiaries, owns and/or operates casino resorts. On April 25, 2005, the Company completed its merger with Mandalay Resort Group (Mandalay) see Note 2.

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

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

The Company owns 50% of MGM Grand Paradise Limited, a joint venture with Pansy Ho Chiu-king formed to develop, build and operate a hotel-casino resort, MGM Grand Macau, in Macau S.A.R. In April 2005, MGM Grand Paradise Limited obtained a subconcession allowing it to conduct gaming operations. Construction of MGM Grand Macau, which is estimated to cost approximately $1.1 billion including land and license rights and preopening costs, began in the second quarter of 2005 and the resort is anticipated to open in late 2007.

The Company owns 66 acres adjacent to Bellagio on which it is developing Project CityCenter. Project CityCenter will feature a 4,000-room casino resort designed by world-famous architect Cesar Pelli; two 400-room non-gaming boutique hotels, one of which will be managed by luxury hotelier Mandarin Oriental; approximately 470,000 square feet of retail shops, dining and entertainment venues; and approximately 2.3 million square feet of residential space in over 2,900 luxury condominium and condominium-hotel units in multiple towers. The overall cost of Project CityCenter is estimated at approximately $7 billion, excluding preopening and land costs. After estimated proceeds of $2.5 billion from the sale of residential units, net project cost is estimated at approximately $4.5 billion. Project CityCenter is expected to open in late 2009.

Basis of presentation. As permitted by the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the Company s 2005 annual consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company s financial position as of March 31, 2006, the results of its operations for the three month periods ended March 31, 2006 and 2005, and cash flows for the three month periods ended March 31, 2006 and 2005. The results of operations for such periods are not necessarily indicative of the results to be expected for the full year. Certain reclassifications, which have no effect on previously reported net income, have been made to the 2005 financial statements to conform to the 2006 presentation.

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

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

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

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

Business interruption coverage covers lost profits and other costs incurred during the construction period and up to six months following the re-opening of the facility. Expected costs during the interruption period are less than the anticipated business interruption proceeds; therefore, post-storm costs of $62 million through March 31, 2006 are being offset by the expected recoveries and a corresponding insurance receivable has been recorded. Post-storm costs and expected recoveries are recorded net within General and administrative expenses in the accompanying consolidated statements of income, except for depreciation of non-damaged assets, which is classified as Depreciation and amortization.

The insurance receivable is recorded within Deposits and other assets, net in the accompanying consolidated balance sheets. Through March 31, 2006, the Company has received $50 million from its insurers, leaving a net receivable of $172 million at March 31, 2006. Insurance proceeds are classified in the statement of cash flows based on the coverage the proceeds relate to; however, the Company s insurance policy includes undifferentiated coverage for both property damage and business interruption. The Company is treating proceeds as being related to property damage, and therefore classifying the proceeds as an investing cash flow, until the full amount of the net book value of damaged assets has been recovered. The Company will treat subsequent proceeds up to the amount of the recorded receivable as being related to business interruption, and therefore classifying these proceeds as an operating cash flow. Proceeds in excess of the recorded receivable will be segregated between property damage and business interruption based on the ultimate negotiation and resolution of the claim.

Real estate under development. Real estate under development represents capitalized costs of wholly-owned real estate projects to be sold, which consists entirely of condominium and condominium-hotel developments. Real estate under development includes land, direct construction and development costs, property taxes, interest and direct selling costs. Indirect selling costs are expensed as incurred. Substantially all of the balance in real estate under development at March 31, 2006 represents the cost balance of land upon which development of condominium or condominium-hotel towers began in the first quarter of 2006.

NOTE 2 ACQUISITION

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

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

Cash paid, net of cash acquired, was $4.4 billion. The transaction was accounted for as a purchase and, accordingly, the purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of the acquisition. The purchase price allocation is preliminary and may be adjusted up to one year after the acquisition. In particular, the Company is still evaluating certain customer relationship intangible assets related to individual and group hotel reservations as well as gaming loyalty program members.

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

Current assets (including cash of $134,245)	$ 414,103
Property and equipment	7,180,704
Goodwill	1,228,436
Other intangible assets	245,940
Other assets	283,931
Assumed liabilities, excluding long-term debt	(600,273)
Deferred taxes	(1,486,325)

$	7,266,516

Table of Contents

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

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

Three months ended March 31,	**2005**
	(In thousands, except per share amounts)
Net revenues	$ 1,900,978
Operating income	419,284
Net income	130,863
Basic earnings per share:	
Net income	$ 0.46
Diluted earnings per share:	
Net income	$ 0.44

NOTE 3 INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Investments in unconsolidated affiliates consisted of the following:

	March 31, 2006	**December 31, 2005**
	(In thousands)	
Marina District Development Company Borgata (50%)	$ 462,975	$ 461,211
Elgin Riverboat Resort Riverboat Casino Grand Victoria (50%)	240,636	241,279
MGM Grand Paradise Limited Macau (50%)	221,908	187,568
Circus and Eldorado Joint Venture Silver Legacy (50%)	25,942	26,492
Other	13,339	14,604
	964,800	931,154
Turnberry/MGM Grand Towers The Signature at MGM Grand (50%)	(7,958)	(7,400)
	$ 956,842	$ 923,754

The Company s investment in MGM Grand Paradise Limited consists of equity and subordinated debt. The Company is committed to loaning the venture up to an additional $68 million, which will be treated as an additional investment in the venture.

The negative investment balances in The Signature at MGM Grand, which represents cumulative losses of the venture, are classified as Other long-term obligations in the accompanying consolidated balance sheets along with deferred income of $16 million related to the excess of proceeds received over carrying value of land the Company transferred to the venture. The income will be recognized when the venture recognizes the profits on the sale of each tower s units.

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

Three months ended March 31,	**2006**	**2005**
	(In thousands)	
Income from unconsolidated affiliates	$ 35,554	$ 35,045
Preopening and start-up credit (expenses)	(2,718)	69
Non-operating items from unconsolidated affiliates	(3,595)	(2,787)
	$ 29,241	$ 32,327

Table of Contents

NOTE 4 LONG-TERM DEBT

Long-term debt consisted of the following:

	March 31, 2006	December 31, 2005
	(In thousands)	
Senior credit facility	$ 5,130,000	$ 4,775,000
$200 million 6.45% senior notes, due 2006, net		200,223
$244.5 million 7.25% senior notes, repaid at maturity in 2006	241,625	240,353
$710 million 9.75% senior subordinated notes, due 2007, net	708,536	708,223
$200 million 6.75% senior notes, due 2007, net	194,014	192,977
$492.2 million 10.25% senior subordinated notes, due 2007, net	522,433	527,879
$180.4 million 6.75% senior notes, due 2008, net	173,133	172,238
$196.2 million 9.5% senior notes, due 2008, net	211,384	212,895
$226.3 million 6.5% senior notes, due 2009, net	228,380	228,518
$1.05 billion 6% senior notes, due 2009, net	1,054,919	1,055,232
$297.6 million 9.375% senior subordinated notes, due 2010, net	323,860	325,332
$825 million 8.5% senior notes, due 2010, net	822,828	822,705
$400 million 8.375% senior subordinated notes, due 2011	400,000	400,000
$132.4 million 6.375% senior notes, due 2011, net	133,676	133,725
$550 million 6.75% senior notes, due 2012	550,000	550,000
$150 million 7.625% senior subordinated debentures, due 2013, net	155,825	155,978
$525 million 5.875% senior notes, due 2014, net	522,661	522,604
$875 million 6.625% senior notes, due 2015, net	879,888	879,989
$100 million 7.25% senior debentures, due 2017, net	82,906	82,699
Floating rate convertible senior debentures due 2033	8,472	8,472
$150 million 7% debentures due 2036, net	155,947	155,961
$4.3 million 6.7% debentures, due 2096	4,265	4,265
Other notes		