MGM MIRAGE
Form 10-Q
November 06, 2009

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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 September 30, 2009

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. 001-10362

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 November 4, 2009
Common Stock, $.01 par value	441,219,641 shares

MGM MIRAGE AND SUBSIDIARIES
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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 896,990	$ 295,644
Accounts receivable, net	309,281	303,416
Inventories	98,121	111,505
Income tax receivable	166,907	64,685
Deferred income taxes	45,997	63,153
Prepaid expenses and other	107,169	155,652
Assets held for sale		538,975
Total current assets	1,624,465	1,533,030
Property and equipment, net	15,751,056	16,289,154
Other assets		
Investments in and advances to unconsolidated affiliates	3,544,425	4,642,865
Goodwill	86,353	86,353
Other intangible assets, net	344,976	347,209
Deposits and other assets, net	375,246	376,105
Total other assets	4,351,000	5,452,532
	$ 21,726,521	$ 23,274,716
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 130,708	$ 142,693
Construction payable	13,208	45,103
Current portion of long-term debt		1,047,614
Accrued interest on long-term debt	205,786	187,597
Other accrued liabilities	807,427	1,549,296
Liabilities related to assets held for sale		30,273
Total current liabilities	1,157,129	3,002,576

Deferred income taxes	3,142,220	3,441,198
Long-term debt	12,910,322	12,416,552
Other long-term obligations	221,707	440,029
Commitments and contingencies (Note 6)		
Stockholders equity		
Common stock, $.01 par value: authorized 600,000,000 shares; issued 441,163,787 and 369,283,995 shares; outstanding 441,163,787 and 276,506,968 shares	4,412	3,693
Capital in excess of par value	3,487,883	4,018,410
Treasury stock, at cost: 0 and 92,777,027 shares		(3,355,963)
Retained earnings	804,450	3,365,122
Accumulated other comprehensive loss	(1,602)	(56,901)
Total stockholders equity	4,295,143	3,974,361
	$ 21,726,521	$ 23,274,716

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Revenues				
Casino	$ 699,806	$ 739,331	$ 1,990,103	$ 2,271,978
Rooms	340,165	458,051	1,045,504	1,500,322
Food and beverage	344,284	395,090	1,040,540	1,229,045
Entertainment	128,568	135,673	369,998	408,541
Retail	54,525	69,205	156,785	202,060
Other	138,073	155,335	419,248	478,664
	1,705,421	1,952,685	5,022,178	6,090,610
Less: Promotional allowances	(172,198)	(167,154)	(496,005)	(506,355)
	1,533,223	1,785,531	4,526,173	5,584,255
Expenses				
Casino	367,720	383,406	1,093,068	1,200,948
Rooms	108,273	136,313	325,247	412,846
Food and beverage	196,778	237,130	590,137	720,201
Entertainment	91,422	94,667	267,786	288,617
Retail	33,684	42,411	99,760	128,070
Other	91,261	99,389	260,562	307,521
General and administrative	290,766	326,831	825,130	971,016
Corporate expense	31,928	24,466	99,295	83,537
Preopening and start-up expenses	10,058	5,505	27,539	17,626
Restructuring costs			493	329
Property transactions, net	971,208	32,326	779,331	34,984
Depreciation and amortization	170,651	200,102	521,877	591,659
	2,363,749	1,582,546	4,890,225	4,757,354
Income (loss) from unconsolidated affiliates	(132,893)	38,572	(113,169)	89,728
Operating income (loss)	(963,419)	241,557	(477,221)	916,629
Non-operating income (expense)				
Interest income	857	5,910	11,535	13,056
Interest expense, net	(181,899)	(144,751)	(554,822)	(439,844)
	(14,613)	(9,552)	(38,058)	(26,731)

Non-operating items from unconsolidated affiliates								
Other, net		826		2,125		(234,693)		791
		(194,829)		(146,268)		(816,038)		(452,728)
Income (loss) before income taxes		(1,158,248)		95,289		(1,293,259)		463,901
Benefit (provision) for income taxes		407,860		(34,011)		435,495		(171,176)
Net income (loss)	$	(750,388)	$	61,278	$	(857,764)	$	292,725
Income (loss) per share of common stock								
Basic	$	(1.70)	$	0.22	$	(2.40)	$	1.04
Diluted	$	(1.70)	$	0.22	$	(2.40)	$	1.02

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

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash flows from operating activities		
Net income (loss)	$ (857,764)	$ 292,725
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	521,877	591,659
Amortization of debt discounts, premiums and issuance costs	36,204	2,530
Loss on retirement of long-term debt	58,631	
Provision for doubtful accounts	43,054	46,616
Stock-based compensation	27,076	29,665
Business interruption insurance lost profits	(15,115)	(9,146)
Business interruption insurance cost recovery		(27,668)
Property transactions, net	779,331	34,984
Convertible note impairment	175,690	
(Income) loss from unconsolidated affiliates	178,628	(47,069)
Distributions from unconsolidated affiliates	43,527	55,704
Deferred income taxes	(271,736)	(41,820)
Change in current assets and liabilities		
Accounts receivable	(50,875)	44,518
Inventories	10,259	1,518
Income taxes receivable and payable	(114,659)	(237,582)
Prepaid expenses and other	(20,627)	(10,969)
Accounts payable and accrued liabilities	(22,392)	(227,947)
Business interruption insurance recoveries	16,391	28,891
Other	(19,184)	(25,889)
Net cash provided by operating activities	518,316	500,720
Cash flows from investing activities		
Capital expenditures, net of construction payable	(122,684)	(674,110)
Proceeds from sale of Treasure Island, net	746,266	
Dispositions of property and equipment	22,067	648
Investments in and advances to unconsolidated affiliates	(922,067)	(881,136)
Property damage insurance recoveries	7,186	21,109
Other	(5,054)	(3,653)
Net cash used in investing activities	(274,286)	(1,537,142)
Cash flows from financing activities		
Net borrowings (repayments) under bank credit facilities maturities of 90 days or less	(2,485,000)	850,950

Borrowings under bank credit facilities maturities longer than 90 days	6,661,492	7,430,000
Repayments under bank credit facilities maturities longer than 90 days	(5,576,340)	(5,780,000)
Issuance of senior notes, net	1,921,751	
Retirement of senior notes	(1,119,090)	(376,663)
Debt issuance costs	(113,227)	(36,200)
Issuance of common stock in public offering, net	1,103,737	
Issuance of common stock upon exercise of stock options	637	14,010
Purchases of common stock		(1,240,857)
Excess tax benefits from stock-based compensation		9,145
Payment of Detroit Economic Development Corporation bonds	(49,393)	
Other	(1,405)	
Net cash provided by financing activities	343,162	870,385
Cash and cash equivalents		
Net increase (decrease) for the period	587,192	(166,037)
Change in cash related to assets held for sale	14,154	
Balance, beginning of period	295,644	416,124
Balance, end of period	$ 896,990	$ 250,087
Supplemental cash flow disclosures		
Interest paid, net of amounts capitalized	$ 500,429	$ 500,949
Federal, state and foreign income taxes paid, net of refunds		435,127
Non-cash investing and financing activities		
Reduction in investment in CityCenter related to change in completion guarantee liability	$ 141,000	$

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

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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 September 30, 2009, approximately 37% of the outstanding shares of the Company s common stock were owned by Tracinda Corporation, a Nevada corporation wholly owned by Kirk Kerkorian. Prior to the May 2009 issuance of common stock (see Note 2), Tracinda Corporation owned more than 50% of the outstanding shares of the Company s common stock. As a result, Tracinda Corporation had the ability to elect the Company s entire Board of Directors and to determine the outcome of other matters submitted to the Company s stockholders, such as the approval of significant transactions. MGM MIRAGE acts largely as a holding company and, through wholly-owned subsidiaries, owns and/or operates casino resorts.

The Company owns and operates the following casino resorts in Las Vegas, Nevada: Bellagio, MGM Grand Las Vegas, Mandalay Bay, The Mirage, Luxor, New York-New York, Excalibur, Monte Carlo, and Circus Circus Las Vegas. Operations at MGM Grand Las Vegas include management of The Signature at MGM Grand Las Vegas, a condominium-hotel consisting of over 1,500 units. Other Nevada operations include Circus Circus Reno, Gold Strike 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. The Company also owns Shadow Creek, an exclusive world-class golf course located approximately ten miles north of its Las Vegas Strip resorts, and Primm Valley Golf Club at the California/Nevada state line. The Company owns land for future development on the North Las Vegas Strip; see Note 6 for the status of the Company s joint venture project with Kerzner International and Istithmar planned for this site. In March 2009, the Company completed the sale of Treasure Island (TI) to Ruffin Acquisition, LLC see further discussion in Note 3.

The Company owns 50% of CityCenter, a mixed-use development on the Las Vegas Strip, between Bellagio and Monte Carlo. The other 50% of CityCenter is owned by Infinity World Development Corp (Infinity World), a wholly-owned subsidiary of Dubai World, a Dubai, United Arab Emirates government decree entity. The Company is managing the development of CityCenter and will manage the operations of CityCenter for a fee. CityCenter will feature Aria, a 4,000-room casino resort; two 400-room non-gaming boutique hotels, the Mandarin Oriental, Las Vegas and The Harmon Hotel & Spa; approximately 425,000 square feet of retail shops, dining and entertainment venues in Crystals; and approximately 2.1 million square feet of residential space in approximately 2,400 luxury condominium and condominium-hotel units in multiple towers. CityCenter is expected to open in December 2009, except the residential components will begin closings in early 2010 and the opening of The Harmon Hotel & Spa has been postponed until such time as the Company and Infinity World mutually agree to proceed with its completion. The Company anticipates the total cost of CityCenter, excluding costs of completing The Harmon Hotel & Spa, to be $8.5 billion, including preopening costs of $0.2 billion and financing costs of $0.3 billion.

The Company and its local partners own and the Company operates MGM Grand Detroit in downtown Detroit, Michigan. The Company also owns and operates two resorts in Mississippi Beau Rivage in Biloxi, which includes the Fallen Oak golf course, and Gold Strike Tunica.

The Company has 50% interests in three casino resorts outside of Nevada: Grand Victoria, Borgata and MGM Grand Macau. Grand Victoria is a riverboat casino in Elgin, Illinois an affiliate of Hyatt Gaming owns the other 50% of Grand Victoria and also operates the resort. Borgata is located on Renaissance Pointe in the Marina area of Atlantic City, New Jersey Boyd Gaming Corporation owns the other 50% of Borgata and also operates the resort. MGM Grand Macau opened on December 18, 2007 Pansy Ho Chiu-King owns the other 50% of MGM Grand Macau. See Note 6 for further discussion related to our Borgata and Macau joint ventures.

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 by Borgata, and a portion of which is planned for a wholly-owned development, MGM Grand Atlantic City that development is currently postponed and will remain postponed until such time as general economic conditions and the Company s financial position improve.

Financial statement impact of the Monte Carlo fire. The Company maintains insurance for both property damage and business interruption relating to catastrophic events, such as the rooftop fire at Monte Carlo in January 2008. Business interruption coverage covers lost profits and other costs incurred during the closure period and up to six months following re-opening.

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Non-refundable insurance recoveries received in excess of the net book value of damaged assets, clean-up and demolition costs, and post-event costs are recognized as income in the period received or committed based on the Company s estimate of the total claim for property damage and business interruption compared to the recoveries received at that time. Gains on insurance recoveries related to business interruption are recorded within General and administrative expenses and gains related to property damage are recorded within Property transactions, net. Insurance recoveries are classified in the statement of cash flows based on the coverage to which they relate. Recoveries related to business interruption are classified as operating cash flows and recoveries related to property damage are classified as investing cash flows.

The Company has received all of the proceeds from its insurance carriers related to the Monte Carlo fire and settled its final claim for a total of $74 million. The following table shows the net pre-tax impact on the Statements of Operations for insurance recoveries from the Monte Carlo fire:

	Three Months		**Nine Months**	
For the periods ended September 30,	**2009**	**2008**	**2009**	**2008**
		(In thousands)		
Reduction of general and administrative expenses	$	$	$ 15,115	$ 9,146
Reduction of property transactions, net	$	$	$ 7,186	$ 9,639

Fair value measurements. Fair value measurements impact the Company s accounting for certain of its financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and is measured according to a hierarchy which includes Level 1 inputs, such as quoted prices in an active market; Level 2 inputs, which are observable inputs for similar assets; or Level 3 inputs, which are unobservable inputs. The Company s significant financial assets and liabilities accounted for at fair value are:

1) The Company s investment in The M Resort LLC 6% convertible note maturing June 2015 and embedded call option (the M Resort Note). The fair value of the convertible note was previously measured using Level 2 inputs. As of June 30, 2009, the fair value of the convertible note and embedded call option were measured using Level 3 inputs. See below for further discussion of the valuation of the M Resort Note.
2) The completion guarantee provided in connection with the CityCenter credit facility, discussed in Notes 4 and 6, which fair value was measured using Level 3 inputs and based on a statistical analysis of future cash flows.

The Company also uses fair value measurements to evaluate the fair value of its investments in unconsolidated affiliates. See Note 4 for further discussion.

M Resort note valuation. At March 31, 2009, the carrying value of the M Resort Note was $92 million compared to its accreted value, including accrued paid-in-kind interest, of $174 million. The Company had previously concluded that the decline in value was not other-than-temporary since a) the Company believed that projected cash flows of the M Resort which opened on March 1, 2009 would allow full recovery of the Company s investment, and b) the Company had the ability and intent to hold the M Resort Note to maturity. At June 30, 2009, the Company determined that the fair value of the M Resort Note was $0, that the decline in value was other-than-temporary, and that the entire amount of the indicated impairment related to a credit loss. The conclusion that the decline in value was other-than-temporary was based on the Company s assessment of actual results since the opening of the M Resort and M Resort s management s revised cash flow projections since its opening, which are significantly lower than original predictions due to market and general economic conditions. Based on the conclusions above, the Company recorded a pre-tax impairment of $176 million the accreted value as of May 31, 2009 in the second quarter of 2009 within Other non-operating expense. Of that amount, $82 million was reclassified from accumulated other comprehensive loss, which amount was $53 million net of tax. The Company stopped recording accrued paid-in-kind interest as of May 31, 2009.

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Recently issued accounting standards. The Company adopted various accounting standards during 2009, none of which had a material impact on its consolidated financial statements. In addition, in June 2009, the FASB issued Statement of Financial Accounting Standards No. 167 Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 amends the quantitative approach to determine the primary beneficiary of a variable interest entity (VIE) previously required by Interpretation No. 46(R). An enterprise must determine if its variable interest or interests give it a controlling financial interest in a VIE by evaluating whether 1) the enterprise has the power to direct activities of the VIE that have a significant impact on economic performance, and 2) if the enterprise has an obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. SFAS 167 also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. This standard is effective for the Company for the annual period beginning January 1, 2010. The Company is currently evaluating the impact the adoption of SFAS 167 will have on its consolidated financial statements.

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 2008 annual consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 and the updated annual consolidated financial statements and notes thereto for 2008, included in our Form 8-K dated June 23, 2009.

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 September 30, 2009 and the results of its operations for the three and nine month periods ended September 30, 2009 and 2008 and cash flows for the nine month periods ended September 30, 2009 and 2008. The results of operations for such periods are not necessarily indicative of the results to be expected for the full year. Management has evaluated subsequent events through November 5, 2009, the date these financial statements were available to be issued.

NOTE 2 LIQUIDITY AND FINANCIAL POSITION

Until May 2009, the Company had borrowed the total amount of borrowing capacity available under its senior credit facility and had no other sources of borrowing availability. In May 2009, the Company executed a series of transactions to improve its financial condition, consisting of the following:

The Company entered into an amendment to its senior credit facility, under which certain covenants and potential events of default were waived and other covenants were amended, and under which the Company permanently repaid $826 million of credit facility borrowings, and $400 million of previous repayments under separate amendments were treated as permanent reductions. Additional information about the credit facility amendment is described below.

The Company issued approximately 164.5 million shares of its common stock at $7 per share, for total net proceeds to the Company of approximately $1.1 billion. A portion of the shares were previously held by the Company as treasury stock and a portion of the shares were newly issued. Proceeds from the common stock offering and concurrent offering of senior secured notes were used to repay outstanding amounts under the Company s senior credit facility and redeem certain outstanding senior debentures and senior notes and for general corporate purposes.

The Company issued $650 million of 10.375% senior secured notes due 2014 and $850 million of 11.125% senior secured notes due 2017 for net proceeds to the Company of approximately $1.4 billion. The notes are secured by the equity interests and substantially all of the assets of Bellagio and The Mirage and otherwise rank equally in right of payment with the Company s existing and future senior indebtedness. Upon the issuance of such notes, the holders of the Company s 13% senior notes due 2013 obtained an equal and ratable lien in all collateral securing these notes.

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Concurrently with the close of the above transactions on May 19, 2009, the Company delivered a notice of redemption for the $100 million of outstanding 7.25% senior debentures of Mirage Resorts, Incorporated (MRI), a wholly owned subsidiary of the Company. The notes were redeemed in June 2009, at a total cost of approximately $127 million. Additionally, in May 2009, the Company commenced tender offers to purchase all $820.0 million of its outstanding 6.0% senior notes due October 2009 and all $226.3 million of its outstanding 6.50% senior notes due July 2009 of Mandalay Resort Group, a wholly owned subsidiary of the Company. As of the close of the tender offers in June 2009, the Company had received valid tenders for $762.6 million of the senior notes due October 2009 and $122.3 million of the senior notes due July 2009, and purchased such notes at approximately par value.

While the Company was in compliance with the financial covenants under its senior credit facility at December 31, 2008, as previously anticipated, the Company was not in compliance with the financial covenants as of March 31, 2009 and received a waiver of the requirement to comply with such covenants through June 30, 2009. Subsequent to the receipt of the waiver, in April and May 2009, the Company entered into amendments of senior credit facility which included the following key terms:

Amended certain financial and non-financial covenants to 1) require a quarterly minimum EBITDA test, based on a rolling 12-month EBITDA; 2) provide for a covenant limiting annual capital expenditures; 3) eliminate the total leverage ratio and interest charge coverage ratio tests and permanently waive any prior non-compliance with such ratio tests for the quarter ended March 31, 2009; and 4) permanently waive any potential default from the inclusion of a going concern explanatory paragraph in the report of its independent registered public accountants for the years ended or ending December 31, 2008 or December 31, 2009;

Amended existing restrictions to allow for the issuance of equity and debt securities described above and, in connection therewith, amended existing restrictions to allow for the granting of liens to secure indebtedness of up to $1.5 billion;

Amended existing restrictions to allow the prepayment, redemption, or purchase of indebtedness, including payment of any premium, pursuant to the tender offers described above;

Amended existing restrictions to allow 1) the redemption, prepayment, repurchase and/or defeasance of the MRI notes described above; 2) repayment of any debt securities currently outstanding and maturing through February 28, 2011; 3) utilization of up to $300 million in cash to prepay, repurchase, or redeem indebtedness with a maturity date following February 28, 2011 at a discount to par; and 4) exchange of indebtedness for up to $500 million in equity interests as long as a change of control does not occur as a result of such exchange;

Allowed the Company to incur additional indebtedness up to $500 million, provided that such indebtedness must be unsecured indebtedness with a maturity after the maturity of the senior credit facility and with covenants no more restrictive than those