

MGM MIRAGE  
Form 10-Q  
November 09, 2007

**Table of Contents**

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

(Mark One)

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

**For the quarterly period ended September 30, 2007**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 0-16760  
MGM MIRAGE**

(Exact name of registrant as specified in its charter)

Delaware

88-0215232

(State or other jurisdiction of  
incorporation or organization)

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

3600 Las Vegas Boulevard South, Las Vegas, Nevada 89109

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

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

Class  
Common Stock, \$.01 par value

Outstanding at November 7, 2007  
299,380,038 shares



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

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets at September 30, 2007 and December 31, 2006</u>	1
<u>Consolidated Statements of Income for the Three Months and Nine Months Ended September 30, 2007 and September 30, 2006</u>	2
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and September 30, 2006</u>	3
<u>Condensed Notes to Consolidated Financial Statements</u>	4-16
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17-25
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4. Controls and Procedures</u>	25
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	25
<u>Item 1A. Risk Factors</u>	26
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<u>Item 6. Exhibits</u>	26
<b><u>SIGNATURES</u></b>	27
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

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**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****MGM MIRAGE AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS***(In thousands, except share data)**(Unaudited)*

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 311,605	\$ 452,944
Accounts receivable, net	378,697	362,921
Inventories	124,562	118,459
Income tax receivable	50,652	18,619
Deferred income taxes	65,105	68,046
Prepaid expenses and other	148,801	124,414
Assets held for sale	55,077	369,348
Total current assets	1,134,499	1,514,751
<b>Real estate under development</b>	478,318	188,433
<b>Property and equipment, net</b>	19,302,533	17,241,860
<b>Other assets</b>		
Investments in unconsolidated affiliates	1,107,179	1,092,257
Goodwill	1,269,591	1,300,747
Other intangible assets, net	360,553	367,200
Deposits and other assets, net	654,538	440,990
Total other assets	3,391,861	3,201,194
	\$ 24,307,211	\$ 22,146,238
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 186,870	\$ 182,154
Construction payable	371,293	234,486
Accrued interest on long-term debt	179,724	232,957
Other accrued liabilities	964,462	958,244
Liabilities related to assets held for sale	3,396	40,259
Total current liabilities	1,705,745	1,648,100

<b>Deferred income taxes</b>	3,373,770	3,441,157
<b>Long-term debt</b>	14,131,377	12,994,869
<b>Other long-term obligations</b>	514,567	212,563

**Commitments and contingencies (Note 5)****Stockholders equity**

Common stock, \$.01 par value: authorized 600,000,000 shares; issued 367,114,815 and 362,886,027 shares; outstanding 285,637,788 and 283,909,000 shares

	3,671	3,629
Capital in excess of par value	3,000,476	2,806,636
Treasury stock, at cost: 81,477,027 and 78,997,027 shares	(1,771,707)	(1,597,120)
Retained earnings	3,348,197	2,635,989
Accumulated other comprehensive income	1,115	415
Total stockholders equity	4,581,752	3,849,549
	\$ 24,307,211	\$ 22,146,238

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

**Table of Contents**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues</b>				
Casino	\$ 803,834	\$ 782,047	\$ 2,389,704	\$ 2,296,999
Rooms	510,795	479,107	1,614,906	1,498,366
Food and beverage	406,620	369,383	1,248,786	1,108,161
Entertainment	141,093	125,290	418,578	329,123
Retail	75,608	73,027	222,930	207,535
Other	132,061	118,765	388,891	335,651
	2,070,011	1,947,619	6,283,795	5,775,835
Less: Promotional allowances	(172,941)	(152,577)	(520,874)	(445,917)
	1,897,070	1,795,042	5,762,921	5,329,918
<b>Expenses</b>				
Casino	412,165	395,253	1,240,441	1,187,794
Rooms	142,722	136,118	428,476	404,032
Food and beverage	242,034	228,799	736,115	667,418
Entertainment	101,164	91,056	303,558	240,052
Retail	47,917	46,359	141,807	135,941
Other	83,812	67,818	232,578	181,213
General and administrative	286,447	278,551	873,739	785,350
Corporate expense	63,050	35,184	140,673	110,415
Preopening and start-up expenses	25,851	6,083	54,275	27,308
Restructuring costs				1,035
Property transactions, net	(89,225)	282	(81,799)	36,455
Depreciation and amortization	170,780	156,280	506,566	461,506
	1,486,717	1,441,783	4,576,429	4,238,519
<b>Income from unconsolidated affiliates</b>	54,260	66,138	192,227	158,773
<b>Operating income</b>	464,613	419,397	1,378,719	1,250,172
<b>Non-operating income (expense)</b>				
Interest income	4,770	2,650	12,936	8,422
Interest expense, net	(180,033)	(189,368)	(547,473)	(572,993)
Non-operating items from unconsolidated affiliates	(4,599)	(4,627)	(14,419)	(11,563)

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Other, net	(1,152)	(1,659)	(4,684)	(6,877)
	(181,014)	(193,004)	(553,640)	(583,011)
<b>Income before income taxes and discontinued operations</b>	283,599	226,393	825,079	667,161
Provision for income taxes	(99,736)	(72,628)	(295,308)	(230,293)
<b>Income from continuing operations</b>	183,863	153,765	529,771	436,868
<b>Discontinued operations</b>				
Income from discontinued operations		3,744	10,461	14,815
Gain on disposal of discontinued operations			263,881	
Provision for income taxes		(1,247)	(91,905)	(4,990)
		2,497	182,437	9,825
<b>Net income</b>	\$ 183,863	\$ 156,262	\$ 712,208	\$ 446,693
<b>Basic earnings per share of common stock</b>				
Income from continuing operations	\$ 0.65	\$ 0.55	\$ 1.86	\$ 1.54
Discontinued operations			0.65	0.04
Net income per share	\$ 0.65	\$ 0.55	\$ 2.51	\$ 1.58
<b>Diluted earnings per share of common stock</b>				
Income from continuing operations	\$ 0.62	\$ 0.53	\$ 1.79	\$ 1.50
Discontinued operations		0.01	0.62	0.03
Net income per share	\$ 0.62	\$ 0.54	\$ 2.41	\$ 1.53

*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)*

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 712,208	\$ 446,693
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	506,566	483,793
Amortization of debt discounts, premiums and issuance costs	(3,128)	(1,577)
Provision for doubtful accounts	25,020	38,328
Stock-based compensation	34,487	58,281
Property transactions, net	(81,799)	36,455
Gain on disposal of discontinued operations	(263,881)	
Income from unconsolidated affiliates	(164,376)	(140,743)
Distributions from unconsolidated affiliates	152,451	139,418
Deferred income taxes	(19,855)	656
Change in operating assets and liabilities:		
Accounts receivable	(26,449)	(33,211)
Inventories	(6,737)	(6,112)
Income taxes receivable and payable	(22,467)	(93,303)
Prepaid expenses and other	(24,482)	(23,664)
Accounts payable and accrued liabilities	(18,259)	(28,662)
Real estate under development	(306,319)	(29,408)
Residential sales deposits, net	208,006	
Hurricane Katrina insurance recoveries	42,233	4,802
Change in Hurricane Katrina insurance receivable	(4,394)	(43,649)
Other	(41,437)	(31,801)
Net cash provided by operating activities	697,388	776,296
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(2,482,909)	(1,236,147)
Dispositions of property and equipment	15,332	11,002
Investments in joint ventures		(86,000)
Proceeds from disposal of discontinued operations, net	578,873	
Purchase of convertible note	(160,000)	
Hurricane Katrina insurance recoveries	124,917	113,947
Other	(34,529)	(17,992)
Net cash used in investing activities	(1,958,316)	(1,215,190)
<b>Cash flows from financing activities</b>		

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Net borrowings under bank credit facilities – maturities of 90 days or less	556,800	466,750
Borrowings under bank credit facilities – maturities longer than 90 days	5,750,000	4,000,000
Repayments under bank credit facilities – maturities longer than 90 days	(4,500,000)	(4,400,000)
Issuance of long-term debt	750,000	750,000
Retirement of senior notes	(1,402,233)	(200,000)
Debt issuance costs	(5,199)	(5,828)
Issuances of common stock	76,026	33,402
Purchases of common stock	(174,586)	(246,892)
Excess tax benefits from stock-based compensation	73,131	20,147
Other	(1,193)	(12,902)
 Net cash provided by financing activities	 1,122,746	 404,677
 <b>Cash and cash equivalents</b>		
Net decrease for the period	(138,182)	(34,217)
Cash related to assets held for sale	(3,157)	
Balance, beginning of period	452,944	377,933
 Balance, end of period	 \$ 311,605	 \$ 343,716
 <b>Supplemental cash flow disclosures</b>		
Interest paid, net of amounts capitalized	\$ 609,678	\$ 622,115
Federal, state and foreign income taxes paid, net of refunds	349,908	307,893
 <b>Non-cash investing and financing activities</b>		
Increase in construction payable	136,806	148,317

*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 September 30, 2007, approximately 54% of the outstanding shares of the Company's common stock were owned by Tracinda Corporation, a Nevada corporation which is wholly owned by Kirk Kerkorian. 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, Mirage, Luxor, Treasure Island (TI), New York-New York, Excalibur, Monte Carlo, Circus Circus Las Vegas and Slots-A-Fun. Operations at MGM Grand Las Vegas include management of The Signature at MGM Grand Las Vegas, a condominium-hotel consisting of three towers. 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.

In April 2007, the Company completed the sale of Buffalo Bills, Primm Valley, and Whiskey Pete's casino resorts (the Primm Valley Resorts), not including the Primm Valley Golf Club, with net proceeds to the Company of approximately \$398 million. In June 2007, the Company completed the sale of the Colorado Belle and Edgewater in Laughlin (the Laughlin Properties), with net proceeds to the Company of approximately \$199 million. In February 2007, the Company entered into an agreement to contribute Gold Strike, Nevada Landing and surrounding land (the Jean Properties) to a joint venture. The joint venture's purpose is to develop a mixed-use community on the site. See Note 2 for further discussion of these transactions.

The Company and its local partners own and operate MGM Grand Detroit, which recently opened a new permanent hotel and casino complex in downtown Detroit, Michigan. The interim facility closed on September 30, 2007 and the new casino resort opened on October 2, 2007. Final construction cost of the new MGM Grand Detroit is estimated to be approximately \$725 million, excluding preopening, land, and license costs. Preopening and start-up expenses are estimated to be approximately \$30 million. The permanent casino is located on a 25-acre site with a carrying value of approximately \$50 million. In addition, the Company recorded license rights with a carrying value of \$100 million as a result of MGM Grand Detroit's obligations to the City of Detroit in connection with the permanent casino development agreement.

The Company also owns and operates two resorts in Mississippi—Beau Rivage in Biloxi and Gold Strike Tunica. Beau Rivage reopened in August 2006, after having been closed due to damage sustained as a result of Hurricane Katrina in August 2005.

The Company has 50% interests in two resorts outside of Nevada—Grand Victoria and Borgata. 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. Borgata is a casino resort 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. 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 planned for a wholly-owned development, MGM Grand Atlantic City. The new resort is preliminarily estimated to cost approximately \$4.5 billion, not including land and associated costs. The proposed resort includes three towers with more than 3,000 rooms and suites, approximately 5,000 slot machines, 200 table games, 500,000 square-feet of retail, an extensive convention center, and other typical resort amenities.

**Table of Contents**

The Company owns 50% of MGM Grand Paradise Limited, a joint venture with Pansy Ho Chiu-king that is constructing and will operate a hotel-casino resort, MGM Grand Macau, in Macau S.A.R. Construction of MGM Grand Macau is estimated to cost approximately \$880 million, excluding preopening, land rights and license costs. Preopening and start-up expenses are estimated to be \$110 million. The land rights are estimated to cost approximately \$60 million. The subconcession agreement, which allows MGM Grand Paradise Limited to operate casinos in Macau, cost \$200 million. The resort is anticipated to open in late 2007.

The Company is developing CityCenter on the Las Vegas Strip, between Bellagio and Monte Carlo. CityCenter will feature a 4,000-room casino resort designed by world-famous architect Cesar Pelli; two 400-room non-gaming boutique hotels, one of which will be managed by luxury hotelier Mandarin Oriental; approximately 470,000 square feet of retail shops, dining and entertainment venues; and approximately 2.3 million square feet of residential space in approximately 2,700 luxury condominium and condominium-hotel units in multiple towers. The overall development cost of CityCenter is estimated at approximately \$7.8 billion, excluding preopening and land costs. Preopening and start-up expenses are estimated to be \$200 million. CityCenter is located on a 67-acre site with a carrying value of approximately \$1 billion. After estimated net proceeds of \$2.7 billion from the sale of residential units, net construction cost is estimated at approximately \$5.1 billion. CityCenter is expected to open in late 2009. These estimates of net project costs do not reflect the joint venture transaction discussed below.

In August 2007, the Company entered into an agreement with Dubai World to form a 50/50 joint venture for the CityCenter development. The joint venture, CityCenter Holdings LLC, will be owned equally by the Company and Infinity World Development Corp., a wholly-owned subsidiary of Dubai World. The Company will contribute the CityCenter assets which the parties have valued at \$5.4 billion, subject to adjustment based on actual construction spending and actual residential proceeds through the closing date. Dubai World will initially contribute \$2.7 billion, subject to adjustment based on a) the potential adjustment to the initial valuation of \$5.4 billion, and b) the need for interim additional funding until the joint venture obtains project-specific financing. At the close of the transaction, the Company will receive a cash distribution of \$2.7 billion, subject to these same adjustments. The joint venture intends to obtain project-specific financing to fund remaining project costs. The Company will continue to serve as developer of CityCenter and will receive additional consideration of up to \$100 million if the project is completed on time and actual development costs, net of residential proceeds, are within specified parameters. Upon completion of construction, the Company will manage CityCenter for a fee. The Company expects the joint venture transaction to close in the fourth quarter of 2007.

**Financial statement impact of Hurricane Katrina.** The Company maintained insurance covering both property damage and business interruption as a result of wind and flood damage sustained at Beau Rivage. Business interruption coverage covered lost profits and other costs incurred during the construction period and up to six months following the re-opening of the facility.

Non-refundable insurance recoveries received in excess of the net book value of damaged assets, clean-up and demolition costs, and post-storm costs have been 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.

As of September 30, 2007, the Company had received insurance recoveries of \$522 million and had executed a settlement agreement with one of its carriers for an additional \$15 million. These amounts exceed the \$263 million total of net book value of damaged assets, clean-up and demolition costs, and post-storm operating costs by \$274 million; therefore, no write-down or demolition expense was recorded and post storm operating costs were offset by expected recoveries within General and administrative expenses. Depreciation of non-damaged assets was classified as Depreciation and amortization. Of the \$274 million excess, \$221 million was received on a non-refundable basis and has been reported as income. The remaining \$53 million has been deferred because the related payments were submitted to the Company under reservation of rights on behalf of the insurance carriers; such amounts are included in Other accrued liabilities in the accompanying consolidated balance sheet as of September 30, 2007. During the three and nine months ended September 30, 2007 the Company recognized \$135 million of insurance recoveries in income, of which \$107 million was recorded within Property transactions, net and \$28 million related to the business interruption portion of the Company's claim was recorded within General and administrative

expenses. The remaining \$86 million previously recognized in income was recorded within Property transactions, net in the fourth quarter of 2006.

**Table of Contents**

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. However, the Company's insurance policy includes undifferentiated coverage for both property damage and business interruption. Therefore, the Company classified insurance recoveries as being related to property damage until the full \$160 million of damaged assets and demolition costs were recovered and classified additional recoveries up to the amount of the post-storm costs incurred as being related to business interruption. Insurance recoveries beyond that amount have been classified as operating or financing based on the total proceeds received to date compared to the total expected recoveries to be received upon final settlement of our insurance claims. During the nine months ended September 30, 2007 and 2006, insurance recoveries of \$42 million and \$5 million, respectively, have been classified as operating cash flows. During the nine months ended September 30, 2007 and 2006, insurance recoveries of \$125 million and \$114 million, respectively, have been classified as investing activities.

**Investment in The M Resort LLC convertible note.** In June 2007, the Company purchased a \$160 million convertible note issued by The M Resort LLC, which is developing a casino resort on Las Vegas Boulevard, 10 miles south of Bellagio. The convertible note matures in June 2015, contains certain optional and mandatory redemption provisions, and is convertible into a 50% equity interest in The M Resort LLC beginning in December 2008. The convertible note earns interest at 6% which may be paid in cash or accrued in kind for the first five years; thereafter interest must be paid in cash. There are no scheduled principal payments before maturity.

The convertible note is accounted for as a hybrid financial instrument consisting of a host debt instrument and an embedded call option on The M Resort LLC's equity. The debt component is accounted for separately as an available-for-sale marketable security, with changes in value recorded in other comprehensive income. The call option is treated as a derivative with changes in value recorded in earnings. The initial value of the call option was \$0 and the initial value of the debt was \$155 million, with the discount accreted to earnings over the term of the note. The entire carrying value of the convertible note is included in Deposits and other assets, net in the accompanying consolidated balance sheets, as the security is not marketable.

**Adoption of FIN 48.** Effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 requires that tax positions be assessed using a two-step process. A tax position is recognized if it meets a more likely than not threshold, and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. Uncertain tax positions must be reviewed at each balance sheet date. Liabilities recorded as a result of this analysis must generally be recorded separately from any current or deferred income tax accounts, and are classified as current (Other accrued liabilities) or long-term (Other long-term liabilities) based on the time until expected payment. A cumulative effect adjustment to retained earnings was not required as a result of the implementation of FIN 48.

As of January 1, 2007, the Company had a total of \$97 million of unrecognized tax benefits. The total amount of these unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$20 million.

As of September 30, 2007, the Company had a total of \$68 million of unrecognized tax benefits. The total amount of these unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$23 million. The net decrease in the amount of unrecognized tax benefits from the date of adoption resulted primarily from the closure during the first quarter of 2007 of an Internal Revenue Service (IRS) examination of federal income tax returns for the years ended December 31, 2001 and 2002. The Company agreed to an additional assessment of taxes and associated interest of \$2 million and is protesting at IRS Appeals certain issues that were not agreed upon at the closure of the examination. The Company reduced unrecognized tax benefits in the amount of \$33 million and recorded corresponding reductions in goodwill related to the acquisition of Mirage Resorts, Incorporated and income tax expense of \$29 million and \$4 million, respectively. We do not expect a significant increase or decrease in unrecognized tax benefits over the next twelve months.

**Table of Contents**

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. This policy did not change as a result of the adoption of FIN 48. The Company had \$3 million in interest, net of federal benefit, related to unrecognized tax benefits accrued as of January 1, 2007 and no amounts were accrued for penalties as of such date.

The Company files income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions, and foreign jurisdictions, although the taxes paid in foreign jurisdictions are not material. As of January 1, 2007, the Company was no longer subject to examination of its U.S. federal income tax returns filed for years ended prior to 2001. While the IRS examination of the 2001 and 2002 tax years closed during the first quarter of 2007, the statute of limitations for assessing tax for such years has been extended in order for the Company to complete the appeals process for issues that were not agreed upon at the closure of the examination. The IRS is currently examining the Company's federal income tax returns for the 2003 and 2004 tax years. The tax returns for subsequent years are also subject to examination.

As of January 1, 2007, with few exceptions, the Company was no longer subject to examination of its various state and local tax returns filed for years ended prior to 2003. During the first quarter of 2007, the City of Detroit initiated an examination of a Mandalay Resort Group subsidiary return for the pre-acquisition year ended April 25, 2005. During the fourth quarter of 2007, the state of Mississippi initiated an examination of returns filed by subsidiaries of MGM MIRAGE and Mandalay Resort Group for the 2004 through 2006 tax years. No other state or local income tax returns are under examination.

**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 2006 annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

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, 2007, the results of its operations for the three and nine month periods ended September 30, 2007 and 2006, and its cash flows for the nine month periods ended September 30, 2007 and 2006. 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 2006 financial statements to conform to the 2007 presentation.

**NOTE 2 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

The sale of the Primm Valley Resorts in April 2007 resulted in a pre-tax gain of \$201 million. The sale of the Laughlin Properties in June 2007 resulted in a pre-tax gain of \$63 million.

The assets and liabilities of the Jean Properties have not been contributed to the planned joint venture and therefore are classified as held for sale at September 30, 2007. The assets and liabilities of Primm Valley Resorts and the Laughlin Properties were classified as held for sale at December 31, 2006 in the accompanying consolidated balance sheets. Nevada Landing closed in March 2007 and the carrying value of its building assets were written-off. These amounts are included in Property transactions, net in the accompanying consolidated statements of income for the nine month period ended September 30, 2007 see Note 10 for further discussion.

**Table of Contents**

The following table summarizes the assets held for sale and liabilities related to assets held for sale in the accompanying consolidated balance sheets:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<i>(In thousands)</i>	
Cash	\$ 3,157	\$ 24,538
Accounts receivable, net	709	3,203
Inventories	605	3,196
Prepaid expenses and other	1,101	8,141
<b>Total current assets</b>	<b>5,572</b>	<b>39,078</b>
Property and equipment, net	47,127	316,332
Goodwill		5,000
Other assets, net	2,378	8,938
<b>Total assets</b>	<b>55,077</b>	<b>369,348</b>
Accounts payable	674	6,622
Other current liabilities	2,722	29,142
<b>Total current liabilities</b>	<b>3,396</b>	<b>35,764</b>
Other long-term obligations		4,495
<b>Total liabilities</b>	<b>3,396</b>	<b>40,259</b>
Net assets	\$ 51,681	\$ 329,089

The results of the Laughlin Properties and Primm Valley Resorts are classified as discontinued operations in the accompanying consolidated statements of income for all periods presented. Due to our continuing involvement in the Jean Properties, the results of these operations have not been classified as discontinued operations in the accompanying consolidated statements of income. The cash flows of discontinued operations are included with the cash flows of continuing operations in the accompanying consolidated statements of cash flows.

Other information related to discontinued operations is as follows:

<b>For the periods ended September 30,</b>	<b>Three Months</b>		<b>Nine Months</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>(In thousands)</i>			
Net revenues of discontinued operations	\$	\$106,933	\$128,619	\$317,773
Interest allocated to discontinued operations (based on the ratio of net assets of discontinued operations to total consolidated net assets and debt)		4,531	5,844	13,637

**NOTE 3 INVESTMENTS IN UNCONSOLIDATED AFFILIATES**

Investments in unconsolidated affiliates consisted of the following:



	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<i>(In thousands)</i>	
Marina District Development Company Borgata (50%)	\$ 462,725	\$ 454,354
Elgin Riverboat Resort Riverboat Casino Grand Victoria (50%)	297,413	300,151
MGM Grand Paradise Limited MGM Grand Macau (50%)	286,211	285,038
Circus and Eldorado Joint Venture Silver Legacy (50%)	36,242	31,258
Turnberry/MGM Grand Towers The Signature at MGM Grand (50%)	13,117	11,661
Other	11,471	9,795
	<b>\$ 1,107,179</b>	<b>\$ 1,092,257</b>

The Company's investment in MGM Grand Paradise Limited consists of equity and subordinated debt. The Company is committed to lending the venture up to an additional \$4 million.

**Table of Contents**

The Company recognized the following related to its share of profit from condominium sales at The Signature at MGM Grand, based on when sales were closed:

For the periods ended September 30,	Three Months		Nine Months	
	2007	2006	2007	2006
	<i>(In thousands)</i>			
Income from joint venture	\$ 10,487	\$ 21,963	\$ 75,244	\$ 44,301
Gain on land previously deferred	1,538	3,757	7,983	7,756
Other income (loss)	144	(136)	742	(282)
	\$ 12,169	\$ 25,584	\$ 83,969	\$ 51,775

The Company recorded its share of the results of operations of unconsolidated affiliates as follows:

For the periods ended September 30,	Three Months		Nine Months	
	2007	2006	2007	2006
	<i>(In thousands)</i>			
Income from unconsolidated affiliates	\$ 54,260	\$ 66,138	\$ 192,227	\$ 158,773
Preopening and start-up expenses	(6,559)	(1,324)	(13,432)	(6,467)
Non-operating items from unconsolidated affiliates	(4,599)	(4,627)	(14,419)	(11,563)
	\$ 43,102	\$ 60,187	\$ 164,376	\$ 140,743

**NOTE 4 LONG-TERM DEBT**

Long-term debt consisted of the following:

	September 30, 2007	December 31, 2006
	<i>(In thousands)</i>	
Senior credit facility	\$ 6,188,650	\$ 4,381,850
\$710 million 9.75% senior subordinated notes, due 2007, net		709,477
\$200 million 6.75% senior notes, due 2007, net		197,279
\$492.2 million 10.25% senior subordinated notes, due 2007, net		505,704
\$180.4 million 6.75% senior notes, due 2008, net	179,015	175,951
\$196.2 million 9.5% senior notes, due 2008, net	201,867	206,733
\$226.3 million 6.5% senior notes, due 2009, net	227,509	227,955
\$1.05 billion 6% senior notes, due 2009, net	1,052,927	1,053,942
\$297.6 million 9.375% senior subordinated notes, due 2010, net	314,469	319,277
\$825 million 8.5% senior notes, due 2010, net	823,566	823,197
\$400 million 8.375% senior subordinated notes, due 2011	400,000	400,000
\$132.4 million 6.375% senior notes, due 2011, net	133,373	133,529
\$550 million 6.75% senior notes, due 2012	550,000	550,000
\$150 million 7.625% senior subordinated debentures, due 2013, net	154,851	155,351
\$500 million 6.75% senior notes, due 2013	500,000	500,000
\$525 million 5.875% senior notes, due 2014, net	523,025	522,839
\$875 million 6.625% senior notes, due 2015, net	879,280	879,592

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\$250 million 6.875% senior notes, due 2016	250,000	250,000
\$750 million 7.5% senior notes, due 2016	750,000	
\$100 million 7.25% senior debentures, due 2017, net	84,256	83,556
\$750 million 7.625% senior notes due 2017	750,000	750,000
Floating rate convertible senior debentures due 2033	8,472	8,472
\$150 million 7% debentures due 2036, net	155,852	155,900
\$4.3 million 6.7% debentures, due 2096	4,265	4,265
	\$ 14,131,377	\$ 12,994,869

**Table of Contents**

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

Interest expense, net consisted of the following:

For the periods ended September 30,	Three Months		Nine Months	
	2007	2006	2007	2006
	<i>(In thousands)</i>			
Total interest incurred	\$ 242,808	\$ 230,479	\$ 713,868	\$ 668,847
Interest capitalized	(62,775)	(36,580)	(160,551)	(82,217)
Interest allocated to discontinued operations		(4,531)	(5,844)	(13,637)
	\$ 180,033	\$ 189,368	\$ 547,473	\$ 572,993

The senior credit facility has a total capacity of \$7 billion, which matures in 2011. The Company has the ability to solicit additional lender commitments to increase the capacity to \$8 billion. The components of the senior credit facility include a term loan facility of \$2.5 billion and a revolving credit facility of \$4.5 billion. At September 30, 2007, the Company had approximately \$727 million of available borrowing capacity under the senior credit facility.

In May 2007, the Company issued \$750 million of 7.5% senior notes due 2016. In June 2007, the Company repaid the \$710 million of 9.75% senior subordinated notes at maturity. In August 2007, the Company repaid the \$200 million of 6.75% senior notes and the \$492.2 million of 10.25% senior subordinated notes at maturity using borrowings under the senior credit facility.

The Company's long-term debt obligations contain customary covenants requiring the Company to maintain certain financial ratios. At September 30, 2007, the Company was required to maintain a maximum leverage ratio (debt to EBITDA, as defined) of 6.5:1 and a minimum coverage ratio (EBITDA to interest charges, as defined) of 2.0:1. At September 30, 2007, the Company's leverage and interest coverage ratios were 5.2:1 and 2.9:1, respectively.

**NOTE 5 COMMITMENTS AND CONTINGENCIES**

**The Signature at MGM Grand.** The Company provided guarantees for the debt financing on Towers 1, 2 and 3 of The Signature at MGM Grand. The loan amounts for all towers have been completely repaid, relieving the Company's guaranty obligations related to The Signature at MGM Grand.

**New York Racing Association.** In 2005, the Company entered into a definitive agreement with the New York Racing Association ( NYRA ) to manage video lottery terminals ( VLTs ) at NYRA's Aqueduct horseracing facility in metropolitan New York which was subject to receipt of requisite New York State approvals. The Company was to provide project financing up to \$190 million. Subsequently, the Company was not able to come to an agreement with NYRA and the state of New York and announced in April 2007 that it decided not to pursue this project further.

**Mashantucket Pequot Tribal Nation.** The Company entered into a series of agreements to implement a strategic alliance with the Mashantucket Pequot Tribal Nation ( MPTN ), which owns and operates Foxwoods Casino Resort in Ledyard, Connecticut. The Company and MPTN have formed a jointly owned company Unity Gaming, LLC to acquire or develop future gaming and non-gaming enterprises. The Company will provide a loan of up to \$200 million to finance a portion of MPTN's investment in joint projects.

**Table of Contents**

**Kerzner/Istithmar Joint Venture.** In September 2007, the Company entered into a definitive agreement with Kerzner International and Istithmar Hotels FZE forming a joint venture to develop a multi-billion dollar integrated resort to be located on the southwest corner of Las Vegas Boulevard and Sahara Avenue. The Company will contribute 40 acres of land, which is being valued at \$20 million per acre, for fifty percent of the equity in the joint venture. Kerzner International and Istithmar Hotels FZE will contribute cash and each will obtain twenty-five percent of the equity in the joint venture.

**NOTE 6 INCOME PER SHARE OF COMMON STOCK**

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

For the periods ended September 30,	Three Months		Nine Months	
	2007	2006	2007	2006
	<i>(In thousands)</i>			
Weighted-average common shares outstanding (used in the calculation of basic earnings per share)	284,730	281,836	284,201	283,423
Potential dilution from stock options, stock appreciation rights and restricted stock	11,518	7,422	11,486	8,321
Weighted-average common and common equivalent shares (used in the calculation of diluted earnings per share)	296,248	289,258	295,687	291,744

**NOTE 7 COMPREHENSIVE INCOME**

Comprehensive income consisted of the following:

For the periods ended September 30,	Three Months		Nine Months	
	2007	2006	2007	2006
	<i>(In thousands)</i>			
Net income	\$ 183,863	\$ 156,262	\$ 712,208	\$ 446,693
Currency translation adjustment	197	286	700	771
Other				3
	\$ 184,060	\$ 156,548	\$ 712,908	\$ 447,467

**NOTE 8 STOCKHOLDERS EQUITY**

**Stock repurchases.** In the nine months ended September 30, 2007, the Company repurchased 2.5 million shares of common stock at a total cost of \$175 million, leaving 5.5 million shares available for repurchase under a July 2004 authorization. In the nine months ended September 30, 2006, the Company repurchased 6.5 million shares of common stock at a total cost of \$247 million.

**NOTE 9 STOCK-BASED COMPENSATION**

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

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

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

**Table of Contents**

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

As of September 30, 2007, the aggregate number of share-based awards available for grant under the omnibus plan was 3.9 million. A summary of activity under the Company's share-based payment plans for the nine months ended September 30, 2007 is presented below:

*Stock options and stock appreciation rights*

	<b>Shares (000 s)</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2007	30,532	\$25.37
Granted	1,759	73.02
Exercised	(4,277)	18.49
Forfeited or expired	(889)	33.48
Outstanding at September 30, 2007	27,125	29.32
Exercisable at September 30, 2007	12,453	21.36

Other information about share-based compensation is as follows:

The total intrinsic value of stock options and stock appreciation rights exercised during the nine month periods ended September 30, 2007 and 2006 was \$244 million and \$62 million, respectively. The total income tax benefit from stock option exercises during the nine month periods ended September 30, 2007 and 2006 was \$81 million and \$21 million, respectively. As of September 30, 2007, there was a total of \$90 million of unamortized compensation related to stock options and stock appreciation rights, which is expected to be recognized over a weighted-average period of 2.2 years.

The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)) on January 1, 2006 using the modified prospective method. The Company recognizes the fair value of awards granted under the Company's omnibus plan in the income statement based on the fair value of these awards measured at the date of grant using the Black-Scholes model. For awards granted prior to adoption, the unamortized expense is being recognized on an accelerated basis, since this was the method used for disclosure purposes prior to the adoption of SFAS 123(R). For awards granted after adoption, such expense is being recognized on a straight-line basis over the vesting period of the awards. Forfeitures are estimated at the time of grant, with such estimate updated periodically and with actual forfeitures recognized currently to the extent they differ from the estimate.

The following table shows information about compensation cost recognized (including discontinued operations):

<b>For the periods ended September 30,</b>	<b>Three Months</b>		<b>Nine Months</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>(In thousands)</i>			
Compensation cost:				
Stock options and stock appreciation rights	\$ 11,623	\$ 17,697	\$ 35,953	\$ 56,119
Restricted stock		26		3,038

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Total compensation cost	11,623	17,723	35,953	59,157
Less: Compensation cost capitalized	(911)	(260)	(1,466)	(876)
Compensation cost recognized as expense	10,712	17,463	34,487	58,281
Less: Related tax benefit	(3,654)	(6,094)	(11,885)	(19,710)
Compensation expense, net of tax benefit	\$ 7,058	\$ 11,369	\$ 22,602	\$ 38,571

12

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**Table of Contents**

Compensation cost for stock options and stock appreciation rights was based on the fair value of each award, measured by applying the Black-Scholes model on the date of grant, using the following weighted-average assumptions:

For the periods ended September 30,	Three Months		Nine Months	
	2007	2006	2007	2006
Expected volatility	33%	33%	30%	33%
	4.1	4.1	4.1	4.1
Expected term	years	years	years	years
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	4.4%	5.1%	4.6%	4.9%
Forfeiture rate	4.6%	4.6%	4.6%	4.6%
Weighted-average fair value of options granted	\$27.64	\$12.75	\$23.24	\$14.08

**NOTE 10 PROPERTY TRANSACTIONS, NET**

Net property transactions consisted of the following:

For the periods ended September 30,	Three Months		Nine Months	
	2007	2006	2007	2006
	<i>(In thousands)</i>			
Hurricane Katrina insurance recoveries	\$ (107,035)	\$	\$ (107,035)	\$
Write downs and impairments	11,439		19,252	33,645
Demolition costs	5,435	118	5,435	316
Net losses on sale or disposal of fixed assets	936	164	549	2,494
	\$ (89,225)	\$ 282	\$ (81,799)	\$ 36,455

Write-downs and impairments in 2007 include write-offs related to discontinued construction projects and a write-off of the carrying value of the building assets of Nevada Landing which closed in March 2007. The 2007 periods also include demolition costs related to ongoing projects at the Company's resorts.

Write-downs and impairments in 2006 included \$22 million related to the write-off of the tram connecting Bellagio and Monte Carlo, including the stations at both resorts, in preparation for construction of CityCenter. CityCenter will feature a state-of-the-art people mover system that will reconnect Bellagio with Monte Carlo, with the stations at each resort completely redesigned as well.

**NOTE 11 SUBSEQUENT EVENTS**

**Stock sale.** On October 18, 2007, the Company completed the sale of 14.2 million shares of common stock to Infinity World Investments, a wholly-owned subsidiary of Dubai World, at a price of \$84 per share for total proceeds of approximately \$1.2 billion. These shares were previously held by the Company as treasury stock. Proceeds from the sale were used to reduce amounts outstanding under the senior credit facility. After giving effect to the issuance of these shares, Tracinda owned approximately 51% of the Company's outstanding shares.

**Insurance Recoveries.** During October 2007, the Company reached final settlement agreements with the remaining insurance carriers for its claim related to Hurricane Katrina. The Company's insurance recovery proceeds will total \$635 million.



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Current liabilities	\$ 227,743	\$ 1,364,472	\$ 55,885	\$	\$ 1,648,100
Intercompany accounts	(1,478,207)	1,281,499	196,708		
Deferred income taxes	3,441,157				3,441,157
Long-term debt	10,712,047	2,173,972	108,850		12,994,869
Other non-current liabilities	1,177	161,458	49,928		212,563
Stockholders equity	3,849,549	16,573,409	483,302	(17,056,711)	3,849,549
	\$ 16,753,466	\$ 21,554,810	\$ 894,673	\$(17,056,711)	\$ 22,146,238

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

	<b>For the Three Months Ended September 30, 2007</b>				
	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
			<i>(In thousands)</i>		
Net revenues	\$	\$ 1,786,625	\$ 110,445	\$	\$ 1,897,070
Equity in subsidiaries earnings	448,290	4,501		(452,791)	
Expenses:					
Casino and hotel operations	3,607	963,538	62,669		1,029,814
General and administrative	2,498	267,033	16,916		286,447
Corporate expense	11,345	51,705			63,050
Preopening and start-up expenses	141	5,882	19,828		25,851
Restructuring costs					
Property transactions, net		(89,225)			(89,225)
Depreciation and amortization	449	164,369	5,962		170,780
	18,040	1,363,302	105,375		1,486,717
Income from unconsolidated affiliates		54,260			54,260
Operating income	430,250	482,084	5,070	(452,791)	464,613
Interest income (expense), net	(155,619)	(20,017)	373		(175,263)
Other, net	444	(6,205)	10		(5,751)
Income from continuing operations before income taxes	275,075	455,862	5,453	(452,791)	283,599
Provision for income taxes	(91,212)	(7,572)	(952)		(99,736)
Income from continuing operations	183,863	448,290	4,501	(452,791)	183,863
Discontinued operations					
Net income	\$ 183,863	\$ 448,290	\$ 4,501	\$ (452,791)	\$ 183,863

	<b>For the Three Months Ended September 30, 2006</b>				
	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
			<i>(In thousands)</i>		
Net revenues	\$	\$ 1,678,900	\$ 116,142	\$	\$ 1,795,042
Equity in subsidiaries earnings	420,871	32,094		(452,965)	
Expenses:					
Casino and hotel operations	5,433	897,149	62,821		965,403
General and administrative	4,836	259,463	14,252		278,551

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Corporate expense	7,863	27,321			35,184
Preopening and start-up expenses	115	4,415	1,553		6,083
Restructuring costs					
Property transactions, net	60	222			282
Depreciation and amortization	450	151,274	4,556		156,280
	18,757	1,339,844	83,182		1,441,783
Income from unconsolidated affiliates		66,138			66,138
Operating income	402,114	437,288	32,960	(452,965)	419,397
Interest income (expense), net	(192,663)	5,953	(8)		(186,718)
Other, net	1,343	(7,628)	(1)		(6,286)
Income from continuing operations before income taxes	210,794	435,613	32,951	(452,965)	226,393
Provision for income taxes	(51,588)	(20,183)	(857)		(72,628)
Income from continuing operations	159,206	415,430	32,094	(452,965)	153,765
Discontinued operations	(2,944)	5,441			2,497
Net income	\$ 156,262	\$ 420,871	\$ 32,094	\$ (452,965)	\$ 156,262

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION****For the Nine Months Ended September 30, 2007**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
			<i>(In thousands)</i>		
Net revenues	\$	\$ 5,425,872	\$ 337,049	\$	\$ 5,762,921
Equity in subsidiaries earnings	1,500,421	47,662		(1,548,083)	
Expenses:					
Casino and hotel operations	10,714	2,881,598	190,663		3,082,975
General and administrative	8,792	817,946	47,001		873,739
Corporate expense	23,383	117,290			140,673
Preopening and start-up expenses	505	22,494	31,276		54,275
Restructuring costs					
Property transactions, net		(81,799)			(81,799)
Depreciation and amortization	1,347	487,383	17,836		506,566
	44,741	4,244,912	286,776		4,576,429
Income from unconsolidated affiliates		192,227			192,227
Operating income	1,455,680	1,420,849	50,273	(1,548,083)	1,378,719
Interest income (expense), net	(466,975)	(67,953)	391		(534,537)
Other, net	1,166	(20,270)	1		(19,103)
Income from continuing operations before income taxes	989,871	1,332,626	50,665	(1,548,083)	825,079
Provision for income taxes	(273,864)	(18,441)	(3,003)		(295,308)
Income from continuing operations	716,007	1,314,185	47,662	(1,548,083)	529,771
Discontinued operations	(3,799)	186,236			182,437
Net income	\$ 712,208	\$ 1,500,421	\$ 47,662	\$ (1,548,083)	\$ 712,208

**For the Nine Months Ended September 30, 2006**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
			<i>(In thousands)</i>		
Net revenues	\$	\$ 4,984,776	\$ 345,142	\$	\$ 5,329,918
Equity in subsidiaries earnings	1,254,256	97,566		(1,351,822)	
Expenses:					
Casino and hotel operations	16,138	2,612,542	187,770		2,816,450

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General and administrative	16,249	727,674	41,427		785,350
Corporate expense	31,306	79,109			110,415
Preopening and start-up expenses	392	22,013	4,903		27,308
Restructuring costs		1,035			1,035
Property transactions, net	3,454	33,000	1		36,455
Depreciation and amortization	1,949	448,847	10,710		461,506
	69,488	3,924,220	244,811		4,238,519
Income from unconsolidated affiliates		158,773			158,773
Operating income	1,184,768	1,316,895	100,331	(1,351,822)	1,250,172
Interest income (expense), net	(520,460)	(44,239)	128		(564,571)
Other, net	2,185	(20,648)	23		(18,440)
Income from continuing operations before income taxes	666,493	1,252,008	100,482	(1,351,822)	667,161
Provision for income taxes	(210,937)	(16,440)	(2,916)		(230,293)
Income from continuing operations	455,556	1,235,568	97,566	(1,351,822)	436,868
Discontinued operations	(8,863)	18,688			9,825
Net income	\$ 446,693	\$ 1,254,256	\$ 97,566	\$ (1,351,822)	\$ 446,693

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS INFORMATION**

**For the Nine Months Ended September 30, 2007**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
			<i>(In thousands)</i>		
Net cash provided by (used in) operating activities	\$ (900,115)	\$ 1,536,364	\$ 61,139	\$	\$ 697,388
Net cash used in investing activities		(1,622,537)	(332,222)	(3,557)	(1,958,316)
Net cash provided by (used in) financing activities	906,383	(59,772)	272,578	3,557	1,122,746

**For the Nine Months Ended September 30, 2006**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
			<i>(In thousands)</i>		
Net cash provided by (used in) operating activities	\$ (734,557)	\$ 1,399,247	\$ 111,606	\$	\$ 776,296
Net cash provided by (used in) investing activities	5,300	(1,024,485)	(192,571)	(3,434)	(1,215,190)
	713,981	(365,782)	53,044	3,434	404,677

Net cash provided by (used  
in) financing activities

16

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

At September 30, 2007, our primary operations consisted of 17 wholly-owned casino resorts and 50% investments in three other casino resorts, including:

- |                    |  |
|--------------------|--|
| Las Vegas, Nevada: | Bellagio, MGM Grand Las Vegas (including The Signature at MGM Grand) Mandalay Bay, Mirage, Luxor, TI, New York-New York, Excalibur, Monte Carlo, Circus Circus Las Vegas and Slots-A-Fun.  |
| Other domestic:    | Circus Circus Reno and Silver Legacy (50% owned) in Reno, Nevada; Gold Strike in Jean, Nevada; Railroad Pass in Henderson, Nevada; MGM Grand Detroit; Beau Rivage in Biloxi, Mississippi and Gold Strike Tunica in Tunica, Mississippi; Borgata (50% owned) in Atlantic City, New Jersey; and Grand Victoria (50% owned) in Elgin, Illinois. |

Other operations include the Shadow Creek golf course in North Las Vegas; two golf courses south of Primm, Nevada at the California state line; Fallen Oak golf course in Saucier, Mississippi; and a 50% investment in MGM Grand Paradise Limited, which is constructing a casino resort in Macau.

In April 2007, we closed the sale of the Primm Valley Resorts (Whiskey Pete's, Buffalo Bill's and Primm Valley Resort in Primm, Nevada), not including the two golf courses. In June 2007, we closed the sale of the Laughlin Properties (Colorado Belle and Edgewater). See Results of Operations Discontinued Operations. In February 2007, we entered into an agreement to contribute Gold Strike and Nevada Landing (the Jean Properties) and surrounding land to a joint venture, and we closed Nevada Landing in March 2007. See Liquidity and Capital Resources Other Factors Affecting Liquidity.

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

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

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

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

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

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

**Table of Contents**

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

*Outlook*

In October 2007 we reached final agreements with the remaining insurance carriers related to Hurricane Katrina. Our total insurance recoveries will be \$635 million. We expect to recognize the remaining income of approximately \$150 million in the fourth quarter of 2007, of which approximately \$110 million will be recognized as property transactions and \$40 million will be recorded as a credit to general and administrative expenses.

The all-new MGM Grand Detroit hotel and casino complex opened on October 2, 2007. The new casino has 4,500 slot machines, 90 table games, 400 hotel rooms, and a variety of food and beverage offerings. The interim facility closed on September 30, 2007 and had significantly fewer gaming positions and no hotel. Based on the increased gaming capacity and extent of resort amenities, we expect the operating results for MGM Grand Detroit to increase significantly. In addition, now that the permanent casino is open the gaming tax rate will decrease, retroactive to October 2, from 26% to 21% when the Michigan Gaming Control Board certifies that the terms of the related development agreement have been satisfied.

In August 2007, we entered a new five-year collective bargaining agreement covering approximately 21,000 of our Las Vegas Strip employees. This does not include the collective bargaining agreement covering employees at MGM Grand Las Vegas, which expires in 2008. The new agreement is retroactive to May 31, 2007 and provides for increases in wages and benefits of approximately 4% annually.

In July 2007, Michigan enacted into law a new Michigan Business Tax ( MBT ) that will replace the Michigan Single Business Tax effective January 1, 2008. Under the new law, Michigan will tax an apportioned amount of income from our combined operations, whereas under the existing law only income generated by entities operating in Michigan is subject to tax in the state. Consequently, an apportioned amount of our deferred tax liabilities will be subject to tax in Michigan when they are realized. The new law was amended on September 30, 2007 to provide for a deduction from the tax beginning in the 2015 tax year. This deduction is based upon the amount of book-tax differences upon which the deferred tax liabilities are determined as of the first fiscal period ending after July 12, 2007 and is intended to offset any financial statement expense that would otherwise result from the enactment of the MBT. As a result, we recorded a deferred tax liability and corresponding deferred tax asset which are recorded net within long-term deferred taxes in the accompanying consolidated balance sheet.

*Financial Results*

The following discussion is based on our consolidated financial statements for the three and nine months ended September 30, 2007 and 2006. On a consolidated basis, the most important factors and trends contributing to our operating performance for the periods were:

Continued year-over-year increases in room pricing and strong occupancy at our resorts, leading to increases in hotel revenues.

Ongoing investments in new restaurants, lounges, entertainment venues and other resort amenities, leading to strong non-gaming revenues.

The closure of Beau Rivage in August 2005 as a result of Hurricane Katrina and the reopening of the property in August 2006. For the three and nine months ended September 30, 2007, Beau Rivage earned operating income of \$145 million and \$172 million, respectively. In the third quarter of 2007, Beau Rivage recognized \$135 million of income for insurance recoveries, \$107 million of which was recorded as property transactions and \$28 million of which was recorded as a reduction of general and administrative expenses. Beau Rivage earned operating income of \$10 million for the 33 days it was open in the third quarter of 2006.

Recognition of our share of profits from the sale of units of The Signature at MGM Grand. The venture records revenue and cost of sales as units close. For the three and nine months ended September 30, 2007, we recognized income of \$12 million and \$84 million, respectively related to units closed and the recognition of deferred profit on land contributed to the venture. For the three and nine months ended September 30, 2006, we recognized income of \$26 million and \$52 million, respectively. Such income is classified in Income from unconsolidated affiliates in the accompanying consolidated statements of income.



9%. MGM Grand Detroit experienced an 8% decrease in slots revenue in the quarter, partially due to the winding down of operations at the interim facility.

Table games revenue decreased 5% excluding Beau Rivage, primarily due to a decrease in hold percentage as volumes were consistent with the third quarter of 2006. The table games hold percentage was within our normal range in both periods, but was down approximately 70 basis points compared to the prior year quarter at our Las Vegas Strip resorts.

For the nine-month period, casino revenue increased 4%, but decreased 4% excluding Beau Rivage. For the year-to-date periods, the overall table games hold percentage was within our normal range, although lower in the current year-to-date period by 60 basis points. Table games volume, including baccarat, decreased 2% in the nine month period excluding Beau Rivage.

**Table of Contents**

Rooms revenue increased 4% in the third quarter, excluding Beau Rivage, despite having 55,000 less available room nights in the current quarter, mainly due to room and suite remodel activity at Mandalay Bay and Bellagio and the closing of Nevada Landing in March 2007. Average rates increased 5% for the quarter at our Las Vegas Strip resorts; Las Vegas Strip REVPAR increased 6% these results continue trends experienced in the first half of the year.

For the nine month periods, REVPAR was up 7% and average room rates were up 6%. The following table shows key hotel statistics for our Las Vegas Strip resorts:

	Three Months		Nine Months	
	2007	2006	2007	2006
<b>For the periods ended September 30,</b>				
Occupancy	97%	96%	97%	96%
Average Daily Rate (ADR)	\$ 147	\$ 140	\$ 159	\$ 150
Revenue per Available Room (REVPAR)	143	135	154	144

For the third quarter of 2007, food and beverage revenue increased 10%, 6% excluding Beau Rivage. This increase is attributable to capital investments in new restaurants, nightclubs and lounges. Entertainment revenues increased 13% for the third quarter due to strong attendance at the Company's portfolio of Cirque du Soleil productions. The year-to-date period also benefited from the addition of *Love*, the Cirque du Soleil show located at The Mirage, which opened in July 2006.

*Operating Results Details of Certain Charges*

Preopening and start-up expenses consist of the following:

	Three Months		Nine Months	
	2007	2006	2007	2006
<b>For the periods ended September 30,</b>				
			<i>(In thousands)</i>	
CityCenter	\$ 4,653	\$ 3,000	\$ 18,801	\$ 6,207
MGM Grand Detroit	13,555	647	19,138	1,924
MGM Grand Macau (50% owned)	6,274	906	12,138	2,979
Other	1,369	1,530	4,198	16,198
	\$ 25,851	\$ 6,083	\$ 54,275	\$ 27,308

MGM Grand Detroit opened October 2, 2007 and MGM Grand Macau is expected to open later this year. In 2006, the nine month period includes preopening related to The Signature at MGM Grand and the *Love* show at the Mirage.

Property transactions, net consisted of the following:

	Three Months		Nine Months	
	2007	2006	2007	2006
<b>For the periods ended September 30,</b>				
			<i>(In thousands)</i>	
Hurricane Katrina insurance recoveries	\$ (107,035)	\$	\$ (107,035)	\$
Write-downs and impairments	11,439		19,252	33,645
Demolition costs	5,435	118	5,435	316
Net losses on sale or disposal of fixed assets	936	164	549	2,494
	\$ (89,225)	\$ 282	\$ (81,799)	\$ 36,455

Write-downs and impairments in 2007 include write-offs related to discontinued construction projects and a write-off of the carrying value of the Nevada Landing building assets due to its closure in March 2007. The 2007 periods also include demolition costs related to ongoing projects at our resorts.

Write-downs and impairments in 2006 included \$22 million related to the write-off of the tram connecting Bellagio and Monte Carlo, including the stations at both resorts, in preparation for construction of CityCenter. CityCenter will

feature a state-of-the-art people mover system that will reconnect Bellagio with Monte Carlo, with the stations at each resort completely redesigned as well.

**Table of Contents***Non-operating Results*

Net interest expense decreased to \$180 million in the 2007 third quarter from \$189 million in the 2006 period. For the nine months, net interest expense decreased to \$547 million from \$573 million. Gross interest was higher due to larger average balances outstanding, but was offset by increased capitalized interest due to ongoing construction of CityCenter and the MGM Grand Detroit permanent casino.

*Discontinued Operations*

We completed the sale of Primm Valley Resorts in April 2007, and the sale of the Laughlin Properties in June 2007. Our combined pre-tax gain on disposal of these resorts was \$264 million.

**Liquidity and Capital Resources***Cash Flows - Operating Activities*

Cash flow provided by operating activities was \$697 million for the nine months ended September 30, 2007, a decrease from \$776 million in the prior year period. During 2007 we spent \$306 million on construction of the CityCenter residential components and received deposits on residential sales of \$208 million. Also during 2007 we received \$42 million of Hurricane Katrina insurance recoveries related to the business interruption portion of our claim. At September 30, 2007, we held cash and cash equivalents of \$312 million.

*Cash Flows - Investing Activities*

Capital expenditures consisted of the following:

	<b>Nine Months Ended September 30, 2007          2006 (in millions)</b>	
Development and expansion projects:		
CityCenter	\$ 869	\$ 342
MGM Grand Detroit	287	185
Beau Rivage	63	349
Las Vegas Strip land	580	
Capitalized interest on development and expansion projects	140	66
	1,939	942
Other		
Room remodel projects	180	20
Corporate aircraft	81	45
Other	283	229
	544	294
	\$ 2,483	\$ 1,236

Also in 2007, we purchased a \$160 million convertible note issued by The M Resort LLC, which is developing a casino resort on Las Vegas Boulevard, 10 miles south of Bellagio.

In 2006, capital expenditures were \$1.2 billion, and included expenditures for the Mirage theatre, CityCenter, the permanent casino in Detroit, and rebuilding at Beau Rivage. Investments in unconsolidated affiliates in the 2006 period primarily represented partial funding of a required loan to MGM Grand Macau.

*Cash Flows - Financing Activities*

In the nine months ended September 30, 2007, we borrowed net debt of \$1.2 billion. The increase in net debt was due primarily to the level of capital expenditures and share repurchases. At September 30, 2007, our senior credit



facility had an outstanding balance of \$6.2 billion, with available borrowings of \$727 million.

We repurchased 2.5 million shares of our common stock in the nine months ended September 30, 2007 at a cost of \$175 million, leaving 5.5 million shares available under our current share repurchase authorization. We received proceeds of \$76 million from the exercise of stock options in the nine months ended September 30, 2007, and realized \$73 million of related excess tax benefits.

**Table of Contents***Other Factors Affecting Liquidity*

**Macau.** We own 50% of MGM Grand Paradise Limited, an entity which is developing, and will operate, MGM Grand Macau, a hotel-casino resort in Macau S.A.R. Pansy Ho Chiu-king owns the other 50% of MGM Grand Paradise Limited. MGM Grand Macau is located on a prime site and will feature at least 375 table games and 900 slots with room for significant expansion. Other features will include approximately 600 rooms, suites and villas, a luxurious spa, convention space, a variety of dining destinations, and other attractions. MGM Grand Macau is estimated to cost approximately \$880 million, excluding preopening, land rights and license costs. Preopening costs are estimated to be \$110 million. The land rights are estimated to cost approximately \$60 million. The subconcession agreement, which allows MGM Grand Paradise Limited to operate casinos in Macau, cost \$200 million. Construction of MGM Grand Macau began in the second quarter of 2005 and the resort is anticipated to open in late 2007. We have invested \$266 million in the venture and are committed to lending the venture up to an additional \$4 million. The venture has obtained a \$700 million bank credit facility. MGM Grand Macau is currently seeking to expand this facility to fund the revised budget as well as future expansion and development activities.

MGM Grand Paradise Limited recently announced that it has been engaged in discussions with the Government of Macau S.A.R concerning the development of its second major resort project in Macau to be located in Cotai. The site, scope, and financing related to this project are still being evaluated.

**CityCenter.** We are building a multi-billion dollar urban metropolis, CityCenter, on the Las Vegas Strip between Bellagio and Monte Carlo. CityCenter will feature a 4,000-room casino resort designed by world-famous architect Cesar Pelli; two 400-room boutique hotels, one of which will be managed by luxury hotelier Mandarin Oriental; approximately 470,000 square feet of retail shops, dining and entertainment venues; and approximately 2.3 million square feet of residential space in approximately 2,700 luxury condominium and condominium-hotel units in multiple towers.

We believe CityCenter will cost approximately \$7.8 billion, excluding preopening and land costs. Preopening costs are estimated to be \$200 million. CityCenter is located on a 67-acre site with a carrying value of approximately \$1 billion. After estimated net proceeds of \$2.7 billion from the sale of residential units, we believe the net construction cost will be approximately \$5.1 billion. We expect the project to open in late 2009. These estimates of net project costs do not reflect the joint venture transaction discussed below.

In August 2007, we entered into an agreement with Dubai World to form a 50/50 joint venture for the CityCenter development. The joint venture, CityCenter Holdings LLC, will be owned equally by the Company and Infinity World Development Corp., a wholly-owned subsidiary of Dubai World. We will contribute the CityCenter assets which the parties have valued at \$5.4 billion, subject to adjustment based on actual construction spending and actual residential proceeds through the closing date. Dubai World will initially contribute \$2.7 billion, subject to adjustment based on a) the potential adjustment to the initial valuation of \$5.4 billion, and b) the need for interim additional funding until the joint venture obtains project-specific financing. At the close of the transaction, we will receive a cash distribution of \$2.7 billion, subject to these same adjustments. The joint venture intends to obtain project-specific financing to fund remaining project costs. We will continue to serve as developer of CityCenter and will receive additional consideration of up to \$100 million if the project is completed on time and actual development costs, net of residential proceeds, are within specified parameters. Upon completion of construction, the Company will manage CityCenter for a fee. We expect the joint venture transaction to close in the fourth quarter of 2007.

**Stock sale.** On October 18, 2007, we completed the sale of 14.2 million shares of common stock to Infinity World Investments, a wholly-owned subsidiary of Dubai World, at a price of \$84 per share for total proceeds of approximately \$1.2 billion. These shares were previously held by the Company as treasury stock. Proceeds from the sale were used to reduce amounts outstanding under the senior credit facility.

**Atlantic City Development.** The new resort is preliminarily estimated to cost approximately \$4.5 - \$5.0 billion, not including land and associated costs. The proposed resort includes three towers with more than 3,000 rooms and suites, approximately 5,000 slot machines, 200 table games, 500,000 square-feet of retail, an extensive convention center, and other typical resort amenities.

**Table of Contents**

**Kerzner/Istithmar Joint Venture.** In September 2007, we entered into a definitive agreement with Kerzner International and Istithmar Hotels FZE forming a joint venture to develop a multi-billion dollar integrated resort to be located on the southwest corner of Las Vegas Boulevard and Sahara Avenue. We will contribute 40 acres of land, which is being valued at \$20 million per acre, for fifty percent of the equity in the joint venture. Kerzner International and Istithmar Hotels FZE will contribute cash and each will obtain twenty-five percent of the equity in the joint venture.

**Mashantucket Pequot Tribal Nation.** We have entered into a series of agreements to implement a strategic alliance with the Mashantucket Pequot Tribal Nation ( MPTN ), which owns and operates Foxwoods Casino Resort in Ledyard, Connecticut. Under the strategic alliance, we are consulting with MPTN in the development of a new \$700 million casino resort currently under construction adjacent to the existing Foxwoods casino resort. The new resort will utilize the MGM Grand brand name and is scheduled to open in Spring 2008. We have also formed a jointly owned company with MPTN Unity Gaming, LLC to acquire or develop future gaming and non-gaming enterprises. We will provide a loan of up to \$200 million to finance a portion of MPTN s investment in joint projects.

**Jean Properties.** We have entered into an operating agreement to form a 50/50 joint venture with Jeanco Realty Development, LLC. The venture will master plan and develop a mixed-use community in Jean, Nevada. We will contribute the Jean Properties and surrounding land to the joint venture. The value of this contribution per the operating agreement will be \$150 million. We expect to receive a distribution of \$55 million upon transfer of the Jean Properties and surrounding land to the venture, which is subject to the venture obtaining necessary regulatory and other approvals, and \$20 million no later than August 2008. Nevada Landing closed in March 2007.

**New York Racing Association.** In 2005, we entered into a definitive agreement with the New York Racing Association ( NYRA ) to manage video lottery terminals ( VLTs ) at NYRA s Aqueduct horseracing facility in metropolitan New York which was subject to receipt of requisite New York State approvals. We were not able to come to an agreement with NYRA and the state of New York and announced in April 2007 that we have decided not to pursue this project further.

**Critical Accounting Policies**

Management s discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements. To prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, we must make estimates and assumptions that affect the amounts reported in the consolidated financial statements. We regularly evaluate these estimates and assumptions, particularly in areas we consider to be critical accounting estimates, where changes in the estimates and assumptions could have a material impact on our results of operations, financial position and, generally to a lesser extent, cash flows. Senior management and the Audit Committee of the Board of Directors have reviewed the disclosures included herein about our critical accounting estimates, and have reviewed the processes to determine those estimates.

A complete description of our critical accounting policies and estimates can be found in our Annual Report on Form 10-K for the year ended December 31, 2006. We present below a discussion of our policies related to income taxes, which has been updated from the discussion included in our Annual Report.

*Income Taxes*

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ( SFAS 109 ). SFAS 109 requires the recognition of 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. Except for certain New Jersey state net operating losses, certain other New Jersey state deferred tax assets, a foreign tax credit carryforward and certain foreign deferred tax assets, we believe that it is more likely than not that our deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income.

Our income tax returns are subject to examination by the Internal Revenue Service ( IRS ) and other tax authorities. While positions taken in tax returns are sometimes subject to uncertainty in the tax laws, we do not take such positions unless we have substantial authority to do so under the Internal Revenue Code and applicable regulations. We may take positions on our tax returns based on substantial authority that are not ultimately accepted by the IRS.



**Table of Contents**

Effective January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 requires that tax positions be assessed using a two-step process. A tax position is recognized if it meets a more likely than not threshold, and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. As required by the standard, we review uncertain tax positions at each balance sheet date. Liabilities we record as a result of this analysis are recorded separately from any current or deferred income tax accounts, and are classified as current (Other accrued liabilities) or long-term (Other long-term liabilities) based on the time until expected payment. Additionally, we recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense, a policy that did not change as a result of the adoption of FIN 48.

We file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions, and foreign jurisdictions, although the taxes paid in foreign jurisdictions are not material. We are no longer subject to examination of our U.S. federal income tax returns filed for years ended prior to 2001. While the IRS examination of the 2001 and 2002 tax years closed during the first quarter of 2007, the statute of limitations for assessing tax for such years has been extended in order for us to complete the appeals process for issues that were not agreed upon at the closure of the examination. The IRS is currently examining the federal income tax returns for the 2003 and 2004 tax years. The tax returns for subsequent years are also subject to examination.

With few exceptions, we are no longer subject to examination of our various state and local tax returns filed for years ended prior to 2003. During the first quarter of 2007, the City of Detroit initiated an examination of a Mandalay Resort Group subsidiary return for the pre-acquisition year ended April 25, 2005. During the fourth quarter of 2007, the state of Mississippi initiated an examination of returns filed by subsidiaries of MGM MIRAGE and Mandalay Resort Group for the 2004 through 2006 tax years. No other state or local income tax returns are under examination.

**Market Risk**

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

As of September 30, 2007, long-term variable rate borrowings represented approximately 44% of our total borrowings. Assuming a 100 basis-point change in LIBOR at September 30, 2007, our annual interest cost would change by approximately \$62 million.

**Forward-looking Statements**

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

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

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



**Table of Contents**

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

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

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

**Item 4. Controls and Procedures**

Our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have concluded that the design and operation of our disclosure controls and procedures are effective as of September 30, 2007. This conclusion is based on an evaluation conducted under the supervision and with the participation of Company management. Disclosure controls and procedures are those controls and procedures which ensure that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported in a timely manner and in accordance with Securities and Exchange Commission rules and regulations.

During the quarter ended September 30, 2007, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to affect, our internal control over financial reporting.

**Part II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

For a complete description of the facts and circumstances surrounding material litigation we are a party to, see our Annual Report on Form 10-K for the year ended December 31, 2006. There have been no significant developments in any of the cases disclosed in our Form 10-K in the nine months ended September 30, 2007 or any new cases during that time, other than the matter described below.

*Fair and Accurate Credit Transaction Act Litigation*

On June 22, 2007, the Company was served with a purported nationwide class action lawsuit filed in federal district court in Nevada (*Lety Ramirez v. MGM MIRAGE, Inc., et al.*) for alleged willful violations of the Fair and Accurate Credit Transactions Act (FACTA). The lawsuit asserts that the Company failed to comply timely with FACTA's directive that merchants who accept credit and/or debit cards not display more than the last 5 digits of the card number or the card expiration date on electronically-generated receipts provided to customers at the point of sale. FACTA's compliance deadline for electronic machines that were first put into service before January 1, 2005 was December 4, 2006, while electronic machines put into use on or after January 1, 2005 required immediate compliance.

Although the complaint does not assert that the plaintiff sustained any actual damage, the plaintiff seeks on behalf of herself and all similarly situated putative class members throughout the United States statutory damages of \$100 (minimum) to \$1,000 (maximum) for each transaction violation, attorneys' fees, costs, punitive damages and a permanent injunction. We believe that the plaintiff's claims for class certification and other relief are unjustified, and we will vigorously defend our position in this case.

**Table of Contents**

**Item 1A. Risk Factors**

A complete description of certain factors that may affect our future results and risk factors is set forth in our Annual Report on Form 10-K for the year ended December 31, 2006. The following is an additional risk factor noted during the nine months ended September 30, 2007:

*A significant portion of our labor force is covered by collective bargaining agreements.* Approximately 30,000 of the Company's 64,000 employees are covered by collective bargaining agreements. A prolonged dispute with the covered employees could have an adverse impact on our operations. In addition, wage and or benefit increases resulting from new labor agreements may be significant and could also have an adverse impact on our results of operations.

Approximately 21,000 of our Las Vegas Strip employees were subject to a collective bargaining agreement that expired May 31, 2007. In August 2007, we entered a new five-year collective bargaining agreement covering these employees. The new agreement is retroactive to May 31, 2007 and provides for increases in wages and benefits of approximately 4% annually. This does not include the collective bargaining agreement covering employees at MGM Grand Las Vegas, which expires in 2008.

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

Our share repurchases are only conducted under repurchase programs approved by our Board of Directors and publicly announced. We did not repurchase shares during the quarter ended September 30, 2007. The maximum number of shares still available for repurchase under our July 2004 repurchase program was 5.5 million as of September 30, 2007.

**Item 6. Exhibits**

- 10.1 Limited Liability Company Agreement of CityCenter Holdings, LLC, dated August 21, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 21, 2007).
- 10.2 Company Stock Purchase and Support Agreement, dated August 21, 2007, by and between MGM MIRAGE and INFINITY WORLD INVESTMENTS, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 21, 2007).
- 10.3 Limited Liability Company Operating Agreement of IKM JV, LLC, dated September 10, 2007 (incorporated by reference to Exhibit 10 to the Company's Current Report on Form 8-K dated September 10, 2007).
- 10.4 Amendment No. 1, dated October 17, 2007, to the Company Stock Purchase and Support Agreement by and between MGM MIRAGE and Infinity World Investments, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 17, 2007).
- 31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MGM MIRAGE

Date: November 9, 2007

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

Date: November 9, 2007

/s/ DANIEL J. D ARRIGO  
Daniel J. D Arrigo  
Executive Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

27

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**Table of Contents**

**INDEX TO EXHIBITS**

- 10.1 Limited Liability Company Agreement of CityCenter Holdings, LLC, dated August 21, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 21, 2007).
- 10.2 Company Stock Purchase and Support Agreement, dated August 21, 2007, by and between MGM MIRAGE and INFINITY WORLD INVESTMENTS, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 21, 2007).
- 10.3 Limited Liability Company Operating Agreement of IKM JV, LLC, dated September 10, 2007 (incorporated by reference to Exhibit 10 to the Company's Current Report on Form 8-K dated September 10, 2007).
- 10.4 Amendment No. 1, dated October 17, 2007, to the Company Stock Purchase and Support Agreement by and between MGM MIRAGE and Infinity World Investments, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 17, 2007).
- 31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.