

MGM Grand, Inc.



1999 annual report

what

a

year.





What are you going to do?



year.

we are in  
the business  
of creating  
experiences  
that **wow**  
people!

# financial highlights

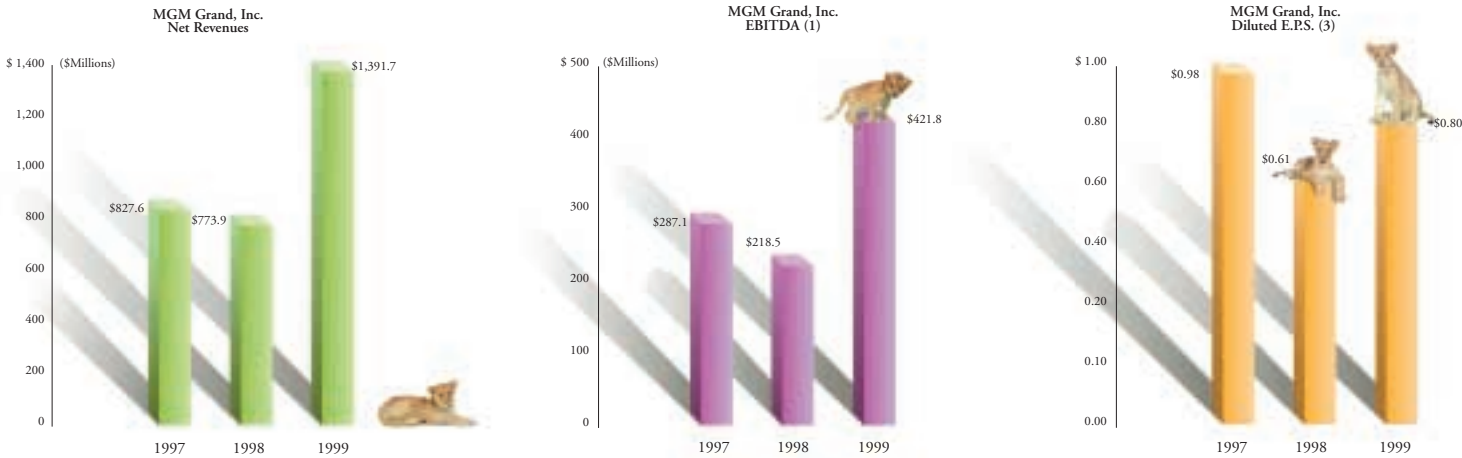
(In thousands except share data)					
For the Years Ended December 31,	1999	1998	1997	1996	1995
Net revenues . . . . .	\$1,391,650	\$773,863	\$827,597	\$800,189	\$718,781
EBITDA (1) . . . . .	421,805	218,547	287,064	258,781	169,837
Operating profit before non-recurring items and corporate expense . . . . .	295,820	142,263	222,960	196,585	113,905
Operating income . . . . .	209,868	131,574	190,970	129,294	103,823
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle . . . . .	150,153	109,528	180,301	99,151	46,565
Net income . . . . .	86,058	68,948	111,018	43,706	46,565
Basic Earnings Per Share: (2)					
Income before extraordinary item and cumulative effect of change in accounting principle . . . . .	\$0.82	\$0.62	\$1.01	\$0.70	\$0.48
Extraordinary item - loss on early extinguishment of debt, net of income tax benefit . . . . .	(0.01)	-	(0.04)	(0.29)	-
Cumulative effect of change in accounting principle - preopening, and other, net of income tax benefit . . . . .	(0.07)	-	-	-	-
Net income per share . . . . .	\$0.74	\$0.62	\$0.97	\$0.41	\$0.48
Weighted average number of shares (2)	116,580,000	111,356,000	114,950,000	105,518,000	96,152,000
Diluted Earnings Per Share: (2)					
Income before extraordinary item and cumulative effect of change in accounting principle . . . . .	\$0.80	\$0.61	\$0.98	\$0.68	\$0.48
Extraordinary item - loss on early extinguishment of debt, net of income tax benefit . . . . .	(0.01)	-	(0.04)	(0.28)	-
Cumulative effect of change in accounting principle - preopening, net of income tax benefit . . . . .	(0.07)	-	-	-	-
Net income per share . . . . .	\$0.72	\$0.61	\$0.94	\$0.40	\$0.48
Weighted average number of shares (2)	120,086,000	112,684,000	117,670,000	108,514,000	97,088,000
At Year End					
Total assets . . . . .	\$2,760,743	\$1,768,958	\$1,389,816	\$1,275,121	\$1,275,883
Total debt, excluding capital leases . . . . .	1,318,841	544,874	57,830	83,391	551,099
Stockholders' equity . . . . .	1,033,846	964,381	1,101,622	973,382	584,548
Stockholders' equity per share (2) . . . . .	\$9.08	\$9.27	\$9.50	\$8.41	\$5.99
Number of shares at year end, net of Treasury shares (2) . . . . .	113,880,000	104,066,000	115,970,000	115,768,000	97,550,000

The selected financial data above includes information for MGM Grand Las Vegas, which commenced operations on December 18, 1993, New York-New York, which commenced operations on January 3, 1997, and was 50% owned until March 1, 1999 when the Company acquired the remaining 50%, the Primm Properties, which were acquired on March 1, 1999, MGM Grand Australia which was acquired on September 7, 1995, and MGM Grand Detroit, which commenced operations on July 29, 1999.

(1) EBITDA consists of net income plus net interest expense, other nonoperating expenses, taxes, depreciation and amortization, one-time charges (which consist of Master Plan asset disposition, Preopening and Other, Cumulative Effect of Change in Accounting Principle and Extraordinary Items) and Corporate expense. EBITDA should not be construed as an alternative to operating income, as an indicator of the Company's operating performance, or as an alternative to cash flows generated by operating, investing or financing activities as an indicator of cash flows, or a measure of liquidity, or as any other measure of performance determined in accordance with generally accepted accounting principles.

(2) Effective December 13, 1999, the Board of Director's approved a two-for-one split of the Company's common stock. All references to share and per share data herein have been adjusted retroactively to give effect to the stock split.

(3) Diluted E.P.S. represents E.P.S. before extraordinary items and cumulative change in accounting principle.



# letter to our stockholders



**W**ow! What can you say about a year that was so full of success and promise for the future? 1999 was, very simply, the best year in MGM Grand Inc.'s history. Business improved company wide. We launched some new endeavors, and we posted new operating records.

First let's look at our excellent results. MGM Grand's growth was largely driven by increased casino and hotel volumes, a significant contribution from Primadonna Resorts, acquired on March 1, and the success of MGM Grand Detroit following its opening in July. Operating cash flow (EBITDA) rose 93% from the prior year to a record \$421.8 million. Net income before non-recurring expenses gained \$72.7 million to a new high of \$141.6 million or \$1.18 per share. Net income after non-recurring expenses increased 24.8% to a record \$86.1 million or \$.72 per share. Reflecting our solid financial position and enhanced earnings prospects in November, Moody's raised its rating on your Company's corporate debt to Baa3 from Ba1.

“We are  
in the  
business  
of creating  
experiences.”

These results are very satisfying because they indicate that our strategies for winning in a competitive environment are working, and we are on the right track for the future. Our main goal of realizing greater value for shareholders was bolstered by the continued control of expenses and maintenance of a strong balance sheet, as well as by the disciplined allocation of capital. We

invested substantial sums in high octane, high return investments such as the flagship "MGM Grand - The City of Entertainment," the development of MGM Grand Detroit, and the acquisition of Primadonna Resorts, which brought us three fine casino resorts, two championship golf courses and the remaining 50% share of our treasured New York-New York Hotel & Casino.

A big believer in our future, we also invested in ourselves when we repurchased six million MGM Grand shares in August under a tender offer, using free cash flow and low cost borrowings. At the same time, your Board authorized a program to repurchase five million additional shares on the open market over the subsequent year. Buying back our stock at attractive prices adds to earnings per share and improves our investment returns. Shareholders also benefited from the December declaration of a two-for-one stock split to improve liquidity and an initial \$.10 per share quarterly cash dividend on the post-split shares.



The progress and excitement which characterized the year was felt throughout the entire Company. We completed several major elements of our master plan for the MGM Grand, Las Vegas in 1999. June marked the opening of the 29-villa Mansion, perhaps the most extraordinary luxury accommodations anywhere in the world. The Lion Habitat, which opened in July, is now a must-see attraction for the Las Vegas visitor. And our expanded parking facilities provide added convenience for our guests. Adding to the excitement, the Grand Garden was host to a year long roster of such events and names as the Tyson/Botha fight, the Rolling Stones, Cher, the Billboard Music Awards and the spectacular millennium New Year's Eve concert starring Barbra Streisand. Our Studio 54 nightclub was red hot all year. Casino, food, beverage and entertainment revenues posted significant gains in 1999.

On July 29 at 4:31 p.m., MGM Grand opened its highly anticipated casino in the heart of the Detroit's Central Business District. The first casino to open its doors in "Motown," the interim facility is conveniently located downtown, directly off a major highway that feeds the city. The casino features 75,000 square feet of gaming space and three restaurants and evokes the glamorous era of art deco Hollywood. By the end of 1999, 156 days after the casino's debut, MGM Grand Detroit reported net revenues of \$172.9 million and \$58.3 million in operating cash flow, realizing an impressive 34% profit margin. Traffic continues at high levels since the day the casino opened. These figures are all the more remarkable with operations



Daniel M. Wade and John T. Redmond, Co-Chief Executive Officers, MGM Grand, Inc.

in an interim facility; imagine what it will be like when we open our permanent hotel/casino along the banks of the Detroit River.

In another success story, high volumes and strong occupancy rates enabled the New York-New York Hotel Casino to maintain its market leadership during the year. During 1999, New York-New York generated net revenue of \$213.1 million and EBITDA of \$96.3 million, representing a 45% margin, the highest in the city.

Your Company achieved another milestone when it completed the acquisition of Primadonna Resorts on March 1, which had held a 50% interest in New York-New York. Following this acquisition, Primadonna Resorts delivered handsomely on its promise as an attractive and popular hotel/casino destination. Its three facilities, Whiskey Pete's, Buffalo Bill's and Primm Valley Resort, complemented by two Tom Fazio-designed championship golf courses, generated solid year-to-year gains and contributed significantly to your Company's results. Net revenue for 1999 was \$199.2 million while EBITDA was \$61.5 million, representing a 31% operating margin. The refinancing of Primadonna's and New York-New York's bank debt at the close of the first quarter produced substantial 1999 and future cost savings.



“We are in the  
business  
of making  
memories.”

Rounding out the global picture, excellent growth was also achieved with MGM Grand's international operations. Both South Africa and Australia provided increased contributions to overall results. South Africa saw the successful opening of the Nelspruit permanent casino in November. MGM Grand benefited from a full-year's operation of the Johannesburg casino which had opened in September, 1998, as well as from higher management and development fees. MGM Grand

Australia participated by generating outstanding profit margins during the year. In the planning stages for our growth are a resort hotel/casino in Atlantic City and the permanent facility in Detroit.

The environment of continuous and intense change, which is a hallmark of your Company and our industry, requires leadership that can face both opportunity and challenge with a continually fresh outlook. This is perhaps another way of saying we have been winning and want to ensure that we continue to win. During 1999, we created a dual Chief Executive office, naming Daniel Wade and John Redmond as Co-Chief Executive Officers. Danny had been Chief Operating Officer of the corporation, a position to which he was promoted earlier in the year, while John was previously President and Chief Operating Officer of Primadonna Resorts. Also at the senior corporate level, Chief Financial Officer James Murren was elevated to the addi-

tional office of President. George Boyer was promoted to President and Chief Executive Operating Officer of Primadonna Resorts. MGM Grand Detroit saw the naming of Scott Snow as President and Chief Operating Officer, and David Steinhardt was tapped to run MGM Grand Darwin.

On March 6, 2000, your Company agreed to acquire all of the outstanding shares of Mirage Resorts for \$21 per share with a total equity value of approximately \$4.4 billion. In addition, your Company will assume the outstanding debt of Mirage Resorts of approximately \$2.0 billion. While the transaction is subject to certain approvals, we anticipate that this merger will be completed by the end of the year.

All of this growth and expansion positions your Company as the dominant force in the gaming industry for the new millennium, yet ultimately, our success will be driven by our core values. We are committed to doing more than providing "the best" in every category. We are committed to creating experiences that transcend standard expectations. Ultimately, we are in the business of creating memories. Our guests and our shareholders will reward us for adhering to these principles.

Finally, we are extremely grateful to J. Terrence Lanni, former Chief Executive Officer, and Alex Yemenidjian, former President of MGM Grand, Inc., for their years of leadership on behalf of your Company. Terry remains as Chairman of the Board of Directors and its Executive Committee, and Alex continues to serve as a member of the Board of Directors and its Executive Committee. We are fortunate to have the continued benefit of their knowledge and guidance. Our success is a direct by-product of Alex and Terry's vision, and their impact on your Company cannot be overstated. Thank you.

We wish to extend our sincere thanks to our shareholders, our partners, our employee family, which now numbers over 17,000, and our loyal guests for their continued confidence and support.



Daniel M. Wade  
Co-Chief Executive Officer



John T. Redmond  
Co-Chief Executive Officer

March 10, 2000

One of  
the things  
that has  
shaped  
this company  
is  
Grand  
Class service.





The biggest stars in show business. Icons of rock n' roll. World champions of sports. MGM Grand, Inc. offers the world's finest entertainment attractions appealing to a broad range of customers and tastes. Entertainment is our birthright and no one does it better.

# enter



we are the best  
at one thing  
that never goes out  
of style, and that's  
entertainment





# grand class

When it comes to providing exceptional service, we know that it's more than just being the best. It's about creating experiences that transcend even the highest expectations of our guests. Grand class service is a core value that is the essence of the MGM brand.







# service



# our cast

The MGM Grand family is now over 17,000 strong. Yet each individual cast member is uniquely empowered to provide the kind of thoughtful, personalized attention and service that keep our guests coming back again and again. Our cast members are our shining stars.



# member

the most  
important thing

we can

do for our  
shareholders

is attract and retain

quality people



S

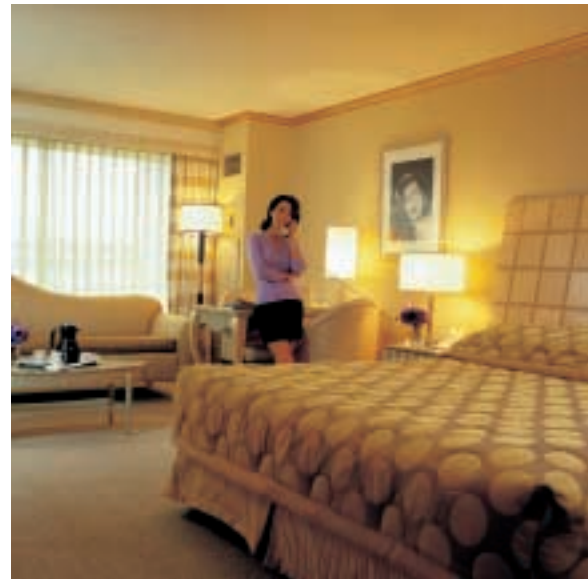


# MGM

the city of



Robert V. Moon, President, MGM Grand Marketing; Corey Sanders, Senior Vice President & Chief Financial Officer; Cynthia Kiser Murphey, Senior Vice President, Human Resources & Administration; Felix Rappaport, Executive Vice President, Hotel Operations; William Hornbuckle, President & Chief Operating Officer; Richard A. Sturm, President, MGM Grand Entertainment & Sports; Chuck Bowling, Senior Vice President, Sales & Marketing; Tom Peterman, Senior Vice President & General Counsel; and Joe Brunini, Executive Vice President, MGM Grand Marketing.





# Grand Las Vegas entertainment



1999 heralded the opening of the ultra-luxurious and palatial villas at The Mansion, reserved for our most select and honored guests. The new Lion Habitat captivated customers of all ages with its spectacular setting for viewing these magnificent animals. The MGM Grand conference center continued to serve as Las Vegas' pre-

mier meeting and convention facility. And, as the millennium approached, we began the refurbishment of our 5,005 rooms and suites, adding a fresh and contemporary design statement to our facility. Completion is scheduled for the third quarter of this year.



# New



# New



Hailed as The Greatest City in Las Vegas, New York-New York Hotel & Casino continues to be a magnet for Las Vegas visitors. Featuring the most spectacular skyline on the Las Vegas strip, New York-New York recreates the sights and sounds of its namesake metropolis. 1999 highlights included renovations to its deluxe guest

rooms and suites, as well as significant enhancements featuring the relocation of the New York-New York Slot Exchange, the Sports Book and Keno. These improvements were recently completed and should help New York-New York continue to enjoy the highest operating cash flow (EBITDA) margins in the city.





# York

## York



Yvette Harris, Vice President of Finance & Chief Financial Officer; Tom McCartney, Senior Vice President of Hotel Operations; Jean George, Senior Vice President of National Marketing; David Cacci, President & Chief Operating Officer; Trish Krantz, Vice President of Hotel Operations; Miriam Hammond, Vice President of Human Resources; and Todd Simons, Vice President of Slot Operations.

# Whiskey



# Primm Valley Resort



Paul Roshetko, Chief Financial Officer & Treasurer; Linda Wilson, Vice President of Human Resources; Jon Lucas, Vice President & General Manager; and Mike Puggi, Vice President & General Manager.

# Pete's

# Buffalo Bill's



Strategically located on the Nevada/California stateline along heavily traveled Interstate 15, Primadonna Resorts consists of three unique properties - Buffalo Bill's, Whiskey Pete's and the Primm Valley Resort. The centerpiece of this resort and entertainment complex are two championship golf courses designed by the highly acclaimed golf course architect, Tom Fazio. In 1999, as part of a repositioning strategy to attract visitors to this golfer's paradise, Primm Valley Resort renovated 258 of its guest rooms to

appeal to an upscale clientele. In addition, the adjacent Fashion Outlet offers a unique shopping attraction featuring an array of outlet shops such as Ralph Lauren and Neiman Marcus Last Call.





# MGM



Dennis Graham, Vice President Security; Geoffrey Walker, Vice President Legal; Pat E. Johnson, Vice President Compliance; Jon Johnson, Vice President Finance; Jay Dee Clayton, Senior Vice President, Casino Operations; Scott Snow, President & Chief Operating Officer; Dana Napier, Vice President Table Games; Nancy Ziolkowski, Vice President Marketing; Thomas E. Boyd, Jr., Vice President Surveillance; Barrie Borovsky, Vice President Food & Beverage and Property Administration; Angelo Bianco, Vice President Player Development; and Phil Maruncic, Vice President Slot Operations.



# Grand Detroit

The powerful MGM Grand brand extended its reach on July 29, 1999 with the opening of MGM Grand Detroit. Featuring 75,000 square-feet of casino space, three restaurants and a nine-deck parking structure with 2,200 parking spaces, this interim casino generated a staggering \$58.3 million in operating cash flow (EBITDA) during its first 156 days of operations. Plans continue on schedule for the development of a permanent resort destination on the banks of the Detroit River.



# Australia

## South Africa

Our brand portfolio spans the globe with our operation in Darwin, Australia. This property continues to produce steady growth.

With our partner, Tsogo Sun Gaming & Entertainment, we continue to manage three casinos in South Africa. Currently, a permanent facility



is under construction in Johannesburg. This resort casino/hotel, named Montecasino, will be the largest in South Africa. It is expected to open at the end of 2000.



FINANCIAL OVERVIEW

Your Company had another terrific year. Prospects for the hotel gaming industry were clouded at the outset of 1999. Substantial new capacity added in the prior year burdened the Las Vegas market, and Asian traffic had not fully recovered from economic weakness in the Far East. Investor angst was high with many believing profitability would suffer before supply and demand reverted to equilibrium.

MGM Grand viewed these problems as opportunities. We made additional investments in our MGM Grand flagship and other properties to enhance their market appeal, and we reduced costs wherever feasible to bolster our profitability. We deployed our ample free cash flow in strategies that we believed would offer the highest returns on investment. These included the repurchase of company shares, steps to reduce our debt, and the development of our extremely successful interim casino in Detroit. As the year progressed, market conditions improved and our rigorous approach to building earnings and shareholder value paid off handsomely. MGM Grand achieved improved EBITDA margins company wide. Our Las Vegas occupancy rates and profit margins were among the highest in the city, confirming our leadership position.

The outlook for 2000 appears to be favorable. Few, including ourselves, expected that Las Vegas would so quickly absorb the introduction of four mega-resorts opening in less than a year's time. But while room capacity increased about 10% in 1999, so too did visitation and gaming revenue. Only one project is scheduled for 2000, and noth-

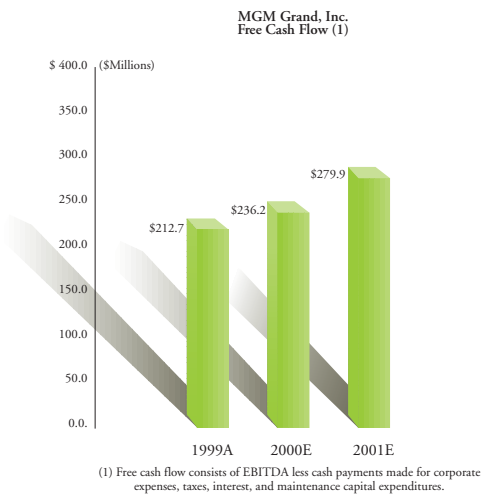
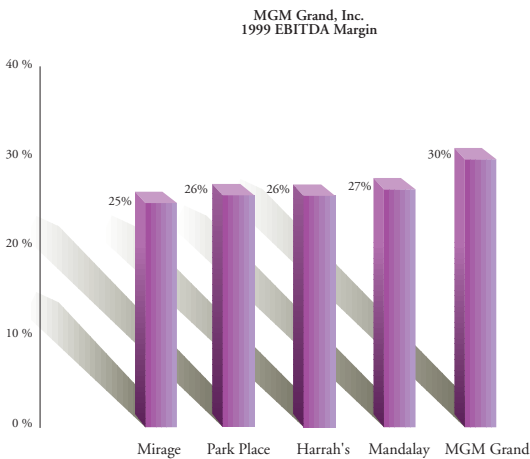


James J. Murren, President & Chief Financial Officer, MGM Grand, Inc.

ing tangible is on the horizon for the next three years. Companies are now poised to reap the benefits of prior investments. Management's effectiveness in doing so will determine stock performance.

Limited new construction ultimately leads to improving returns. The demand outlook is favorable owing to ongoing economic strength; burgeoning customer interest stimulated by new mega-resorts and improved marketing. With demand growing modestly, supply remains unchanged, and accordingly, returns should improve.

We would note a maturing industry is more susceptible to capital cycles. Since money is read-

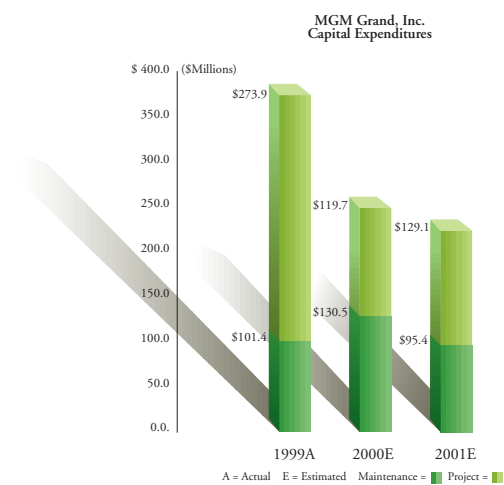




“Our job is to balance what Wall Street wants and deserves, with what our Customers and Employees want and deserve.”

ily available and creative juices continue to flow, new casino dreams are inevitable; and in the long term, not only vital to stimulating demand but also best operating practices through healthy competition. It is management's job to maximize the profitability of its existing asset base and carefully allocate any free cash flow into high return opportunities to grow revenues, cash flow, and above all, earnings per share. When attractive opportunities to invest in buildings do not exist, shareholders are better off when management uses the free cash to remove capital from the industry by reducing debt or repurchasing shares. MGM Grand did both in 1999.

While the days of 20% plus initial development returns on projects in mature markets appear to be over, they do exist in some areas like Detroit. Meanwhile, in general, operating margins remain high, and the industry is entering an era when free cash flow should grow meaningful-



ly. Our goal is to have the highest possible margins (already the best of our peers), the most rapid earnings growth, the best assets, and the best balance sheet in the gaming industry.

We employ a rigorous and disciplined evaluation process before allocating capital and target a minimum after-tax return of 14%. If we do not confidently expect a return significantly above our cost of capital, we use free cash flow to reduce debt and repurchase shares. We look at all investments equally on a risk-adjusted basis. We are not trying to be the biggest gaming company, simply the best.

Valuations of gaming stocks, despite a good run last year, remain depressed, due in part to investor concerns that casino management may still be more interested in empire building than value creation. Like any maturing industry where



James J. Murren, President & Chief Financial Officer; John T. Redmond, Co-Chief Executive Officer; Daniel M. Wade, Co-Chief Executive Officer; and Scott Langsner, Senior Vice President, Secretary & Treasurer.

FINANCIAL OVERVIEW

returns have in general declined on new capital, management should shift their investment strategies towards reinvestment rather than building new capacity. Investors should accordingly assign these types of companies higher multiples. We believe our job is to create value in the current environment by increasing profits in existing properties, opportunistically repurchasing shares, deleveraging and exploiting acquisitions to tap new cash flow and growth opportunities.

Acquisitions play an important role in our growth strategy, but our criteria is rigorous. Deals must be immediately additive to earnings, make strong strategic sense, and most of all, translate into increased shareholder value. We firmly believe that deals can be accretive to earnings and yet destroy shareholder value if the acquisition is a poor fit or badly integrated. At MGM Grand, we are in the business of building shareholder value.

On March 6, 2000, your Company announced the signing of a definitive merger agreement with Mirage Resorts, Incorporated ("Mirage"), under which the Company will acquire all of the outstanding shares of Mirage for \$21 per share in cash.

In 1999 the acquisition of Primadonna Resorts was one of the year's crowning achievements, representing one of the best bottom-line purchases ever seen in the hotel/gaming industry. The integration of its three hotel/casinos contributed significantly to our earnings for the year.

Speaking of earnings, that's our bottom line. The focus for the overall industry appears more oriented to cash flow (EBITDA). We aim to grow EBITDA rapidly, but view it as a means to an end – the Holy Grail is earnings per share (EPS). When management is EPS driven over EBITDA driven, capital allocation decisions become different, and debt reduction and share repurchase play a more important role.

It is likely that we will look back on 2000 as the year capacity was absorbed and returns on assets began to improve. Management can not be reac-

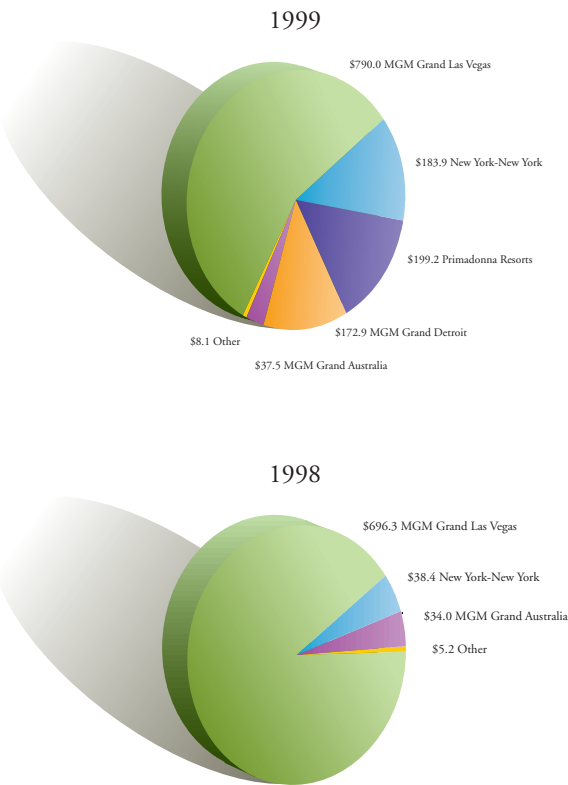
tive to Wall Street. Not long ago it was viewed that the storm clouds of over-capacity threatened the horizon. Now that the weather has improved, some worry that the lack of new projects will dampen investor interest. Our job is to balance what Wall Street wants and deserves, with what our customers and employees want and deserve. We believe that in achieving this goal, everyone will be enriched and rewarded.

Achieving our goals depend on our single-minded, analytical focus on maximizing the profitability of our asset base and allocating investments to only the highest return opportunities. These principles will continue to guide us in the years ahead.



James J. Murren  
President & Chief Financial Officer  
MGM Grand, Inc.  
March 10, 2000

MGM Grand, Inc.  
Net Revenues by Property  
(\$Millions)



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *Results of Operations*

The Company, through its wholly-owned subsidiaries, owns and operates the MGM Grand Hotel and Casino in Las Vegas, Nevada ("MGM Grand Las Vegas"), which commenced operations on December 18, 1993, the New York-New York Hotel and Casino in Las Vegas, Nevada ("NYNY"), which commenced operations on January 3, 1997, and was 50% owned until March 1, 1999 when the Company acquired the remaining 50% (see Notes 1 and 19), Whiskey Pete's, Buffalo Bill's and the Primm Valley Resort (the "Primm Properties") in Primm, Nevada, which were acquired through the merger (the "Merger") between Primadonna Resorts, Inc. ("Primadonna") and the Company on March 1, 1999 (see Notes 1 and 19), and the MGM Grand Hotel/Casino in Darwin, Australia ("MGM Grand Australia"), which was acquired on September 7, 1995, and manages three casinos throughout various provinces of the Republic of South Africa (see Note 1). The Company and its local partners own and operate an interim gaming facility ("MGM Grand Detroit Casino") in Detroit, Michigan, which commenced operations on July 29, 1999. Additionally, the Company's wholly-owned subsidiaries, MGM Grand Detroit, Inc. and MGM Grand Atlantic City, Inc. are in the development stage, with plans to construct permanent hotel/casino and entertainment facilities in Detroit, Michigan and Atlantic City, New Jersey, respectively, (see Notes 1 and 6).

On December 13, 1999, the Board of Directors approved a two-for-one split of the Company's common stock and declared an initial quarterly cash dividend of \$0.10 per share, after giving effect to the stock split. The additional shares were distributed on February 25, 2000 to stockholders of record on February 10, 2000. The cash dividend was paid on March 1, 2000 to stockholders of record on February 10, 2000. All references to share and per share data herein have been adjusted retroactively to give effect to the stock split. Concurrently, the Board of Directors increased the number of authorized shares of the Company's common stock from 75 million shares to 300 million shares.

### *1999 Compared with 1998*

Net revenues for the year ended December 31, 1999 were \$1,391.7 million, representing an increase of

\$617.8 million (79.8%) when compared with \$773.9 million during the prior year. The increase in net revenues was due to growth in every revenue segment at existing properties, as well as the addition of the remaining 50% share of NYNY and the Primm Properties effective with the March 1, 1999 Merger with Primadonna (see Note 19) and the successful opening of MGM Grand Detroit Casino on July 29, 1999.

Consolidated casino revenues for the year ended December 31, 1999 were \$873.8 million, representing an increase of \$463.2 million (112.8%) when compared with \$410.6 million during the prior year. MGM Grand Las Vegas casino revenues were \$447.2 million, representing an increase of \$63.9 million (16.7%) when compared with \$383.3 million during 1998. The increase in casino revenues at MGM Grand Las Vegas was primarily a result of higher table games volume (excluding baccarat), a more normalized table games and baccarat win percentage, and increased slots volume. MGM Grand Australia reported casino revenues of \$30.9 million, representing an increase of \$3.6 million (13.2%) when compared with \$27.3 million during the prior year. The increase in casino revenues at MGM Grand Australia was primarily a result of higher slots volume. NYNY and the Primm Properties contributed \$94.6 and \$134.6 million, respectively, to casino revenues for the year as a result of the Merger on March 1, 1999. MGM Grand Detroit Casino contributed \$166.4 million to casino revenues during the year as a result of the opening of the property on July 29, 1999.

Consolidated room revenues for 1999 were \$251.2 million, representing an increase of \$79.9 million (46.6%) when compared with \$171.3 million during 1998. MGM Grand Las Vegas room revenues were \$179.7 million in 1999, representing an increase of \$10 million (5.9%) when compared with \$169.7 million in the prior year. The increase was due to a higher occupancy of 96.3% in 1999 when compared with 94.4% in 1998, in addition to a higher average daily room rate of \$103 in 1999 versus \$99 in 1998. MGM Grand Australia room revenues were \$2 million for the year ended December 31, 1999, representing an increase of \$.2 million (11.1%) when compared with \$1.8 million for the prior year. The increase was due to a higher occupancy of 77.5% in 1999 when compared with

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

74.8% in 1998, in addition to a higher average daily room rate of \$67 in 1999 compared with \$61 in 1998. NYNY and the Primm Properties reported room revenues of \$50.1 million and \$19.5 million, respectively, since the Merger on March 1, 1999.

Consolidated food and beverage revenues for 1999 were \$161.3 million, representing an increase of \$55.4 million (52.3%) when compared with \$105.9 million for the prior year. The increase was partially attributable to MGM Grand Las Vegas which had food and beverage revenues of \$112 million during 1999, an increase of \$11.7 million (11.7%) when compared with \$100.3 million in 1998. This increase resulted from additional banquet revenues generated from a full year of operation at the MGM Grand Conference Center (the "Conference Center"), which opened on April 16, 1998, increased revenue from the Studio 54 night club and revenue from the Grand Buffet which was closed for remodeling during part of 1998. This increase was somewhat offset by decreased revenue from the Studio Café due to its closure for remodeling during part of 1999. MGM Grand Australia reported food and beverage revenues of \$5.8 million, representing an increase of \$.1 million (1.8%) when compared with \$5.7 million during the prior year as a result of higher food covers in the current year. NYNY and the Primm Properties contributed food and beverage revenues of \$10.2 million and \$23.3 million, respectively, since the Merger on March 1, 1999. MGM Grand Detroit Casino contributed \$10.2 million to food and beverage revenues since the opening of the property on July 29, 1999.

Consolidated entertainment, retail and other revenues increased \$97.9 million (86%) from \$113.9 million in 1998 to \$211.8 million in 1999. MGM Grand Las Vegas reported entertainment, retail and other revenues of \$134.4 million during 1999, an increase of \$26 million (24%) when compared with \$108.4 million in 1998. This increase was the result of higher entertainment revenues in 1999, which included two heavyweight boxing matches, as well as increased tenant rental and spa revenues and the addition of the Wedding Chapel and other amenities in 1999. The increase was somewhat offset by lower theme park revenues due to management's decision to further reduce the theme park's operational schedule, resulting in fewer operating days in the current year compared with

the prior year. The Company had increased management and development fees from MGM Grand South Africa, Inc. ("MGM Grand South Africa") of \$8.7 million during 1999 compared with \$6 million in 1998, due to the opening of the Johannesburg temporary casino in September 1998. Since the Merger on March 1, 1999, NYNY and the Primm Properties contributed entertainment, retail and other revenues of \$33.1 million and \$34.8 million, respectively. MGM Grand Detroit contributed \$1 million to entertainment, retail and other revenues since the opening of the property on July 29, 1999.

Income from unconsolidated affiliate, representing the Company's 50% share of NYNY's operating income, was \$6.1 million representing a decrease of \$32.3 million when compared with \$38.4 million during the prior year. The reduction in earnings from NYNY is a result of the Merger with Primadonna on March 1, 1999, whereby NYNY became a 100% owned subsidiary of the Company, and as such, its results of operations have been consolidated with those of the Company since that time.

Consolidated operating expenses (before Preopening, Other Non-Recurring charges and Corporate expense) for 1999 were \$1,095.8 million, representing an increase of \$464.2 million (73.5%) when compared with \$631.6 million for 1998. MGM Grand Las Vegas operating expenses increased \$63 million (10.4%) from \$604.5 million in 1998 to \$667.5 million in 1999. The increase was primarily due to increased casino expenses resulting from higher gaming taxes and marketing expenses on the increased revenues, and an increase in the provision for doubtful accounts. In addition, expenses increased due to costs associated with the two heavyweight boxing matches held in the current year, and higher food and beverage expenses from increased revenues primarily from the Grand Buffet, which was closed during part of the 1998 period. MGM Grand Australia operating expenses increased \$2.5 million (9.6%) from \$26 million in 1998 to \$28.5 million in 1999. These increases were primarily due to increased casino expenses resulting from higher gaming taxes related to increased revenues and a higher gaming tax rate of 20% compared to 17.5% in the prior year. NYNY and the Primm Properties added operating expenses of \$116.8 million and \$154.9 million, respectively, since the Merger on

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

March 1, 1999. MGM Grand Detroit Casino added \$127.5 million in operating expenses since the opening of the property on July 29, 1999.

Preopening and other non-recurring expenses for the year ended December 31, 1999 of \$71.5 million represent costs principally associated with opening of the MGM Grand Detroit Casino on July 29, 1999, and certain tender offer costs. These expenses affected net income by \$46.5 million or \$0.38 per diluted share, net of taxes.

Corporate expense was \$14.5 million in 1999 compared with \$10.7 million in 1998, representing an increase of \$3.8 million. The increase was largely due to non-cash amortization expense in the current year associated with the issuance of stock options to non-employees of the Company.

Interest income of \$2.1 million for the year ended December 31, 1999, decreased by \$10.9 million from \$13 million in 1998. The decrease was attributable to lower invested cash balances compared with the prior year.

Interest expense for the year ended December 31, 1999 of \$59.9 million (net of amounts capitalized) increased by \$35.3 million when compared with \$24.6 million in 1998, reflecting increased outstanding loan balances related to construction of the MGM Grand Detroit Casino, as well as debt assumed in the Merger with Primadonna on March 1, 1999. Also, the Company incurred additional interest expense during 1999 due to borrowings related to the repurchase of 12 million shares in July 1999 (see Note 11). The Company recognized interest expense from its unconsolidated affiliate of \$1.1 million during 1999 compared with \$8.4 million during 1998. The decrease of \$7.3 million was due to the Merger with Primadonna, on March 1, 1999, at which time NYNY became a 100% owned subsidiary of the Company, and as such, its results of operations have been consolidated with those of the Company since that time.

Income tax provision of \$55 million has been recorded at a rate of 36.6% for the year ended December 31, 1999, compared with \$40.6 million in 1998 at a rate of 37%. At December 31, 1999, the Company believes that it is more likely than not that its deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income. Accordingly, there

is no valuation allowance at December 31, 1999.

Extraordinary loss of \$.9 million in 1999, net of income tax benefit, reflects the write-off of unamortized debt costs from the NYNY LLC bank facility, which was extinguished on March 31, 1999 (see Note 9).

Cumulative effect of change in accounting principle of \$8.2 million in 1999, net of income tax benefit, reflects the Company's adoption of Statement of Position 98-5 ("SOP 98-5") which requires that costs associated with start-up activities must be expensed as incurred.

### *1998 Compared with 1997*

Net revenues for the year ended December 31, 1998 were \$773.9 million, representing a decrease of \$53.7 million (6.5%) when compared with \$827.6 million during the prior year. The decrease in net revenues was largely due to lower income from the Company's 50% ownership in NYNY and decreased casino revenues largely due to unusually low table game hold percentages, partially offset by higher food and beverage revenues.

Consolidated casino revenues for the year ended December 31, 1998 were \$410.6 million, representing a decrease of \$46.6 million (10.2%) when compared with \$457.2 million during the prior year. MGM Grand Las Vegas casino revenues were \$383.3 million, representing a decrease of \$46.6 million (10.8%) when compared with \$429.9 million during 1997. The reduction in casino revenues at MGM Grand Las Vegas was primarily a result of lower table games and baccarat win percentages. MGM Grand Australia reported casino revenues of \$27.3 million, which were flat when compared with the prior year.

Consolidated room revenues for 1998 were \$171.3 million, which were flat when compared with the prior year. MGM Grand Las Vegas room revenues were \$169.7 million in 1998, representing an increase of \$.4 million (.2%) when compared with \$169.3 million in the prior year. The increase was due to a greater number of rooms in service during 1998 compared to 1997 despite lower occupancy of 94.4% in 1998 when compared with 94.5% in 1997, and a slightly lower average daily room rate of \$99 in 1998 versus \$100 in 1997. MGM Grand Australia room revenues were \$1.8 million for the year ended December 31, 1998, representing a decrease of \$.4 million (18.2%) when com-



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

pared with \$2.2 million for the prior year. The decrease was due to a lower average daily room rate for 1998 of \$61 compared with \$89 for 1997 resulting from a lower average exchange rate in the current year when compared with the prior year, somewhat offset by a higher occupancy of 74.8% for 1998 compared with 60.5% in 1997.

Consolidated food and beverage revenues for 1998 were \$105.9 million, representing an increase of \$13.3 million (14.4%) when compared with \$92.6 million for the prior year. The increase was attributable to MGM Grand Las Vegas which had food and beverage revenues of \$100.3 million during 1998, an increase of \$14.2 million (16.5%) when compared with \$86.1 million in 1997. This increase resulted from additional banquet revenues generated from the Conference Center, which opened on April 16, 1998, and the operation of the Studio 54 nightclub, which opened in late December 1997. MGM Grand Australia reported food and beverage revenues of \$5.7 million, representing a decrease of \$.9 million (13.6%) when compared with \$6.6 million during the prior year as a result of the lower average exchange rate in the current year.

Consolidated entertainment, retail and other revenues decreased \$2.6 million (2.3%) from \$116.5 million in 1997 to \$113.9 million in 1998. The decrease was attributable to MGM Grand Las Vegas which had lower theme park revenues due to management's decision to change the theme park's operational schedule from a year-round park to a seasonal park. These decreases were partially offset by increases in entertainment revenues from MGM Grand Garden Arena and EFX, conference revenue from the opening of the Conference Center and management and development fees from MGM Grand South Africa.

Income from unconsolidated affiliate, representing the Company's 50% share of NYNY's operating income, for 1998 was \$38.4 million representing a decrease of \$15.4 million (28.6%) when compared with \$53.8 million during the prior year. The reduction in earnings from NYNY is a result of the unprecedented public response NYNY received during its first year of operations.

Consolidated operating expenses (before Master Plan asset disposition and Corporate expense) for 1998 were \$631.6 million, representing an increase of \$27 million (4.5%) when compared with \$604.6 million

for 1997. The increase was attributable to MGM Grand Las Vegas, offset by decreases at MGM Grand Australia. The increases at MGM Grand Las Vegas were due primarily to increased room expenses associated with the higher occupancy and increased food and beverage expenses associated with the addition of the Studio 54 night club and the additional banquet expenses for the Conference Center. Additionally, the provision for doubtful accounts and discounts increased by \$8.6 million at MGM Grand Las Vegas due to possible changes in anticipated collectibility of receivables given uncertain economic conditions in Asia, along with higher depreciation expense due to Master Plan assets placed in service. These increases were partially offset by lower casino expenses due to a reduction in casino taxes and the absence of a championship boxing event in the current year. MGM Grand Australia operating expenses decreased \$4.4 million (14.5%) from \$30.4 million in 1997 to \$26 million in 1998 as a result of continuing cost containment efforts and a lower average exchange rate in the current year.

Master Plan asset disposition relates to the write-off of various assets related to the transformation of MGM Grand Las Vegas into "The City of Entertainment." The prior year charge of \$28.6 million (pre-tax) resulted from the increase in the scope of the project from \$250 million to approximately \$570 million (see Note 16).

Corporate expense was \$10.7 million in 1998 compared with \$3.4 million in 1997, representing an increase of \$7.3 million. The increase was due to higher operating expenses in the current year and the \$5.9 million reversal of stock price guarantee amortization that occurred in the prior year (see Note 11).

Interest income of \$13 million for the year ended December 31, 1998, increased by \$11.7 million from \$1.3 million in 1997. The increase was attributable to higher invested cash balances primarily from the proceeds of the Senior Collateralized Notes (see Note 9).

Interest expense for the year ended December 31, 1998, of \$24.6 million (net of amounts capitalized) increased by \$23.4 million when compared with \$1.2 million in 1997. The increase in 1998 was primarily due to the issuance of the Senior Collateralized Notes (See Note 9). Also, the Company recognized interest expense from its unconsolidated affiliate of \$8.4 million during 1998 compared with \$9.9 million during

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

the same period in 1997. The decrease of \$1.5 million was due to the reduction of debt at New York-New York Hotel and Casino, LLC ("NYNY LLC").

Income tax provision of \$40.6 million has been recorded at a rate of 37% for the year ended December 31, 1998, compared with \$65 million in 1997 at a rate of 36.1%. At December 31, 1998, the Company believes that it is more likely than not that its deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income. Accordingly, there is no valuation allowance at December 31, 1998.

Extraordinary loss of \$4.2 million in 1997, net of income tax benefit, reflects the write-off of unamortized debt costs from the Company's previous \$600 million Senior Reducing Revolving Credit Facility (see Note 9).

### *Impact of the Year 2000 Issue*

The Year 2000 Issue was the result of computer programs being written using two digits rather than four digits to define the applicable year, which may have resulted in system failures and disruptions to operations at January 1, 2000. The Company's Year 2000 Remediation program required a few enhancements to ensure there was no disruption to the Company's operations and those enhancements were not material to the Company's financial position or results of operations. During 1999, the Company incurred costs to modify existing computer systems of approximately \$2.1 million. Subsequent to January 1, 2000, the Company has experienced no major disruptions in operations due to the Year 2000 Issue.

### *Liquidity and Capital Resources*

As of December 31, 1999 and 1998, the Company held cash and cash equivalents of \$121.5 million and \$82 million, respectively. Cash provided by operating activities for 1999 was \$289.9 million, compared with \$171.7 million for 1998.

On May 6, 1996, MGM Grand Las Vegas announced details of a 30-month, \$250 million Master Plan designed to transform the facility into "The City of Entertainment." The Master Plan, which on June 3, 1997 was enhanced and increased to approximately \$570 million, is substantially complete with the debut of the "Mansion at the MGM Grand" in June 1999,

and the opening of the Lion Habitat and the expanded parking facilities in July 1999. Previously, the 380,000 square foot state-of-the-art Conference Center opened in April 1998, and the 50-foot tall polished bronze lion sculpture along with the "Entertainment Casino" (previously known as the Emerald City casino) were completed during the first quarter of 1998 which includes a Studio 54 night club and the Rainforest Cafe. Additionally, the new 6.6-acre pool and spa complex was completed and opened for operations in July 1998, and a new 3,800 space employee parking garage also opened in July 1998.

During the year ended December 31, 1999, capital expenditures totaled \$375.3 million. MGM Grand Las Vegas expended \$83.1 million related to the Master Plan project and \$95.5 million related to general property and equipment improvements. MGM Grand Australia expended \$.5 million for general property and equipment improvements. Since the Merger on March 1, 1999, NYNY expended \$11.7 million and the Primm Properties expended \$7.9 million for general property improvements. MGM Grand Detroit, LLC expended \$161.9 million for the construction of its interim casino facility. MGM Grand Atlantic City continued the development of its planned new destination resort by expending \$14.7 million for land acquisitions and pre-construction activities.

The Company made no capital contributions to NYNY LLC during 1999 and 1998. The Company received no distributions from NYNY LLC during 1999. The Company received \$4.1 million in distributions from NYNY LLC during 1998 to pay taxes on its allocated share of income.

During the year ended December 31, 1998, capital expenditures totaled \$361.9 million. MGM Grand Las Vegas expended \$304.8 million related to the Master Plan project and \$32 million related to general property and equipment improvements. MGM Grand Australia expended \$1.8 million for general property and equipment improvements. MGM Grand Detroit, LLC expended \$5 million for the construction of its interim casino facility. MGM Grand Atlantic City continued the development of its planned new destination resort by expending \$5.5 million for land acquisitions and pre-construction activities. The Company also expended \$12.8 million primarily for the purchase of a corporate jet.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Capital expenditures are expected to decrease significantly in 2000 to approximately \$250.2 million as a result of the completion of the transformation of MGM Grand Las Vegas into "The City of Entertainment" during 1999, as well as the completion of the Detroit interim facility in 1999. MGM Grand Las Vegas expenditures for 2000 are expected to be approximately \$141.6 million, including room remodeling, the completion of a championship golf course which is expected to open in late 2000, and general property and equipment improvements. NYNY plans to expend approximately \$5.4 million for general property and equipment improvements. The Primm Properties plan to expend approximately \$11.1 million for general property and equipment improvements. MGM Grand Australia plans to expend approximately \$2 million for general property and equipment improvements. MGM Grand Detroit, LLC plans to expend approximately \$83.9 million, consisting of \$76.4 million related to land acquisitions and pre-construction activities for the permanent facility and approximately \$7.5 million for general property and equipment improvements for the interim facility. Approximately \$6.2 million is anticipated to be expended for land acquisitions and pre-construction activities relating to the Company's MGM Grand Atlantic City project. In conjunction with the proposed merger with Mirage Resorts, Incorporated ("Mirage"), the Company may incur additional capital expenditures related to the maintenance of the Mirage properties (see Note 20).

On July 1, 1996, the Company secured a \$500 million Senior Reducing Revolving Credit Facility with BA Securities (the "Facility"), an affiliate of Bank of America NT&SA. In August 1996, the Facility was increased to \$600 million. In July 1997, the Facility was amended, extended and increased to \$1.25 billion (the "New Facility"), with provisions to allow an increase of the New Facility to \$1.5 billion as well as to allow additional pari passu debt financing up to \$500 million. As a result of the New Facility, the Company recognized an extraordinary loss of approximately \$4.2 million, net of tax benefit, due to the write-off of unamortized debt costs from the Facility during 1997. The New Facility contains various restrictive covenants on the Company, which include the maintenance of certain financial ratios and limitations on additional

debt, dividends, capital expenditures and disposition of assets. The New Facility also restricts certain acquisitions and similar transactions. Interest on the New Facility is based on the bank reference rate or Eurodollar rate and as of December 31, 1999, the Company's borrowing rate was approximately 6.8%. The New Facility matures in December 2002, with the opportunity to extend the maturity for successive one-year periods. Quarterly reductions of \$62.5 million begin on December 23, 2001. On May 4, 1999, two letters of credit totaling \$49.9 million were issued under the New Facility to support municipal financing used in connection with the proposed Detroit permanent casino. During 1999, \$782 million was drawn down on the New Facility of which \$612 million remained outstanding as of December 31, 1999. During 1999, the Company used \$216.6 million and \$157.9 million from the New Facility to pay off the Primadonna and NYNY bank facilities, respectively, and terminated these borrowing arrangements.

The Company filed a Shelf Registration Statement with the Securities and Exchange Commission, which became effective on August 4, 1997. The Shelf Registration Statement allows the Company to issue up to \$600 million of debt and/or equity securities. On February 2 and February 6, 1998, the Company completed public offerings totaling \$500 million of Senior Collateralized Notes in tranches of 7 and 10 years. The 7-year tranche of \$300 million carries a coupon of 6.95%, while the 10-year tranche of \$200 million carries a coupon of 6.875% (see Note 9). Both tranches are initially secured equally and ratably with the New Facility, and the security may be removed equally with the New Facility at the Company's option upon the occurrence of certain events, including the maintenance of investment grade ratings. The Senior Collateralized Notes are *pari passu* with the New Facility and contain various restrictive covenants, as does the New Facility. The Company received net proceeds of approximately \$294.1 million and \$197.1 million on the 7-year and 10-year tranches, respectively.

On September 15, 1995, NYNY LLC completed its bank financing for up to \$225 million, which was increased to \$285 million during September 1996. The non-revolving construction line of credit converted to a five-year reducing revolver upon completion of construction and commencement of operations of



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NYNY on January 3, 1997. On October 8, 1998, NYNY LLC's five-year reducing revolver was amended and reduced to \$210 million. Following the Merger with Primadonna, the Company used \$157.9 million from the New Facility to extinguish the NYNY bank facility on March 31, 1999. On January 21, 1997, NYNY LLC completed an additional \$20 million equipment financing with a financial institution. As of December 31, 1999, \$11.4 million remained outstanding related to the equipment financing.

On September 7, 1995, the Company completed the acquisition of MGM Grand Australia (formerly the Diamond Beach Hotel/Casino) in Darwin, Australia. The acquisition cost was financed by an Australian bank facility which provided a total availability of approximately \$68.7 million (AUD \$105 million) and includes funding for general corporate purposes. During 1999, the facility was reduced by principal payments totaling \$10 million (AUD \$15.3 million) made in accordance with the terms of the bank facility, and as of December 31, 1999, \$37.8 million (AUD \$57.8 million) remained outstanding. Interest on the Australian facility is based on the bank bill rate and was approximately 5.8% and 5.3% as of December 31, 1999 and 1998, respectively. The facility matures in December 2004, and the indebtedness has been guaranteed by the Company.

MGM Grand Australia has a \$13.1 million (AUD \$20 million) uncommitted standby line of credit, with a funding period of 91 days for working capital purposes. During the year ended December 31, 1999, no amounts were borrowed under the line of credit and no amounts were outstanding as of December 31, 1999 and 1998, respectively.

On June 23, 1998, the Company announced a \$17.50 per share cash tender offer for up to 12 million shares of Company common stock as part of a 24 million share repurchase program. The offer commenced on July 2, 1998 and expired on July 31, 1998. Based upon the final results, 21.6 million shares of the Company's common stock were tendered, and accordingly, the shares were prorated. The total acquisition cost of the 12 million shares was approximately \$210.6 million.

On March 1, 1999, the Company completed the Merger with Primadonna Resorts, Inc. for 19 million shares of the Company's common stock valued at

approximately \$243.6 million plus the assumption of debt totaling \$315.2 million. Primadonna shareholders received .66 shares of the Company's common stock for every Primadonna share held. Following the Merger with Primadonna, the Company used \$216.6 million from the New Facility to extinguish the Primadonna bank facility on March 31, 1999.

On March 31, 1999, MGM Grand Detroit, LLC, through a wholly-owned subsidiary, secured a \$230 million credit facility (the "Detroit Facility") with a consortium of banks, the majority of which are based in the greater Detroit metropolitan area. The Detroit Facility will be used to finance the development and construction of the interim and permanent casino complexes, as well as for general working capital purposes. The Detroit Facility may be increased to \$250 million at the Company's discretion. The Detroit Facility is secured by substantially all of the assets of the interim facility and is guaranteed by the Company. During 1999, \$181 million was drawn down on the Detroit Facility of which \$169 million remained outstanding as of December 31, 1999.

On June 10, 1999, the Company announced a \$25.00 per share cash tender offer for up to 12 million shares of the Company's common stock. The offer commenced on June 17, 1999 and expired on July 23, 1999. Based upon the final results, 30.2 million shares of the Company's common stock were tendered, and accordingly, the shares were prorated. The total acquisition cost of the 12 million shares was approximately \$282 million. The Company recognized certain non-recurring compensation costs totaling approximately \$18.5 million related to exercisable options that were tendered. This tender offer completed the acquisition of the remaining 12 million shares offered in the 24 million share repurchase program announced on June 23, 1998.

On August 5, 1999, the Company announced a twelve month stock repurchase program for up to 10 million shares of the Company's common stock. The purchases will be made from time to time in the open market or through privately negotiated transactions as market conditions warrant. Through December 31, 1999, the Company purchased 565,200 shares for an approximate cost of \$13.2 million.

On December 13, 1999, the Board of Directors approved a two-for-one split of the Company's com-

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

mon stock and declared an initial quarterly cash dividend of \$0.10 per share, after giving effect to the stock split. The additional shares were distributed on February 25, 2000 to stockholders of record on February 10, 2000. The cash dividend was paid on March 1, 2000 to stockholders of record on February 10, 2000. All references to share and per share data herein have been adjusted retroactively to give effect to the stock split. Concurrently, the Board of Directors increased the number of authorized shares of the Company's common stock from 75 million shares to 300 million shares.

The Company expects to finance operations, capital expenditures, existing debt obligations and future share repurchases through cash flow from operations, cash on hand, and the bank lines of credit (see Note 9).

On March 6, 2000, the Company and Mirage entered into a definitive merger agreement whereby the Company will acquire all of the outstanding shares of Mirage for \$21 per share in cash plus the assumption of debt. The Company intends to finance this acquisition and all costs related to the merger through a new bank facility and debt and equity securities. Any public offering of securities will only be made by means of a prospectus (see Note 20).

Market risk is the risk of loss arising from adverse changes in market rates and prices, foreign currency exchange rates and commodity prices. The Company's primary exposure to market risk is interest rate risk associated with the Company's long-term debt. The Company attempts to limit their exposure to interest rate risk through the mix of long-term and short-term borrowings under the Senior Collateralized Notes and New Facility.

### *Safe Harbor Provision*

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Annual Report contains statements that are forward-looking, such as statements relating to plans for future expansion and other business development activities, as well as other capital spending, financing sources, the effects of regulation (including gaming and tax regulations) and competition. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the

future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, those relating to development and construction activities, dependence on existing management, leverage and debt service (including sensitivity to fluctuations in interest rates), domestic or global economic conditions (including sensitivity to fluctuations in foreign currencies), changes in federal or state tax laws or the administration of such laws, changes in gaming laws or regulations (including the legalization of gaming in certain jurisdictions) and application for licenses and approvals under applicable jurisdictional laws and regulations (including gaming laws and regulations).

# CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share data)

For the years ended December 31,

	1999	1998	1997
<b>Revenues:</b>			
Casino . . . . .	\$873,781	\$410,605	\$457,206
Rooms . . . . .	251,207	171,292	171,272
Food and beverage . . . . .	161,301	105,875	92,594
Entertainment, retail and other . . . . .	211,837	113,948	116,458
Income from unconsolidated affiliate . . . . .	6,084	38,362	53,800
	<u>1,504,210</u>	<u>840,082</u>	<u>891,330</u>
Less: Promotional allowances . . . . .	112,560	66,219	63,733
	<u>1,391,650</u>	<u>773,863</u>	<u>827,597</u>
<b>Expenses:</b>			
Casino . . . . .	417,491	221,439	225,896
Rooms . . . . .	75,064	47,767	45,848
Food and beverage . . . . .	100,871	67,101	55,124
Entertainment, retail and other . . . . .	119,324	75,192	79,605
Provision for doubtful accounts and discounts . . . . .	47,157	40,455	31,814
General and administrative . . . . .	209,938	103,362	102,246
Depreciation and amortization . . . . .	125,985	76,284	64,104
	<u>1,095,830</u>	<u>631,600</u>	<u>604,637</u>
Operating Profit Before Master Plan Asset Disposition, Preopening and Other and Corporate Expense . . . . .	295,820	142,263	222,960
Master Plan asset disposition . . . . .	-	-	28,566
Preopening and other . . . . .	71,495	-	-
Corporate expense . . . . .	14,457	10,689	3,424
	<u>209,868</u>	<u>131,574</u>	<u>190,970</u>
<b>Nonoperating Income (Expense):</b>			
Interest income . . . . .	2,142	12,997	1,268
Interest expense, net of amounts capitalized . . . . .	(59,853)	(24,613)	(1,242)
Interest expense from unconsolidated affiliate . . . . .	(1,058)	(8,376)	(9,891)
Other, net . . . . .	(946)	(2,054)	(804)
	<u>(59,715)</u>	<u>(22,046)</u>	<u>(10,669)</u>
Income Before Income Taxes, Extraordinary Item and Cumulative Effect of Change in Accounting Principle . . . . .	150,153	109,528	180,301
Provision for income taxes . . . . .	(55,029)	(40,580)	(65,045)
	<u>95,124</u>	<u>68,948</u>	<u>115,256</u>
<b>Extraordinary Item:</b>			
Loss on early extinguishment of debt, net of income tax benefits of \$484 and \$2,333 . . . . .	(898)	-	(4,238)
<b>Cumulative Effect of Change in Accounting Principle:</b>			
Preopening costs, net of income tax benefit of \$4,399 . . . . .	(8,168)	-	-
	<u>\$86,058</u>	<u>\$68,948</u>	<u>\$111,018</u>
<b>Basic Income Per Share of Common Stock:</b>			
Income before extraordinary item and cumulative effect of change in accounting principle . . . . .	\$0.82	\$0.62	\$1.01
Extraordinary item - loss on early extinguishment of debt, net . . .	(0.01)	-	(0.04)
Cumulative effect of change in accounting principle - preopening costs, net . . . . .	(0.07)	-	-
	<u>\$0.74</u>	<u>\$0.62</u>	<u>\$0.97</u>
<b>Weighted Average Shares Outstanding . . . . .</b>	<u>116,580,000</u>	<u>111,356,000</u>	<u>114,950,000</u>
<b>Diluted Income Per Share of Common Stock:</b>			
Income before extraordinary item and cumulative effect of change in accounting principle . . . . .	\$0.80	\$0.61	\$0.98
Extraordinary item - loss on early extinguishment of debt, net . . .	(0.01)	-	(0.04)
Cumulative effect of change in accounting principle - preopening costs, net . . . . .	(0.07)	-	-
	<u>\$0.72</u>	<u>\$0.61</u>	<u>\$0.94</u>
<b>Weighted Average Shares Outstanding . . . . .</b>	<u>120,086,000</u>	<u>112,684,000</u>	<u>117,670,000</u>

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



CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

As of December 31,

ASSETS

Current Assets:

Cash and cash equivalents	\$121,522	\$81,956
Accounts receivable, net	83,101	64,280
Prepaid expenses	32,598	11,829
Inventories	15,240	11,081
Deferred tax asset	17,452	34,098
Total current assets	269,913	203,244

Property and Equipment, net	2,390,524	1,327,722
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Other Assets:

Investment in unconsolidated affiliates	12,485	134,025
Excess of purchase price over fair market value of net assets acquired, net	36,550	37,574
Deposits and other assets, net	51,271	66,393
Total other assets	100,306	237,992

\$2,760,743	\$1,768,958
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$38,018	\$23,931
Construction payable	7,896	17,403
Income taxes payable	3,296	2,457
Dividend payable	11,388	-
Current obligation, capital leases	5,145	5,086
Current obligation, long term debt	7,852	10,077
Accrued interest	18,915	14,630
Other accrued liabilities	197,580	110,945
Total current liabilities	290,090	184,529

Deferred Revenues	4,241	5,219
Deferred Income Taxes	108,713	77,165
Long Term Obligation, Capital Leases	12,864	2,867
Long Term Debt	1,310,989	534,797
Commitments and Contingencies		

Stockholders' Equity:

Common stock (\$.01 par value, 300,000,000 shares authorized, 138,445,048 and 116,066,188 shares issued and outstanding	1,384	1,161
Capital in excess of par value	1,261,625	968,199
Treasury stock, at cost (24,565,200 and 12,000,000 shares)	(505,824)	(210,589)
Retained earnings	267,165	192,606
Other comprehensive income	9,496	13,004
Total stockholders' equity	1,033,846	964,381
	\$2,760,743	\$1,768,958

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

For the years ended December 31,

## Cash Flows from Operating Activities:

	1999	1998	1997
Net income	\$86,058	\$68,948	\$111,018
Adjustments to reconcile net income to net cash from operating activities:			
Loss on early extinguishment of debt	1,382	-	6,571
Master Plan asset disposition	-	-	28,566
Cumulative effect of change in accounting principle	12,567	-	-
Amortization of debt offering costs	1,958	1,849	1,127
Depreciation and amortization	126,756	76,712	64,244
Provision for doubtful accounts and discounts	47,157	40,455	31,814
Deferred income taxes	27,489	14,530	48,100
Unconsolidated affiliate, earnings in excess of distributions	(5,026)	(25,866)	(28,749)
Change in assets and liabilities:			
Accounts receivable	(41,401)	(30,594)	(30,262)
Prepaid expenses	(9,332)	(1,377)	2,756
Inventories	(4,067)	4,314	(4,035)
Income taxes payable	(5,966)	2,457	(23,653)
Accounts payable, accrued liabilities, and other	52,887	20,799	(24,185)
Currency translation adjustment	(585)	(547)	700
Net cash provided from operating activities	289,877	171,680	184,012

## Cash Flows from Investing Activities:

Purchases of property and equipment	(375,260)	(361,942)	(227,756)
Merger with Primadonna Resorts, Inc.	(13,346)	-	-
Dispositions of property and equipment, net	6,487	599	202
Change in construction payables	(9,507)	(15,973)	32,418
Investment in unconsolidated affiliates	(2,133)	(800)	(7,190)
Deposits and other assets	7,066	(27,617)	548
Net cash used in investing activities	(386,693)	(405,733)	(201,778)

## Cash Flows from Financing Activities:

Issuance of long term debt	-	500,000	-
Repayments to banks and others	(9,955)	(9,720)	(11,839)
Borrowings under lines of credit	963,000	31,000	25,500
Repayments of lines of credit	(197,000)	(31,000)	(25,500)
Extinguishment of debt	(374,500)	-	-
Purchase of treasury stock	(295,235)	(210,589)	-
Issuance of common stock	50,072	1,712	2,799
Net cash provided by (used in) financing activities	136,382	281,403	(9,040)

Net Increase (Decrease) in Cash and Cash Equivalents	39,566	47,350	(26,806)
Cash and Cash Equivalents at Beginning of Year	81,956	34,606	61,412
Cash and Cash Equivalents at End of Year	\$121,522	\$81,956	\$34,606

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

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands except share data)

For the years ended December 31, 1999, 1998, and 1997	Common Stock Outstanding	Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Other Comprehensive Income	Total Stockholders' Equity
Balance at							
December 31, 1996 . . . . .	115,767,532	\$1,158	\$963,688	\$ -	\$12,642	\$(4,106)	\$973,382
Issuance of common stock pursuant to stock option grants . . . . .	144,604	2	1,093	-	(1)	-	1,094
Employee stock incentive issuance . . . . .	57,610	-	1,142	-	-	-	1,142
Tax benefit from stock option exercises .	-	-	564	-	-	-	564
Net income . . . . .	-	-	-	-	111,018	-	111,018
Currency translation adjustment . . . . .	-	-	-	-	-	14,422	14,422
Balance at							
December 31, 1997 . . . . .	115,969,746	1,160	966,487	-	123,659	10,316	1,101,622
Issuance of common stock pursuant to stock option grants . . . . .	96,442	1	1,315	-	(1)	-	1,315
Treasury stock . . . . .	-	-	-	(210,589)	-	-	(210,589)
Tax benefit from stock option exercises .	-	-	397	-	-	-	397
Net income . . . . .	-	-	-	-	68,948	-	68,948
Currency translation adjustment . . . . .	-	-	-	-	-	2,688	2,688
Balance at							
December 31, 1998 . . . . .	116,066,188	1,161	968,199	(210,589)	192,606	13,004	964,381
Issuance of common stock pursuant to stock option grants . . . . .	3,358,254	33	43,096	-	(16)	-	43,113
Issuance of common stock for Primadonna Merger . . .	19,020,606	190	243,371	-	(95)	-	243,466
Treasury stock . . . . .	-	-	-	(295,235)	-	-	(295,235)
Tax benefit from stock option exercises .	-	-	6,959	-	-	-	6,959
Dividend payable . . . . .	-	-	-	-	(11,388)	-	(11,388)
Net income . . . . .	-	-	-	-	86,058	-	86,058
Currency translation adjustment . . . . .	-	-	-	-	-	(3,508)	(3,508)
Balance at							
December 31, 1999 . . . . .	138,445,048	\$1,384	\$1,261,625	\$(505,824)	\$267,165	\$9,496	\$1,033,846

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



*Note 1. Organization*

MGM Grand, Inc. (the "Company") is a Delaware corporation incorporated on January 29, 1986. As of December 31, 1999, Kirk Kerkorian and Tracinda Corporation ("Tracinda"), a Nevada corporation wholly-owned by Kirk Kerkorian, owned approximately 63% of the outstanding shares of the Company's common stock.

Through its wholly-owned subsidiary, MGM Grand Hotel, Inc., the Company owns and operates the MGM Grand Hotel/Casino ("MGM Grand Las Vegas"), a hotel/casino and entertainment complex in Las Vegas, Nevada.

Prior to March 1, 1999, the Company and Primadonna Resorts, Inc. ("Primadonna") each owned 50% of New York-New York Hotel and Casino, LLC ("NYNY LLC"). On March 1, 1999, the Company completed a merger (the "Merger") with Primadonna Resorts, Inc., and as part of the Merger, acquired Primadonna's 50% ownership interest in NYNY LLC, which owned and operated the destination resort called New York-New York Hotel and Casino ("NYNY") in Las Vegas, Nevada. Consequently, as of March 1, 1999, Primadonna and NYNY LLC are wholly-owned subsidiaries of the Company. NYNY commenced operations on January 3, 1997, and is located on approximately 20 acres at the northwest corner of Tropicana Avenue and Las Vegas Boulevard, across from MGM Grand Las Vegas. The Merger also gave the Company ownership of three hotel and casinos located in Primm, Nevada at the California/Nevada stateline, which includes: Whiskey Pete's, Buffalo Bill's and the Primm Valley Resort (the "Primm Properties"), as well as two championship golf courses located one mile from the Primm Properties.

Through its wholly-owned subsidiary, MGM Grand Detroit, Inc., the Company and its local partners in Detroit, Michigan, formed MGM Grand Detroit, LLC to develop a hotel, casino and entertainment complex ("MGM Grand Detroit"), at an approximate cost of \$800 million. On November 20, 1997, the Company was chosen to construct, own and operate one of Detroit's three new casinos. Construction of the new hotel/casino is subject to the receipt of various governmental approvals. The plans for the permanent

facility call for an 800-room hotel, a 100,000 square-foot casino, signature restaurants and retail outlets, a showroom and other entertainment venues. On July 22, 1998, the Michigan Gaming Control Board adopted a resolution which allowed the issuance of casino licenses to conduct gaming operations in temporary facilities. On July 28, 1999, the Michigan Gaming Control Board issued a casino license to MGM Grand Detroit, LLC to conduct gaming operations in its interim facility ("MGM Grand Detroit Casino"), which commenced operations on July 29, 1999. The MGM Grand Detroit Casino is located in the former Internal Revenue Service building located directly off of the Lodge freeway in downtown Detroit, Michigan.

Through its wholly-owned subsidiary, MGM Grand Australia Pty Ltd., the Company owns and operates the MGM Grand Hotel/Casino in Darwin, Australia ("MGM Grand Australia"), which is located on 18 acres of beachfront property on the north central coast of Australia.

Through its wholly-owned subsidiary, MGM Grand South Africa, Inc., the Company manages one permanent and two temporary casinos throughout various provinces of the Republic of South Africa. The permanent casino in Nelspruit began operations on November 17, 1999, the temporary casino in Witbank began operations on March 10, 1998 and the temporary casino in Johannesburg began operations on September 28, 1998. The Company receives management fees from its partner, Tsogo Sun Gaming & Entertainment, which is responsible for providing all project costs.

Through its wholly-owned subsidiary, MGM Grand Atlantic City, Inc., the Company intends to construct, own and operate a destination resort hotel/casino, entertainment and retail facility in Atlantic City, New Jersey, at an approximate cost of \$700 million, on approximately 35 acres of land on the Atlantic City Boardwalk. Construction of the hotel/casino is subject to the receipt of various governmental approvals. On July 24, 1996, the Company was found suitable for licensing by the New Jersey Casino Control Commission.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Significant Accounting Policies and Basis of Presentation

- a. Principles of Consolidation -- The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in unconsolidated affiliates which are 50% or less owned are accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.
- b. Management's Use of Estimates -- The consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Those principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- c. Cash and Cash Equivalents -- Cash and cash equivalents consist of investments in bank certificates of deposit and other interest bearing instruments with initial maturities of three months or less. Such investments are carried at cost which approximates market value.
- d. Accounts Receivable -- Accounts receivable are due within one year and are recorded net of amounts estimated to be uncollectible.
- e. Inventories -- Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

The estimated cost of providing such promotional allowances was included in casino expenses as follows:

(In thousands)

Years Ended December 31,

Rooms .....			
Food and beverage .....			
Other .....			
	\$73,009	\$42,141	\$40,512

1999	1998	1997
\$18,627	\$11,304	\$9,841
42,681	26,826	28,436
11,701	4,011	2,235

- f. Property and Equipment -- Property and equipment are stated at cost. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in the determination of income. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives

of the assets as follows:

Buildings and improvements	15 to 40 years
Equipment, furniture and fixtures	3 to 7 years
Land improvements	10 to 15 years
Leasehold improvements	5 to 20 years

Capital leases are depreciated on the estimated useful life or life of the lease, whichever is shorter.

- g. Excess of Purchase Price over Fair Market Value of Net Assets Acquired -- The excess of purchase price over fair market value of net assets acquired is amortized on a straight-line basis over 40 years.

- h. Other Assets -- The cost of normal hotel operating quantities of china, silverware, glassware and utensils is recorded as an asset and is depreciated. Direct costs related to the debt offering and bank financing are being deferred and amortized over the debt repayment periods.

- i. Casino Revenues and Promotional Allowances -- Casino revenue is the aggregate of gaming wins and losses. The retail value of accommodations, food and beverage, and other services furnished to hotel/casino guests without charge is included in gross revenue and then deducted as promotional allowances. The estimated retail value of these promotional allowances was \$112.6 million, \$66.2 million and \$63.7 million for the years ended December 31, 1999, 1998 and 1997, respectively.

- j. Currency Translation -- The Company accounts for currency translation in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." The Australian results of operations and the balance sheet are translated from Australian dollars to US dollars. Certain fixed assets and intangibles are valued at historical exchange rates, while other balance sheet accounts are translated at the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

exchange rate in effect at each year-end. Income accounts are translated at the average rate of exchange prevailing during the year.

**k. Net Income Per Common Share** -- Basic income per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted income per share of common stock is computed based on the assumption that options issued to employees are exercised and repurchased at the average price for the periods presented (see Notes 13 and 14).

**l. Capitalized Interest** -- The Company capitalizes interest costs associated with debt incurred in connection with major construction and development projects. The Company capitalizes interest on amounts expended on projects at the Company's weighted average cost of the borrowed funds (see Note 9), and based upon the weighted average amount of the Company's outstanding borrowings. Capitalization of interest ceases when the project is completed.

**m. Corporate Expense** -- Corporate expense represents unallocated payroll costs, professional fees, and various other expenses not directly related to the Company's hotel/casino operations. In addition, corporate expense includes the costs associated with the Company's evaluation and pursuit of new business opportunities, which are expensed as incurred until development of a specific project has become relatively certain.

**n. Reclassifications** -- The consolidated financial statements for prior years reflect certain reclassifications to conform with the current year presentation, which have no effect on previously reported net income.

**o. Change in Accounting Principle** -- Effective January 1, 1999, the Company adopted Statement of Position 98-5 ("SOP 98-5"), "Reporting on the Costs of Start-up Activities." SOP 98-5 requires that all companies expense costs of start-up activities as those costs are incurred. The term "start-up" includes pre-opening, pre-operating and organization activities. As a result of the adoption of SOP 98-5, the Company recognized \$44.3 million and \$.2 million in preopening expense related to the Detroit and Atlantic City projects, respectively, and \$5.7 million related to the Mansion at MGM Grand Las Vegas for the year ended December 31, 1999. Additionally, the Company recognized the cumulative effect of the accounting change (net of tax) of \$7.7 million and \$.5 million, related to the adoption of SOP 98-5 for the Detroit and Atlantic City projects, respectively.

**p. Stock Split** -- Effective December 13, 1999, the Board of Director's approved a two-for-one split of the Company's common stock. All references to share and per share data in the consolidated financial statements and notes thereto have been adjusted retroactively to give effect to the stock split.

### *Note 3. Statements of Cash Flows*

The following supplemental disclosures are provided for the Consolidated Statements of Cash Flows:

*(In thousands)*

Years ended December 31,

Cash payments made for:

	1999	1998	1997
Interest, net of amounts capitalized . . . . .	\$56,035	\$23,680	\$7,916
State and federal income taxes . . . . .	\$26,068	\$15,900	\$43,159

During 1997, the Company completed equipment lease financing for approximately \$3.1 million at MGM Grand Las Vegas.

As a result of the Merger (see Note 19), the Company issued stock to Primadonna shareholders in the amount of approximately \$243.6 million and assumed long-term debt totaling \$315.2 million.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Accounts Receivable, net

Components of accounts receivable were as follows:

(In thousands)

At December 31,

	1999	1998
Casino . . . . .	\$81,418	\$84,845
Hotel . . . . .	13,390	12,679
Other . . . . .	11,065	3,587
	105,873	101,111
Less: Allowance for doubtful accounts and discounts . . . . .	(22,772)	(36,831)
	\$83,101	\$64,280

Credit is issued in exchange for gaming chips at MGM Grand Las Vegas, NYNY, the Primm Properties and MGM Grand Detroit Casino as permitted by the regulations of the Nevada Gaming Commission, the Nevada State Gaming Control Board and the Michigan Gaming Control Board. The Company extends credit, following an evaluation of credit worthiness, to certain casino patrons, a substantial portion of whom reside in countries other than the United States. The Company maintains an allowance for doubtful accounts and discounts which is based on

management's estimate of the amount expected to be uncollectible considering historical experience and the information management obtains regarding the credit worthiness of the customer. The collectibility of these receivables could be affected by future business or economic trends or other significant events in the countries in which such customers reside. Although management believes the allowance is adequate, it is possible that the estimated amount of cash collections with respect to the casino accounts receivable could change.

Note 5. Property and Equipment, net

Property and equipment consisted of the following:

(In thousands)

At December 31,

	1999	1998
Land . . . . .	\$332,769	\$107,613
Buildings and improvements . . . . .	1,628,761	929,980
Equipment, furniture, fixtures and leasehold improvements . . . . .	665,133	304,239
Equipment under capital lease . . . . .	26,256	18,053
Construction in progress . . . . .	130,848	223,772
	2,783,767	1,583,657
Less: Accumulated depreciation and amortization . . . . .	(393,243)	(255,935)
	\$2,390,524	\$1,327,722

Note 6. Development Projects

The Company, along with its local partners in Detroit, Michigan, plans to develop a permanent hotel/casino and entertainment complex at an approximate cost of \$800 million. On November 20, 1997, the Company was chosen to construct, own and operate one of Detroit's three new casinos. Construction of the hotel/casino is subject to the receipt of various governmental approvals. The plans for the permanent facility call for an 800-room hotel, a 100,000 square-foot casino, signature restaurants and retail outlets, a

showroom and other entertainment venues. Through December 31, 1999, the Company has expended and capitalized approximately \$4.1 million for licensing, design and construction costs for the permanent facility.

The Company plans to develop a hotel/casino and entertainment complex in Atlantic City, New Jersey, at a minimum approximate cost of \$700 million, on approximately 35 acres of land on the Atlantic City Boardwalk. Construction of the hotel/casino is subject

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

to the receipt of various governmental approvals. On July 24, 1996, the Company was found suitable for licensing by the New Jersey Casino Control Commission. Through December 31, 1999, the

Company has expended and capitalized approximately \$67.2 million relating primarily to land acquisition and pre-construction activities.

Note 7. Investments in Unconsolidated Affiliates

On December 28, 1994, the Company and Primadonna formed a joint venture to construct, own and operate the New York-New York Hotel and Casino (see Note 1). The hotel/casino opened to the public on January 3, 1997. The Company held a 50% interest in the joint venture until the Merger on March 1, 1999, whereby it acquired the remaining 50% interest. Through February 28, 1999, the Company contributed land on which the property is located and cash totaling \$70.7 million. During the two months ended February 28, 1999, the Company received no distributions from

the joint venture to pay taxes on its allocated share of income. The joint venture secured bank financing of \$285 million, which was subsequently amended and reduced to \$210 million, and equipment term loan financing of \$20 million (see Note 9). In addition, the joint venture Partners executed a joint and several unlimited Keep-Well Agreement in conjunction with the financing. Following the Merger with Primadonna, the Company extinguished the joint venture secured bank financing on March 31, 1999 (see Note 9).

Summary condensed financial information for New York-New York Hotel and Casino, LLC is as follows:

(In thousands)

Years Ended December 31,

Net Revenues . . . . .  
Operating Income . . . . .  
Interest Expense, net . . . . .  
Net Income. . . . .

1999	1998	1997
\$213,055	\$219,107	\$255,253
\$66,159	\$76,628	\$107,431
\$(11,086)	\$(16,562)	\$(19,425)
\$55,073	\$60,066	\$88,006

(In thousands)

At December 31,

Total Assets. . . . .  
Long-term Debt . . . . .  
Members' Equity . . . . .

1999	1998
\$536,217	\$451,496
\$117,343	\$189,361
\$387,156	\$235,176

Effective December 10, 1993, the Company through its wholly owned subsidiary, MGM Grand Hotel, Inc., and Bally's Grand Inc. ("Bally's") formed a 50/50 joint venture, MGM Grand-Bally's Monorail, LLC. The joint venture was formed to construct, own and operate the MGM Grand-Bally's Monorail, which was

completed and commenced operations in June of 1995. The Company contributed \$1.3 million, \$2 million, and \$1.5 million to the joint venture as part of its operating contribution during 1999, 1998 and 1997, respectively.

Investments in unconsolidated affiliates consisted of the following:

(In thousands)

At December 31,

New York-New York Hotel and Casino, LLC . . . . .  
MGM Grand - Bally's Monorail, LLC . . . . .

1999	1998
\$ -	\$122,861
12,485	11,164
\$12,485	\$134,025

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The changes in the Company's investments in unconsolidated affiliates were as follows:

(In thousands)

New York-New York Hotel and Casino, LLC	1999	1998
Investment at January 1, . . . . .	\$122,861	\$96,949
Earnings . . . . .	5,041	30,032
Distributions received . . . . .	-	(4,120)
Merger with Primadonna . . . . .	(127,902)	-
Investment at December 31, . . . . .	\$ -	\$122,861

(In thousands)

MGM Grand-Bally's Monorail, LLC	1999	1998
Investment at January 1, . . . . .	\$11,164	\$11,172
Costs of Operations . . . . .	(812)	(808)
Additional investments . . . . .	2,133	800
Investment at December 31, . . . . .	\$12,485	\$11,164

### Note 8. Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(In thousands)

At December 31,	1999	1998
Accrued salaries and related . . . . .	\$72,588	\$38,422
Casino front money . . . . .	24,090	20,109
Casino chip liability . . . . .	16,809	12,198
Other liabilities . . . . .	84,093	40,216
	\$197,580	\$110,945

### Note 9. Long Term Debt

Long term debt consisted of the following:

(In thousands)

At December 31,	1999	1998
Senior Reducing Revolving Credit Facility . . . . .	\$612,000	\$ -
6.95% Senior Collateralized Notes due February 1, 2005. . . . .	300,000	300,000
6.875% Senior Collateralized Notes due February 6, 2008 . . . . .	200,000	200,000
MGM Grand Detroit, LLC Credit Facility due April 1, 2003. . . . .	169,000	-
Australian Hotel/Casino Loan due December 1, 2004. . . . .	37,841	44,874
	1,318,841	544,874
Less: Current maturities . . . . .	(7,852)	(10,077)
	\$1,310,989	\$534,797

Total interest incurred during 1999, 1998 and 1997 was \$76.2 million, \$40.1 million and \$9 million, respectively, of which \$16.3 million, \$15.5 million and \$7.8 million were capitalized in 1999, 1998 and 1997, respectively.

On July 1, 1996, the Company secured a \$500 million Senior Reducing Revolving Credit Facility with BA Securities (the "Facility"), an affiliate of Bank of America NT&SA. In August 1996, the Facility was increased to \$600 million. In July 1997, the Facility

was amended, extended and increased to \$1.25 billion (the "New Facility"), with provisions to allow an increase of the New Facility to \$1.5 billion as well as to allow additional pari passu debt financing up to \$500 million. As a result of the New Facility, the Company recognized an extraordinary loss of approximately \$4.2 million, net of income tax benefits, due to the write-off of unamortized debt costs from the Facility during 1997. The New Facility contains various restrictive covenants on the Company which include the



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

maintenance of certain financial ratios and limitations on additional debt, dividends, capital expenditures and disposition of assets. The New Facility also restricts certain acquisitions and similar transactions. Interest on the New Facility is based on the bank reference rate or Eurodollar rate and as of December 31, 1999, the Company's borrowing rate was approximately 6.8%. The New Facility matures in December 2002, with the opportunity to extend the maturity for successive one-year periods. Quarterly reductions of \$62.5 million begin on December 23, 2001. On May 4, 1999, two letters of credit totaling \$49.9 million were issued under the New Facility to support municipal financing used in connection with the proposed Detroit permanent casino. During 1999, \$782 million was drawn down on the New Facility of which \$612 million remained outstanding as of December 31, 1999. During 1999, the Company used \$216.6 million and \$157.9 million from the New Facility to pay off the Primadonna and NYNY bank facilities, respectively, and terminated these borrowing arrangements.

The Company filed a Shelf Registration Statement with the Securities and Exchange Commission which became effective on August 4, 1997. The Shelf Registration Statement allows the Company to issue up to \$600 million of debt and equity securities. On February 2 and February 6, 1998, the Company completed public offerings totaling \$500 million of Senior Collateralized Notes in tranches of 7 and 10 years. The 7-year tranche of \$300 million carries a coupon of 6.95%, while the 10-year tranche of \$200 million carries a coupon of 6.875%. Both tranches are initially secured equally and ratably with the New Facility, and the security may be removed equally with the New Facility at the Company's option upon the occurrence of certain events, including the maintenance of investment grade ratings. The Senior Collateralized Notes are *pari passu* with the New Facility and contain various restrictive covenants, as does the New Facility. The Senior Collateralized Notes and the New Facility are collateralized by substantially all of the assets of the Company except for assets of certain unrestricted subsidiaries. Based on the quoted market value of the Senior Collateralized Notes at December 31, 1999, the

fair value of the 7-year and 10-year tranches were \$275.4 million and \$177.9 million, respectively.

On March 31, 1999, MGM Grand Detroit, LLC, through a wholly-owned subsidiary, secured a \$230 million credit facility (the "Detroit Facility") with a consortium of banks, the majority of which are based in the greater Detroit metropolitan area. The Detroit Facility will be used to finance the development and construction of the interim and permanent casino complexes and for general working capital. The Detroit Facility may be increased to \$250 million at the Company's discretion. The Detroit Facility is secured by substantially all of the assets of the interim facility and is guaranteed by the Company. The Detroit Facility matures in April 2003. During 1999, \$181 million was drawn down on the Detroit Facility of which \$169 million remained outstanding as of December 31, 1999.

On September 7, 1995, the Company completed the acquisition of MGM Grand Australia (formerly the Diamond Beach Hotel/Casino) in Darwin, Australia. The acquisition cost was financed by an Australian bank facility which provided a total availability of approximately \$68.7 million (AUD \$105 million) and includes funding for general corporate purposes. During 1999, the facility was reduced by principal payments totaling \$10 million (AUD \$15.3 million) made in accordance with the terms of the bank facility, and as of December 31, 1999, \$37.8 million (AUD \$57.8 million) remained outstanding. Interest on the Australian facility is based on the bank bill rate and was approximately 5.8% and 5.3% as of December 31, 1999 and 1998, respectively. During 1999, the maturity of the facility was extended from December 2002 to December 2004. The indebtedness has been guaranteed by the Company.

MGM Grand Australia has a \$13.1 million (AUD \$20 million) uncommitted standby line of credit, with a funding period of 91 days for working capital purposes. During the year ended December 31, 1999, no amounts were borrowed under the line of credit and no amounts were outstanding as of December 31, 1999 and 1998, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Maturities of the Company's long term debt are as follows:

(In thousands)

Years ending December 31,

2000	\$7,852
2001	23,518
2002	696,519
2003	84,519
2004	6,433
Thereafter	<u>500,000</u>
Total	<u>\$1,318,841</u>

On September 15, 1995, NYNY LLC completed its bank financing for up to \$225 million, which was increased to \$285 million during September 1996. The non-revolving construction line of credit converted to a five-year reducing revolver upon completion of construction and commencement of operations of NYNY on January 3, 1997. On October 8, 1998, the NYNY LLC five-year reducing revolver was amended and reduced to \$210 million. Following the Merger with Primadonna, the Company used \$157.9 million from the New Facility to extinguish the NYNY bank facility on March 31, 1999. On January 21, 1997,

NYNY LLC completed an additional \$20 million equipment financing with a financial institution. As of December 31, 1999, \$11.4 million remained outstanding related to the equipment financing. During 1999, as a result of extinguishing the NYNY LLC bank facility, the Company recognized an extraordinary loss of approximately \$.9 million, net of income tax benefits, due to the write-off of unamortized debt costs.

As of December 31, 1999, the Company was in compliance with all covenant provisions associated with the aforementioned obligations.

Note 10. Commitments and Contingencies

The Company and its subsidiaries lease buildings and equipment under non-cancelable operating lease agreements which expire at various times through the year 2004. The leases generally provide that the Company pay taxes, insurance and maintenance

expenses related to leased assets.

At December 31, 1999, the Company was obligated under non-cancelable operating leases and capital leases to make future minimum lease payments as follows:

(In thousands)

Years ending December 31,

	Operating Leases	Capital Leases
2000	\$11,911	\$5,187
2001	8,472	5,773
2002	8,457	3,998
2003	7,494	3,122
2004	5,737	31
Thereafter	<u>220,873</u>	-
Total Minimum Lease Payment	<u>\$262,944</u>	18,111
Amount Representing Interest		<u>(102)</u>
Total Obligation Under Capital Leases		18,009
Less: Amount Due Within One Year		<u>(5,145)</u>
Amount Due After One Year		<u>\$12,864</u>

Rental expense on the non-cancelable operating leases was \$9.1 million, \$1.7 million and \$2.5 million for the years ending December 31, 1999, 1998 and 1997, respectively.

The Company has a lease agreement which covers

the property upon which Whiskey Pete's, Primm Valley, and Buffalo Bill's are located. The land is owned by Primm South Real Estate Company ("Primm South"). The lease has an initial term of 50 years, with an option to extend for one additional 25

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

year period. Lease payments are subject to annual increases based upon the Consumer Price Index, not to exceed 8% per year. The lease provides for the base rent to be adjusted every 8 years, based upon appraisal. The Company is required to pay all taxes, insurance, utilities, and maintenance expenses related to the property.

Additionally, the lease provides the Company with the exclusive right to conduct gaming activities on the

landlord's property in Primm, Nevada, for 10 years, for an annual fee of \$100,000. This right can be extended, at the Company's option, for consecutive 10 year periods so long as the Company is in compliance with the lease agreement. At each renewal period, the fee will be increased by the Consumer Price Index, subject to a maximum annual increase of 8%.

### *Note 11. Stockholders' Equity*

On May 7, 1996, the Company made a commitment to grant 30 shares of Company common stock to each of its employees in exchange for continued active employment through the one-year anniversary date of the commitment. As a result of the stock grant commitment, deferred compensation was charged to stockholders' equity and amortized monthly to compensation expense over the one-year commitment period. On May 7, 1997, 198,090 shares were issued to employees as a result of the commitment. Over the life of the commitment, approximately \$4 million was amortized to expense, of which \$1.2 million and \$2.8 million of such expense were recognized during the years ended December 31, 1997 and 1996, respectively.

On May 24, 1995, and as amended, the Company entered into an agreement with Don King Productions, Inc. ("DKP") to present six of Mike Tyson's fights. Pursuant to the agreement, the Company made a non-interest bearing working capital advance of \$15 million to DKP, sold to DKP 1,237,114 treasury shares of the Company's Common Stock (the "Shares") for \$15 million in exchange for a non-interest bearing promissory note which was repaid, and provided a guaranteed future share price of \$24.25. The original agreement was amended by a Trust Agreement dated October 23, 1996, in which the Shares were placed in the name of, and held by, an independent trustee, pending disposition at the direction of the Company. The Company and DKP determined to terminate the agreement, and on September 25, 1997, after solicitation of competitive bids, the Shares held by the Trustee were sold to Tracinda at the price of \$22.25 per share for an aggregate consideration of \$27.5 million. The Company was repaid the \$15 million working capital advance and the remaining consideration in the amount of \$12.5 million was

paid to DKP. As a result of this transaction, the Company reversed approximately \$5.9 million of previously expensed stock price guarantee amortization during 1997.

On June 23, 1998, the Company announced a \$17.50 per share cash tender offer for up to 12 million shares of Company common stock as part of a 24 million share repurchase program. The offer commenced on July 2, 1998 and expired on July 31, 1998. Based upon final results, 21.6 million shares of the Company's common stock were tendered, and accordingly, the shares were prorated. The total acquisition cost of the 12 million shares was approximately \$210.6 million.

On March 1, 1999, the Company issued 19 million shares of the Company's common stock valued at approximately \$243.6 million in connection with the Merger (see Note 19).

On June 10, 1999, the Company announced a \$25.00 per share tender offer for up to 12 million shares of the Company's common stock. The offer commenced on June 17, 1999 and expired on July 23, 1999. Based upon the final results, 30.2 million shares of the Company's common stock were tendered, and accordingly, the shares were prorated. The total acquisition cost of the 12 million shares was approximately \$282 million. The Company recognized certain non-recurring compensation costs totaling approximately \$18.5 million related to exercisable options that were tendered. This tender offer completed the acquisition of the remaining 12 million shares offered in the 24 million share repurchase program announced on June 23, 1998.

On August 5, 1999, the Company announced a twelve-month stock repurchase program for up to 10 million shares of the Company's common stock. The



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

purchases will be made from time to time in the open market or through privately negotiated transactions as market conditions warrant. Through December 31, 1999, the Company purchased 565,200 shares for an approximate cost of \$13.2 million. From January 1, 2000 through February 25, 2000, the Company purchased 2,493,800 shares for an approximate cost of \$52.6 million.

On December 13, 1999, the Board of Directors approved a two-for-one split of the Company's common stock and declared an initial quarterly cash dividend of \$0.10 per share, after giving effect to the stock

split. The additional shares were distributed on February 25, 2000 to stockholders of record on February 10, 2000. The cash dividend was paid on March 1, 2000 to stockholders of record on February 10, 2000. All references to share and per share data herein have been adjusted retroactively to give effect to the stock split. Concurrently, the Board of Directors increased the number of authorized shares of the Company's common stock from 75 million shares to 300 million shares.

Note 12. Comprehensive Income

Statement of Financial Accounting Standards No. 130 ("SFAS 130"), Reporting Comprehensive Income, requires that the Company disclose comprehensive income and its components. The objective of SFAS 130 is to report a measure of all changes in equity of a company that result from transactions and other economic events of the period other than transactions

with stockholders. Comprehensive income is the total of net income and all other non-stockholder changes in equity ("Other Comprehensive Income").

The Company has recorded currency translation adjustments as Other Comprehensive Income in the accompanying financial statements. Comprehensive income is calculated as follows:

(In thousands)

Years ended December 31,

	1999	1998	1997
Net income	\$86,058	\$68,948	\$111,018
Currency translation adjustment	(3,508)	2,688	14,422
Comprehensive income	\$82,550	\$71,636	\$125,440

Note 13. Earnings per Share

The Company accounts for Earnings per Share according to Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 presents two EPS calculations: (i) basic earnings per common share which is computed by dividing net income by the weighted average number of shares of common stock outstanding during the periods presented, and (ii) diluted earnings per common share which is determined on the assumption that options issued pursuant to the Company's stock option plans (see Note 14) are exercised and repur-

chased at the average price for the periods presented.

Weighted average diluted shares include the following: options to purchase approximately 3,506,000, 1,328,000, and 1,754,000 shares issued pursuant to the Company's stock option plans (see Note 14) for the years ended December 31, 1999, 1998 and 1997, respectively; employee grant shares of approximately 58,000 for the year ended December 31, 1997; and DKP shares of approximately 908,000 for the year ended December 31, 1997 (see Note 11).

Note 14. Stock Option Plans

The Company has adopted nonqualified stock option plans and incentive stock plans which provide for the granting of stock options pursuant to the

applicable provisions of the Internal Revenue Code and regulations. The aggregate options available under the plans are 20.2 million shares. The Company had

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

granted options of approximately 15 million shares through December 31, 1999.

The plans are administered by the Compensation and Stock Option Committee of the Board of Directors. Salaried officers and other key employees of the Company and its subsidiaries are eligible to receive options. The exercise price in each instance is 100% of the fair market value of the Company's common stock on the date of grant. The options have ten-year terms and are exercisable in four and five annual installments.

On March 26, 1996, the Compensation and Stock Option Committee of the Board of Directors determined to adjust the vesting provision of the Company's Non-Qualified Stock Option Plan and Incentive Stock Option Plan to provide for the vesting of future stock option grants under the plans at 20% on each of the first four anniversary dates of the grant, with full vesting on the fifth anniversary date of the grant. The Compensation and Stock Option Committee also determined that pro-rata vesting at times other than successive anniversary dates of the date of the grant are no longer applicable. Stock option holders with grants dated prior to March 26, 1996 were given the opportunity to accept or decline the new vesting provisions with regard to their existing grants.

On June 22, 1998, the Compensation and Stock Option Committee of the Board of Directors approved an offer to employees to reprice their out-of-the-money options (covering an aggregate of 3,641,900 shares). The original options had exercise prices ranging from \$16.59 to \$22.06, and the new options have an exercise price of \$13.31. For holders who accepted the new price, certain conditions were adopted including: (1) commencement of a new holding period for vesting of options (whether or not the initial options had vested) and (2) a one-year extension of employee employment contracts, at the Company's option, where applicable. The repricing offer was not made to the Company's outside directors.

Had the Company accounted for these plans under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

(In thousands)

	1999	1998	1997
Net income:			
As Reported	\$86,058	\$68,948	\$111,018
Pro Forma	\$77,030	\$66,047	\$110,235
Basic Earnings per share:			
As Reported	\$0.74	\$0.62	\$0.97
Pro Forma	\$0.66	\$0.59	\$0.96
Diluted Earnings per share:			
As Reported	\$0.72	\$0.61	\$0.94
Pro Forma	\$0.64	\$0.59	\$0.94

A summary of the status of the Company's fixed stock option plan for each of the years ended December 31, 1999, 1998 and 1997 is presented below (there are no options outstanding under the Incentive Stock Option Plan):

	1999		1998		1997	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding at Beginning of the year	9,402	\$12.89	7,284	\$14.41	6,426	\$13.63
Granted	5,712	\$21.11	6,334	\$14.61	1,454	\$18.13
Exercised	(3,358)	\$12.00	(98)	\$13.56	(144)	\$7.55
Forfeited	(764)	\$19.00	(4,118)	\$18.21	(452)	\$17.60
Expired	-	-	-	\$ -	-	\$ -
Outstanding at End of the Year	10,992	\$17.00	9,402	\$12.89	7,284	\$14.41
Exercisable at End of the Year	3,006	\$14.02	2,718	\$11.95	1,566	\$12.12
Weighted Average Fair Value of Options Granted		\$11.15		\$6.81		\$8.49

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about fixed stock options outstanding at December 31, 1999:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/1999	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 12/31/1999	Weighted Average Exercise Price
\$ 5.00 - \$10.00 .....	138,792	4.5	\$6.94	138,792	\$6.94
\$10.01 - \$15.00 .....	6,110,930	7.3	\$13.09	2,562,590	\$13.02
\$15.01 - \$20.00 .....	1,244,860	8.2	\$17.81	50,100	\$17.26
\$20.01 - \$25.00 .....	3,309,900	9.5	\$23.63	85,862	\$22.27
\$25.01 - \$30.00 .....	137,800	7.6	\$27.19	118,800	\$27.47
\$30.01 - \$35.00 .....	19,464	5.6	\$32.98	19,464	\$32.98
\$35.01 - \$40.00 .....	27,714	.2	\$36.72	27,714	\$36.72
\$40.01 - \$45.00 .....	-	-	-	-	-
\$45.01 - \$50.00 .....	2,970	.2	\$47.35	2,970	\$47.35
	10,992,430	8.0	\$17.00	3,006,292	\$14.02

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1999, 1998 and 1997, respectively; risk-free interest rates of 6% for all years; no expected dividend yields for the years presented; expected lives of 8, 6, and 6 years, respectively; and expected

volatility of 36%, 36%, and 38%, respectively.

The Company has agreements with 153 executives which provide that, upon a change of control, any unvested stock options covered by such agreements become exercisable. The total number of stock options subject to such agreements is 3.8 million which become immediately exercisable.

### *Note 15. Employee Pension and Savings Plans*

Participation in the MGM Grand Hotel, Inc. 401(k) employee savings plan is available for all full time employees. The savings plan allows participants to defer, on a pre-tax basis, a portion of their salary and accumulate tax deferred earnings as a retirement fund. MGM Grand Hotel, Inc. matches 50% of employee contributions up to a maximum of 2% of participating employee's eligible gross wages. Additionally, MGM Grand Hotel, Inc. makes contributions to the employees' savings plan based on length of service, which vest over a five-year period. For the periods ended December 31, 1999, 1998 and 1997, MGM Grand Hotel, Inc. contributions under this arrangement were \$4.5 million, \$4.1 million, and \$3.4 million, respectively.

Effective November 1994, the Company and MGM Grand Hotel, Inc. adopted a Nonqualified Deferred Retirement Plan for certain key employees not a part of a collective bargaining unit. The Nonqualified Deferred Retirement Plan allows participants to defer, on a pre-tax basis, a portion of their salary and accumulate tax deferred earnings, plus interest, as a retirement fund.

These deferrals are in addition to those allowed under the MGM Grand Hotel, Inc. 401(k) savings plan. All deferred amounts vest immediately. There are no employer matching contributions made under this plan. The full amount vested in a participant's account will be distributed to a participant following termination of employment, normal retirement or in the event of disability or death.

The Company and MGM Grand Hotel, Inc. maintain an Employee Stock Purchase Plan. The plan provides eligible employees the opportunity to purchase shares of the Company's Common Stock via payroll deductions. The price for each share of Common Stock is the weighted average price paid for all the shares purchased by the Plan Administrator on behalf of the participating employees on the last trading day of each month. The Company and MGM Grand Hotel, Inc. pay the administrative costs of the plan. The plan may be amended or terminated at any time by the Company's Board of Directors or by a committee designated by the Board of Directors.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Participation in the NYNY 401(k) employee savings plan is available for all full time employees. The savings plan allows participants to defer, on a pre-tax basis, a portion of their salary and accumulate tax deferred earnings as a retirement fund. NYNY matches 50% of employee contributions up to a maximum of 3% of participating employee's eligible gross wages. For the period ended December 31, 1999, NYNY contributions under this arrangement were \$.7 million.

Participation in MGM Grand Detroit's 401(k) employee savings plan is available for all employees after completing three months of employment. The savings plan allows participants to defer, on a pre-tax basis, a portion of their salary and accumulate tax-deferred earnings as a retirement fund. MGM Grand Detroit matches 50% of employee contributions up to a maximum of 6% of participating employee's eligible gross wages. Matching contributions vest ratably over a five-year period. For the period ended December 31, 1999, MGM Grand Detroit contributions under this arrangement were \$.2 million.

Effective with the March 1, 1999 Merger with Primadonna, a section 401(k) employee savings plan (the "Primadonna Savings Plan") for Primadonna employees was acquired. The Primadonna Savings Plan allows participants to defer, on a pretax basis, a portion of their salary and accumulate tax deferred earnings as a retirement fund. The Company matches 50% of employee contributions up to a maximum of 2.5%, which was amended to 3% on December 1, 1999, of

participating employee's eligible gross wages and bonus. For the period ended December 31, 1999, Primadonna contributions under the arrangement were \$.3 million.

Effective with the September 1995 acquisition of MGM Grand Australia (see Note 1), an Australian employee retirement fund was acquired. The fund is subject to the Superannuation Industry (Supervision) Act of 1993, imposing a legal obligation on MGM Grand Australia to contribute to all employees. MGM Grand Australia maintains two categories for the plan, depending on employment status: category (A) for executive employees and category (B) for staff. Death and Disablement benefits are provided for all members; however, category (A) members receive increased coverages under both benefits. MGM Grand Australia contributes 7% of salary to satisfy the Superannuation Guarantee Legislation, and allows participants to defer, on a pre-tax basis, a portion of their salary and accumulate tax deferred earnings as a retirement fund. The full amount vested in members' retirement accounts is payable to the member following termination of employment, under certain circumstances or normal retirement. During 1999, MGM Grand Australia contributed under these arrangements \$.3 million and \$.6 million for the executive employees and staff, respectively. During 1998, MGM Grand Australia contributed under these arrangements \$.3 million and \$.5 million for the executive employees and staff, respectively. During 1997, MGM Grand Australia contributed under these arrangements \$.2 million and \$.5 million for the executive employees and staff, respectively.

### *Note 16. Master Plan Asset Disposition*

During 1997, the Company enhanced and increased the Master Plan from \$250 million to approximately \$570 million, and wrote off assets with a net book value of \$28.6 million (pre-tax), which

included the original swimming pool facility which was replaced by the Mansion at the MGM Grand, consisting of 29 exclusive suites and villas, and certain theme park assets.

### *Note 17. Income Taxes*

The Company accounts for income taxes according to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences. The standard requires recognition of a future tax benefit to the extent that realization of such benefit is

more likely than not. Otherwise, a valuation allowance is applied. At December 31, 1999, the Company believes that it is more likely than not that its deferred tax assets are fully realizable because of the future reversal of existing taxable temporary differences and future projected taxable income. Accordingly, there is no valuation allowance at December 31, 1999.

The Company merged with Primadonna Resorts,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inc. on March 1, 1999 through a transaction that qualified as a tax free reorganization under the Internal Revenue Code. The respective deferred tax assets and liabilities of The Primadonna Resorts, Inc.

have been consolidated with the MGM Grand, Inc. deferred balances, and are reflected in the December 31, 1999 deferred tax assets and liabilities below.

The provision for income taxes and income from continuing operations before extraordinary item and cumulative effect of change in accounting principle for the years ended December 31, 1999, 1998 and 1997 are as follows:

(In thousands)

Years Ended December 31,	1999	1998	1997
Current - Federal. . . . .	\$26,035	\$23,250	\$14,207
Deferred - Federal . . . . .	26,188	14,847	51,439
Provision for Federal income taxes . . . . .	\$52,223	\$38,097	\$65,646
Current - State . . . . .	\$803	\$ -	\$ -
Deferred - State . . . . .	(320)	-	-
Provision for City and State income taxes . . . . .	\$483	\$ -	\$ -
Current - Foreign. . . . .	\$2,945	\$1,541	\$ -
Deferred - Foreign. . . . .	(622)	942	(601)
Provision for Foreign income taxes	\$2,323	\$2,483	\$ (601)

Reconciliation of the Federal income tax rate and the Company's effective tax rate is as follows:

Years Ended December 31,	1999	1998	1997
Federal income tax rate . . . . .	35.0%	35.0%	35.0%
Permanent and other items . . . . .	1.6	2.0	1.1
Changes in valuation allowance . . . . .	-	-	-
Effective tax rate . . . . .	36.6%	37.0%	36.1%

As of December 31, 1999 and 1998, the major tax affected components of the Company's net deferred tax liability are as follows:

(In thousands)

	1999	1998
Deferred Tax Assets - Federal and State:		
Bad debt reserve . . . . .	\$3,844	\$12,234
Tax credit carryforwards . . . . .	25,390	29,492
Preopening costs . . . . .	471	-
	29,705	41,726
Deferred Tax Liabilities - Federal and State:		
Depreciation and amortization . . . . .	(107,090)	(72,817)
Accruals, reserves and other . . . . .	(11,783)	(9,261)
	(118,873)	(82,078)
Deferred Tax Liabilities - Foreign:		
Depreciation, amortization and other . . . . .	(2,093)	(2,715)
Net Deferred Tax Liability . . . . .	\$(91,261)	\$(43,067)

For U.S. Federal income tax return purposes, the Company has an alternative minimum tax credit carryforward of \$24.3 million which does not expire, and

a general business tax credit carryforward of \$1.1 million which expires in different periods through 2013.

*Note 18. Related-Party Transactions*

The Company, through its wholly-owned subsidiary MGM Grand Hotel, Inc., has entered into an agreement to lease space in NYNY to operate a race book and sports pool. The terms of the lease are for ten years from the commencement date of January 3, 1997, with an option for an additional term of ten years. MGM Grand Hotel, Inc. is obligated to pay to NYNY the greater of a minimum annual rent of \$.2 million or percentage rent based upon gross revenue. The percentage rent is based on a graduated scale of gross revenue at percentages ranging from 12% to 15%. During 1999 and 1998, approximately \$.1 million and \$.4 million were paid under this agreement. The race and sports pool rent payment was below the minimum annual rent of \$.2 million due to the closure of the race book and sports pool in May 1999. Additionally, MGM Grand Hotel, Inc. provided various other hotel goods and services for which NYNY paid approximately \$.1 million during both 1999 and 1998. On September 4, 1996, the Company also entered into an agreement with NYNY to provide exclusive floral services through its wholly-owned subsidiary, MGM Grand Merchandising, Inc., at rates generally comparable to those offered by third parties. Payments were made by NYNY totaling \$.2 million and \$.1 million under the floral service contract for 1999 and 1998, respectively. The Company and NYNY have entered into various other transactions and arrangements which, individually and in the aggregate, are not material.

For the years ended December 31, 1999 and 1998, the Company and its subsidiaries rented aircraft from Tracinda for various business purposes. The aggregate amount of rental payments were \$.1 million and \$.3 million, respectively, and the rent payments were at rates which management believes are generally below those offered by third parties. The Company and Tracinda have entered into various other transactions and arrangements which, individually and in the aggregate, are not material.

During 1999 and 1998, the Company made no additional contributions to NYNY LLC. The Company received no distributions in 1999 and \$4.1 million in distributions in 1998 from NYNY LLC to pay taxes on its allocated share of income.

In August 1998, Tracinda agreed to sell its building and land (approximately .56 acres located in Las Vegas,

Nevada) to the Company's subsidiary, MGM Grand Hotel, Inc., for \$1.8 million. The Company, based on appraisals it received, believes that this purchase was on terms comparable to what it could have obtained for the land and building on an arms-length basis in an equivalent transaction with a third party.

Pursuant to an agreement dated December 23, 1996, between MGM Grand Hotel, Inc. and MGM Home Entertainment, Inc. ("MGM-HE"), a California-based motion picture studio in which Tracinda has an approximate 89.1% ownership interest, (collectively with its subsidiaries, "MGM Inc.") MGM Grand Hotel, Inc. can utilize key art, still photographs of artwork and one-minute film clips from certain Metro Goldwyn Mayer, Inc.'s motion picture releases on an as-needed basis. MGM Grand Hotel, Inc. does not pay any monetary compensation for these licenses. Affiliates of MGM Grand Hotel, Inc. and MGM Inc. occasionally conduct cross-promotional campaigns, in which MGM Grand Hotel, Inc. or its affiliate's hotels and MGM Inc.'s motion picture releases are promoted together; however, management believes that the amounts involved are immaterial. During 1999 and 1998, MGM Grand Hotel, Inc. purchased video cassettes and other MGM-HE merchandise of approximately \$.1 million each year at rates which management believes are generally comparable to those offered to third parties. In addition, MGM Grand Hotel, Inc. provided various goods and services during 1999 to MGM-HE which, individually and in the aggregate, are not material.

Pursuant to a License Agreement between a predecessor in interest to the Company and Metro Goldwyn Mayer Film Co. dated February 29, 1980, as amended May 18, 1992 and as further amended August 6, 1998, the Company has an open-ended exclusive royalty-free license in perpetuity to use certain trademarks, trade names and logos in and in connection with the Company's hotel/gaming business and other businesses, excluding the film entertainment business.

During the three-year periods ended December 31, 1999, 1998 and 1997, the Company and MGM-HE have entered into various other transactions and arrangements which, individually and in the aggregate, are not material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19. Primadonna Acquisition

On March 1, 1999, the Company completed the Merger with Primadonna Resorts, Inc. for 19 million shares of the Company's common stock valued at approximately \$243.6 million plus the assumption of debt totaling \$315.2 million. Primadonna shareholders received .66 shares of the Company's common stock for every Primadonna share held. The transaction was accounted for as a purchase and, accordingly, the purchase price was preliminarily allocated to the underly-

ing assets acquired and liabilities assumed based upon their estimated fair values at the date of the Merger. The operating results for Primadonna are included in the Consolidated Statement of Operations from the date of acquisition.

The following unaudited pro forma consolidated financial information for the Company has been prepared assuming that the Merger had occurred on the first day of the following respective periods:

(in thousands except per share amounts)

Years ended December 31,

	1999	1998
Net Revenues . . . . .	\$1,458,749	\$1,187,830
Operating Profit before Preopening, Other Non-Recurring Expenses and Corporate Expense . . . . .	\$305,677	\$197,285
Operating Income. . . . .	\$219,725	\$180,656
Net Income before Extraordinary Item and Cumulative Effect of Accounting Change . . . . .	\$99,047	\$84,276
Basic Earnings per Share before Extraordinary Item and Cumulative Effect of Accounting Change . . . . .	\$0.83	\$0.65
Weighted Average Basic Shares Outstanding (000's) . . . . .	119,090	130,442
Diluted Earnings per Share before Extraordinary Item and Cumulative Effect of Accounting Change. . . . .	\$0.80	\$0.64
Weighted Average Diluted Shares Outstanding (000's) . . . . .	123,268	131,802

These unaudited pro forma results are presented for comparative purposes only. The pro forma results are not necessarily indicative of what the Company's actual results would have been had the acquisition been completed as of the beginning of these periods, or of future results.

Note 20. Subsequent Event (unaudited)

On March 6, 2000, the Company announced the signing of a definitive merger agreement with Mirage Resorts, Incorporated ("Mirage"), under which the Company will acquire all of the outstanding shares of Mirage for \$21 per share in cash. The transaction will have a total equity value of approximately \$4.4 billion. In addition, the Company will assume the outstanding debt of Mirage of approximately \$2.0 billion. The

transaction is subject to the approval of Mirage shareholders and to the satisfaction of customary closing conditions contained in the merger agreement, including the receipt of all necessary regulatory and governmental approvals. The transaction will be accounted for as a purchase and is anticipated to close during the fourth quarter of 2000.



## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

### **To the Board of Directors and Stockholders of MGM Grand, Inc.:**

We have audited the accompanying consolidated balance sheets of MGM Grand, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MGM Grand, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ending December 31, 1999, in conformity with generally accepted accounting principles in the United States.

As explained in Note 2 of notes to the consolidated financial statements, effective January 1, 1999, the Company changed its method of accounting for start-up activities in accordance with Statement of Position 98-5, "Reporting on the Costs of Start-up Activities."

ARTHUR ANDERSEN LLP

Las Vegas, Nevada

January 20, 2000

(except with respect to the matter discussed in  
Note 11, as to which the date is March 1, 2000)

SELECTED QUARTERLY FINANCIAL RESULTS

(In thousands except share data) (Unaudited)

For the Years ended December 31, 1999 and 1998	Quarter				
	First	Second	Third	Fourth	Total
1999					
Net revenues . . . . .	\$251,367	\$319,060	\$400,335	\$420,888	\$1,391,650
Operating profit before non-recurring items and corporate expense . . . . .	51,846	68,831	86,958	88,185	295,820
Operating income . . . . .	37,942	50,191	38,626	83,109	209,868
Income before income taxes . . . . .	28,824	38,264	19,695	63,370	150,153
Net income . . . . .	9,425	24,106	12,605	39,922	86,058
Basic income per share of common stock:					
Net income . . . . .	\$0.09	\$0.19	\$0.11	\$0.35	\$0.74
Diluted income per share of common stock:					
Net income . . . . .	\$0.08	\$0.19	\$0.10	\$0.35	\$0.72
1998					
Net revenues . . . . .	\$179,847	\$185,365	\$193,707	\$214,944	\$773,863
Operating profit before non-recurring items and corporate expense . . . . .	30,609	30,040	34,896	46,718	142,263
Operating income . . . . .	28,158	27,103	34,182	42,131	131,574
Income before income taxes . . . . .	25,409	23,515	26,643	33,961	109,528
Net income . . . . .	16,262	14,399	17,052	21,235	68,948
Basic income per share of common stock:					
Net income . . . . .	\$0.14	\$0.12	\$0.16	\$0.20	\$0.62
Diluted income per share of common stock:					
Net income . . . . .	\$0.14	\$0.12	\$0.15	\$0.20	\$0.61

INVESTOR INFORMATION

The following table represents the high and low trading prices of the Company’s common stock:

For the years ended December 31,	1999		1998	
	High	Low	High	Low
First Quarter . . . . .	20	13 9/16	19 15/16	16 5/8
Second Quarter . . . . .	24 13/16	16 5/16	17 7/8	13 5/16
Third Quarter . . . . .	26 3/16	21 3/16	16 3/4	11 9/16
Fourth Quarter . . . . .	27 5/16	22 11/16	14 7/8	11 5/16

The Company's common stock is listed on the New York Stock Exchange. The symbol is MGG.

**Transfer Agent and Independent Public  
Registrar For Common Stock**  
ChaseMellon Shareholders Services, LLC  
Overpeck Centre  
85 Challenger Road  
Ridgefield Park, NJ 07660  
www.chasemellon.com

**Independent Public Accountants**  
Arthur Andersen LLP  
3773 Howard Hughes Parkway  
Suite 500 South  
Las Vegas, NV 89109

Form 10-K

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge to any stockholder upon written request to:

**Mr. Scott Langsner**  
Senior Vice President  
Secretary/Treasurer  
MGM Grand, Inc.  
3799 Las Vegas Blvd. South  
Las Vegas, NV 89109

CORPORATE INFORMATION

Directors and Officers

<b>J. Terrence Lanni</b> Director <i>Chairman of the Board</i>	<b>James D. Aljian</b> Director <i>Executive, Tracinda Corporation</i>	<b>Alexander M. Haig, Jr.</b> Director <i>Chairman, Worldwide Associates, Inc.</i>	<b>Scott Langsner</b> Officer <i>Senior Vice President Secretary/Treasurer</i>
<b>John T. Redmond</b> Director/Officer <i>Co-Chief Executive Officer</i>	<b>Fred Benninger</b> Director <i>Executive, Tracinda Corporation</i>	<b>Kirk Kerkorian</b> Director <i>President and Chief Executive Officer, Tracinda Corporation</i>	<b>Kyle Edwards</b> Officer <i>Vice President</i>
<b>Daniel M. Wade</b> Director/Officer <i>Co-Chief Executive Officer</i>	<b>Glenn A. Cramer</b> Director <i>Former Chairman, Transamerica Airlines, Retired</i>	<b>Walter M. Sharp</b> Director <i>President, Walter M. Sharp Company</i>	<b>James H. Fox</b> Officer <i>Vice President</i>
<b>James J. Murren</b> Director/Officer <i>President and Chief Financial Officer</i>	<b>Terry N. Christensen</b> Director <i>Partner, Christensen, Miller, Weil &amp; Shapiro, LLP</i>	<b>Alex Yemenidjian</b> Director <i>Chairman and Chief Executive Officer, Metro Goldwyn Mayer Inc.</i>	
	<b>Willie D. Davis</b> Director <i>President and Director, All-Pro Broadcasting, Inc.</i>	<b>Jerome B. York</b> Director	

Corporate Directory

<b>MGM Grand, Inc.</b> 3799 Las Vegas Blvd. South Las Vegas, NV 89109 1-702-891-3333	<b>MGM Grand Las Vegas</b> 3799 Las Vegas Blvd. South Las Vegas, NV 89109 1-702-891-1111 <i>Reservations</i> 1-702-891-7777 1-800-929-1111 (Outside Nevada) <a href="http://www.mgmgrand.com">www.mgmgrand.com</a>	<b>MGM Grand Australia</b> Gilruth Ave. Mindil Beach Darwin, Northern Territory 0801 Australia <i>International number</i> 011-61-8-89438888	<b>MGM Grand Detroit</b> 1300 John C. Lodge Detroit, MI 48226 1-313-393-7777 <a href="http://www.mgmgrand.com">www.mgmgrand.com</a>
		<b>New York-New York Hotel &amp; Casino</b> 3790 Las Vegas Blvd. South Las Vegas, NV 89109 1-702-740-6969 <i>Reservations</i> 1-702-740-6900 1-800-693-6763 (Outside Nevada) <a href="http://www.nynyhotelcasino.com">www.nynyhotelcasino.com</a>	<b>Primadonna Resorts</b> PO Box 95997 Las Vegas, NV 89183 1-700-382-1212 <i>Reservations</i> 1-800-FUN-STOP 1-800-386-7867 <a href="http://www.primadonna.com">www.primadonna.com</a>





WOW!