SILVERSTAR MINING CORP.
Form 10-Q
February 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2012

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ______________________ to _______________

SILVERSTAR MINING CORP.
(Name of small registrant as specified in its charter)

Nevada	**1000**	98-0425627
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	IRS I.D.

2500 Plaza 5, 25th Floor, **Harborside Financial Center,** **Jersey City, NJ**	**07311**
(Address of principal executive offices)	(Zip Code)

SEC File No. 333-140299

Issuer’s telephone number: 201.633.4716

N/A
(Former name, former address and former three months, if changed since last report)

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

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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller Reporting Company	[X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of February 13, 2012 there were 4,349,031 shares issued and outstanding of the registrant’s common stock.

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PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

Silverstar Mining Corp.

(A Development Stage Company)

Consolidated Financial Statements

(Expressed in U.S. Dollars)

(Unaudited)

31 December 2012

Silverstar Mining Corp.

(A Development Stage Company)

Consolidated Balance Sheets

(Expressed in U.S. Dollars)

(Unaudited)

	As at 31 December 2012	As at 30 September 2012
Assets	**$**	**$**
Current		
Cash and cash equivalents	2,413	558
Prepaid expense	249	10,249
Total Current Assets	2,662	10,807
Other		
Investment in Mineral Properties (Note 5)	29,893	14,360
Total Assets	32,555	25,167
Liabilities and Stockholder's Deficit	**$**	**$**
Current Liabilities		
Accounts payable and accrued liabilities (Note 6)	37,099	19,788
Due from related party (Note 9)	-	-
Convertible debentures (Note 7)	20,502	20,124
Demand Loans (Note 8)	23,535	15,468
Shareholder's demand loans (Note 8)	133,983	131,366
Share issuance liability	83,875	4,500
Total Current Liabilities	298,994	191,246
Stockholders' Deficit	**$**	**$**
Capital stock (Note 11)		
Authorized		
225,000,000 of common shares, par value $0.001		
Issued and outstanding		

2013 – 169,179 common shares, par value $0.001 (Note 11)		
2012 – 169,179 common shares, par value $0.001	169	169
Additional paid-in capital	1,468,180	1,462,180
Deficit, accumulated during the development stage	(1,734,788)	(1,628,428)
Total Stockholders' Deficit	(266,439)	(166,079)
Total Liabilities and Stockholders' Deficit	32,555	25,167

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

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Silverstar Mining Corp.

(A Development Stage Company)

Consolidated Statements of Operations

(Expressed in U.S. Dollars)

(Unaudited)

	For the period from the date of inception on 5 December 2003 to 31 December 2012	For the three month period ended 31 December 2012	For the three month period ended 31 December 2011
Expenses			
Bank charges	$ 4,928	$ 138	$ 464
Consulting	138,467	-	-
Dues & subscriptions	10	10	-
Exploration and development (Note 5)	13,029	-	-
Filing fees	24,214	399	374
Investor relations	84,992	-	-
Legal and accounting (Note 9 and 10)	293,605	26,363	15,062
Licences and permits	3,616	-	-
Management fees (Notes 10, 11 and 13)	125,500	4,500	4,500
Rent (Notes 10, 11 and 13)	49,257	2,247	1,599
Transfer agent fees	32,295	755	660
Travel, entertainment and office	36,330	6,512	1,193
Write-down of mineral property acquisition costs (Note 5)	811,696	-	-
Write-down of website development costs (Note 4)	6,600	-	-
Net ordinary loss	$ (1,624,539)	$ (40,924)	$ (23,852)
Other Income/(Expense)			
Interest income	$ 362	$ -	$ -
Cost of borrowing (Note 14)	(61,875)	(61,875)	-
Exchange gain/(loss)	(53)	-	-
Interest expense (Note 7, 8 and 13)	(48,683)	(3,561)	(2,994)
	$ (110,249)	$ (65,436)	$ (2,994)
Net loss	**$ (1,734,788)**	**$ (106,360)**	**$ (26,846)**
Basic and diluted loss per common share		$ (0.63)	$ (0.48)

Weighted average number of common shares used in per share calculations	169,179	55,975

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

Silverstar Mining Corp.

(A Development Stage Company)

Consolidated Statements of Cash Flows

(Expressed in U.S. Dollars)

	For the period from the date of inception on 5 December 2003 to 31 December 2012	For the three month period ended 31 December 2012	For the three month period ended 31 December 2011
Cash flows from operating activities			
Net loss for the period	$ (1,734,788)	$ (106,360)	$ (26,846)
Adjustments to reconcile loss to net cash used by operating activities			
Accrued interest – convertible debentures (Note 7)	20,502	378	378
Accrued interest – shareholder demand loan (Note 8)	22,299	2,617	2,617
Accrued interest – demand loan (Note 8)	1,035	567	-
Contributions to capital by related parties (Notes 10, 11 and 13)	203,500	6,000	6,000
Write-down of mineral property acquisition costs (Note 5)	811,696	-	-
Write-down of website development costs (Note 4)	6,600	-	-
Changes in operating assets and liabilities			
Prepaids	(249)	10,000	(537)
Increase (decrease) in accounts payable and accrued liabilities	37,099	17,311	(6,750)
Increase in due to related parties and shares to be issued	83,875	79,375	1,500
	(548,431)	9,888	(23,638)
Cash flows from investing activities			
Acquisition of Silverdale, net of cash received (Note 3)	(140,221)	-	-
Mineral property acquisition costs (Note 5)	(51,268)	(15,533)	-
Website development costs (Note 4)	(6,600)	-	-
	(198,089)	(15,533)	-
Cash flows from financing activities			
Convertible debenture	15,000	-	-
Shareholder Demand Loan	111,683	-	-
Demand Loans	22,500	7,500	-
Share issue costs	(1,255)	-	-
Common shares issued for cash (Note 11)	601,005	-	50,320
	748,933	7,500	50,320
Increase (decrease) in cash and cash equivalents	2,413	1,855	26,682
Cash and cash equivalents, beginning of period	-	558	1,674
Cash and cash equivalents, end of period	$ 2,413	$ 2,413	$ 28,356

Supplemental Disclosures with Respect to Cash Flows (Note 13)

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

Silverstar Mining Corp.

(A Development Stage Company)

Consolidated Statements of Changes in Stockholders’ Equity (Deficiency)

(Expressed in U.S. Dollars)

	Number of shares issued	Share capital	Share subscriptions received in advance / Additional paid-in capital	Deficit, accumulated during the development stage	Stockholder’s equity
		$	$	$	$
Balance at 5 December 2003 (inception)					
Common shares issued for cash ($333 per share) (Note 11)	0.003	-	1	-	1
Net loss for the period	-	-	-	(450)	(450)
Balance at 30 September 2004	0.003	-	1	(450)	(449)
Net loss for the year	-	-	-	(300)	(300)
Balance at 30 September 2005	0.003	-	1	(750)	(749)
Common shares issued for cash ($0.001 per share) (Note 11)	30,000	30	9,970	-	10,000
Common shares redeemed – cash ($333 per share) (Note 11)	(0.003)	-	(1)	-	(1)
Contributions to capital by related parties – expenses (Notes 10, 11 and 13)	-	-			

Summary balance sheet information for CityCenter is provided below:

	June 30, 2010	December 31, 2009
	(In thousands)	
Current assets	$ 172,766	$ 234,383
Property and other assets, net	9,885,432	10,499,278
Current liabilities	641,911	983,419
Long-term debt and other liabilities	2,655,031	2,620,869
Equity	6,761,256	7,129,373

Summary results of operations for CityCenter are provided below:

	Three Months		Six Months	
For the periods ended June 30,	**2010**	**2009**	**2010**	**2009**
	(In thousands)			
Net revenues	$ 400,685	$ 290	$ 660,547	$ 2,648
Operating expenses, except preopening expenses	(528,697)	(4,301)	(1,037,766)	(8,390)
Preopening and start-up expenses		(17,350)	(6,202)	(31,828)
Operating loss	(128,012)	(21,361)	(383,421)	(37,570)
Other non-operating expense	(58,385)	(3,291)	(113,446)	(7,152)
Net loss	$ (186,397)	$ (24,652)	$ (496,867)	$ (44,722)

NOTE 3 LONG-TERM DEBT

Long-term debt consisted of the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Senior credit facility:		
Term loans, net	$ 2,560,216	$ 2,119,037
Revolving loans	450,000	3,392,806
$297 million 9.375% senior subordinated notes, repaid in 2010		298,135
$645.8 million 8.5% senior notes, due 2010, net	645,775	781,689
$325.5 million 8.375% senior subordinated notes, due 2011	325,470	400,000
$128.7 million 6.375% senior notes, due 2011, net	129,034	129,156
$544.7 million 6.75% senior notes, due 2012	544,650	544,650
$484.2 million 6.75% senior notes, due 2013	484,226	484,226
$150 million 7.625% senior subordinated debentures, due 2013, net	152,785	153,190
$750 million 13% senior secured notes, due 2013, net	711,434	707,144
$508.9 million 5.875% senior notes, due 2014, net	507,767	507,613
$650 million 10.375% senior secured notes, due 2014, net	634,978	633,463
$875 million 6.625% senior notes, due 2015, net	878,004	878,253
$1,150 million 4.25% convertible senior notes, due 2015	1,150,000	
$242.9 million 6.875% senior notes, due 2016	242,900	242,900
$732.7 million 7.5% senior notes, due 2016	732,749	732,749
$743 million 7.625% senior notes, due 2017	743,000	743,000
$850 million 11.125% senior secured notes, due 2017, net	829,311	828,438

$475 million 11.375% senior notes, due 2018, net	463,383	462,906
$845 million 9% senior secured notes, due 2020	845,000	
Floating rate convertible senior debentures, due 2033	8,472	8,472
$0.6 million 7% debentures, due 2036, net	573	573
$4.3 million 6.7% debentures, due 2096	4,265	4,265
Other notes	2,647	3,196
	13,046,639	14,055,861
Less: Current portion		(1,079,824)
	$ 13,046,639	$ 12,976,037

As of June 30, 2010, long-term debt due within one year of the balance sheet date is classified as long-term because the Company has both the intent and ability to repay these amounts with available borrowings under the senior credit facility.

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Interest expense, net consisted of the following:

	Three Months		Six Months	
For the periods ended June 30,	**2010**	**2009**	**2010**	**2009**
	(In thousands)			
Total interest incurred	$ 291,169	$ 268,039	$ 555,344	$ 507,869
Interest capitalized		(66,752)		(134,946)
	$ 291,169	$ 201,287	$ 555,344	$ 372,923

Senior credit facility. The Company s senior credit facility was amended and restated in March 2010, and consists of approximately $2.7 billion in term loans (of which approximately $874 million must be repaid by October 3, 2011) and a $2.0 billion revolving loan (of which approximately $302 million must be repaid by October 3, 2011). The Company had approximately $1.5 billion of available borrowing capacity under its senior credit facility at June 30, 2010.

Under the restated senior credit facility, loans and revolving commitments aggregating approximately $3.6 billion (the extending loans) may be extended to February 21, 2014, provided that the non-extending loans are repaid and certain other conditions, including pro forma availability of a minimum of $350 million under the revolving loan, are satisfied. The restated loan agreement allows the Company to issue unsecured debt, equity-linked securities and equity securities to refinance indebtedness maturing prior to October 3, 2011 and the $1.2 billion portion of the obligations owed to non-extending lenders. After the extension of the senior credit facility, the Company may issue such securities to refinance indebtedness which matures prior to February 21, 2014. In each case (a) indebtedness issued in amounts in excess of $250 million over such interim maturities requires ratable prepayment of the credit facilities in an amount equal to 50% of the net cash proceeds of such excess, and (b) equity issued in amounts in excess of $500 million over such interim maturities require ratable prepayment of the credit facilities in an amount equal to 50% of the net cash proceeds of such excess.

The Company accounted for the modification related to the extending term loans as an extinguishment of debt because the applicable cash flows under the extended term loans are more than 10% different from the applicable cash flows under the previous loans. Therefore, the extended term loans were recorded at fair value resulting in a $181 million gain and a discount of $181 million to be amortized to interest expense over the term of the extended term loans. In the three and six months ended June 30, 2010, the Company had $10 million of interest related to the amortization of these loans. Fair value of the term loans was based on estimates based on trading prices immediately after the transaction. In addition, the Company wrote off $15 million of existing debt issuance costs related to the previous term loans and had expense of $22 million for new debt issuance costs incurred related to amounts paid to extending term loan lenders in connection with the modification. The Company also wrote off $2 million of existing debt issuance costs related to the reduction in capacity under the non-extending revolving portion of the senior credit facility. In total, the Company recognized a net pre-tax gain on extinguishment of debt of $142 million in Other, net non-operating income in the first quarter of 2010.

Interest on the senior credit facility is based on a LIBOR margin of 5.00% (or, in the case of the non-extending loans, 4.00%), with a LIBOR floor of 2.00%, and a base rate margin of 4.00% (or, in the case of the non-extending loans, 3.00%), with a base rate floor of 4.00%. The weighted average interest rate on outstanding borrowings under the senior credit facility at June 30, 2010 and December 31, 2009 was 6.7% and 6.0%, respectively.

At June 30, 2010, the Company was required under its senior credit facility to maintain a minimum trailing annual EBITDA (as defined) of $1.0 billion. Additionally, the Company is limited to $400 million of annual capital expenditures (as defined) during 2010. At June 30, 2010, the Company was in compliance with the minimum EBITDA and maximum capital expenditures covenants.

Senior notes. During the second quarter of 2010 the company repurchased $136 million principal amount of its 8.50% senior notes due 2010 and $75 million principal amount of its 8.375% senior notes due 2011 essentially at par.

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In March 2010, the Company issued $845 million of 9.00% senior secured notes due 2020 for net proceeds to the Company of $826 million. The notes are secured by the equity interests and substantially all of the assets of MGM Grand Las Vegas and otherwise rank equally in right of payment with the Company s existing and future senior indebtedness. Upon the issuance of such notes, the holders of the Company s 13% senior notes due 2013 obtained an equal and ratable lien in all collateral securing these notes. The Company used the net proceeds from the senior note issuance to permanently repay approximately $820 million of loans previously outstanding under its credit facility.

In February 2010, the Company repaid the $297 million of outstanding principal amount of its 9.375% senior subordinated notes due 2010 at maturity.

Senior convertible notes. In April 2010, the Company issued $1.15 billion of 4.25% convertible senior notes due 2015 for net proceeds to the Company of $1.12 billion. The notes are general unsecured obligations of the Company and rank equally in right of payment with the Company s other existing senior unsecured indebtedness. The Company used the net proceeds from the senior convertible note issuance to temporarily repay amounts outstanding under its senior credit facility.

The notes are convertible at an initial conversion rate of approximately 53.83 shares of the Company s common stock per $1,000 principal amount of the notes, representing an initial conversion price of approximately $18.58 per share of the Company s common stock. The initial conversion rate was determined based on the closing trading price of the Company s common stock on the date of the transaction, plus a 27.5% premium. The terms of the notes do not provide for any beneficial conversion features.

In connection with the offering, the Company entered into capped call transactions to reduce the potential dilution of the Company s stock upon conversion of the notes. The capped call transactions have a cap price equal to approximately $21.86 per share. The Company paid approximately $81 million for the capped call transactions, which is reflected as a decrease in Capital in excess of par value net of $29 million of associated tax benefits.

Financial instruments that are indexed to an entity s own stock and are classified as stockholders equity in an entity s statement of financial position are not considered within the scope of derivative instruments. The Company performed an evaluation of the embedded conversion option and capped call transactions, which included an analysis of contingent exercise provisions and settlement requirements, and determined that the embedded conversion option and capped call transactions are considered indexed to the Company s stock and would be classified as equity, and therefore are not accounted for as derivative instruments. Accordingly, the entire face amount of the notes was recorded as debt until converted or retired at maturity, and the capped call transactions were recorded within equity as described above.

Fair value of long-term debt. The estimated fair value of the Company s long-term debt at June 30, 2010 was approximately $11.2 billion, compared to its book value of $13.0 billion. At December 31, 2009, the estimated fair value of the Company s long-term debt was approximately $12.9 billion, compared to its book value of $14.1 billion. The estimated fair value of the Company s senior and senior subordinated notes was based on quoted market prices; the fair value of the Company s senior credit facility was determined using estimates based on recent trading prices.

NOTE 4 COMMITMENTS AND CONTINGENCIES

CityCenter completion guarantee. As discussed in Note 2, the Company entered into a completion guarantee requiring an unlimited completion and cost overrun guarantee from the Company, secured by its interests in the assets of Circus Circus Las Vegas and certain adjacent undeveloped land. Also affecting the potential exposure under the completion guarantee is the ability to utilize up to $250 million of net residential proceeds to fund construction costs, though the timing of receipt of such proceeds is uncertain.

As of June 30, 2010, the Company has funded $302 million under the completion guarantee. The Company has recorded a receivable from CityCenter of $173 million related to these amounts, which is net of residential proceeds received and used by CityCenter on construction expenditures. At June 30, 2010, the Company had a remaining estimated total net obligation under the completion guarantee of $137 million which represents an estimated $266 million for its total net obligation less $129 million funded to date that is not subject to be refunded to the Company through residential proceeds. The Company believes that it is reasonably possible that its total net obligation may be up to $330 million, which includes estimated litigation costs related to the resolution of disputes with contractors as to the final construction costs and reflects certain estimated offsets to the amounts claimed by the contractors.

CityCenter construction litigation. In March 2010, Perini Building Company, Inc., general contractor for the CityCenter development project (the Project), filed a lawsuit in the Eighth Judicial District Court for Clark County, State of Nevada, against MGM MIRAGE Design Group (a wholly-owned subsidiary of the Company which was the original party to the Perini construction agreement) and certain direct or indirect subsidiaries of CityCenter Holdings, LLC (the CityCenter Owners). Perini asserts that the Project was substantially completed, but the defendants failed to pay Perini approximately $490 million allegedly due and owing under the construction agreement for labor, equipment and materials expended on the Project. The complaint further charges the defendants with failure to provide timely and complete design documents, late delivery to Perini of design changes, mismanagement of the change order process, obstruction of Perini s ability to complete the Harmon Hotel & Spa component, and fraudulent inducement of Perini to compromise significantly amounts due for its general conditions. The complaint advances claims for breach of contract, breach of the implied covenant of good faith and fair dealing, tortious breach of the implied covenant of good faith and fair dealing, unjust enrichment and promissory estoppel, and fraud and intentional misrepresentation. Perini seeks compensatory damages, punitive damages, attorneys fees and costs.

In April 2010, Perini served an amended complaint in this case which joins as defendants many owners of CityCenter residential condominium units (the Condo Owner Defendants), adds a count for foreclosure of Perini s recorded master mechanic s lien against the CityCenter property in the amount of approximately $491 million, and asserts the priority of this mechanic s lien over the interests of the CityCenter Owners, the Condo Owner Defendants and the Project lenders in the CityCenter property.

The CityCenter Owners and the other defendants dispute Perini s allegations, and contend that the defendants are entitled to substantial amounts from Perini, including offsets against amounts claimed to be owed to Perini and its subcontractors and damages based on breach of their contractual and other duties to CityCenter, duplicative payment requests, non-conforming work, lack of proof of alleged work performance, defective work related to the Harmon Hotel & Spa component, property damage and Perini s failure to perform its obligations to pay Project subcontractors and to prevent filing of liens against the Project. The CityCenter Owners and the other defendants intend to vigorously assert and protect their interests in the lawsuit. The range of loss beyond the asserted amount or any gain the joint venture may realize related to the defendants counterclaims cannot be reasonably estimated at this time.

Other guarantees. The Company is party to various guarantee contracts in the normal course of business, which are generally supported by letters of credit issued by financial institutions. The Company s senior credit facility limits the amount of letters of credit that can be issued to $250 million, and the amount of available borrowings under the senior credit facility is reduced by any outstanding letters of credit. At June 30, 2010, the Company had provided $37 million of total letters of credit. Though not subject to a letter of credit, the Company has an agreement with the Nevada Gaming Control Board to maintain $128 million of cash at the corporate level to support normal bankroll requirements at the Company s Nevada operations.

Other litigation. The Company is a party to various legal proceedings, most of which relate to routine matters incidental to its business. Management does not believe that the outcome of such proceedings will have a material adverse effect on the Company s financial position or results of operations.

NOTE 5 LOSS PER SHARE OF COMMON STOCK

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

	Three Months		Six Months	
For the periods ended June 30,	**2010**	**2009**	**2010**	**2009**
		(In thousands)		
Weighted-average common shares outstanding (used in the calculation of basic earnings per share)	441,297	352,457	441,269	314,718
Potential dilution from stock options and restricted stock				

Weighted-average common and common equivalent shares (used in the calculation of diluted earnings per share)	441,297	352,457	441,269	314,718

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The Company had a loss from continuing operations for the three and six months ended June 30, 2010 and 2009. Therefore, approximately 26.2 million shares for the 2010 three and six month periods and 26.5 million shares for the 2009 three and six month periods underlying outstanding stock-based awards were excluded from the computation of diluted earnings per share for these periods because to include these awards would be anti-dilutive. In addition, the effect of an assumed conversion of the Company s convertible senior notes due 2015 would be anti-dilutive.

NOTE 6 COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consisted of the following:

	Three Months		Six Months	
For the periods ended June 30,	**2010**	**2009**	**2010**	**2009**
	(In thousands)			
Net loss	$ (883,476)	$ (212,575)	$ (980,217)	$ (107,376)
Valuation adjustment to M Resort convertible note, net of tax				962
Currency translation adjustment	(763)	193	(763)	822
Reclassification of comprehensive income to earnings M Resort note		53,305		53,305
Other			(70)	165
	$ (884,239)	$ (159,077)	$ (981,050)	$ (52,122)

NOTE 7 STOCK-BASED COMPENSATION

Activity under share-based payment plans. As of June 30, 2010, the Company had an aggregate of approximately 14 million shares of common stock available for grant as share-based awards under the Company s omnibus incentive plan. A summary of activity under the Company s share-based payment plans for the six months ended June 30, 2010 is presented below:

Stock options and stock appreciation rights (SARs)

	Shares (000 s)	Weighted Average Exercise Price
Outstanding at January 1, 2010	28,211	$23.17
Granted	138	13.00
Exercised	(66)	13.22
Forfeited or expired	(3,022)	22.23
Outstanding at June 30, 2010	25,261	23.26
Exercisable at June 30, 2010	17,416	26.72

As of June 30, 2010, there was a total of $47 million of unamortized compensation related to stock options and stock appreciation rights expected to vest, which is expected to be recognized over a weighted-average period of 1.8 years.

Restricted stock units (RSUs)

	Shares	Weighted Average Grant-Date

	(000 s)	Fair Value
Nonvested at January 1, 2010	1,080	$15.85
Granted		
Vested	(128)	18.87
Forfeited	(33)	15.72
Nonvested at June 30, 2010	919	15.44

As of June 30, 2010, there was a total of $43 million of unamortized compensation related to RSUs which is expected to be recognized over a weighted-average period of 1.6 years.

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The following table includes additional information related to stock options, SARs and RSUs:

Six months ended June 30,	**2010**	**2009**
	(In thousands)	
Intrinsic value of share-based awards exercised or RSUs vested	$1,766	$169
Income tax benefit from share-based awards exercised or RSUs vested	613	59
Proceeds from stock option exercises		632

In 2009, the Company began to net settle stock option exercises, whereby shares of common stock are issued equivalent to the intrinsic value of the option less applicable taxes. Accordingly, the Company no longer receives proceeds from the exercise of stock options.

Recognition of compensation cost. Compensation cost was recognized as follows:

	Three Months		**Six Months**	
For the periods ended June 30,	**2010**	**2009**	**2010**	**2009**
		(In thousands)		
Compensation cost				
Stock options and SARS	$ 4,223	$ 5,321	$ 10,020	$ 10,668
RSUs	4,964	5,225	10,126	10,324
Total compensation cost	9,187	10,546	20,146	20,992
Less: CityCenter reimbursed costs	(1,185)	(1,503)	(2,589)	(3,192)
Less: Compensation cost capitalized		(20)		(44)
Compensation cost recognized as expense	8,002	9,023	17,557	17,756
Less: Related tax benefit	(2,781)	(3,120)	(6,106)	(6,137)
Compensation expense, net of tax benefit	$ 5,221	$ 5,903	$ 11,451	$ 11,619

Compensation cost for SARs is based on the fair value of each award, measured by applying the Black-Scholes model on the date of grant, using the following weighted-average assumptions:

	Three Months		**Six Months**	
For the periods ended June 30,	**2010**	**2009**	**2010**	**2009**
Expected volatility	74%	82%	74%	81%
Expected term	4.8 years	4.7 years	4.8 years	4.7 years
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	1.7%	2.4%	1.8%	2.4%
Forfeiture rate	4.8%	3.4%	4.8%	3.4%
Weighted-average fair value of options granted	$7.88	$3.54	$7.80	$3.75

Expected volatility is based in part on historical volatility and in part on implied volatility based on traded options on the Company s stock. The expected term considers the contractual term of the option as well as historical exercise and forfeiture behavior. The risk-free interest rate is based on the rates in effect on the grant date for U.S. Treasury instruments with maturities matching the relevant expected term of the award.

NOTE 8 PROPERTY TRANSACTIONS, NET

Net property transactions consisted of the following:

	Three Months		**Six Months**	
For the periods ended June 30,	**2010**	**2009**	**2010**	**2009**
		(In thousands)		

CityCenter investment impairment charge	$ 1,122,456	$	$ 1,122,456	$
Insurance recoveries				(7,186)
Gain on sale of TI		2,928		(187,442)
Other property transactions, net	3,826	320	4,515	2,751
	$ 1,126,282	$ 3,248	$ 1,126,971	$ (191,877)

See Note 2 for discussion of the CityCenter investment impairment charge.

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NOTE 9 CONSOLIDATING CONDENSED FINANCIAL INFORMATION

Excluding MGM Grand Detroit, LLC and certain minor subsidiaries, the Company s subsidiaries, which are 100% directly or indirectly owned, have fully and unconditionally guaranteed, on a joint and several basis, payment of the senior credit facility, the senior notes and the senior subordinated notes. Separate condensed financial statement information for the subsidiary guarantors and non-guarantors as of June 30, 2010 and December 31, 2009 and for the three and six month periods ended June 30, 2010 and 2009 is as follows:

CONDENSED CONSOLIDATING BALANCE SHEET INFORMATION

	At June 30, 2010				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
			(In thousands)		
Current assets	$ 966,314	$ 733,948	$ 91,694	$	$ 1,791,956
Property and equipment, net		14,163,263	663,303	(11,972)	14,814,594
Investments in subsidiaries	16,743,973	460,922		(17,204,895)	
Investments in and advances to unconsolidated affiliates		1,833,829	284,669		2,118,498
Other non-current assets	361,785	775,432	125,282		1,262,499
	$ 18,072,072	$ 17,967,394	$ 1,164,948	$ (17,216,867)	$ 19,987,547
Current liabilities	$ 354,295	$ 808,437	$ 32,255	$	$ 1,194,987
Intercompany accounts	(268,251)	187,844	80,407		
Deferred income taxes	2,653,470				2,653,470
Long-term debt	12,298,863	297,776	450,000		13,046,639
Other long-term obligations	184,537	58,184	572		243,293
Stockholders equity	2,849,158	16,615,153	601,714	(17,216,867)	2,849,158
	$ 18,072,072	$ 17,967,394	$ 1,164,948	$ (17,216,867)	$ 19,987,547

	At December 31, 2009				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
			(In thousands)		
Current assets	$ 2,143,019	$ 810,991	$ 99,491	$	$ 3,053,501
Property and equipment, net		14,391,733	690,191	(11,972)	15,069,952
Investments in subsidiaries	17,927,664	447,336		(18,375,000)	
Investments in and advances to unconsolidated affiliates		3,353,334	258,465		3,611,799
Other non-current assets	152,205	507,500	123,253		782,958
	$ 20,222,888	$ 19,510,894	$ 1,171,400	$ (18,386,972)	$ 22,518,210
Current liabilities	$ 344,707	$ 926,780	$ 32,290	$	$ 1,303,777
Current portion of long-term debt	1,079,824				1,079,824

Intercompany accounts	(227,808)	120,603	107,205		
Deferred income taxes	3,031,303				3,031,303
Long-term debt	11,929,050	596,987	450,000		12,976,037
Other long-term obligations	195,380	60,867	590		256,837
Stockholders equity	3,870,432	17,805,657	581,315	(18,386,972)	3,870,432
	$ 20,222,888	$ 19,510,894	$ 1,171,400	$ (18,386,972)	$ 22,518,210

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION

	For the Three Months Ended June 30, 2010				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
			(In thousands)		
Net revenues	$	$ 1,397,986	$ 139,709	$	$ 1,537,695
Equity in subsidiaries earnings	(1,080,285)	24,099		1,056,186	
Expenses:					
Casino and hotel operations	2,263	876,612	75,504		954,379
General and administrative	2,182	255,437	24,785		282,404
Corporate expense	4,865	27,625	(540)		31,950
Preopening and start-up expenses		537			537
Property transactions, net		1,126,282			1,126,282
Depreciation and amortization		154,593	10,173		164,766
	9,310	2,441,086	109,922		2,560,318
Income (loss) from unconsolidated affiliates		(44,965)	18,771		(26,194)
Operating income (loss)	(1,089,595)	(1,063,966)	48,558	1,056,186	(1,048,817)
Interest income (expense), net	(283,688)	1,180	(7,785)		(290,293)
Other, net	(4,093)	(4,895)	(14,873)		(23,861)
Income (loss) before income taxes	(1,377,376)	(1,067,681)	25,900	1,056,186	(1,362,971)
Benefit (provision) for income taxes	493,900	(13,156)	(1,249)		479,495
Net income (loss)	$ (883,476)	$ (1,080,837)	$ 24,651	$ 1,056,186	$ (883,476)

	For the Three Months Ended June 30, 2009				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
			(In thousands)		
Net revenues	$	$ 1,358,557	$ 135,598	$	$ 1,494,155
Equity in subsidiaries earnings	117,075	8,103		(125,178)	
Expenses:					
Casino and hotel operations	3,552	783,370	76,660		863,582
General and administrative	2,167	248,094	23,356		273,617
Corporate expense	16,393	29,026	(2,413)		43,006
Preopening and start-up expenses		9,410			9,410
Property transactions, net		3,248			3,248
Depreciation and amortization		163,657	10,711		174,368

	22,112	1,236,805	108,314		1,367,231
Income (loss) from unconsolidated affiliates		9,249	(5,074)		4,175
Operating income (loss)	94,963	139,104	22,210	(125,178)	131,099
Interest income (expense), net	(200,912)	12,055	(6,134)		(194,991)
Other, net	(209,745)	(30,000)	(6,750)		(246,495)
Income (loss) before income taxes	(315,694)	121,159	9,326	(125,178)	(310,387)
Benefit (provision) for income taxes	103,119	(4,084)	(1,223)		97,812
Net income (loss)	$ (212,575)	$ 117,075	$ 8,103	$ (125,178)	$ (212,575)

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION

	For the Six Months Ended June 30, 2010				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
			(In thousands)		
Net revenues	$	$ 2,709,008	$ 286,079	$	$ 2,995,087
Equity in subsidiaries earnings	(1,123,509)	64,654		1,058,855	
Expenses:					
Casino and hotel operations	5,720	1,715,600	152,707		1,874,027
General and administrative	4,631	502,679	51,148		558,458
Corporate expense	8,514	49,731	(1,417)		56,828
Preopening and start-up expenses		4,031			4,031
Property transactions, net		1,126,971			1,126,971
Depreciation and amortization		307,557	20,343		327,900
	18,865	3,706,569	222,781		3,948,215
Income (loss) from unconsolidated affiliates		(149,096)	41,984		(107,112)
Operating income (loss)	(1,142,374)	(1,082,003)	105,282	1,058,855	(1,060,240)
Interest income (expense), net	(533,727)	(5,270)	(14,705)		(553,702)
Other, net	147,464	(31,650)	(21,936)		93,878
Income (loss) before income taxes	(1,528,637)	(1,118,923)	68,641	1,058,855	(1,520,064)
Benefit (provision) for income taxes	548,420	(6,018)	(2,555)		539,847
Net income (loss)	$ (980,217)	$ (1,124,941)	$ 66,086	$ 1,058,855	$ (980,217)

	For the Six Months Ended June 30, 2009				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
			(In thousands)		
Net revenues	$	$ 2,713,634	$ 279,316	$	$ 2,992,950
Equity in subsidiaries earnings	438,998	23,150		(462,148)	
Expenses:					
Casino and hotel operations	6,934	1,587,052	153,436		1,747,422
General and administrative	4,033	483,860	46,964		534,857
Corporate expense	24,427	45,341	(2,401)		67,367
Preopening and start-up expenses		17,481			17,481
Property transactions, net		(191,877)			(191,877)
Depreciation and amortization		329,800	21,426		351,226

	35,394	2,271,657	219,425		2,526,476
Income (loss) from unconsolidated affiliates		28,401	(8,677)		19,724
Operating income (loss)	403,604	493,528	51,214	(462,148)	486,198
Interest income (expense), net	(352,626)		(9,619)		(362,245)
Other, net	(196,801)	(46,206)	(15,957)		(258,964)
Income (loss) before income taxes	(145,823)	447,322	25,638	(462,148)	(135,011)
Benefit (provision) for income taxes	38,447	(8,324)	(2,488)		27,635
Net income (loss)	$ (107,376)	$ 438,998	$ 23,150	$ (462,148)	$ (107,376)

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS INFORMATION

	For the Six Months Ended June 30, 2010				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
			(In thousands)		
Cash flows from operating activities					
Net cash provided by (used in) operating activities	$ (58,908)	$ 356,410	$ 52,342	$	$ 349,844
Cash flows from investing activities					
Capital expenditures, net of construction payable		(77,112)	(1,983)		(79,095)
Dispositions of property and equipment		99			99
Investments in and advances to unconsolidated affiliates		(302,000)			(302,000)
Other		14,810			14,810
Net cash used in investing activities		(364,203)	(1,983)		(366,186)
Cash flows from financing activities					
Repayments under bank credit facilities maturities of 90 days or less	(2,942,807)		(170,000)		(3,112,807)
Borrowings under bank credit facilities maturities longer than 90 days	4,672,565		450,000		5,122,565
Repayments under bank credit facilities maturities longer than 90 days	(4,061,560)		(280,000)		(4,341,560)
Issuance of senior notes, net	1,995,000				1,995,000
Retirement of senior notes	(211,684)	(296,956)			(508,640)
Debt issuance costs	(98,531)				(98,531)
Intercompany accounts	(193,999)	245,673	(51,674)		
Capped call transactions	(81,478)				(81,478)
Other	(539)	(633)	(34)		(1,206)
Net cash used in financing activities	(923,033)	(51,916)	(51,708)		(1,026,657)
Cash and cash equivalents					

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Net decrease for the period	(981,941)	(59,709)	(1,349)		(1,042,999)
Balance, beginning of period	1,718,616	263,386	74,205		2,056,207
Balance, end of period	$ 736,675	$ 203,677	$ 72,856	$	$ 1,013,208

	For the Six Months Ended June 30, 2009				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
			(In thousands)		
Cash flows from operating activities					
Net cash provided by (used in) operating activities	$ (261,115)	$ 651,826	$ (2,682)	$	$ 388,029
Cash flows from investing activities					
Capital expenditures, net of construction payable		(93,212)	(302)		(93,514)
Proceeds from sale of Treasure Island, net		746,266			746,266
Dispositions of property and equipment		153			153
Investments in and advances to unconsolidated affiliates		(753,033)		(4,698)	(757,731)
Property damage insurance recoveries		7,186			7,186
Other		(4,656)			(4,656)
Net cash used in investing activities		(97,296)	(302)	(4,698)	(102,296)
Cash flows from financing activities					
Repayments under bank credit facilities maturities of 90 days or less	(2,457,519)		(213,600)		(2,671,119)
Borrowings under bank credit facilities maturities longer than 90 days	6,211,492		450,000		6,661,492
Repayments under bank credit facilities maturities longer than 90 days	(5,386,340)		(190,000)		(5,576,340)
Issuance of senior notes, net	1,459,120				1,459,120
Retirement of senior notes	(762,648)	(248,999)			(1,011,647)
Debt issuance costs	(99,991)				(99,991)
Issuance of common stock in public offering, net	1,103,737				1,103,737
Issuance of common stock upon exercise of stock options	632				632

Intercompany accounts	993,697	(1,040,288)	41,893	4,698	
Payment of Detroit Economic Development Corporation bonds			(49,393)		(49,393)
Other		(635)	(31)		(666)
Net cash provided by (used in) financing activities	1,062,180	(1,289,922)	38,869	4,698	(184,175)
Cash and cash equivalents					
Net increase (decrease) for the period	801,065	(735,392)	35,885		101,558
Change in cash related to assets held for sale		14,154			14,154
Balance, beginning of period	(2,444)	267,602	30,486		295,644
Balance, end of period	$ 798,621	$ (453,636)	$ 66,371	$	$ 411,356

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This management s discussion and analysis of financial condition and results of operations (MD&A), contains forward-looking statements that involve risks and uncertainties. Please see Forward-Looking Statements for a discussion of the uncertainties, risks and assumptions that may cause our actual results to differ materially from those discussed in the forward-looking statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q, and the audited combined financial statements and notes for the fiscal year ended December 31, 2009, which were included in our Form 10-K, filed with the SEC on February 26, 2010. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods. MGM Resorts International together with its subsidiaries may be referred to as we, us or our.

Executive Overview

General

Our primary business is the ownership and operation of casino resorts, which includes offering gaming, hotel, dining, entertainment, retail and other resort amenities. Over half of our net revenue is derived from non-gaming activities, a higher percentage than many of our competitors, as our operating philosophy is to provide a complete resort experience for our guests, including non-gaming amenities that allow us to charge premium prices based on their quality. Our significant convention and meeting facilities allow us to maximize hotel occupancy and customer volumes during off-peak times such as mid-week or during traditionally slower leisure travel periods, which also leads to better labor utilization. We believe that we own several of the premier casino resorts in the world and have continually reinvested in our resorts to maintain our competitive advantage.

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

Gaming revenue indicators table games drop and slots handle (volume indicators); win or hold percentage, which is not fully controllable by us. Our normal table games win percentage is in the range of 18% to 22% of table games drop and our normal slots win percentage is in the range of 7% to 8% of slots handle; and

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

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

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

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

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Affect of Economic Factors on Results of Operations

The state of the U.S. economy has negatively affected our results of operations over the past several years and we expect to continue to be affected by certain aspects of the current economic conditions, including, for example, high unemployment and the weak housing market in 2010. The decrease in liquidity in the credit markets which began in late 2007 and accelerated in late 2008 also significantly affected our results of operations and financial condition.

Uncertain economic conditions continue to affect our customers spending levels. Travel and travel-related expenditures have been affected as businesses and consumers have altered their spending patterns which led to decreases in visitor volumes and customer spending. Businesses responded to the difficult economic conditions by reducing travel budgets. This factor, along with negative perceptions surrounding certain types of business travel, adversly affected convention attendance in Las Vegas in 2009 and 2010. Convention and catering customers cancelled or postponed a significant number of events occurring during 2009 and early 2010. Other conditions currently or recently present in the economic environment which tend to negatively affect our operating results include: