MANDALAY RESORT GROUP
Form S-4
February 15, 2002

As filed with the Securities and Exchange Commission on February 15, 2002

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MANDALAY RESORT GROUP

(Exact name of registrant as specified in its charter)

Nevada	**7011**	**88-0121916**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

3950 Las Vegas Boulevard South
Las Vegas, Nevada 89119
(702) 632-6700

(Address, including zip code, telephone number, including area code, of registrant's principal executive offices)

Yvette E. Landau
Vice President and General Counsel
3950 Las Vegas Boulevard South
Las Vegas, Nevada 89119
(702) 632-6700

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all communications to:

Howell J. Reeves
Wolf, Block, Schorr and Solis-Cohen LLP
1650 Arch Street, 22nd Floor
Philadelphia, Pennsylvania 19103
(215) 977-2000

Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. **/ /**

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. **/ /**

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per Note(1)	Proposed maximum aggregate offering price(1)	Amount of registration fee
9 3/8% Series B Senior Subordinated Notes due 2010	$300,000,000	100%	$300,000,000	$27,600.00

(1) Estimated solely for the purpose of determining the registration fee in accordance with Rule 457.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED FEBRUARY 15, 2002The information in this prospectus is not complete and may be changed. We may not sell or offer these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

Offer to Exchange
its 9 3/8% Senior Subordinated Notes due 2010,
Which Have Been Registered Under the Securities Act of 1933,
for any and all of its Outstanding 9 3/8% Senior Subordinated Notes due 2010

The Exchange Notes

The terms of the notes Mandalay Resort Group is issuing will be substantially identical to the outstanding notes that we issued on December 20, 2001, except for the elimination of some transfer restrictions, registration rights and liquidated damages provisions relating to the outstanding notes.

Interest on the notes will accrue at the rate of $9^{3}/_{8}$% per year, payable semi-annually on each February 15 and August 15, beginning August 15, 2002, and the notes will mature on February 15, 2010.

The notes will be unsecured and will rank equally with our other senior subordinated debt and junior to our senior debt. The notes will effectively rank junior to all liabilities of our subsidiaries.

We may redeem the notes at any time prior to their maturity at the redemption price described more fully in this prospectus.

Material Terms of the Exchange Offer

The exchange offer expires at 5:00 p.m., New York City time, on , 2002, unless extended.

Our completion of the exchange offer is subject to customary conditions, which we may waive.

Upon our completion of the exchange offer, all outstanding notes that are validly tendered and not withdrawn will be exchanged for an equal principal amount of notes that are registered under the Securities Act of 1933.

Tenders of outstanding notes may be withdrawn at any time prior to the expiration of the exchange offer.

The exchange of registered notes for outstanding notes will not be a taxable exchange for U.S. Federal income tax purposes.

We will not receive any proceeds from the exchange offer.

For a discussion of factors that you should consider before participating in this exchange offer, see "Risk Factors" beginning on page 14 of this prospectus.

Neither the Securities and Exchange Commission, the Nevada Gaming Commission, the Nevada State Gaming Control Board, the Mississippi Gaming Commission, the Michigan Gaming Control Board, the Illinois Gaming Board, nor any state securities commission or other gaming authority, has passed on the adequacy or accuracy of this prospectus or the investment merits of the notes offered hereby. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2002.

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus as if we had authorized it. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which it relates, nor does this prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

TABLE OF CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE

The Securities and Exchange Commission allows us to "incorporate by reference" the information we file with it, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is an important part of this prospectus. Any statement contained in the documents filed with the Securities and Exchange Commission prior to the date of this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus modifies or supersedes the statement. Information that we file later with the Securities and Exchange Commission will automatically update the information incorporated by reference and the information in this prospectus.

We incorporate by reference the following documents we have filed with the Securities and Exchange Commission:

1. Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the year ended January 31, 2000, filed for the purpose of including the financial statements of Elgin Riverboat Resort (a 50% owned joint venture) for the year ended December 31, 2000;

2. Annual Report on Form 10-K for the year ended January 31, 2001;

3. Quarterly Reports on Form 10-Q for the fiscal quarters ended April 30, 2001, July 31, 2001 and October 31, 2001;

4. Current Report on Form 8-K dated December 21, 2001; and

5. All documents filed by us with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and before termination of the offering.

You may request a free copy of any of the documents incorporated by reference in this prospectus, other than exhibits, unless they are specifically incorporated by reference, by writing or telephoning us at the following address:

Investor Relations
Mandalay Resort Group
3950 Las Vegas Boulevard South
Las Vegas, Nevada 89119
Attention: Les Martin
(702) 632-6700

To obtain timely delivery of documents incorporated by reference in this prospectus, you must request the information no later than five business days prior to the expiration of the exchange offer. The exchange offer will expire on , 2002, unless extended.

You should rely only on the information incorporated by reference or provided in this prospectus and any supplement. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the respective dates on the front of these documents.

AVAILABLE INFORMATION

This prospectus is part of a registration statement on Form S-4 that we have filed with the Securities and Exchange Commission under the Securities Act of 1933. This prospectus does not contain all of the information set forth in the registration statement. For further information about us and the notes, you should refer to the registration statement. This prospectus summarizes material provisions of contracts and other documents to which we refer you. Since this prospectus may not

contain all of the information that you may find important, you should review the full text of these documents. We have filed these documents as exhibits to our registration statement.

We are subject to the informational reporting requirements of the Securities Exchange Act of 1934 and file reports, proxy and information statements and other information with the Securities and Exchange Commission. You may read and copy any reports, proxy and information statements and other information we file at the public reference facilities of the Securities and Exchange Commission, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as at the following Regional Offices: 233 Broadway, New York, New York 10279 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may obtain copies of this material from the Securities and Exchange Commission by mail at prescribed rates. You should direct requests to the Securities and Exchange Commission's Public Reference Section, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Securities and Exchange Commission's Public Reference Section by calling the Securities and Exchange Commission at 1-800-SEC-0330. In addition, the Securities and Exchange Commission maintains a website (http://www.sec.gov) that contains the reports, proxy statements and other information filed by us. Our common stock is listed on the New York Stock Exchange and the Pacific Exchange. You may inspect information filed by us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005 and at the offices of the Pacific Exchange, 301 Pine Street, San Francisco, California 94104. In addition, for so long as any of the notes remain outstanding, we have agreed to make available to any prospective purchaser of the notes or beneficial owner of the notes in connection with any sale thereof the information required by Rule 144A(d)(4) under the Securities Act of 1933.

MARKET DATA

Market data used throughout this prospectus including information relating to our relative position in the casino and gaming industry is based on our good faith estimates, which estimates we based upon our review of internal surveys, independent industry publications and other publicly available information. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness.

SUMMARY

The following summary highlights selected information from this document and may not contain all the information that may be important to you. You should read this entire prospectus, including the financial data and related notes and documents incorporated by reference in this prospectus, before making an investment decision. The terms "we," "our," and "us," as used in this prospectus, refer to Mandalay Resort Group and its majority owned subsidiaries as a combined entity, except where it is clear that the terms mean only Mandalay Resort Group. When we use the term "Mandalay," it refers only to Mandalay Resort Group. These terms, as used in this prospectus, do not include our unconsolidated joint ventures, unless the context otherwise requires. The term "old notes" refers to our outstanding 9 3/8% Senior Subordinated Notes due 2010 that we issued on December 20, 2001 and that have not been registered under the Securities Act of 1933. The term "exchange notes" refers to the 9 3/8% Senior Subordinated Notes due 2010 offered by this prospectus. The term "notes" refers to the old notes and the exchange notes collectively.

Mandalay Resort Group

Overview

We are one of the largest hotel-casino operators in the United States in terms of guest rooms and casino square footage. We have the largest scaled hotel-casino resort development in Las Vegas, the world's largest gaming market. This development, which we refer to as our "Mandalay mile," consists of three interconnected megaresorts on 230 acres, including our newest property, Mandalay Bay. We, and the joint ventures in which we participate, operate 16 properties with more than 27,000 guest rooms and more than one million square feet of casino space in Nevada, Mississippi, Illinois and Michigan. Of these properties, 12 are wholly owned and have more than 22,400 guest rooms and more than 800,000 square feet of casino space. In addition, we own a 50% interest in three joint venture casino properties with approximately 4,700 guest rooms and more than 200,000 square feet of casino space and a 53.5% interest in a fourth joint venture casino with approximately 75,000 square feet of casino space.

We have provided below information as of October 31, 2001 about our properties that we wholly own, except as otherwise indicated.

Location/Property	Guest Rooms	Approximate Casino Square Footage	Slots(1)	Gaming Tables(2)	Parking Spaces
Las Vegas, Nevada					
Mandalay Bay(3)	3,700	135,000	2,126	128	7,000
Luxor	4,404	120,000	2,019	103	3,200
Excalibur	4,008	110,000	2,209	72	4,000
Circus Circus	3,744	109,000	2,229	78	4,700
Monte Carlo (50% Owned)	3,002	90,000	2,052	73	4,000
Slots-A-Fun		16,700	580	26	
Reno, Nevada					
Circus Circus	1,572	60,000	1,591	73	3,000
Silver Legacy (50% Owned)	1,711	85,000	2,143	82	1,800
Laughlin, Nevada					
Colorado Belle	1,226	64,000	1,169	38	1,700
Edgewater	1,450	44,000	1,260	38	2,300
Jean, Nevada					
Gold Strike	812	37,000	825	17	2,100
Nevada Landing	303	36,000	808	17	1,400
Henderson, Nevada					
Railroad Pass	120	21,000	333	9	600
Tunica County, Mississippi					
Gold Strike	1,066	48,000	1,438	45	1,400
Detroit, Michigan					
MotorCity (53.5% Owned)(4)		75,000	2,501	106	3,450
Elgin, Illinois					
Grand Victoria (50% Owned)		36,000	1,050	45	2,000
Total	27,118	1,086,700	24,333	950	42,650

Footnotes on following page

(1) Includes slot machines and other coin-operated devices.

(2)

Generally includes blackjack ("21"), craps, pai gow poker, Caribbean stud poker, wheel of fortune and roulette. Mandalay Bay also offers baccarat.

(3) This property, which opened March 2, 1999, includes a Four Seasons Hotel with 424 guest rooms that we own and Four Seasons Hotels Limited manages.

(4) This property, which opened December 14, 1999, is being operated pending the construction of a permanent hotel-casino facility.

Property Descriptions

We are providing below, additional information concerning the properties we, and the joint ventures in which we participate, own and operate.

Las Vegas, Nevada

Mandalay Bay. This property, which opened March 2, 1999, is the first major resort on the Las Vegas Strip to greet visitors arriving in Las Vegas on I-15, the primary thoroughfare between Las Vegas and southern California. The 43-story South Seas themed hotel-casino resort has approximately 3,700 guest rooms (including the 424-room Four Seasons at Mandalay Bay) and a 135,000-square-foot casino which, as of October 31, 2001, featured 2,126 slot machines and 128 table games. Mandalay Bay's attractions include an 11-acre tropical lagoon featuring a sand-and-surf beach and a three-quarter-mile lazy river ride. The property features 13 restaurants, such as Charlie Palmer's Aureole, Wolfgang Puck's Trattoria Del Lupo, China Grill, rumjungle, Red Square and Border Grill, as well as a House of Blues nightclub and restaurant, including its signature Foundation Room (situated on Mandalay Bay's top floor). Additional features include a 125,000-square-foot convention facility and a 30,000-square-foot spa. Mandalay Bay offers multiple entertainment venues that include the Shark Reef at Mandalay Bay featuring sharks and rare sea predators, a 1,700-seat showroom, the rumjungle nightclub and a 12,000-seat special events arena that features additional entertainment and sporting events. Mandalay Bay was designed to attract a higher income customer than we have historically targeted.

We have commenced construction of a three-level convention and meeting complex. The facility will be located on approximately 16.5 acres adjacent to the existing Mandalay Bay Conference Center and will include more than one million square feet of exhibit space. Upon completion of the project, Mandalay Bay will offer a total of almost two million gross square feet of conference and exhibit space. Following the events of September 11, construction on the facility was temporarily suspended. We have resumed construction, and the facility is currently expected to open in January 2003. The cost of the convention center, excluding land, preopening expenses and capitalized interest, is estimated to be $235 million. As of October 31, 2001, we had incurred costs of $46.5 million related to this project.

Luxor. This property is an Egyptian-themed hotel and casino complex situated on 64 acres of our Mandalay mile, between Mandalay Bay and Excalibur. The resort features a 30-story pyramid and two 22-story hotel towers. In total, the property has 4,404 guest rooms. The resort has a 120,000-square-foot casino which as of October 31, 2001, featured 2,019 slot machines and 103 table games. Luxor offers 20,000 square feet of convention space, a 20,000-square-foot spa, a 1,200-seat showroom that features the off-Broadway show "Blue Man Group," a nightclub, and food and entertainment venues on three different levels beneath a soaring hotel atrium. The pyramid's 2,454 guest rooms can be reached from the four corners of the building by state-of-the-art "inclinators" which travel at a 39-degree angle. Above the pyramid's casino, the property offers a special format motion base ride and an IMAX 2D/3D theater. Luxor's other public areas include a buffet with a seating capacity of approximately 800, seven restaurants including three gourmet restaurants, as well as a snack bar, a food court featuring national fast food franchises, several cocktail lounges and a variety of specialty shops.

Excalibur. This property is a castle-themed hotel and casino complex situated on a 53-acre site immediately to the north of Luxor. Excalibur has 4,008 hotel rooms and a 110,000-square-foot casino which, as of October 31, 2001, featured 2,209 slot machines and 72 table games. Excalibur's other public areas include a Renaissance fair, a medieval village, an amphitheater with a seating capacity of nearly 1,000 where nightly mock jousting tournaments and costume drama are presented, two dynamic motion theaters, various artisans' booths and medieval games of skill. In addition, Excalibur has a buffet restaurant with a seating capacity of approximately 1,300, seven themed restaurants, as well as several snack bars, cocktail lounges and a variety of specialty shops.

Circus Circus-Las Vegas. This property, which is our original resort, is a circus-themed hotel and casino complex situated on approximately 69 acres on the north end of the Las Vegas Strip. The property features 3,744 guest rooms and a 109,000-square-foot casino which, as of October 31, 2001, featured 2,229 slot machines and 78 table games. From a "Big Top" above the casino, Circus Circus-Las Vegas

offers its guests a variety of circus acts performed daily, free of charge. A mezzanine area overlooking the casino has a circus midway with carnival-style games and an arcade that offers a variety of amusements and electronic games. Three specialty restaurants, a buffet with a seating capacity of approximately 1,200, two coffee shops, three fast food snack bars, several cocktail bars and a variety of gift shops and specialty shops are also available to the guests at Circus Circus-Las Vegas. The Adventuredome, covering approximately five acres, offers theme park entertainment that includes a high-speed, double-loop, double-corkscrew roller coaster, a coursing river flume ride on white-water rapids, an IMAX motion base ride, several rides and attractions designed for preschool age children, themed carnival-style midway games, a state-of-the-art arcade, a 65-foot waterfall, animated life-size dinosaurs, food kiosks and souvenir shops, all in a climate-controlled setting under a giant space-frame dome. Circus Circus-Las Vegas also offers accommodations for approximately 384 recreational vehicles at the property's Circusland Recreational Vehicle Park.

Monte Carlo (50% owned). Through wholly owned entities, we are a 50% participant with a subsidiary of MGM MIRAGE in, and are the managing partner of, Victoria Partners, a joint venture which owns Monte Carlo, a hotel and casino resort situated on 46 acres with approximately 600 feet of frontage on the Las Vegas Strip. The property is situated between Bellagio, a 3,000-room resort owned and operated by MGM MIRAGE and connected to Monte Carlo by a monorail, and New York-New York, a 2,000-room hotel-casino resort owned by MGM MIRAGE. Monte Carlo's casino reflects a palatial style reminiscent of the *Belle Epoque*, the French Victorian architecture of the late 19th century. Monte Carlo features 3,002 guest rooms and a 90,000-square-foot casino which, as of October 31, 2001, featured 2,052 slot machines and 73 table games. Amenities at Monte Carlo include three specialty restaurants, a buffet, a coffee shop, a food court, a microbrewery which features live entertainment, approximately 15,000 square feet of meeting and banquet space, and tennis courts. A 1,200-seat replica of a plush vaudeville theater, including a balcony and proscenium arch, features an elaborately staged show of illusions with the world-renowned magician, Lance Burton.

Reno, Nevada

Reno is located near the Nevada-California state line. The Reno market caters to locals of the Lake Tahoe-Reno area and tourists primarily from northern California.

Circus Circus-Reno. This property is a circus-themed hotel and casino complex situated in downtown Reno, Nevada. The property features 1,572 guest rooms and a 60,000-square-foot casino which, as of October 31, 2001, featured 1,591 slot machines and 73 table games. Like its sister property in Las Vegas, Circus Circus-Reno offers its guests a variety of circus acts performed daily, free of charge. A mezzanine area has a circus midway with carnival-style games and an arcade that offers a variety of amusements and electronic games. The property also has two specialty restaurants, a buffet

with a seating capacity of approximately 450, a coffee shop, a deli/bakery, a fast food snack bar, cocktail lounges, a gift shop and specialty shops.

Silver Legacy (50% Owned). Through a wholly owned entity, we are a 50% participant with Eldorado Limited Liability Company in Circus and Eldorado Joint Venture, a joint venture which owns and operates Silver Legacy, a hotel-casino and entertainment complex situated on two city blocks in downtown Reno, Nevada. The property is located between Circus Circus-Reno and the Eldorado Hotel & Casino, which is owned and operated by an affiliate of our joint venture partner at Silver Legacy. Silver Legacy's casino and entertainment complex is connected at the mezzanine level with Circus Circus-Reno and the Eldorado by enclosed climate-controlled skyways above the streets between the respective properties. The property's exterior is themed to evoke images of historical Reno. At the main pedestrian entrances to the casino (located on all four sides of the complex), patrons enter by passing store fronts reminiscent of turn-of-the-century Reno. Silver Legacy's casino offers 85,000 square feet of casino space which, as of October 31, 2001, featured 2,143 slot machines and 82 table games. The hotel offers 1,711 guest rooms. Silver Legacy's attractions include a 120 foot tall mining rig, which is situated over a replica of a silver mine and extends up from the center of the casino floor into a 180-foot diameter dome structure. Silver Legacy also features five restaurants and several bars, a 25,000-square-foot special events center, custom retail shops, a health spa and an outdoor pool and sun deck. Circus and Eldorado Joint Venture's executive committee, which functions in a manner similar to a corporation's board of directors, is responsible for overseeing the performance of Silver Legacy's management. Under the terms of the joint venture agreement, we appoint three of the executive committee's five members.

Laughlin, Nevada

Laughlin is situated on the Colorado River at the southern tip of Nevada approximately 90 miles south of Las Vegas. This market generates revenues primarily from southern California and Arizona residents who visit Laughlin for vacation or gambling. Currently, this market has nine hotel-casinos with a total room capacity of approximately 11,000. Between our two Laughlin properties, we have approximately 25% of the total

rooms in the Laughlin market.

Colorado Belle. This property is situated on a 22-acre site on the bank of the Colorado River (with nearly 1,080 feet of river frontage) in Laughlin, Nevada. The Colorado Belle, which features a 600-foot replica of a Mississippi riverboat, includes a 1,226-room hotel and a 64,000-square-foot casino which, as of October 31, 2001, featured 1,169 slot machines and 38 table games. The property also includes a 350-seat buffet, a coffee shop, three specialty restaurants, a microbrewery, fast food snack bars and cocktail lounges, as well as a gift shop and other specialty shops.

Edgewater. This property is situated on a 16-acre site adjacent to the Colorado Belle with nearly 1,640 feet of frontage on the Colorado River. The property has 1,450 guest rooms and a 44,000-square-foot casino which, as of October 31, 2001, featured 1,260 slot machines and 38 table games. Edgewater's facilities include a specialty restaurant, a coffee shop, a 735-seat buffet, a snack bar and cocktail lounges.

Jean, Nevada

Jean is located between Las Vegas and southern California, approximately 25 miles south of Las Vegas and 12 miles north of the California-Nevada state line. The principal highway between Las Vegas and southern California is Interstate-15 which passes directly through Jean, hence, Jean attracts gaming customers almost entirely from the large number of people traveling between Las Vegas and southern California.

Gold Strike. This property is an "Old West" themed hotel-casino located on approximately 51 acres of land on the east side of Interstate-15. The property has 812 guest rooms and a 37,000-square-foot casino which, as of October 31, 2001, featured 825 slot machines and 17 table games. Gold Strike also includes, among other amenities, a swimming pool and spa, several restaurants, a banquet center equipped to serve 260 people, a gift shop and an arcade. The casino has a stage bar with regularly scheduled live entertainment and a casino bar.

Nevada Landing. This property is a turn-of-the-century riverboat themed hotel-casino located on approximately 55 acres of land across Interstate-15 from Gold Strike. The property has 303 guest rooms and a 36,000-square-foot casino which, as of October 31, 2001, featured 808 slot machines and 17 table games. Nevada Landing includes a 72-seat Chinese restaurant, a full-service coffee shop, a buffet with a seating capacity of 140, a snack bar, a gift shop, a swimming pool and spa and a 300-guest banquet facility.

Henderson, Nevada

Railroad Pass. This property is situated on approximately 56 acres along US-93, the direct route between Las Vegas and Phoenix, Arizona. The property has 120 guest rooms and a 21,000-square-foot casino which, as of October 31, 2001, featured 333 slot machines and nine table games. Railroad Pass includes, among other amenities, two full-service restaurants, a buffet, gift shop, two bars, swimming pool and a banquet facility that will accommodate approximately 200 guests. In contrast with our other Nevada properties, Railroad Pass caters to local residents, particularly from Henderson.

Tunica County, Mississippi

Tunica County is located 20 miles south of Memphis, Tennessee on the Mississippi River. Tunica County attracts customers from Mississippi and surrounding states, including cities such as Memphis, Tennessee and Little Rock, Arkansas.

Gold Strike-Tunica. This property is a dockside casino situated on a 24-acre site along the Mississippi River in Tunica County, approximately three miles west of Mississippi State Highway 61 (a major north/south highway connecting Memphis with Tunica County) and 20 miles south of Memphis. The property includes a 1,066-guest-room, 31-story hotel tower which was completed and placed in service during late 1997 and early 1998. The facilities at Gold Strike-Tunica include a 48,000-square-foot casino which, as of October 31, 2001, featured approximately 1,438 slot machines and 45 table games. The property also features a 800-seat showroom, a coffee shop, a specialty restaurant, a 500-seat buffet, a snack bar and several cocktail lounges. Gold Strike-Tunica is part of a three-casino development covering approximately 72 acres. The other two casinos are owned and operated by unaffiliated third parties. We also own an undivided one-half interest in an additional 388 acres of land which may be used for future development.

Detroit, Michigan

MotorCity Casino (53.5% Owned). On December 14, 1999, along with our joint venture partner, Atwater Casino Group, we opened MotorCity Casino, a temporary casino facility in Detroit, Michigan, which is being operated pending the construction of a permanent hotel-casino. The temporary casino includes approximately 75,000 square feet of casino space which, as of October 31, 2001, featured 2,501 slot machines and 106 table games. The temporary facility also includes five restaurants and a 3,450-space parking facility. The site of the permanent facility has not yet been determined, but the facility is expected to include approximately 800 hotel rooms, larger casino space, convention space, retail space and dining and entertainment facilities. We are committed to contribute 20% of the costs of the permanent facility in the form of an additional investment in the joint venture, and the joint

venture will seek to borrow the balance of the cost. The cost of the permanent facility has yet to be determined.

The development agreement for Detroit provides that Mandalay will guarantee completion of the permanent facility and will enter into a keep-well guarantee with the city, pursuant to which we could be required to contribute additional funds, if and as needed, to continue operation of the permanent facility for a period of two years. When the permanent facility is completed and opened, we will manage the property and will receive a management fee for our services from the Detroit Joint Venture.

Various lawsuits have been filed in the state and federal courts challenging the constitutionality of the Casino Development Competitive Selection Process Ordinance and the Michigan Gaming Control and Revenue Act, and seeking to appeal the issuance of a certificate of suitability to MotorCity Casino. A recent decision by the Sixth Circuit Court of Appeals found that the ordinance in its current form was unconstitutional and remanded the case to the District Court, where the court declared that "the Ordinance in its current form is unconstitutional" and directed the parties to advise the court on or before February 22, 2002 "what issues, if any, remain for determination" by the court. The effect of this ruling is uncertain. The Michigan Gaming Control Board has taken the ruling under advisement without comment. We continue to operate MotorCity Casino. However, any future ruling by the court in this lawsuit or by the Michigan Gaming Control Board, as well as an adverse ruling in other lawsuits, could affect the joint venture's operation of the temporary facility, as well as its ability to obtain a certificate of suitability and a casino license for its permanent facility. No assurance can be given regarding the timing or outcome of any of these proceedings.

Elgin, Illinois

Grand Victoria (50% Owned). Through wholly owned entities, we are a 50% participant with RBG, L.P. in a joint venture which owns Grand Victoria. Grand Victoria is a Victorian themed riverboat casino and land-based entertainment complex in Elgin, Illinois, a suburb approximately 40 miles northwest of downtown Chicago. The two-story vessel is 420 feet in length and 110 feet in width, and provides a maximum 80,000 square feet of casino space, approximately 36,000 square feet of which was being used as of October 31, 2001. As of that date, the casino offered 1,050 slot machines and 45 gaming tables. The boat offers dockside gaming, which means its operation is not restricted by fixed cruising schedules. The property also features a dockside complex that contains an approximately 83,000-square-foot pavilion with an approximately 400-seat buffet, a 76-seat fine dining restaurant, a VIP lounge and a gift shop. Grand Victoria, which is strategically located in Elgin among the residential suburbs of Chicago, with nearby freeway access and direct train service from downtown Chicago, is located approximately 20 miles and 40 miles, respectively, from its nearest competitors in Aurora, Illinois and Joliet, Illinois. Grand Victoria is one of only nine licensed gaming riverboats currently operating in Illinois. Recently passed legislation in Illinois would allow a casino in Rosemont, approximately 16 miles from Grand Victoria. The legislation is being challenged in court. We manage the Grand Victoria, subject to the oversight of an executive committee which functions in a manner similar to a corporation's board of directors and has an equal number of members designated by each joint venture partner.

Executive Offices

Our executive offices are located at 3950 Las Vegas Boulevard South, Las Vegas, Nevada 89119. Our telephone number is (702) 632-6700.

Summary of the Exchange Offer

The Exchange Offer	We are offering to exchange $1,000 principal amount of our exchange notes for each $1,000 principal amount of old notes. As of the date of this prospectus, $300 million in aggregate principal amount of old notes are outstanding. We have registered the exchange notes under the Securities Act of 1933 and they are substantially identical to the old notes, except for the elimination of some transfer

	restrictions, registration rights and liquidated damages provisions relating to the old notes.
Accrued Interest on the Exchange Notes and the Old Notes	Interest on the exchange notes will accrue from the last interest payment date on which interest was paid on the old notes or, if no interest was paid on the old notes, from the date of issuance of the old notes, which was on December 20, 2001. Holders whose old notes are accepted for exchange will be deemed to have waived the right to receive any interest accrued on the old notes.
No Minimum Condition	We are not conditioning the exchange offer on the tender of any minimum principal amount of old notes.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on , 2002, unless we decide to extend the exchange offer.
Withdrawal Rights	You may withdraw your tender at any time prior to 5:00 p.m., New York City time, on the expiration date.
Conditions to the Exchange Offer	The exchange offer is subject to customary conditions, which we may waive. We currently anticipate that each of the conditions will be satisfied and that we will not need to waive any conditions. We reserve the right to terminate or amend the exchange offer at any time before the expiration date if any of the conditions occurs. For additional information, see the section "The Exchange Offer" in this prospectus under the subheading "Certain Conditions to the Exchange Offer."
Procedures for Tendering Old Notes	If you are a holder of old notes who wishes to accept the exchange offer, you must:
	• complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, and mail or otherwise deliver the letter of transmittal, together with your old notes, to the exchange agent at the address set forth in the section "The Exchange Offer" in this prospectus under the subheading "Exchange Agent"; or

	• arrange for The Depository Trust Company to transmit certain required information, including an agent's message forming part of a book-entry transfer in which you agree to be bound by the terms of the letter of transmittal, to the exchange agent in connection with a book-entry transfer.
	By tendering your old notes in either manner, you will be representing among other things, that:
	• the exchange notes you receive pursuant to the exchange offer are being acquired in the ordinary course of your business;
	• you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate, in the distribution of the exchange notes issued to you in the exchange offer; and
	• you are not an "affiliate" of ours.
Special Procedures for Beneficial Owners	If you beneficially own old notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes in the exchange offer, you should contact the registered holder promptly and instruct it to tender on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your old notes, either arrange to have your old notes registered in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.
Guaranteed Delivery Procedures	If you wish to tender your old notes and time will not permit your required documents to

	reach the exchange agent by the expiration date, or the procedures for book-entry transfer cannot be completed on time, you may tender your old notes according to the guaranteed delivery procedures described in the section "The Exchange Offer" in this prospectus under the subheading "Procedures for Tendering Old Notes."
Acceptance of Old Notes and Delivery of Exchange Notes	We will accept for exchange all old notes which are properly tendered in the exchange offer prior to 5:00 p.m., New York City time, on the expiration date. The exchange notes issued in the exchange offer will be delivered promptly following the expiration date. For additional information, see the section "The Exchange Offer" in this prospectus under the subheading "Acceptance of Old Notes for Exchange; Delivery of Exchange Notes."
Use of Proceeds	We will not receive any proceeds from the issuance of exchange notes in the exchange offer. We will pay for our expenses incident to the exchange offer.

Federal Income Tax Consequences	The exchange of exchange notes for old notes in the exchange offer will not be a taxable event for federal income tax purposes. For additional information, see the section "Material Federal Income Tax Consequences of the Exchange" in this prospectus.
Effect on Holders of Old Notes	As a result of this exchange offer, we will have fulfilled a covenant contained in the registration rights agreement dated as of December 20, 2001 among Mandalay Resort Group and Banc of America Securities LLC and each of the other initial purchasers named in the agreement and, accordingly, there will be no increase in the interest rate on the old notes. If you do not tender your old notes in the exchange offer: you will continue to hold the old notes and will be entitled to all the rights and limitations applicable to the old notes under the indenture governing the notes, except for any rights under the registration rights agreement that terminate as a result of the completion of the exchange offer; and you will not have any further registration or exchange rights and your old notes will continue to be subject to restrictions on transfer. Accordingly, the trading market for untendered old notes could be adversely affected.
Exchange Agent	The Bank of New York is serving as exchange agent in connection with the exchange offer.

Summary of The Exchange Notes

Issuer	Mandalay Resort Group.
Total Amount of Exchange Notes Offered	Up to $300 million in principal amount of 9 3/8% senior subordinated notes due 2010.
Maturity	February 15, 2010.
Interest	9 3/8% per year.
Interest Payment Dates	February 15 and August 15, beginning August 15, 2002.
Optional Redemption	We will not have the right to redeem the exchange notes prior to their maturity, except that, prior to maturity, Mandalay may redeem the exchange notes in whole but not in part at a redemption price equal to 100% of the principal amount of the exchange notes plus a make-whole premium described in the section "Description of the Exchange Notes" in this prospectus under the subheading "Redemption."
Ranking	The exchange notes will be unsecured senior subordinated obligations and will rank junior to our senior debt. The exchange notes will rank equally with our other senior

	subordinated indebtedness and will rank senior to our subordinated indebtedness. The exchange notes will effectively rank junior to all indebtedness and other liabilities of our subsidiaries. Because the exchange notes are subordinated, in the event of bankruptcy, liquidation or dissolution and acceleration of, or payment default on, senior indebtedness, holders of the exchange notes will not receive any payment until holders of senior indebtedness receive payment in full. As of October 31, 2001, after giving effect to the offering of the old notes and our use of the net proceeds, we would have had approximately $1.2 billion of senior debt (including $77 million of debt incurred with our Detroit joint venture) and our subsidiaries would have had outstanding approximately $592.2 million of indebtedness and other liabilities, excluding any indebtedness included in our senior debt.
Change of Control	If a change of control event occurs, each holder of exchange notes may require Mandalay to repurchase all or a portion of its exchange notes at a purchase price equal to 101% of the principal amount of the exchange notes, plus accrued interest.
Certain covenants	The indenture governing the exchange notes will, among other things, limit our ability and, in certain instances, our subsidiaries' ability to: enter into sale and lease-back transactions; incur liens; and

	merge, consolidate or transfer all or substantially all of our assets. These covenants are subject to a number of important qualifications and exceptions. See the section "Description of the Exchange Notes" in this prospectus under the subheading "Additional Covenants of Mandalay."
Use of proceeds	We will not receive any cash proceeds from the exchange offer.

Risk Factors

See the section "Risk Factors" in this prospectus for a discussion of the factors you should carefully consider before deciding to invest in the notes, including factors affecting forward-looking statements.

Selected Financial Information

We have derived the following summary consolidated financial information for each of the five fiscal years ended January 31 from audited Consolidated Financial Statements included in Mandalay's Annual Reports on Form 10-K for the fiscal years ended January 31, 1997 through 2001. Our summary consolidated financial information presented in the table below as of and for the nine months ended October 31, 2000 and 2001 is unaudited. However, in management's opinion, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for these periods have been included. The results of operations for the nine months ended October 31, 2001 may not be indicative of the results of operations for the full year. The table should be read together with our consolidated financial statements and accompanying notes, as well as the management's discussion and analysis of results of operations and financial condition, all of which can be found in publicly available documents including those incorporated by reference herein.

Fiscal Year Ended January 31,					Nine Months Ended October 31, (unaudited)	
1997	1998	1999	2000	2001	2000	2001

	Fiscal Year Ended January 31,					Nine Months Ended October 31, (unaudited)	
	(Dollars in thousands)						
Statement of Operations Data (1):							
Revenues							
Casino	$ 639,470	$ 613,321	$ 684,594	$ 925,499	$ 1,221,595	$ 924,213	$ 920,666
Rooms	294,241	330,644	355,635	534,132	611,352	474,125	471,509
Food and beverage	210,384	215,584	246,622	346,647	418,081	323,596	320,763
Other	146,554	142,407	170,701	251,509	299,753	219,225	251,378
Earnings of unconsolidated affiliates	86,646	98,977	83,967	98,627	114,645	88,146	89,886
	1,377,295	1,400,933	1,541,519	2,156,414	2,665,426	2,029,305	2,054,202
Less-complimentary allowances	(59,477)	(65,247)	(87,054)	(131,509)	(169,642)	(125,367)	(131,562)
Net revenues (2)	1,317,818	1,335,686	1,454,465	2,024,905	2,495,784	1,903,938	1,922,640
Costs and expenses							
Casino	285,664	298,101	342,134	484,801	660,428	484,961	497,057
Rooms	116,508	122,934	128,622	189,419	203,352	157,413	156,363
Food and beverage	200,722	199,955	207,663	276,261	299,726	230,667	222,749
Other operating expenses	90,601	90,187	113,864	179,907	210,051	147,983	170,212
General and administrative	227,348	232,536	253,138	339,455	409,603	306,214	319,594
Depreciation and amortization	103,717	129,729	142,141	178,301	217,984	163,997	165,522
Corporate general and administrative	22,780	22,297	24,124	22,464	21,153	15,924	15,937
Operating lease rent				25,994	40,121	30,001	23,832
Preopening expenses		3,447		49,134	1,832	1,832	1,381
Abandonment losses	48,309			5,433			
	1,095,649	1,099,186	1,211,686	1,751,169	2,064,250	1,538,992	1,572,647
Income from operations	222,169	236,500	242,779	273,736	431,534	364,946	349,993
Interest expense	(54,681)	(88,847)	(95,541)	(164,387)	(219,940)	(161,902)	(164,352)
Interest expense from unconsolidated affiliates	(15,567)	(15,551)	(12,275)	(11,085)	(11,293)	(8,385)	(7,120)
Other income	11,942	15,820	5,852	5,144	10,837	5,946	1,901
Minority interest				(292)	(16,746)	(14,328)	(20,442)
Income before provision for income tax	163,863	147,922	140,815	103,116	194,392	186,277	159,980
Provision for income tax	63,130	58,014	55,617	38,959	74,692	69,996	58,780
Income before cumulative effect of change in accounting principle	100,733	89,908	85,198	64,157	119,700	116,281	101,200
Cumulative effect of change in accounting principle for preopening expenses, net of tax benefit of $11,843				(21,994)			
Net income	$ 100,733	$ 89,908	$ 85,198	$ 42,163	$ 119,700	$ 116,281	$ 101,200

Other Data:							
EBITDA (3)	$ 325,886	$ 366,229	$ 384,920	$ 452,037	$ 649,518	$ 528,943	$ 515,515
Capital expenditures	$ 585,835	$ 663,270	$ 671,547	$ 352,133	$ 110,220	$ 76,001	$ 125,147
Rooms (4)	22,407	23,418	27,118	27,118	27,118	27,118	27,118
Casino square footage (4)	894,700	894,700	1,030,700	1,086,700	1,086,700	1,086,700	1,086,700
Number of slot machines (4)	22,254	21,520	23,571	25,580	24,929	24,970	24,333
Number of table games (4)	814	785	921	1,014	991	975	950
Ratio of earnings to fixed charges (5)	2.68x	1.99x	1.62x	1.47x	1.84x	2.09x	1.99x
Balance Sheet Data:							
Cash and cash equivalents	$ 69,516	$ 58,631	$ 81,389	$ 116,617	$ 105,941	$ 131,289	$ 100,595
Property, equipment and leasehold interests	1,920,032	2,466,848	3,000,822	3,335,071	3,236,824	3,254,522	3,202,288
Total assets	2,729,111	3,263,548	3,869,707	4,329,476	4,248,266	4,271,091	4,195,079
Long-term debt	1,405,897	1,788,818	2,259,149	2,691,292	2,623,597	2,678,644	2,569,243
Total stockholders' equity	971,791	1,123,749	1,157,628	1,187,780	1,068,940	1,070,355	985,437

(1) Hacienda was closed on December 1, 1996. Mandalay Bay opened on March 2, 1999 and MotorCity Casino opened on December 14, 1999.

(2) Net of complimentary allowances. Net revenues for the fiscal years ended 1997 through 2001 have been reclassed for amounts earned through player clubs. Mandalay's player clubs allow customers to earn "points" based on the volume of their gaming activity. These points are redeemable for certain complimentary services and/or cash rebates. In February 2001, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a partial consensus in EITF Issue No. 00-22, "Accounting for `Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future." This consensus requires that the redemption of points for cash be recognized as a reduction of revenue. Mandalay has complied with the requirements of EITF Issue No. 00-22 including reclassification of prior period amounts. This reclassification does not affect net income.

(3) EBITDA consists of operating income plus depreciation and amortization. EBITDA is a measure commonly used by the financial community but is not prepared in accordance with United States generally accepted accounting principles and should not be considered as a measurement of net cash flows from operating activities.

(4) These items include 100% of Mandalay's joint venture properties. Mandalay acquired its 50% interest in the Grand Victoria, a then-operating riverboat casino in Elgin, Illinois, on June 1, 1995. Joint ventures in which Mandalay owns 50% interests opened Silver Legacy in Reno, Nevada on July 28, 1995 and Monte Carlo in Las Vegas, Nevada, on June 21, 1996. A joint venture in which Mandalay owns a 53.5% interest opened MotorCity Casino, a temporary casino in Detroit, Michigan, on December 14, 1999. The information as of January 31, 1999 includes figures for Mandalay Bay, which opened March 2, 1999. Silver City, a small casino on the Las Vegas Strip, was operated under a lease which expired October 31, 1999.

(5)

The ratio of earnings to fixed charges has been computed by dividing net income before fixed charges and income taxes, adjusted to exclude capitalized interest and equity in undistributed earnings of less-than-50%-owned ventures. Fixed charges consist of interest, whether expensed or capitalized, amortization of debt discount and issuance costs, Mandalay's proportionate share of the interest cost of 50%-owned ventures, and the estimated interest component of rental expense.

RISK FACTORS

You should carefully consider the following factors in addition to the other information set forth in this prospectus before making an investment in the exchange notes.

The right to receive payments on the notes will be junior to some of our existing and possibly all of our future borrowings.

The notes will rank behind all of our existing and future senior debt, including the debt incurred under our credit facilities. Assuming we had issued the old notes and applied the proceeds of the old notes as of October 31, 2001, we would have had outstanding approximately $1.2 billion of senior debt (including $77 million of debt incurred with our Detroit joint venture), and approximately $642 million available for borrowing as additional senior debt under our revolving credit facility. In addition, the notes will effectively rank junior to all existing and future liabilities of our subsidiaries, which totaled approximately $592.2 million at October 31, 2001, excluding any indebtedness included in senior debt. The indenture governing the notes will not limit our ability to incur substantial additional senior debt, including borrowings under our credit facilities, or limit the ability of our subsidiaries to incur additional indebtedness. If we file for bankruptcy, liquidate or dissolve, our assets would be available to pay obligations on the notes only after we pay all of our senior debt. We may not have sufficient assets remaining to make any payments on the notes. In addition, if we default on our senior debt, we may be prohibited, under the terms of the notes, from making any payments on the notes. The term "senior debt," as it applies to the notes, is defined in the section "Description of the Exchange Notes" in this prospectus under the subheading "Certain Definitions."

Our substantial indebtedness could adversely affect our financial results and prevent us from fulfilling our obligations under the notes.

We have a significant amount of indebtedness. At October 31, 2001, we had total consolidated indebtedness of approximately $2.6 billion and stockholders' equity of approximately $1.0 billion. In addition, Mandalay is and may become a party to various keep-well agreements relating to existing and future joint ventures in which we have or may have an interest. These agreements may require us to make additional cash contributions.

The notes will not restrict our ability to borrow substantial additional funds in the future nor do they provide holders any protection should we be involved in transactions that increase our leverage. If we add new indebtedness to our anticipated debt levels following the issuance of the notes, it could increase the related risks that we face.

Our high level of indebtedness could have important consequences to you, such as:

- limiting our ability to obtain additional financing to fund our growth strategy, working capital, capital expenditures, debt service, acquisitions or other obligations, including our obligations with respect to the notes;

- limiting our ability to use operating cash flow in other areas of our business because we must dedicate a significant portion of these funds to make principal and interest payments on our indebtedness;

- increasing our interest expenses if there is a rise in interest rates, because a significant portion of our borrowings are and will continue to be under our credit facilities and, as such, are of short-term duration (typically 1 to 90 days) that require ongoing refunding at then current rates of interest;

- causing our failure to comply with the financial and restrictive covenants contained in the agreements and indentures governing our indebtedness which could cause a default under our

other debt or the notes and which, if not cured or waived, could have a material adverse effect on us;

limiting our ability to compete with others who are not as highly leveraged, including our ability to explore business opportunities; and

limiting our ability to react to changing market conditions, changes in our industry and economic downturns.

If we do not generate sufficient cash from our operations to make scheduled payments on the notes or to meet our other obligations and/or our joint venture obligations, we will need to take one or more actions including the refinancing of our debt, obtaining additional financing, selling assets, obtaining additional equity capital, or reducing or delaying capital expenditures. We cannot assure you that our business will generate cash flow or that we will be able to obtain funding sufficient to satisfy our debt service requirements.

In May 2000, Mandalay's board of directors authorized a new stock repurchase program permitting the repurchase of up to 15% (or approximately 11.7 million) of the then issued and outstanding shares of Mandalay's common stock, as market conditions and other factors warrant. In June 2001, Mandalay's board of directors authorized the purchase of up to an additional 15% of Mandalay common stock which remains outstanding when the May 2000 authorization is fully utilized (or approximately 10 million additional shares, based on the number of shares outstanding at October 31, 2001). As of October 31, 2001, we had acquired by direct purchase approximately 7.0 million shares pursuant to our May 2000 authorization. To facilitate our purchase of our common stock pursuant to our share repurchase authorizations, we have entered into equity forward agreements with Bank of America, N.A. pursuant to which Bank of America acquired 6.9 million shares at a cost of $138.7 million. Pursuant to the interim settlement provisions of these agreements and an amendment extending the settlement date from March 29, 2002 to March 31, 2003, we have received 3.2 million shares and paid Bank of America $38.7 million. Thus, as of the date hereof, we may purchase the remaining 3.7 million shares from Bank of America for the notional amount of $100 million, subject to any future adjustment of the notional amount and/or the number of shares under the agreements' interim settlement provisions. We incur quarterly interest charges on the notional amount at a current rate equal to LIBOR plus 1.95%. Although our current intention is to purchase the shares, the agreements permit us to settle our obligation in cash or shares (*i.e.*, pay cash or deliver additional shares or receive cash or shares, depending on the market value of the shares on the date we settle our obligations under the agreements). If Mandalay incurs additional indebtedness to repurchase shares of its common stock, it will increase its leverage.

Our debt agreements impose restrictions on our operations.

Our credit facilities impose operating and financial restrictions on us. These restrictions include, among other things, limitations on our ability to:

incur additional debt;

create liens or other encumbrances;

pay dividends or make other restricted payments;

make investments, loans or other guarantees;

sell or otherwise dispose of a portion of our assets; or

merge or consolidate with another entity.

Each of our credit facilities contains a financial covenant that requires us to not exceed a total indebtedness ratio. Our ability to borrow funds for any purpose will depend on our satisfying this test.

If we fail to comply with the financial covenant or other restrictions contained in our credit facilities or any future financing agreements, an event of default could occur. An event of default could result in the acceleration of some or all of our debt. We would not have, and are not certain we would be able to obtain, sufficient funds to repay our indebtedness if it is accelerated, including our payments on the notes.

The terrorist attacks of September 11, 2001 have adversely impacted our operations and these attacks, as well as any similar attacks that may occur, could have a material adverse effect on our future operations.

The terrorist attacks which occurred on September 11, 2001 have had a pronounced impact on our subsequent operating results. This impact has been felt primarily at our Las Vegas properties, from which approximately two-thirds of our operating income is generated. Customers traveling to our Las Vegas properties arrive by air more frequently than those traveling to our properties in other markets. This is particularly true at our more upscale resorts, Luxor and Mandalay Bay, where well over 50% of the hotel customers utilize air travel for their visits. As a result of the terrorist attacks, air travel plummeted nationally. Passenger counts at McCarran International Airport in Las Vegas fell almost 30% in September. The decline in air travel has resulted in declines in the number of customers staying at and visiting our Las Vegas properties. This situation was particularly acute immediately following the attacks, when occupancy levels at the Las Vegas properties where we and our Las Vegas joint venture operate more than 18,000 hotel rooms, fell to the mid-60% range, compared to a normal occupancy level above 90%. These factors resulted in an initially sharp decline in revenues and operating income at our Las Vegas properties.

The events of September 11 continue to suppress our operating results. While air travel levels have rebounded from the levels immediately following September 11, they remain below pre-September 11 levels. Weekend business, which accounts for over 50% of our profits at our Las Vegas properties, is less dependent on customers traveling by air and has returned to near-normal levels in terms of customer volume. However, midweek business is recovering more slowly. The midweek segment of our business has a greater percentage of business travelers who have more significantly curtailed their air travel than our non-business customers. We cannot predict the extent to which the events of September 11 will continue to directly or indirectly impact our operating results in the future, nor can we predict the extent to which future security alerts and/or additional terrorist attacks may impact our operations.

Mandalay is a holding company and depends on the business of its subsidiaries to satisfy its obligations under the notes.

Mandalay is a holding company and its assets consist primarily of investments in its subsidiaries. Our subsidiaries conduct substantially all of our consolidated operations and own substantially all of our consolidated assets. Consequently, Mandalay's cash flow and its ability to meet its debt service obligations depend on:

the cash flow of its subsidiaries; and

the payment of funds by the subsidiaries to Mandalay in the form of loans, dividends or otherwise.

Mandalay's subsidiaries are not obligated to make funds available to it for payment on the notes or otherwise. In addition, the ability of Mandalay's subsidiaries to make any payments to it will depend on:

their earnings;

the terms of their indebtedness;

business and tax considerations; and

legal and regulatory restrictions.

These payments may not be adequate to pay interest and principal on the notes when due. In addition, the ability of Mandalay's subsidiaries to make payments to it depends on applicable law and debt instruments to which they or we are or become parties, which may include requirements to maintain minimum levels of working capital and other assets.

Because Mandalay is a holding company, the notes will effectively rank junior to all existing and future liabilities of its subsidiaries, including trade payables. If there is a bankruptcy, liquidation or dissolution of a subsidiary, the subsidiary may not have sufficient assets remaining to make any payments to Mandalay as a shareholder or otherwise after the payment of its liabilities so that Mandalay can meet its obligations as the holding company, including its obligations to you under the notes. As of October 31, 2001, our subsidiaries had total liabilities of approximately $592.2 million, excluding any indebtedness included in senior debt. The indenture governing the notes will not limit the ability of our subsidiaries to incur substantial additional debt.

As a noteholder, you may be required to comply with licensing, qualification or other requirements under gaming laws or dispose of your securities.

The gaming authority of any jurisdiction in which we currently or in the future conduct or propose to conduct gaming, either through our subsidiaries or a joint venture, may require that a noteholder be licensed, qualified or found suitable, or comply with any other requirement under applicable gaming laws. If you purchase or otherwise accept an interest in the notes, by the terms of the indenture, you will agree to comply with all of these requirements, including your agreement to apply for a license, qualification or a finding of suitability, or comply with any other requirement, within the required time period, as provided by the relevant gaming authority. If you fail to apply to be, or fail to become, licensed or qualified, or are found unsuitable or fail to comply with any other requirement of a gaming authority, then we will have the right, at our option, to:

require you to sell your notes or beneficial interest in the notes within 30 days after you receive notice of our election, or any earlier date that the relevant gaming authority may request or prescribe; or

redeem your notes (possibly within less than 30 days following the notice of redemption if requested or prescribed by the gaming authority) at a price equal to the lesser of:

your cost;

100% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the redemption date or the date of any failure to comply, whichever is earlier; and

any other amount required by applicable law or by order of any gaming authority.

We will notify the indenture trustee in writing of any redemption as soon as practicable. We will not be responsible for any costs or expenses you may incur in connection with your application for a license, qualification or a finding of suitability, or your compliance with any other requirement of a gaming authority. The indenture also provides that as soon as a gaming authority requires you to sell your notes, you will, to the extent required by applicable gaming laws, have no further right:

to exercise, directly or indirectly, any right conferred by the notes; or

to receive from us any interest, dividends or any other distributions or payments, or any remuneration in any form, relating to the notes, except the redemption price we refer to above.

See the section "Description of the Exchange Notes" in this prospectus under the subheading "Mandatory Disposition Pursuant to Gaming Laws."

We are subject to extensive state and local regulation, and licensing and gaming authorities have significant control over our operations which could have an adverse effect on our business.

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. We currently conduct licensed gaming operations in Illinois, Michigan, Mississippi and Nevada through wholly owned subsidiaries and/or joint ventures. We are required by each of these states as well as the applicable local authorities in these states to hold various licenses and registrations, findings of suitability,

permits and approvals to engage in gaming operations and meet requirements of suitability. The gaming authorities in each state where we conduct business may deny, limit, condition, suspend or revoke a gaming license, registration or finding of suitability. These gaming authorities also control approval of ownership interests in gaming operations. These gaming authorities may deny, limit, or suspend our gaming licenses, registrations, findings of suitability or the approval of any of our ownership interests in any of the licensed gaming operations conducted in these states for any cause they may deem reasonable.

If we violate gaming laws or regulations that are applicable to us or any joint venture in which we participate, we may have to pay substantial fines or forfeit assets. If any of our gaming licenses are denied, suspended, revoked or not renewed this could have a material adverse effect on our business.

To date, we and the joint ventures in which we participate have obtained all gaming licenses necessary for the operation of our existing gaming activities. However, gaming licenses and related approvals are privileges under Illinois, Michigan, Mississippi and Nevada law, and we cannot be sure that any new gaming license or related approvals that may be required in the future will be granted, or that our existing gaming licenses or related approvals will not be revoked, suspended, limited or not renewed.

The Nevada Gaming Commission may, in its discretion, require the holder of any securities that we issue to file applications, be investigated, and be found suitable to own our securities if it has reason to believe that the security ownership would be inconsistent with the declared policies of the State of Nevada. If the Nevada Gaming Commission determines that a person is unsuitable to own our securities, then, under the Nevada Gaming Control Act and the regulations promulgated under this Act, we can be sanctioned, including the loss of our approvals, if without the prior approval of the Nevada Gaming Commission, we:

- pay to the unsuitable person any dividend, interest or any distribution whatsoever;
- recognize any voting right by the unsuitable person in connection with the securities;
- pay the unsuitable person remuneration in any form; or
- make any payment to the unsuitable person including any principal, redemption, conversion, exchange, liquidation or similar payment.

Similar to Nevada, the Illinois Gaming Board, the Michigan Gaming Control Board and the Mississippi Gaming Commission have jurisdiction over the holders and beneficial owners of securities that we issue and may also require their investigation and approval. An applicant must pay all costs of investigation incurred by a gaming authority in conducting an investigation relating to the applicant.

In Nevada as well as Illinois, Michigan and Mississippi, we may not make a public offering of our securities without prior approval of the applicable gaming authorities if we intend to use the securities or proceeds from the offering to:

- construct, acquire or finance gaming properties in these states; or

- retire or extend obligations incurred for these purposes or for similar transactions.

The Nevada Gaming Commission has granted to us prior approval to make public offerings of our securities through January 23, 2003, subject to some conditions. This approval also applies to any affiliated company that we wholly own which is a publicly traded corporation or would become a publicly traded corporation after a public offering. This approval also permits our registered and licensed subsidiaries to guarantee any security, and to pledge their assets to secure the payment or performance of any obligation evidenced by a security, issued by us or our wholly owned public affiliates in a public offering under the approval. This approval also includes approval to place restrictions upon the transfer of, and enter into agreements not to encumber, the equity securities of our registered and licensed subsidiaries. However, this approval may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada State Gaming Control Board and must be renewed biennially. The approval does not constitute a finding, recommendation or approval by the Nevada Gaming Commission or the Nevada State Gaming Control Board as to the accuracy or adequacy of this prospectus or the investment merits of

the securities that we are offering. Any statement indicating otherwise is unlawful. We have received a similar approval from the Mississippi Gaming Commission which is effective until February 18, 2004. The exchange offer will qualify as a public offering and will be made in accordance with the Nevada approval and the Mississippi approval, each as currently in effect or as may be renewed in the discretion of the applicable gaming authority.

We face substantial competition in the hotel and casino industry.

The hotel and casino industry is very competitive. Our hotel-casino operations in Las Vegas, which are conducted primarily from properties located along the Las Vegas Strip, currently compete with numerous other major hotel-casinos and a number of smaller casinos located on or near the Las Vegas Strip. Our Las Vegas operations also compete with casinos located in downtown Las Vegas, in Las Vegas' suburban areas and, to a lesser extent, with casino and hotel properties in other parts of Nevada, including Laughlin, Reno and along I-15 (the principal highway between Las Vegas and southern California) near the California-Nevada state line. Las Vegas casinos, including our own, also compete with Native American casinos in southern California (the principal source of business for Las Vegas casinos including our own) and central Arizona and, to a lesser extent, with casinos in other parts of the country.

Circus Circus-Reno competes with approximately seven other major casinos (the majority of which offer hotel rooms), including Silver Legacy, a hotel-casino complex with 1,711 guest rooms, which is 50% owned by one of our wholly owned subsidiaries. Circus Circus-Reno and Silver Legacy also compete with numerous other smaller casinos in the greater Reno area and, to a lesser extent, with casinos and hotels in Lake Tahoe and other parts of Nevada. Reno casinos, including our own, also compete with Native American gaming in California and the northwestern United States.

In Laughlin, the Colorado Belle and the Edgewater, which together accounted for approximately 25% of the rooms in Laughlin as of October 31, 2001, compete with nine other Laughlin casinos. They also compete with the hotel-casinos in Las Vegas and those on I-15 (the principal highway between Las Vegas and southern California) near the California-Nevada state line, as well as a growing number of Native American casinos in Laughlin's regional market. The expansion of hotel and casino capacity in Las Vegas in recent years and the growth of Native American casinos in central Arizona and southern California have had a negative impact on Laughlin area properties, including the Colorado Belle and the Edgewater, by drawing visitors from the Laughlin market. This has, in turn, resulted in increased competition among Laughlin properties for a reduced number of visitors which contributes to generally lower revenues and profit margins at Laughlin properties, including the Colorado Belle and the Edgewater.

Our Jean, Nevada properties, Gold Strike and Nevada Landing, are located on I-15 (the principal highway between Las Vegas and southern California), approximately 25 miles south of Las Vegas and 12 miles north of the California-Nevada border. These properties attract their customers almost entirely from the large number of people traveling between Las Vegas and southern California. Accordingly, these properties compete with the large concentration of hotel, casino and other entertainment options available in Las Vegas as well as three hotel-casinos located at the California-Nevada border. The growth of Native American casinos in southern California has also drawn visitors from the Jean, Nevada market.

Gold Strike-Tunica competes with other casinos in Tunica County, Mississippi, including a hotel-casino which is closer to Memphis, the largest city in Tunica County's principal market, than any of the other facilities currently in operation in Tunica County. Gold Strike-Tunica's hotel tower, which has 1,066 guest rooms, was completed in early 1998 and provides this property with the second largest number of guest rooms in the Tunica County market.

Grand Victoria is a 50% owned riverboat casino and land-based entertainment complex in Elgin, Illinois, a suburb approximately 40 miles northwest of downtown Chicago. Grand Victoria is one of nine licensed gaming riverboats currently operating in Illinois and is located approximately 20 miles and 40 miles, respectively, from its nearest competitors in Aurora, Illinois and Joliet, Illinois. Recently passed legislation in Illinois would allow a casino in Rosemont, approximately 16 miles from Grand Victoria. This legislation is being challenged in court.

Gaming has expanded dramatically in the United States in recent years. Forms of gaming include:

- riverboats;
- dockside gaming facilities;

Native American gaming ventures;

land-based casinos;

state-sponsored lotteries;

off-track wagering;

Internet gaming; and

card parlors.

Since 1990, when there were casinos in only three states (excluding casinos on Native American lands), gaming has spread to a number of additional states. In addition, other states are currently considering, or may in the future consider, legalizing casino gaming in specific geographic areas within their states. Many Native American tribes conduct casino gaming throughout the United States. Other Native American tribes are either in the process of establishing or are considering establishing gaming at additional locations, including sites in California and Arizona. The competitive impact on Nevada gaming establishments, in general, and our operations, in particular, from the continued growth of gaming in jurisdictions outside Nevada cannot be determined at this time, but, depending on the nature, location and extent of the growth of those operations, the impact could be material.

The continued growth of Native American gaming in California could have a material adverse effect on our Nevada operations.

On March 7, 2000, California voters approved Proposition 1A which amended the California constitution and legalized "Nevada-style" gaming on Native American reservations. The passage of this amendment has allowed the expansion of existing Native American gaming operations, as well as the opening of new Native American gaming facilities. Each Native American tribe in California may

operate up to 2,000 slot machines and up to two gaming facilities may be operated on any one reservation. Most existing Native American gaming facilities in California are modest compared to our Nevada casinos. However, numerous Native American tribes have announced that they are in the process of developing or are considering establishing large-scale hotel and gaming facilities in California. Numerous other tribes are at various stages of planning new or expanded facilities.

Our operations in Reno, Nevada have been adversely impacted by the growth in Native American gaming in northern California that has occurred to date and our operations in Laughlin and Jean, Nevada have been adversely impacted by the growth of Native American gaming in southern California. While the competitive impact on our Nevada operations from the continued growth of Native American gaming establishments in California remains uncertain, the proliferation of gaming in California could have a material adverse effect on our Nevada operations.

We may not be able to purchase your notes upon a change of control.

Upon the occurrence of specified "change of control" events, Mandalay will be required to offer to purchase each holder's notes at a price of 101% of their principal amount plus accrued and unpaid interest. We may not have sufficient financial resources to purchase all of the notes that holders tender to us upon a change of control offer. The occurrence of a change of control could also constitute a default under our credit facilities and/or any of our future credit facilities. Our bank lenders may also have the right to prohibit any such purchase or redemption, in which event Mandalay would be in default on the notes. For further discussion, see the section "Description of the Exchange Notes" in this prospectus under the subheading "Change of Control."

An active trading market may not develop for these notes.

We are offering the exchange notes to the holders of the old notes. The old notes were sold in December 2001 to a small number of institutional investors and are eligible for trading in the Private Offerings, Resale and Trading through Automatic Linkages (PORTAL) Market. To the extent that old notes are tendered and accepted in the exchange offer, the trading market for untendered and tendered but unaccepted old notes will be adversely affected. We cannot assure you that this market will provide liquidity for you if you want to sell your old notes.

We do not intend to apply for a listing of the exchange notes on a securities exchange or on any automated dealer quotation system. The exchange notes are new securities for which there is currently no market. We cannot assure you as to the liquidity of markets that may develop for the exchange notes, your ability to sell the exchange notes or the price at which you would be able to sell the exchange notes. If one or more markets were to exist, the exchange notes could trade at prices that may be lower than their principal amount or purchase price depending on many factors, including prevailing interest rates and the markets for similar securities. The initial purchasers of the old notes have advised us that they currently intend to make a market with respect to the exchange notes. However, they are not obligated to do so, and any market making activities may be discontinued at any time without notice. In addition, such market making activity may be limited during the pendency of the exchange offer.

The liquidity of, and trading market for, the exchange notes also may be adversely affected by changes in the market for securities such as the exchange notes and by changes in our financial performance or prospects or in the prospects for companies in our industry generally.

As a result, you cannot be sure that an active trading market will develop for the exchange notes.

Certain construction risks may arise during the building of any new properties.

Any major construction project we, or any joint venture in which we own an interest, may undertake will involve many risks. These risks include potential shortages of materials and labor, work stoppages, labor disputes, weather interference, unforeseen engineering, environmental or geological problems and unanticipated cost increases, any of which can give rise to delays or cost overruns. Construction, equipment or staffing requirements or problems or difficulties in obtaining any of the requisite licenses, permits, allocations or authorizations from regulatory authorities can increase the cost or delay the construction or opening of the facility or otherwise affect the project's planned design and features. It is possible that we may change budget and construction plans we have developed for a project for competitive or other reasons.

In addition to all of the risks referred to in the preceding paragraph, the Detroit joint venture's construction of its planned permanent facility is dependent on the acquisition of the proposed permanent site and the satisfactory resolution of the litigation described in the documents we have incorporated by reference. Accordingly, there can be no assurance as to the commencement or successful completion of any project we or any joint venture in which we are a participant may undertake, including the Detroit joint venture's planned hotel-casino.

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference in this prospectus include forward-looking statements. We have based these forward-looking statements on our current expectations about future events. These forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, intentions, financial condition, results of operations, future performance and business, including:

- statements relating to our business strategy;
- our current and future development plans; and
- statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan" or similar expressions.

These forward-looking statements are subject to risks, uncertainties, and assumptions about us and our operations that are subject to change based on various important factors, some of which are beyond our control. The following factors, among others, could cause our financial performance to differ materially from the goals, plans, objectives, intentions and expectations expressed in such forward-looking statements:

our development and construction activities and those of the joint ventures in which we participate;

competition;

our dependence on existing management;

leverage and debt service (including sensitivity to fluctuations in interest rates and ratings which national rating agencies assign to our outstanding debt securities);

domestic and global economic, credit and capital market conditions;

changes in federal or state tax laws or the administration of these laws;

changes in gaming laws or regulations (including the legalization or expansion of gaming in certain jurisdictions);

expansion of gaming on Native American lands, including lands in California;

applications for licenses and approvals under applicable laws and regulations (including gaming laws and regulations);

regulatory or judicial proceedings, including those relating to our Detroit joint venture property;

the consequences of any future security alerts and/or terrorist attacks such as the attacks that occurred on September 11, 2001; and

certain risks described in the section "Risk Factors" in this prospectus.

If one or more of the assumptions underlying our forward-looking statements proves incorrect, then our actual results, performance or achievements in our fiscal 2002 and beyond could differ materially from those expressed in, or implied by, the forward-looking statements contained or incorporated by reference in this prospectus. Therefore, we caution you not to place undue reliance on our forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether written or oral, whether as a result of new information, changed assumptions, the occurrence of unanticipated events, changes in future operating results over time or otherwise. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

USE OF PROCEEDS

We will not receive any proceeds from the exchange of the exchange notes for the old notes pursuant to the exchange offer.

We used the aggregate net proceeds from the offering of the old notes, which were approximately $292.3 million after deducting fees and expenses associated with the offering, to repay the entire amount of our indebtedness under our $150 million capital markets term loan facility and a portion of the outstanding debt under our $850 million revolving credit facility.

CAPITALIZATION

The following table sets forth our capitalization at October 31, 2001:

- on a historical basis; and
- as adjusted after giving effect to the offering of the old notes and the application of the net proceeds of approximately $292.3 million.

You should read this information together with the information in the section "Use of Proceeds" in this prospectus and the audited consolidated financial statements and related notes for the fiscal year ended January 31, 2001 and the unaudited condensed consolidated financial statements and related notes for the nine months ended October 31, 2001 incorporated by reference in this prospectus.

	October 31, 2001	
	Actual	As Adjusted
	(Unaudited) (Dollars in thousands)	
Cash and cash equivalents	$ 100,595	$ 100,595
Current portion of long-term debt	$ 37,251	$ 37,251
Long-term debt:		
Credit facilities (1)	750,000	457,664
Joint venture credit facility (2)	40,000	40,000
6.45% senior notes due 2006	199,813	199,813
9 1/2% senior notes due 2008	200,000	200,000
7.00% debentures due 2036	149,904	149,904
6.70% debentures due 2096	149,900	149,900
6 3/4% senior subordinated notes due 2003	149,973	149,973
9 1/4% senior subordinated notes due 2005	275,000	275,000
10 1/4% senior subordinated notes due 2007	500,000	500,000
7 5/8% senior subordinated debentures due 2013	150,000	150,000
9 3/8% senior subordinated notes due 2010		297,836
Other notes	4,653	4,653
Total long-term debt, net of current portion	2,569,243	2,574,743
Total stockholders' equity	985,437	985,437
Total capitalization	$ 3,591,931	$ 3,597,431

(1) Our credit facilities at October 31, 2001 provided us with a $850 million revolving credit facility, a $250 million term loan facility and a $150 million capital markets term loan facility. A portion of the net proceeds of our offering of the old notes was used to repay the entire amount of our $150 million capital markets term loan facility, thus reducing our borrowing capacity under our two remaining credit facilities to $1.1 billion. As of January 31, 2002, we had $380 million of indebtedness outstanding under our credit facilities.

Our ability to borrow under the credit facilities is subject to our compliance with the covenants in the credit facilities. For additional information, see the section "Description of Other Indebtedness" in this prospectus.

(2) MotorCity Casino is a 53.5%-owned joint venture. Therefore, for financial reporting purposes, MotorCity Casino's credit facility is reflected as an obligation of Mandalay.

DESCRIPTION OF OTHER INDEBTEDNESS

The following is a brief summary of important terms of Mandalay's other material indebtedness:

Credit Facilities

In August 2001, we replaced our $1.8 billion unsecured credit facility, dated May 23, 1997, with three separate facilities that totaled $1.25 billion. These credit facilities included a $150 million capital markets term loan facility which was paid in full using a portion of the net proceeds we received from the issuance of the old notes, thus reducing our borrowing capacity under the two remaining facilities to $1.1 billion. The remaining credit facilities, which are for general corporate purposes, include a $250 million term loan facility, the entire amount of which is currently outstanding, and an $850 million revolving facility, $130 million of which was outstanding at January 31, 2002. Each of our credit facilities is unsecured and provides for the payment of interest, at our option, either at a rate equal to or an increment above the higher of the Bank of America, N.A. "prime rate" and the Federal Reserve Board "Federal Funds Rate" plus 50 basis points or, alternatively, at a Eurodollar-based rate. Each of the credit facilities includes financial covenants regarding our total debt and interest coverage and contains covenants that limit our ability, among other things, to dispose of our assets, make distributions on our capital stock, engage in a merger, incur liens and engage in transactions with our affiliates. The entire principal amount then outstanding under our credit facilities becomes due and payable on August 21, 2006, unless the maturity date is extended with the consent of the lenders.

Subsequent to October 31, 2001, we amended the covenants under each of our credit facilities to provide for more liberal tests for total debt and interest coverage. These amendments were obtained to address the impact of the events of September 11. The amended covenants were effective with the quarter ended January 31, 2002 and will continue to provide relief through the quarter ending July 31, 2003.

The indebtedness outstanding under our $850 million revolving facility at January 31, 2002 reflects our repayment of a portion of the then outstanding indebtedness under that facility during the fiscal quarter then ended, utilizing approximately $142.3 million of the net proceeds we received from the issuance of the old notes and an additional $128.5 million of net proceeds we received as a result of sale lease-back transactions we consummated subsequent to the issuance of the old notes.

6.45% Senior Notes due 2006

In February 1996, we issued $200 million of 6.45% senior notes due February 1, 2006 in a registered offering. The 6.45% notes are not redeemable prior to their maturity. The 6.45% notes are unsecured senior obligations and rank equally with all of our senior unsecured debt.

9 1/2% Senior Notes due 2008

In August 2000, we issued $200 million aggregate principal amount of 9 1/2% senior notes due 2008 in a private placement. The 9 1/2% notes are redeemable at any time prior to their maturity at a redemption price equal to 100% of their principal amount plus a make-whole premium. The 9 1/2% notes are unsecured senior obligations and rank equally with our other senior debt and senior to our subordinated debt.

7.0% Debentures due 2036

In November 1996, we issued $150 million aggregate principal amount of 7.0% debentures due 2036 in a registered offering. The 7.0% debentures are not redeemable at our option prior to their maturity. The debentures are redeemable at the option of their holders on November 15, 2008 at 100%

of their principal amount plus accrued interest. The 7.0% debentures are unsecured senior obligations and rank equally with all of our senior unsecured debt.

6.70% Debentures due 2096

In November 1996, we issued $150 million aggregate principal amount of 6.70% debentures due 2096 in a registered offering. The 6.70% debentures are not redeemable at our option prior to their maturity. The debentures are redeemable at the option of their holders on November 15, 2003 at 100% of their principal amount plus accrued interest. The 6.70% debentures are unsecured senior obligations and rank equally with all of our senior unsecured debt.

6 3/4% Senior Subordinated Notes due 2003

In July 1993, we issued $150 million aggregate principal amount of 6 3/4% senior subordinated notes due 2003 in a registered offering. The 6 3/4% notes are not redeemable prior to their maturity. The 6 3/4% notes are unsecured senior subordinated obligations and rank junior to all of our senior debt.

9 1/4% Senior Subordinated Notes due 2005

In November 1998, we issued $275 million aggregate principal amount of 9 1/4% senior subordinated notes due 2005 in a registered offering. The 9 1/4% notes are redeemable at any time prior to their maturity at the redemption prices described in the indenture governing the 9 1/4% notes. The 9 1/4% notes are unsecured senior subordinated obligations and rank junior to all of our senior debt.

10 1/4% Senior Subordinated Notes due 2007

In July 2000, we issued $500 million aggregate principal amount of 10 1/4% senior subordinated notes due 2007 in a private placement. The 10 1/4% notes are redeemable at any time prior to their maturity at a redemption price equal to 100% of their principal amount plus a make-whole premium. The 10 1/4% notes are unsecured senior subordinated obligations and rank junior to all of our senior debt.

7 5/8% Senior Subordinated Debentures due 2013

In July 1993, we issued $150 million aggregate principal amount of 7 5/8% senior subordinated debentures due 2013 in a registered offering. The 7 5/8% debentures are not redeemable prior to their maturity. The 7 5/8% debentures are unsecured senior subordinated obligations and rank junior to all of our senior debt.

Commercial Paper Program

We have a $1 billion commercial paper program. To the extent that we incur debt under this program, we must maintain an equivalent amount of credit available under our revolving credit facility. We have borrowed under the program for various periods since it was established. At October 31, 2001, we did not have any outstanding borrowings under the commercial paper program.

THE EXCHANGE OFFER

General

As of the date of this prospectus, $300 million in principal amount of the old notes is outstanding. This prospectus, together with the letter of transmittal, is first being sent to holders on , 2002.

Purpose of the Exchange Offer

We issued the old notes on December 20, 2001 in a transaction exempt from the registration requirements of the Securities Act of 1933 (the "Securities Act"). Accordingly, the old notes may not be reoffered, resold, or otherwise transferred unless so registered or unless an applicable exemption from the registration and prospectus delivery requirements of the Securities Act is available.

In connection with the sale of the old notes, we entered into a registration rights agreement, which requires us to:

- file a registration statement with the Securities and Exchange Commission (the "Commission") relating to the exchange offer not later than 60 days after the date of issuance of the old notes;
- to cause the registration statement relating to the exchange offer to become effective under the Securities Act within 120 days after the date of issuance of the old notes; and
- to complete the exchange offer within 150 days from the original issuance of the old notes or, if obligated to file a shelf registration statement, to use our best efforts to cause the shelf registration statement to be declared effective by the 90th day after the shelf registration statement is filed with the Commission. We have filed a copy of the registration rights agreement as an exhibit to the registration statement of which this prospectus is a part.

We are making the exchange offer to satisfy our obligations under the registration rights agreement. Other than pursuant to the registration rights agreement, we are not required to file any registration statement to register any outstanding old notes. Holders of old notes who do not tender their old notes or whose old notes are tendered but not accepted in the exchange offer must rely on an exemption from the registration requirements under the securities laws, including the Securities Act, if they wish to sell their old notes.

We are making the exchange offer in reliance on the position of the staff of the Commission as set forth in interpretive letters addressed to third parties in other transactions. However, we have not sought our own interpretive letter and we can provide no assurance that the staff would make a similar determination with respect to the exchange offer as it has in interpretive letters to third parties. Based on these interpretations by the staff, we believe that the exchange notes issued in the exchange offer in exchange for old notes may be offered for resale, resold and otherwise transferred by a holder other than any holder who is a broker-dealer or an "affiliate" of ours within the meaning of Rule 405 of the Securities Act, without further compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:

- the exchange notes are acquired in the ordinary course of the holder's business;
- the holder has no arrangement or understanding with any person to participate in the distribution of the exchange notes; and
- the holder is not engaged in, and does not intend to engage in a distribution of the exchange notes.

For additional information, see the discussion in this section under the subheading "Resale of Exchange Notes." Each broker-dealer that receives exchange notes for its own account in exchange for

old notes, where the broker-dealer acquired the old notes as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. For additional information, see the section "Plan of Distribution" in this prospectus.

Terms of the Exchange

We are offering to exchange, subject to the conditions described in this prospectus and in the letter of transmittal accompanying this prospectus, $1,000 in principal amount of exchange notes for each $1,000 in principal amount of the old notes. The terms of the exchange notes are identical in all material respects to the terms of the old notes, except that the exchange notes will generally be freely transferable by holders of the exchange notes and will not be subject to the terms of the registration rights agreement. The exchange notes will evidence the same indebtedness as the old notes exchanged therefor and will be entitled to the benefits of the indenture. For additional information, see the section "Description of the Exchange Notes" in this prospectus.

The exchange offer is not conditioned upon the tender of any minimum principal amount of old notes.

We have not requested, and do not intend to request, an interpretation by the staff of the Commission as to whether the exchange notes issued in exchange for the old notes may be offered for sale, resold or otherwise transferred by any holder without compliance with the registration and prospectus delivery provisions of the Securities Act. Instead, based on an interpretation by the staff of the Commission set forth in a series of no-action letters issued to third parties, we believe that exchange notes issued in the exchange offer in exchange for old notes may be offered for sale, resold and otherwise transferred by any holder of exchange notes, other than any holder that is a broker-dealer or is an "affiliate" of ours within the meaning of Rule 405 under the Securities Act, without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:

- the exchange notes are acquired in the ordinary course of the holder's business;
- the holder has no arrangement or understanding with any person to participate in the distribution of the exchange notes; and
- the holder is not engaged in, and does not intend to engage in a distribution of the exchange notes.

Since the Commission has not considered the exchange offer in the context of a no-action letter, we can provide no assurance that the staff of the Commission would make a similar determination with respect to the exchange offer. Any holder who is an affiliate of ours or who tenders old notes in the exchange offer for the purpose of participating in a distribution of the exchange notes cannot rely on the interpretation by the staff of the Commission and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Each holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of exchange notes. Each broker-dealer that receives exchange notes for its own account in exchange for old notes, where the broker-dealer acquired the old notes as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. For additional information, see the section "Plan of Distribution" in this prospectus.

The exchange notes will accrue interest from the last interest payment date on which interest was paid on the old notes or, if no interest was paid on the old notes, from the date of issuance of the old notes, which was on December 20, 2001. Holders whose old notes are accepted for exchange will be deemed to have waived the right to receive any interest accrued on the old notes.

Tendering holders of the old notes will not be required to pay brokerage commissions or fees or, transfer taxes, except as specified in the instructions in the letter of transmittal, with respect to the exchange of the old notes in the exchange offer.

Expiration Date; Extension; Termination; Amendment

The exchange offer will expire at 5:00 p.m., New York City time, on , 2002, unless we, in our sole discretion, have extended the period of time for which the exchange offer is open. The time and date, as it may be extended, is referred to herein as the "expiration date." The expiration date will be at least 20 business days after the commencement of the exchange offer in accordance with Rule 14e-1(a) under the Exchange Act. We expressly reserve the right, at any time or from time to time, to extend the period of time during which the exchange offer is open, and thereby delay acceptance for exchange of any old notes. We will extend the expiration date by giving oral or written notice of the extension to the exchange agent and by timely public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date. During the extension, all old notes previously tendered will remain subject to the exchange offer unless properly withdrawn.

We expressly reserve the right to:

- terminate or amend the exchange offer and not to accept for exchange any old notes not previously accepted for exchange upon the occurrence of any of the events specified in this section under the subheading "Certain Conditions to the Exchange Offer" which have not been waived by us; and
- amend the terms of the exchange offer in any manner which, in our good faith judgment, is advantageous to the holders of the old notes, whether before or after any tender of the old notes.

If any termination or amendment occurs, we will notify the exchange agent and will either issue a press release or give oral or written notice to the holders of the old notes as promptly as practicable.

For purposes of the exchange offer, a "business day" means any day other than Saturday, Sunday or a date on which banking institutions are required or authorized by New York State law to be closed, and consists of the time period from 12:01 a.m. through 12:00 midnight, New York City time. Unless we terminate the exchange offer prior to 5:00 p.m., New York City time, on the expiration date, we will exchange the exchange notes for the old notes promptly following the expiration date.

Procedures For Tendering Old Notes

Our acceptance of old notes tendered by a holder will constitute a binding agreement between the tendering holder and us upon the terms and subject to the conditions described in this prospectus and in the accompanying letter of transmittal. All references in this prospectus to the letter of transmittal are deemed to include a facsimile of the letter of transmittal.

A holder of old notes may tender the old notes by:

properly completing and signing the letter of transmittal;

properly completing any required signature guarantees;

properly completing any other documents required by the letter of transmittal; and

delivering all of the above, together with the certificate or certificates representing the old notes being tendered, to the exchange agent at its address set forth below on or prior to the expiration date; or

complying with the procedure for book-entry transfer described below; or

complying with the guaranteed delivery procedures described below.

The method of delivery of old notes, letters of transmittal and all other required documents is at the election and risk of the holders. If the delivery is by mail, it is recommended that registered mail properly insured, with return receipt requested, be used. In all cases, sufficient time should be allowed to ensure timely delivery. Holders should not send old notes or letters of transmittal to us.

The signature on the letter of transmittal need not be guaranteed if:

tendered old notes are registered in the name of the signer of the letter of transmittal; and

the exchange notes to be issued in exchange for the old notes are to be issued in the name of the holder; and

any untendered old notes are to be reissued in the name of the holder.

In any other case, the tendered old notes must be:

endorsed or accompanied by written instruments of transfer in form satisfactory to us;

duly executed by the holder; and

the signature on the endorsement or instrument of transfer must be guaranteed by a bank, broker, dealer, credit union, savings association, clearing agency or other institution, each an "eligible institution" that is a member of a recognized signature guarantee medallion program within the meaning of Rule 17Ad-15 under the Exchange Act.

If the exchange notes and/or old notes not exchanged are to be delivered to an address other than that of the registered holder appearing on the note register for the old notes, the signature in the letter of transmittal must be guaranteed by an eligible institution.

The exchange agent will make a request within two business days after the date of receipt of this prospectus to establish accounts with respect to the old notes at The Depository Trust Company, the "book-entry transfer facility," for the purpose of facilitating the exchange offer. We refer to the Depository Trust Company in this prospectus as "DTC." Subject to establishing the accounts, any financial institution that is a participant in the book-entry transfer facility's system may make book-entry delivery of old notes by causing the book-entry transfer facility to transfer the old notes into the exchange agent's account with respect to the old notes in accordance with the book-entry transfer facility's procedures for the transfer. Although delivery of old notes may be effected through book-entry transfer into the exchange agent's account at the book-entry transfer facility, an appropriate letter of transmittal with any required signature guarantee and all other required documents, or an agent's message, must in each case be properly transmitted to and received or confirmed by the exchange agent at its address set forth below prior to the expiration date, or, if the guaranteed delivery procedures described below are complied with, within the time period provided under such procedures.

The exchange agent and DTC have confirmed that the exchange offer is eligible for the DTC Automated Tender Offer Program. We refer to the Automated Tender Offer Program in this prospectus as "ATOP." Accordingly, DTC participants may, in lieu of physically completing and signing the letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of the exchange offer by causing DTC to transfer old notes to the exchange agent in accordance with DTC's ATOP procedures for transfer. DTC will then send an agent's message.

The term "agent's message" means a message which:

is transmitted by DTC;

received by the exchange agent and forming part of the book-entry transfer;

states that DTC has received an express acknowledgment from a participant in DTC that is tendering old notes which are the subject of the book-entry transfer;

states that the participant has received and agrees to be bound by all of the terms of the letter of transmittal; and

states that we may enforce the agreement against the participant.

If a holder desires to accept the exchange offer and time will not permit a letter of transmittal or old notes to reach the exchange agent before the expiration date or the procedure for book-entry transfer cannot be completed on a timely basis, the holder may effect a tender if the exchange agent has received at its address set forth below on or prior to the expiration date, a letter, telegram or facsimile transmission, and an original delivered by guaranteed overnight courier, from an eligible institution setting forth:

the name and address of the tendering holder;

the names in which the old notes are registered and, if possible, the certificate numbers of the old notes to be tendered; and

a statement that the tender is being made thereby and guaranteeing that within three business days after the expiration date, the old notes in proper form for transfer, or a confirmation of book-entry transfer of such old notes into the exchange agent's account at the book-entry transfer facility and an agent's message, will be delivered by the eligible institution together with a properly completed and duly executed letter of transmittal and any other required documents.

Unless old notes being tendered by the above-described method are deposited with the exchange agent, a tender will be deemed to have been received as of the date when:

the tendering holder's properly completed and duly signed letter of transmittal, or a properly transmitted agent's message, accompanied by the old notes or a confirmation of book-entry transfer of the old notes into the exchange agent's account at the book-entry transfer facility is received by the exchange agent; or

a notice of guaranteed delivery or letter, telegram or facsimile transmission to similar effect from an eligible institution is received by the exchange agent.

Issuances of exchange notes in exchange for old notes tendered pursuant to a notice of guaranteed delivery or letter, telegram or facsimile transmission to similar effect by an eligible institution will be made only against deposit of the letter of transmittal and any other required documents and the tendered old notes or a confirmation of book-entry and an agent's message.

All questions as to the validity, form, eligibility, including time of receipt, and acceptance of old notes tendered for exchange will be determined by us in our sole discretion, which determination will be final and binding. We reserve the absolute right to reject any and all tenders of any old notes not properly tendered or not to accept any old notes which acceptance might, in our judgment or the judgment of our counsel, be unlawful. We also reserve the absolute right to waive any defects or irregularities or conditions of the exchange offer as to any old notes either before or after the expiration date, including the right to waive the ineligibility of any holder who seeks to tender old notes in the exchange offer. The interpretation of the terms and conditions of the exchange offer, including the letter of transmittal and the instructions contained in the letter of transmittal, by us will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of old notes for exchange must be cured within such reasonable period of time as we determine. Neither we, the exchange agent nor any other person has any duty to give notification of any defect or irregularity with respect to any tender of old notes for exchange, nor will any of us incur any liability for failure to give such notification.

If the letter of transmittal is signed by a person or persons other than the registered holder or holders of old notes, the old notes must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders appear on the old notes.

If the letter of transmittal or any old notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and, unless waived by us, such persons must submit proper evidence satisfactory to us of their authority to so act.

By tendering, each holder represents to us that, among other things:

the exchange notes acquired pursuant to the exchange offer are being acquired in the ordinary course of business of the holder;

the holder is not participating, does not intend to participate, and has no arrangement or understanding with any person to participate, in the distribution of the exchange notes; and

the holder is not an "affiliate," as defined under Rule 405 of the Securities Act, of ours.

Each broker-dealer that receives exchange notes for its own account in exchange for old notes, where the broker-dealer acquired the old notes as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. For additional information, see the section "Plan of Distribution" in this prospectus.

Terms and Conditions of the Letter of Transmittal

The letter of transmittal contains, among other things, the following terms and conditions, which are part of the exchange offer.

The party tendering old notes for exchange exchanges, assigns and transfers the old notes to us and irrevocably constitutes and appoints the exchange agent as his agent and attorney-in-fact to cause the old notes to be assigned, transferred and exchanged. We refer to the party tendering notes herein as the "transferor." The transferor represents and warrants that it has full power and authority to tender, exchange, assign and transfer the old notes and to acquire exchange notes issuable upon the exchange of the tendered old notes, and that, when the same are accepted for exchange, we will acquire good and unencumbered title to the tendered old notes, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim. The transferor also warrants that it will, upon request, execute and deliver any additional documents deemed by the exchange agent or us to be necessary or desirable to complete the exchange, assignment and transfer of tendered old notes or transfer ownership of such old notes on the account books maintained by a book-entry transfer facility. The transferor further agrees that acceptance of any tendered old notes by us and the issuance of exchange notes in exchange for old notes will constitute performance in full by us of various of our obligations under the registration rights agreement. All authority conferred by the transferor will survive the death or incapacity of the transferor and every obligation of the transferor will be binding upon the heirs, legal representatives, successors, assigns, executors and administrators of the transferor.

The transferor certifies that it is not an "affiliate" of ours within the meaning of Rule 405 under the Securities Act and that it is acquiring the exchange notes offered hereby in the ordinary course of the transferor's business and that the transferor has no arrangement with any person to participate in the distribution of the exchange notes.

Each holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of exchange notes. Each transferor which is a broker-dealer receiving exchange notes for its own account must acknowledge that it will deliver a prospectus in connection

with any resale of the exchange notes. By so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

Withdrawal Rights

Tenders of old notes may be withdrawn at any time prior to the expiration date.

For a withdrawal to be effective, a written notice of withdrawal sent by telegram, facsimile transmission, with receipt confirmed by telephone, or letter must be received by the exchange agent at the address set forth in this prospectus prior to the expiration date. Any notice of withdrawal must:

specify the name of the person having tendered the old notes to be withdrawn;

identify the old notes to be withdrawn, including the certificate number or numbers and principal amount of such old notes;

specify the principal amount of old notes to be withdrawn;

include a statement that the holder is withdrawing his election to have the old notes exchanged;

be signed by the holder in the same manner as the original signature on the letter of transmittal by which the old notes were tendered or as otherwise described above, including any required signature guarantees, or be accompanied by documents of transfer sufficient to have the trustee under the indenture register the transfer of the old notes into the name of the person withdrawing the tender; and

specify the name in which any such old notes are to be registered, if different from that of the person who tendered the old notes.

The exchange agent will return the properly withdrawn old notes promptly following receipt of the notice of withdrawal. If old notes have been tendered pursuant to the procedure for book-entry transfer, any notice of withdrawal must specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn old notes or otherwise comply with the book-entry transfer facility procedure. All questions as to the validity of notices of withdrawals, including time of receipt, will be determined by us and our determination will be final and binding on all parties.

Any old notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any old notes which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder without cost to the holder. In the case of old notes tendered by book-entry transfer into the exchange agent's account at the book-entry transfer facility pursuant to the book-entry transfer procedures described above, the old notes will be credited to an account with the book-entry transfer facility specified by the holder. In either case, the old notes will be returned as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn old notes may be retendered by following one of the procedures described in this section under the subheading "Procedures for Tendering Old Notes" at any time prior to the expiration date.

Acceptance of Old Notes for Exchange; Delivery of Exchange Notes

Upon satisfaction or waiver of all of the conditions to the exchange offer, we will accept, on the expiration date, all old notes properly tendered and will issue the exchange notes promptly after such acceptance. See the discussion in this section under the subheading "Certain Conditions to the Exchange Offer" for more detailed information. For purposes of the exchange offer, we will be deemed to have accepted properly tendered old notes for exchange when, and if, we have given oral or written notice of our acceptance to the exchange agent.

For each old note accepted for exchange, the holder of the old note will receive an exchange note having a principal amount equal to that of the surrendered old note.

In all cases, issuance of exchange notes for old notes that are accepted for exchange pursuant to the exchange offer will be made only after:

timely receipt by the exchange agent of certificates for the old notes or a timely book-entry confirmation of the old notes into the exchange agent's account at the book-entry transfer facility;

a properly completed and duly executed letter of transmittal, or a properly transmitted agent's message; and

timely receipt by the exchange agent of all other required documents.

If any tendered old notes are not accepted for any reason described in the terms and conditions of the exchange offer or if old notes are submitted for a greater principal amount than the holder desires to exchange, the unaccepted or nonexchanged old notes will be returned without expense to the tendering holder of the old notes. In the case of old notes tendered by book-entry transfer into the exchange agent's account at the book-entry transfer facility pursuant to the book-entry transfer procedures described above, the non-exchanged old notes will be credited to an account maintained with the book-entry transfer facility. In either case, the old notes will be returned as promptly as practicable after the expiration of the exchange offer.

Certain Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, or any extension of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any old notes and may terminate or amend the exchange offer, by oral or written notice to the exchange agent or by a timely press release, if at any time before the acceptance of the old notes for exchange or the exchange of the exchange notes for such old notes, any of the following conditions exist:

any action or proceeding is instituted or threatened in any court or by or before any governmental agency with respect to the exchange offer which, in our judgment would reasonably be expected to impair our ability to proceed with the exchange offer; or

the exchange offer, or the making of any exchange by a holder, violates applicable law or any applicable interpretation of the staff of the Commission.

Regardless of whether any of the conditions has occurred, we may amend the exchange offer in any manner which, in our good faith judgment, is advantageous to holders of the old notes.

The conditions described above are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to the condition or we may waive any condition in whole or in part at any time and from time to time in our sole discretion. Our failure at any time to exercise any of the rights described above will not be deemed a waiver of the right and each right will be deemed an ongoing right which we may assert at any time and from time to time.

If we waive or amend the conditions above, we will, if required by law, extend the exchange offer for a minimum of five business days from the date that we first give notice, by public announcement or otherwise, of the waiver or amendment, if the exchange offer would otherwise expire within the five business-day period. Any determination by us concerning the events described above will be final and binding upon all parties.

The exchange offer is not conditioned upon any minimum principal amount of old notes being tendered.

Exchange Agent

The Bank of New York has been appointed as the exchange agent for the exchange offer. All executed letters of transmittal should be directed to the exchange agent at one of the addresses set forth below:

By Registered or Certified Mail:	*Facsimile Transactions:*	*By Hand or Overnight Delivery:*
The Bank of New York	(Eligible Institutions Only)	The Bank of New York
15 Broad Street, 16th Floor	(212) 235-2261	15 Broad Street
New York, New York 10286	*To Confirm by Telephone or for Information Call:*	Corporate Trust Services Window
Attn: William Buckley	(212) 235-2352	Lobby Level
Reorganization Unit		New York, New York 10286
		Attn: William Buckley
		Reorganization Unit

You should direct questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery to the exchange agent at the address and telephone number set forth in the letter of transmittal.

Delivery to an address other than as set forth on the letter of transmittal, or transmissions of instructions via a facsimile number other than the one set forth on the letter of transmittal, will not constitute a valid delivery.

Solicitation of Tenders; Fees and Expenses

We have not retained any dealer-manager in connection with the exchange offer and will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offer. We, however, will pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses in connection therewith. We will also pay brokerage houses and other custodians,

nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of this and other related documents to the beneficial owners of the old notes and in handling or forwarding tenders for their customers.

We will pay the estimated cash expenses to be incurred in connection with the exchange offer. We estimate the expenses to be approximately $125,000, which includes fees and expenses of the exchange agent and trustee, registration fees, and accounting, legal, printing and related fees and expenses.

No person has been authorized to give any information or to make any representations in connection with the exchange offer other than those contained in this prospectus. If given or made, such information or representations should not be relied upon as having been authorized by us. Neither the delivery of this prospectus nor any exchange made pursuant to this prospectus, under any circumstances, creates any implication that there has been no change in our affairs since the respective dates as of which information is given in this prospectus. The exchange offer is not being made to, and tenders will not be accepted from or on behalf of, holders of old notes in any jurisdiction in which the making of the exchange offer or the acceptance of the exchange offer would not be in compliance with the laws of the jurisdiction. However, we may, at our discretion, take such action as we may deem necessary to make the exchange offer in the jurisdiction and extend the exchange offer to holders of old notes in the jurisdiction. In any jurisdiction the securities laws or blue sky laws of which require the exchange offer to be made by a licensed broker or dealer, the exchange offer is being made on our behalf by one or more registered brokers or dealers which are licensed under the laws of the jurisdiction.

Transfer Taxes

We will pay all transfer taxes, if any, applicable to the exchange of old notes pursuant to the exchange offer. However, the transfer taxes will be payable by the tendering holder if:

certificates representing exchange notes or old notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of the old notes tendered; or

tendered old notes are registered in the name of any person other than the person signing the letter of transmittal; or

a transfer tax is imposed for any reason other than the exchange of old notes pursuant to the exchange offer.

We will bill the amount of the transfer taxes directly to the tendering holder if satisfactory evidence of payment of the taxes or exemption therefrom is not submitted with the letter of transmittal.

Accounting Treatment

For accounting purposes, we will not recognize gain or loss upon the exchange of the exchange notes for old notes. We will amortize expenses incurred in connection with the issuance of the exchange notes over the term of the exchange notes.

Consequences Of Failure To Exchange

Holders of old notes who do not exchange their old notes for exchange notes pursuant to the exchange offer will continue to be subject to the restrictions on transfer of the old notes as described in the legend on the old notes. Old notes not exchanged pursuant to the exchange offer will continue to remain outstanding in accordance with their terms. In general, the old notes may not be offered or sold unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently anticipate that we will register the old notes under the Securities Act.

Participation in the exchange offer is voluntary, and holders of old notes should carefully consider whether to participate. Holders of old notes are urged to consult their financial and tax advisors in making their own decision on what action to take.

As a result of the making of, and upon acceptance for exchange of all validly tendered old notes pursuant to the terms of, this exchange offer, we will have fulfilled a covenant contained in the registration rights agreement. Holders of old notes who do not tender their old notes in the exchange offer will continue to hold the old notes and will be entitled to all the rights and limitations applicable to the old notes under the

indenture, except for any rights under the registration rights agreement that by their terms terminate or cease to have further effectiveness as a result of the making of this exchange offer. All untendered old notes will continue to be subject to the restrictions on transfer described in the indenture. To the extent that old notes are tendered and accepted in the exchange offer, the trading market for untendered old notes could be adversely affected.

We may in the future seek to acquire, subject to the terms of the indenture, untendered old notes in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plan to acquire any old notes which are not tendered in the exchange offer.

Resale of Exchange Notes

We are making the exchange offer in reliance on the position of the staff of the Commission as set forth in interpretive letters addressed to third parties in other transactions. However, we have not

sought our own interpretive letter and we can provide no assurance that the staff would make a similar determination with respect to the exchange offer as it has in such interpretive letters to third parties. Based on these interpretations by the staff, we believe that the exchange notes issued pursuant to the exchange offer in exchange for old notes may be offered for resale, resold and otherwise transferred by a holder, other than any holder who is a broker-dealer or an "affiliate" of ours within the meaning of Rule 405 of the Securities Act, without further compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:

- the exchange notes are acquired in the ordinary course of the holder's business; and
- the holder is not participating, and has no arrangement or understanding with any person to participate, in a distribution of the exchange notes.

However, any holder who is:

- an "affiliate" of ours;
- who has an arrangement or understanding with respect to the distribution of the exchange notes to be acquired pursuant to the exchange offer; or
- any broker-dealer who purchased old notes from us to resell pursuant to Rule 144A or any other available exemption under the Securities Act,

could not rely on the applicable interpretations of the staff and must comply with the registration and prospectus delivery requirements of the Securities Act. A broker-dealer who holds old notes that were acquired for its own account as a result of market-making or other trading activities may be deemed to be an "underwriter" within the meaning of the Securities Act and must, therefore, deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of exchange notes. Each such broker-dealer that receives exchange notes for its own account in exchange for old notes, where the broker-dealer acquired the old notes as a result of market-making activities or other trading activities, must acknowledge, as provided in the letter of transmittal, that it will deliver a prospectus in connection with any resale of such exchange notes. For more detailed information, see the section "Plan of Distribution" in this prospectus.

In addition, to comply with the securities laws of various jurisdictions, if applicable, the exchange notes may not be offered or sold unless they have been registered or qualified for sale in the jurisdiction or an exemption from registration or qualification is available and is complied with. We have agreed, pursuant to the registration rights agreement and subject to specified limitations therein, to register or qualify the exchange notes for offer or sale under the securities or blue sky laws of the jurisdictions as any holder of the exchange notes reasonably requests. The registration or qualification may require the imposition of restrictions or conditions, including suitability requirements for offerees or purchasers, in connection with the offer or sale of any exchange notes.

Shelf Registration Statement

If:

- any changes in law or the applicable interpretations of the staff of the Commission do not permit us to effect the exchange offer; or
- for any reason the exchange offer is not consummated within 150 days following the date of original issuance of the old notes; or
- any holder of the old notes, other than the initial purchasers, is not eligible to participate in the exchange offer; or
- upon the request of any initial purchaser under specified circumstances,

we will, at, our cost:

- as promptly as practicable, file the shelf registration statement covering resales of the old notes;
- use our best efforts to cause the shelf registration statement to be declared effective under the Securities Act within 90 days after the shelf registration statement is filed with the Commission; and
- use our best efforts to keep the shelf registration statement effective until two years after its effective date or until one year after the effective date if the shelf registration statement is filed at the request of any initial purchaser.

We will, in the event of the filing of a shelf registration statement, provide to each holder of the old notes copies of the prospectus which is a part of the shelf registration statement, notify each holder when the shelf registration statement for the old notes has become effective and take other actions as are required to permit unrestricted resales of the old notes. A holder of old notes that sells the old notes pursuant to the shelf registration statement generally:

- will be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers;
- will be subject to some of the civil liability provisions under the Securities Act in connection with the sales; and
- will be bound by the provisions of the registration rights agreement which are applicable to the holder, including specified indemnification obligations.

In addition, each holder of the old notes will be required to deliver information to be used in connection with the shelf registration statement and to provide comments on the shelf registration statement within the time periods specified in the registration rights agreement in order to have their old notes included in the shelf registration statement and to benefit from the provisions regarding liquidated damages described below.

Liquidated Damages

The registration rights agreement states that if:

(a)

the exchange offer registration statement is not filed with the Commission on or prior to the 60th calendar day following the date of original issue of the old notes;

(b) the exchange offer registration statement is not declared effective on or prior to the 120th calendar day following the date of original issue of the old notes; or

(c) the exchange offer is not consummated or a shelf registration statement is not declared effective, in either case, on or prior to the 150th calendar day following the date of original issue of the old notes,

the interest rate borne by the old notes will increase by 0.25% per year upon the occurrence of any of the events described in (a) through (c) above, each of which will constitute a registration default. The interest rate will continue to increase by 0.25% each 90-day period that a registration default continues, provided that the maximum aggregate increase in the interest rate will in no event exceed one percent (1%) per year. We refer to this increase in the interest rate on the old notes as "Additional Interest." Following the cure of all registration defaults, the accrual of Additional Interest will cease and the interest rate will revert to the original rate. The registration statement of which this prospectus is a part was filed within the 60-day period specified in (a) above.

DESCRIPTION OF THE EXCHANGE NOTES

You can find the definitions of certain terms used in this description in this section under the subheading "Certain Definitions." In this description, the word "Mandalay" refers only to Mandalay Resort Group and not to any of its subsidiaries. The term "exchange notes" refers to the 9$^{3}/_{8}$% Senior Subordinated Notes due 2010 offered pursuant to this prospectus. The term "notes" refers to the old notes and the exchange notes collectively.

Mandalay will issue the exchange notes under an indenture between itself and The Bank of New York, as trustee. The terms of the exchange notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939.

The following description is a summary of the material provisions of the indenture. It does not restate the indenture in its entirety. We urge you to read the indenture because the indenture, and not this description, defines your rights as holders of the exchange notes. A copy of the indenture is filed as an exhibit to the registration statement of which this prospectus is a part.

Ranking

The exchange notes will be:

- unsecured general obligations of Mandalay;
- junior in right of payment to all existing and future Senior Debt of Mandalay; and
- equal in right of payment with all existing and future senior subordinated Debt of Mandalay.

The exchange notes will effectively rank junior to all liabilities of Mandalay's subsidiaries, including trade payables.

After giving effect to the issuance of the old notes and the application of the net proceeds, Mandalay would have had approximately $1.2 billion of Senior Debt outstanding at October 31, 2001 and Mandalay's subsidiaries would have had approximately $592.2 million of indebtedness outstanding at October 31, 2001, excluding any indebtedness included in Senior Debt. The indenture will permit Mandalay and its subsidiaries to incur additional Debt, including the incurrence of additional Senior Debt by Mandalay.

Principal, Maturity and Interest

Mandalay will issue exchange notes with a maximum aggregate principal amount of $300 million. Mandalay will issue the exchange notes in denominations of $1,000 and integral multiples of $1,000. The exchange notes will mature on February 15, 2010.

Interest on the exchange notes will accrue at the annual rate of 9 3/8%. Interest will be payable semiannually in arrears on February 15 and August 15, beginning on August 15, 2002. Mandalay will make each interest payment to the holders of record of the notes on the immediately preceding February 1 and August 1.

Interest on the exchange notes will accrue from the last interest payment date on which interest was paid on the old notes, or, if no interest was paid on the old notes, from the date of issuance of the old notes, which was December 20, 2001. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Redemption

Except as provided below, Mandalay may not redeem the exchange notes prior to maturity. Prior to maturity, upon not less than 30 nor more than 60 days' notice, Mandalay may redeem the notes in whole but not in part at a redemption price equal to 100% of the principal amount of the notes plus the Make-Whole Premium, together with accrued and unpaid interest thereon, if any, to the applicable redemption date.

"*Make-Whole Premium*" means, with respect to any note at any redemption date, the excess, if any, of (a) the present value of the sum of the principal amount that would be payable on such note at maturity and all remaining interest payments (not including any portion of such payments of interest accrued as of the redemption date) to and including February 15, 2010 discounted on a semi-annual bond equivalent basis from February 15, 2010 to the redemption date at a per annum interest rate equal to the sum of the Treasury Yield (determined on the business day immediately preceding the date of such redemption), plus 50 basis points, over (b) the principal amount of the note being redeemed.

"*Treasury Yield*" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled by and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two business days prior to the date fixed for redemption (or, if such Statistical Release is no longer published, any publicly available source of similar data)) most nearly equal to the then remaining average life of the notes, provided that if the average life of the notes is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury yield shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the average life of the notes is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Notice

Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes at its registered address. If the notes are called for redemption, they will become due on the date fixed for redemption. On and after the redemption date, interest will cease to accrue on the notes, unless Mandalay defaults in providing the funds for the redemption, and the notes will no longer be outstanding.

Mandatory Redemption

Mandalay will not be required to make any mandatory sinking fund payments with respect to the exchange notes.

Mandatory Disposition Pursuant to Gaming Laws

Each holder, by accepting an exchange note, is deemed to have agreed that if the gaming authority of any jurisdiction in which Mandalay or any of its subsidiaries conducts or proposes to conduct gaming requires that a person who is a holder or the beneficial owner of exchange notes be licensed, qualified or found suitable under applicable gaming laws, the holder or beneficial owner, as the case may be, will apply for a license, qualification or a finding of suitability within the required time period. If the person fails to apply or become licensed or qualified or is found unsuitable, Mandalay will have the right, at its option:

to require the person to dispose of its exchange notes or beneficial interest in the exchange notes within 30 days of receipt of notice of Mandalay's election or any earlier date that the gaming authority may request or prescribe; or

to redeem the exchange notes (possibly within less than 30 days following the notice of redemption if requested or prescribed by the gaming authority) at a redemption price equal to the lesser of:

the person's cost;

100% of the principal amount of the exchange notes, plus accrued and unpaid interest, if any, to the redemption date or the date of any failure to comply, whichever is earlier; and

any other amount as may be required by applicable law or by order of any gaming authority.

Mandalay will notify the trustee in writing of any redemption under these circumstances as soon as practicable. Mandalay will not be responsible for any costs or expenses any holder may incur in connection with its application for a license, qualification or a finding of suitability.

Immediately upon the imposition by any gaming authority of a finding that any holder or beneficial owner dispose of the exchange notes, that holder or beneficial owner will have no further right:

to exercise, directly or indirectly, through any trustee, nominee or any other person or entity, any right conferred by the exchange notes; or

to receive any interest, dividends or any other distributions or payments with respect to the exchange notes, except the redemption price referred to above.

Subordination

The payment of principal, premium and interest, if any, on the exchange notes will be junior in right of payment to the prior payment in full of all current and future Senior Debt of Mandalay.

Upon the maturity of any Senior Debt because of lapse of time, acceleration or otherwise, payment in full must be made on that Senior Debt before the holders of the exchange notes will be entitled to receive any payment with respect to the exchange notes. The holders of Senior Debt will be entitled to receive payment in full of all obligations due on the Senior Debt (including interest after the commencement of any bankruptcy, insolvency or similar proceeding at the rate specified in the applicable Senior Debt, whether or not the interest is an allowed claim in any such proceeding) before the holders of the exchange notes will be entitled to receive any payment with respect to the exchange notes (except that holders of the exchange notes may receive payments made from the trust described in this section under the subheading "Legal Defeasance and Covenant Defeasance"), in the event of any distribution to creditors of Mandalay:

in a liquidation or dissolution or other winding-up or reorganization, whether voluntary or involuntary, of Mandalay;

in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to Mandalay or its property;

in an assignment for the benefit of creditors; or

in any marshaling of Mandalay's assets and liabilities.

Mandalay also may not make any payment in respect of the exchange notes, except from the trust described in this section under the subheading "Legal Defeasance and Covenant Defeasance," if an event of default on Senior Debt occurs and is continuing beyond any applicable grace period that entitles the holders of the Senior Debt to accelerate the maturity of the Senior Debt or if the event of default would be caused by any payment upon or in respect of the exchange notes; *provided*, *however*, that if the event of default is other than a default in payment of any amount due in connection with the Senior Debt, Mandalay will be permitted to continue to make payments of interest on the exchange notes.

If Mandalay makes any payment or distribution to the trustee or any holder of the exchange notes prohibited by the terms of the Senior Debt, the payment will be required to be paid over and delivered to the holders of the Senior Debt or their representatives.

If Mandalay fails to make any payment on the notes when due or within any applicable grace period, whether or not on account of the subordination provisions referred to above, the failure would constitute an Event of Default under the indenture and would enable the holders of the notes to accelerate the maturity of the notes. See the discussion in this section under the subheading "Events of Default."

As a result of the subordination provisions described above, in the event of a bankruptcy, liquidation or reorganization of Mandalay, holders of the notes may recover less, ratably, than creditors of Mandalay who are holders of Senior Debt. See the discussion in the section "Risk Factors" in this prospectus under the caption "The right to receive payments on the notes will be junior to some of our existing and possibly all of our future borrowings."

Additional Covenants of Mandalay

Limitation on Liens

Neither Mandalay nor any subsidiary will issue, assume or guarantee any Debt secured by a Lien upon any Consolidated Property without securing the notes on an equal or ratable basis with (or prior to) the Debt secured by the Lien, for so long as the Debt shall be so secured; *provided, however,* that this limitation will not apply to:

(a) Liens existing on the date of issuance of the old notes;

(b) Liens affecting property of a corporation or other entity existing at the time it becomes a subsidiary of Mandalay or at the time of acquisition through a merger, a consolidation or otherwise by Mandalay or any subsidiary;

(c) Liens on property existing at the time of acquisition or incurred to secure payment of all or part of the purchase price or to secure Debt incurred prior to, at the time of, or within 24 months after the acquisition, for the purpose of financing all or part of the purchase price;

(d) Liens on property to secure all or part of the cost of improvements or construction or Debt incurred to provide funds for that purpose in a principal amount not exceeding the cost of those improvements or construction;

(e) Liens to secure Debt of a subsidiary to Mandalay or to a subsidiary of Mandalay;

(f) Liens to secure Debt of Mandalay, the proceeds of which are used substantially simultaneously to retire Funded Debt;

(g) purchase money security Liens on personal property;

(h) Liens securing Debt of Mandalay, the proceeds of which are used within 24 months for the Project Cost of the construction and development or improvement of a Resort Property;

(i) Liens on the stock, partnership or other equity interest of Mandalay or any subsidiary in any Joint Venture or any subsidiary which owns an equity interest in the Joint Venture to secure Debt, provided the amount of the Debt is contributed and/or advanced solely to the Joint Venture;

(j)

Liens securing Senior Debt;

(k) Liens to any government or governmental body, including the United States or any state, or any department, agency, instrumentality, or political subdivision of any such jurisdiction;

(l) Liens required by any contract or statute in order to permit Mandalay or any subsidiary to perform any contract made by Mandalay or any subsidiary with or at the request of a

governmental entity including the United States or any state, or any department, agency, instrumentality or political subdivision of any such jurisdiction;

(m) mechanic's, materialman's, carrier's or other like Liens, arising in the ordinary course of business;

(n) Liens for taxes and assessments and similar charges either (i) not delinquent or (ii) contested in good faith by appropriate proceedings and to which Mandalay or a subsidiary shall have set aside adequate reserves on its books;

(o) zoning restrictions, easements, licenses, covenants, reservations, restrictions on the use of real property and minor irregularities of title incident thereto which do not in the aggregate materially detract from the value of the property or assets of Mandalay and its subsidiaries taken as a whole or impair the use of such property in the operation of Mandalay's or any of its subsidiary's business; and

(p) any extension, renewal, replacement or refinancing of any Lien referred to in the foregoing clauses (a) through (j) inclusive or of any Debt secured thereby; *provided* that the principal amount of Debt secured thereby shall not exceed the principal amount of Debt so secured at the time of such extension, renewal, replacement or refinancing, and that such extension, renewal, replacement or refinancing Lien shall be limited to all or part of substantially the same property which secured the Lien extended, renewed, replaced or refinanced (plus improvements on such property).

Notwithstanding the foregoing, Mandalay and any of its subsidiaries may, without securing the exchange notes, issue, assume or guarantee Debt which would otherwise be subject to the foregoing restrictions in an aggregate principal amount which, together with all other such Debt of Mandalay and its subsidiaries would otherwise be subject to the foregoing restrictions (not including Debt permitted to be secured under clauses (a) through (j) inclusive above) and the aggregate Value of Sale and Lease-Back Transactions (other than those in connection with which Mandalay has voluntarily retired Funded Debt) does not any one time exceed 15% of Consolidated Net Tangible Assets of Mandalay and its subsidiaries.

Limitation on Sale and Lease-Back Transactions

Neither Mandalay nor any subsidiary will enter into any arrangement with any Person (other than Mandalay or a subsidiary of Mandalay), or to which any such person is a party providing for the lease to Mandalay or a subsidiary for a period of more than three years of any Consolidated Property that has been or is to be sold or transferred by Mandalay or any subsidiary to that Person or to any other Person (other than Mandalay or a subsidiary), to which funds have been or are to be advanced by that Person or other Person on the security of the leased property ("Sale and Lease-Back Transaction"), unless either:

Mandalay or the subsidiary would be entitled, pursuant to the provisions described in clauses (a) through (p) under " Limitation on Liens" above, to create, assume or suffer to exist a Lien on the property to be leased without equally and ratably securing the notes, or

an amount equal to the Value of such Sale and Lease-Back Transaction (subject to credits for certain voluntary retirements of Funded Debt)

is applied within 120 days to the retirement or other discharge of the notes or Funded Debt.

Merger, Consolidation, or Sale of Assets

Mandalay may not: (a) consolidate or merge with or into another Person; or (b) sell, assign, transfer or convey its properties and assets substantially in their entirety to any Person, unless:

either: (A) Mandalay is the surviving entity; or (B) the successor is an entity organized or existing under the laws of the United States, any state thereof or the District of Columbia;

the Person formed by or surviving the consolidation or merger (if other than Mandalay) or the Person to which the sale, assignment, transfer or conveyance shall have been made assumes all the obligations of Mandalay under the notes and the indenture; and

immediately after the transaction no Default or Event of Default exists.

Unless Mandalay is the surviving entity, all of Mandalay's obligations will terminate.

This "Merger, Consolidation or Sale of Assets" covenant will not apply to, and Mandalay will not be released from its obligations under the notes and the indenture in the event of, a sale, assignment, transfer, conveyance or other disposition of properties or assets solely between or among Mandalay and any of its subsidiaries.

Change of Control

In the event of a Change of Control (the date of such occurrence being the "Change of Control Date"), Mandalay will notify the holders in writing of such occurrence and will make an offer to purchase (the "Change of Control Offer"), on a business day (the "Change of Control Payment Date") not later than 30 days following the Change of Control Date, all notes then outstanding at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the Change of Control Payment Date. Notice of a Change of Control Offer shall be mailed by Mandalay to the holders not less than 30 days nor more than 45 days before the Change of Control Payment Date. The Change of Control Offer is required to remain open for at least 20 business days and until the close of business on the Change of Control Payment Date. It is anticipated that a Change of Control will constitute an event of default under the Credit Facilities, which will allow the lenders to accelerate their loans and to require Mandalay to prepay all of its obligations under the Credit Facilities.

Mandalay shall comply, to the extent applicable, with the requirements of Section 14(e) of the Securities Exchange Act of 1934, and any other applicable securities laws or regulations and any applicable requirements of any securities exchange on which the notes are listed, in connection with the repurchase of notes pursuant to a Change of Control Offer, and any violation of the provisions of the indenture relating to such Change of Control Offer occurring as a result of such compliance shall not be deemed a Default under the indenture. Neither the Board of Directors nor the Trustee may waive Mandalay's obligations to repurchase the notes upon a Change of Control.

Gaming Approvals

Restrictions on the transfer of the equity securities of Mandalay's licensed Nevada subsidiaries, and agreements not to encumber these equity securities, in each case in respect of the old notes, will require the prior approval of the Nevada Gaming Commission, upon the recommendation of the Nevada State Gaming Control Board, in order to become effective. We have applied for this approval. This approval is required only in respect of such restrictions and agreements contained in indentures for notes that have not been registered under the Securities Act. Similar approvals must be obtained from the Mississippi Gaming Commission with respect to these restrictions, whether securities are issued in a private placement or a public offering, although the Mississippi Gaming Commission has granted Mandalay's licensed Mississippi subsidiary a waiver of such approvals through February 18, 2004 so that only notification is required.

Events of Default and Remedies

Each of the following is an Event of Default:

(i) failure to pay any interest upon the notes when it becomes due and payable, and continuance of this default for a period of 30 days (whether or not prohibited by the subordination provisions of the indenture);

(ii) failure to pay principal of or premium, if any, on the notes when due, at maturity, upon redemption, pursuant to an offer to purchase required under the indenture, pursuant to the Change of Control provisions or otherwise by acceleration or otherwise (whether or not prohibited by the subordination provision of the indenture);

(iii) failure to comply with its obligations described under "Change of Control";

(iv) failure to perform, or breach of, any covenant of Mandalay in the indenture (other than the covenant relating to corporate existence and the article relating to successor corporations which are immediate Events of Defaults) that continues for a period of 30 days after notice to Mandalay;

(v) the occurrence of an event of default under any instrument evidencing Debt of Mandalay or its subsidiaries entitling the holder or holders of the Debt to accelerate the payment of a total principal amount of $10,000,000 or more of the Debt, which event of default is not cured or waived in accordance with the provisions of such instrument, or the Debt is not discharged, within 30 days after the receipt by Mandalay of notice from the trustee or the holders of 25% in principal amount of the then outstanding notes of the event of default and requiring Mandalay to cause the event of default to be cured or the Debt to be discharged; and

(vi) certain events of bankruptcy, insolvency or reorganization in respect of Mandalay.

If any Event of Default (other than as specified in clause (vi) of the preceding paragraph) occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the then outstanding notes may, by giving notice to Mandalay, declare all the notes to be due and payable immediately (but in no event more than the maximum amount of principal and interest on the notes allowed by law). Notwithstanding the foregoing, in case of an Event of Default arising from the events specified in clause (vi) of the preceding paragraph, the principal of, premium, if any, and any accrued and unpaid interest on all outstanding notes shall become immediately due and payable without further action or notice. Any declaration of acceleration may be rescinded by the holders of a majority in principal amount of the notes outstanding at that time if, among other conditions, all existing Events of Default relating to the notes have been cured or waived and if the rescission would not conflict with any judgment or decree.

Holders of the exchange notes may not enforce the indenture or the exchange notes except as provided in the indenture. Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines in good faith that withholding notice is in their interest.

The holders of a majority in aggregate principal amount of the notes then outstanding by notice to the trustee may on behalf of the holders of all of the notes waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, the notes.

Mandalay is required to deliver to the trustee annually a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, Mandalay is required to deliver to the trustee a statement specifying the Default or Event of Default.

Amendment, Supplement and Waiver

Mandalay and the trustee may amend any provisions of the indenture or the exchange notes with the consent of the holders of at least a majority in principal amount of the notes then outstanding. The holders of a majority in principal amount of the notes may waive compliance by Mandalay with any such provision; *provided*, *however*, that without the consent of each holder affected, an amendment or waiver may not (with respect to any notes held by a non-consenting holder):

reduce the amount of the notes whose holders must consent to an amendment, supplement or waiver;

reduce the rate of, or extend the time for payment of interest on, any note in a manner adverse to the holders;

reduce the principal of, or extend the fixed maturity or fixed redemption date of any note, in a manner adverse to the holders;

waive a default in the principal of, or interest on, any note;

waive a default upon the occurrence of a Change of Control;

make any change in the subordination of the notes in a manner adverse to the holders or in a manner which will cause any note to be senior to any other note in right of payment;

make any note payable in money other than that stated in the note; or

make any change relating to the percentage required for modification.

Notwithstanding the preceding, without the consent of any holder of notes, Mandalay and the trustee may amend or supplement the indenture or the notes:

to cure any ambiguity, defect or inconsistency;

to provide for the assumption of Mandalay's obligations to holders of notes in the case of a merger or consolidation or sale of assets in accordance with the covenant "Merger, Consolidation, or Sale of Assets;"

to provide for uncertificated notes in addition to or in place of certificated notes;

to comply with any requirements of the Commission in order to effect or maintain the qualification of the indenture under the Trust Indenture Act; or

to make any change that would not adversely affect the legal rights under the indenture of any such holder of notes.

No Personal Liability of Directors, Officers, Employees and Stockholders

No past, present or future director, officer, employee, incorporator or stockholder of Mandalay, as such, shall have any liability for any obligations of Mandalay or any successor entity or any of Mandalay's Affiliates under the exchange notes or the indenture, or for any claim based on, in respect of, or by reason of, those obligations or their creation. Each holder of exchange notes by accepting an exchange note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the exchange notes. The waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the Commission that such a waiver is against public policy.

Reports

So long as any notes are outstanding, Mandalay will file with the trustee, and mail to holders of outstanding notes, all reports it mails or causes to be mailed to its stockholders generally, any of the

supplementary and periodic information, documents and reports which may be required pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in these rules and regulations.

Legal Defeasance and Covenant Defeasance

Mandalay may elect to have all of its obligations discharged with respect to the outstanding notes ("Legal Defeasance") except for:

the rights of holders of outstanding notes to receive payments in respect of the principal of, premium, if any, and interest on their notes when these payments are due from the trust referred to below;

Mandalay's obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

the rights, powers, trusts, duties and immunities of the trustee, and Mandalay's obligations in connection therewith; and

the Legal Defeasance provisions of the indenture.

In addition, Mandalay may, at its option, elect to have the obligations of Mandalay released with respect to certain covenants that are described in the indenture ("Covenant Defeasance") and thereafter any omission to comply with those covenants shall not constitute a Default or Event of Default with respect to the notes. If Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "Events of Default" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance, among other things:

Mandalay must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, Government Obligations, or a combination of the two, in amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the outstanding notes on the stated maturity or on the applicable redemption date, as the case may be, and Mandalay must specify whether the notes are being defeased to maturity or to a particular redemption date;

Mandalay shall have delivered to the trustee an opinion of counsel in the United States reasonably acceptable to the trustee confirming that the holders of the outstanding notes will not recognize income, gain or loss for Federal income tax purposes as a result of the Legal Defeasance or the Covenant Defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the Legal Defeasance or Covenant Defeasance had not occurred;

no Default or Event of Default shall have occurred and be continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to the deposit) and with respect to Legal Defeasance only, insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time during the period ending on the 91st day after the date of deposit;

the Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under the terms of the indenture; and

Mandalay must deliver to the trustee an Officers' Certificate stating that all of the conditions listed above have been complied with.

Book-Entry; Delivery and Form

The exchange notes will be issued in the form of one or more global notes. The global notes will be deposited with, or on behalf of, The Depository Trust Company ("DTC") and registered in the name of DTC or its nominee, who will be the global notes holder. Except as described below, the global notes may be transferred, in whole and not in part, only to DTC or another nominee of DTC. Investors may hold their beneficial interests in the global notes directly through DTC if they are participating organizations or "participants" in the system or indirectly through organizations that are participants in the system.

Depository Procedures

DTC has advised Mandalay that DTC is a limited-purpose trust company that was created to hold securities for its participants and to facilitate the clearance and settlement of transactions in these securities between participants through electronic book-entry changes in accounts of its participants. The participants include securities brokers and dealers (including the initial purchasers), banks and trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies, which we refer to as "indirect participants," that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Persons who are not participants may beneficially own securities held by or on behalf of DTC only through the participants or the indirect participants.

Mandalay expects that pursuant to procedures established by DTC:

upon deposit of the global notes, DTC will credit the accounts of participants designated by the exchange agent with portions of the principal amount of the global notes; and

ownership of the exchange notes evidenced by the global notes will be shown on, and the transfer of ownership of the exchange notes will be effected only through, records maintained by DTC (with respect to the interests of the participants), the participants and the indirect participants.

Prospective purchasers are advised that the laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer exchange notes evidenced by the global notes will be limited to that extent.

So long as the global notes holder is the registered owner of any exchange notes, the global notes holder will be considered the sole holder under the indenture of any exchange notes evidenced by the global notes. Beneficial owners of exchange notes evidenced by the global notes will not be considered the owners or holders of the exchange notes under the indentures for any purpose, including with respect to the giving of any directions, instructions or approvals to the trustee thereunder. Neither Mandalay nor the trustee will have any responsibility or liability for any aspect of the records of DTC or for maintaining, supervising or reviewing any records of DTC relating to the exchange notes.

Payments in respect of the principal of, premium, if any, interest and Additional Interest (as defined in the section "The Exchange Offer" in this prospectus under the subheading "Liquidated Damages"), if any, on any exchange notes registered in the name of the global notes holder on the applicable record date will be payable by the trustee to or at the direction of the global notes holder in its capacity as the registered holder under the indenture. Under the terms of the indenture, Mandalay and the trustee may treat the persons in whose names exchange notes, including the global notes, are registered as the owners thereof for the purpose of receiving any payments. Consequently, neither Mandalay nor the trustee has or will have any responsibility or liability for the payment of these

amounts to beneficial owners of exchange notes. Mandalay believes, however, that it is currently the policy of DTC to immediately credit the accounts of the relevant participants with these payments, in amounts proportionate to their respective holdings of beneficial interests in the relevant security as shown on the records of DTC. Payments by the participants and the indirect participants to the beneficial owners of exchange notes will be governed by standing instructions and customary practice and will be the responsibility of the participants or the indirect participants.

Certificated Securities

Any person having a beneficial interest in a global note will not be entitled to receive physical delivery of the exchange notes. However, if:

Mandalay notifies the trustee in writing that DTC is no longer willing or able to act as a depositary and Mandalay is unable to locate a qualified successor within 90 days, Mandalay will issue exchange notes in the form of certificated securities in exchange for the global notes, or

Mandalay, at its option, notifies the trustee in writing that it elects to cause the issuance of notes in the form of certificated securities under the indenture, then, upon surrender by the global notes holder of its global notes, exchange notes in the form of certificated securities will be issued to each person that the global notes holder and DTC identify as being the beneficial owner of the related exchange notes.

Neither Mandalay nor the trustee will be liable for any delay by the global notes holder or DTC in identifying the beneficial owners of exchange notes and Mandalay and the trustee may conclusively rely on, and will be protected in relying on, instructions from the global notes holder or DTC for all purposes.

Same-Day Settlement and Payment

The indenture will require that payments in respect of the exchange notes represented by the global notes (including principal, premium, if any, interest and Additional Interest, if any) be made to the accounts specified by the global notes holder. With respect to certificated securities, Mandalay will make all payments of principal, premium, if any, interest and Additional Interest, if any, to the accounts specified by the holders thereof or, if no account is specified, by mailing a check to each such holder's registered address.

Paying Agent and Registrar for the Exchange Notes

The trustee will initially act as paying agent and registrar for the exchange notes. Mandalay may change the paying agent or registrar without prior notice to the holders of the exchange notes, and Mandalay or any of its subsidiaries may act as paying agent, registrar or co-registrar.

Transfer and Exchange

A holder may transfer or exchange its exchange notes in accordance with the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and Mandalay may require a holder to pay any taxes and fees required by law or permitted by the indenture. Mandalay is not required to transfer or exchange any exchange note selected for redemption. Also, Mandalay is not required to transfer or exchange any exchange note for a period of 15 days before a selection of notes to be redeemed.

The registered holder of an exchange note will be treated as the owner of it for all purposes.

Concerning the Trustee

The Bank of New York will be the trustee under the indenture. If the trustee becomes a creditor of Mandalay, the indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate the conflict within

90 days, apply to the Commission for permission to continue or resign.

The holders of a majority in total principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default shall occur and be continuing and is known to the trustee, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to these provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of exchange notes, unless the holder offers to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Certain Definitions

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all of these terms, as well as any other capitalized terms used in this prospectus for which no definition is provided.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the term "controlling," "controlled by" and "under common control with") as used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by agreement or otherwise.

"*Capital lease obligation*" means, at the time any determination thereof is made, the amount of the liability in respect of a capital lease that would at such time be so required to be capitalized on the balance sheet in accordance with GAAP.

"*Capital Stock*" means with respect to any Person, any and all shares, interests, participations, rights in or other equivalents (however designated) of such Person's capital stock, and any rights (other than debt securities convertible into capital stock), warrants or options exchangeable for or convertible into such capital stock.

"*Change of Control*" means the occurrence of any of the following events: (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total Voting Stock of Mandalay; or (b) Mandalay consolidates with, or merges with or into, another person or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person or any person consolidates with, or merges with or into, Mandalay, in any such event pursuant to a transaction in which the outstanding Voting Stock of Mandalay is converted into or exchanged for cash, securities or other property, other than any such transaction where (i) the outstanding Voting Stock of Mandalay is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee corporation or its parent corporation and (ii) immediately after such transaction no "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial

ownership" of all securities that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total Voting Stock of the surviving or transferee corporation, as applicable; or (c) during any consecutive two-year period, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by the Board of Directors or whose nomination for election by the stockholders of Mandalay was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office.

"*Consolidated Net Tangible Assets*" means the total amount of assets of Mandalay and its subsidiaries (less applicable reserves and other properly deductible items) after deducting therefrom (a) all current liabilities of Mandalay and its subsidiaries (excluding any liabilities which are by their terms renewable or extendible at the option of the obligor thereon to a time more than 12 months from the time as of which the amount thereof is being computed) and (b) all goodwill, trade names, trademarks, patents, purchased technology, unamortized debt discount and any other like intangibles, all as set forth on the most recent quarterly balance sheet of Mandalay and its consolidated subsidiaries and computed in accordance with generally accepted accounting principles.

"*Credit Facilities*" means, with respect to Mandalay, one or more debt facilities or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as

amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"*Consolidated Property*" means any property of Mandalay or its subsidiaries.

"*Debt*" of any person means (a) any indebtedness of such person, contingent or otherwise, in respect of borrowed money (whether or not the recourse of the lender is to the whole of the assets of such person or only to a portion thereof), or evidenced by bonds, notes, debentures or similar instruments or letters of credit, or representing the balance deferred and unpaid of the purchase price of any property, including any such indebtedness incurred in connection with the acquisition by such person or any of its subsidiaries of any other business or entity, if and to the extent such indebtedness would appear as a liability upon a balance sheet of such person prepared in accordance with generally accepted accounting principles, including for such purpose obligations under capitalized leases, and (b) any guaranty, endorsement (other than for collection or deposit in the ordinary course of business), discount with recourse, agreement (contingent or otherwise) to purchase, repurchase or otherwise acquire or to supply or advance funds with respect to, or to become liable with respect to (directly or indirectly) any indebtedness, obligation, liability or dividend of any person, but shall not include indebtedness or amounts owed (except to banks or other financial institutions) for compensation to employees, or for goods or materials purchased, or services utilized, in the ordinary course of business of such person. Notwithstanding anything to the contrary in the foregoing, "Debt" shall not include (i) any contracts providing for the completion of construction or other payment or performance with respect to the construction, maintenance or improvement of property or equipment of Mandalay or its Affiliates or (ii) any contracts providing for the obligation to advance funds, property or services on behalf of an Affiliate of Mandalay in order to maintain the financial condition of such Affiliate, in each case, including Existing and Permitted Completion Guarantees and Make-Well Agreements. For purposes hereof, a "capitalized lease" shall be deemed to mean a lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized.

"*Default*" means any event that after notice or lapse of time, or both, would become an Event of Default.

"*Detroit Joint Venture*" means the Michigan limited liability company governed by an Operating Agreement, dated October 7, 1997, by and between Circus Circus Michigan, Inc., a wholly owned subsidiary of Mandalay, and Atwater Casino Group, L.L.C.

"*Disqualified Stock*" means, with respect to any Person, any Capital Stock of such Person which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable (in each case, other than into common stock of Mandalay), pursuant to a sinking funk obligation or otherwise, or is exchangeable for Debt, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the final maturity date of the specified security. Notwithstanding the foregoing, in no event shall Capital Stock that is considered Disqualified Stock solely by reason of such Capital Stock being convertible at the option of the holder of such Capital Stock into other Capital Stock (other than Disqualified Stock) constitute Disqualified Stock.

"*Existing and Permitted Completion Guarantees and Make-Well Agreements*" means (i) that certain Amended and Restated Make-Well Agreement by Mandalay in favor of Bank of America National Trust and Savings Association dated as of November 24, 1997 relating to the Circus and Eldorado joint venture, a Nevada general partnership, as such agreement may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any extension of the term thereof, (ii) that certain Company Guaranty by Mandalay in favor of Bank of America National Trust and Savings Association dated as of June 30, 1999, and any other contract providing for the completion of construction or other payment or performance with respect to the construction, maintenance or improvement of property or equipment of the Detroit Joint Venture, or (iii) any "make-well," "keep-well" or other agreement or arrangement of whatever nature providing for the obligation to advance funds, property or services on behalf of the Detroit Joint Venture, or given for the purpose of assuring or holding harmless any governmental entity or agency and/or lender against loss with respect to any obligation of the Detroit Joint Venture.

"*Funded Debt*" means all Debt of Mandalay that (i) matures by its terms, or is renewable at the option of any obligor thereon to a date, more than one year after the date of original issuance of such Debt and (ii) ranks at least equal in right of payment with the notes.

"*GAAP*" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect from time to time.

"*Government Obligations*" means direct non-cancelable obligations of the United States of America for the payment of which the full faith and credit of the United States is pledged.

"*Joint Venture*" means (i) with respect to properties located in the United States, any partnership, corporation or other entity, in which up to and including 50% of the partnership interests, outstanding voting stock or other equity interests is owned, directly or indirectly, by Mandalay and/or one or more subsidiaries, and (ii) with respect to properties located outside the United States, any partnership, corporation or other entity, in which up to and including 60% of the partnership interests, outstanding voting stock or other equity interests is owned, directly or indirectly, by Mandalay and/or one or more subsidiaries.

"*Lien*" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, security interest, lien (statutory or other), or preference, priority or other security or similar agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing).

"Obligations" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Debt.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"*Project Cost*" means, with respect to any Resort Property, the aggregate costs required to complete such construction project in accordance with the plans therefor and applicable legal requirements, as set forth in an Officers' Certificate submitted to the Trustee, setting forth in reasonable detail all amounts theretofore expended and any anticipated costs and expenses estimated to be incurred and reserves to be established in connection with the construction and development of such future addition or improvement, including direct costs related thereto such as construction management, architectural engineering and interior design fees, site work, utility installations and hook-up fees, construction permits, certificates and bonds, land acquisition costs and the cost of furniture, fixtures, furnishings, machinery and equipment, but excluding the following: principal or interest payments on any Debt (other than interest which is required to be capitalized in accordance with generally accepted accounting principles, which shall be included in determining Project Cost), or costs related to the operation of the Resort Property including, but not limited to, non-construction supplies and pre-operating payroll.

"*Resort Property*" means any property owned or to be owned by Mandalay or any subsidiary that is, or will be upon completion, a casino (including a riverboat casino), casino-hotel, destination resort or a theme park.

"*Senior Debt*" means the principal, premium, if any, and interest on any Debt of Mandalay, whether created, incurred, issued, assumed or guaranteed, unless, in the case of any particular Debt, the instrument creating or evidencing such Debt expressly provides that such Debt shall not be senior in right of payment to the notes. Without limiting the generality of the foregoing, Senior Debt shall include:

(1) the principal of, and interest on, and other amounts due under any of the Credit Facilities;

(2) any obligation of Mandalay under (a) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements and (b) other agreements or arrangements designed to protect against interest rate fluctuations;

(3) any standby letters of credit of Mandalay;

(4) Debt evidenced by:

(a) the 6.45% Senior Notes due 2006,

(b) the 9½% Senior Notes due 2008,

(c) the 7.0% Debentures due 2036 and

(d)

the 6.70% Debentures due 2096.

Notwithstanding anything to the contrary in the preceding clauses (1) through (4), Senior Debt will not include:

(1) any obligation for federal, state, local or other taxes;

(2) any Debt between Mandalay and its subsidiaries or Affiliates;

(3) any obligation for trade payables or services rendered;

(4) any notes equal in right of payment, including

(a) the 6 3/4% Senior Subordinated Notes due 2003,

(b) the 9 1/4% Senior Subordinated Notes due 2005,

(c) the 10 1/4% Senior Subordinated Notes due 2007 and

(d) the 7 5/8% Senior Subordinated Debentures due 2013;

(5) any Debt of Mandalay expressly by its terms or by operation of law ranking junior in right of payment to any other Debt of Mandalay;

(6) to the extent that it may constitute Debt, any obligations under leases (other than capital lease obligations) or management agreements; and

(7) any obligation that by obligation of law is subordinate to any general unsecured obligations of Mandalay;

provided, that any guaranty by Mandalay of Debt of a subsidiary of Mandalay to third parties shall constitute Senior Debt unless, in the case of any particular guaranty, the instrument creating or evidencing the same provides that such guaranty is subordinated to any other Debt of Mandalay; *provided*, *further*, that in the event a subsidiary of Mandalay advances to Mandalay the proceeds attributable to Debt incurred by such subsidiary to a third party that has been guaranteed by Mandalay pursuant to a guaranty which itself constitutes Senior Debt, then such obligations of Mandalay to repay such advance to the subsidiary shall constitute Senior Debt, unless such obligation is created or evidenced by an instrument that provides that such obligation is subordinated to any other Debt of Mandalay.

"*subsidiary*" of any person means (i) any corporation of which at least a majority in interest of the outstanding stock having by the terms thereof voting power under ordinary circumstances to elect a majority of the directors of such corporation, irrespective of whether or not at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency, is at the time, directly or indirectly, owned or controlled by such person, or by one or more other corporations a majority in interest of such stock of which is similarly owned or controlled, or by such person and one or more other corporations a majority in interest of such stock of which is similarly owned or controlled and (ii) any other person (other than a corporation, or a partnership, corporation or other entity described in clause (ii) of the definition of Joint Venture) in which such person or any subsidiary, directly or indirectly, has greater than a 50%

ownership interest.

"*Treasury securities*" mean any investment in obligations issued or guaranteed by the United States government or any agency thereof.

"*Value*" means, with respect to a Sale and Lease-Back Transaction, as of any particular time, the amount equal to the greater of (a) the net proceeds or the sale or transfer of property leased pursuant to such Sale and Lease-Back Transaction and (b) the fair value (in the opinion of Mandalay's board of directors) of such property at the time of entering into such Sale and Lease-Back Transaction.

"Voting Stock" means, with respect to any Person, securities of any class or classes of Capital Stock in such Person entitled the holders thereof to vote in the election of members of the board of directors of such Person.

"*wholly owned*" with respect to any subsidiary, means any subsidiary of any Person of which at least 99% of the outstanding Capital Stock is owned by such Person or another wholly owned subsidiary of such Person. For purposes of this definition, any directors' qualifying shares or investments by foreign nationals mandated by applicable law shall be disregarded in determining the ownership of a subsidiary.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE EXCHANGE

The following is a discussion of the material federal income tax considerations relevant to the exchange of the old notes for the exchange notes. The discussion is based upon the Internal Revenue Code of 1986, as amended, applicable Treasury regulations, judicial authority and administrative rulings and practice. We cannot assure you that the Internal Revenue Service (the "Service") will not take a contrary view, and no ruling from the Service has been or will be sought. Legislative, judicial or administrative changes or interpretations may be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may or may not be retroactive and could affect the tax consequences to holders. Certain holders (including, without limitation, insurance companies, tax-exempt organizations, financial institutions, broker-dealers, persons holding notes as a part of a hedging or conversion transaction or a straddle, persons whose functional currency is not the U.S. dollar, and persons who are not citizens or residents of the United States or who are foreign corporations, foreign partnerships or foreign estates or trusts as to the United States) may be subject to special rules not discussed below. In addition, the discussion does not consider the effect of any applicable state, local, foreign or other tax laws.

Each holder should consult its own tax advisor as to the particular tax consequences of exchanging old notes for exchange notes, including the applicability and effect of any state, local or foreign tax laws.

Exchange of Old Notes for Exchange Notes

The exchange of the old notes for the exchange notes in the exchange offer will not be treated as an "exchange" for federal income tax purposes, because the old notes will not be considered to differ materially in kind or extent from the exchange notes. The holder will have a basis for the exchange notes equal to the basis of the old notes and the holder's holding period for the exchange notes will include the period during which the old notes were held. Accordingly, no material federal income tax consequences will result to holders on account of an exchange of old notes for exchange notes pursuant to the exchange offer.

PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. Broker-dealers may use this prospectus, as it may be amended or supplemented from time to time, in connection with the resale of exchange notes received in exchange for old notes where the broker-dealer acquired the old notes as a result of market-making activities or other trading activities. To the extent a broker-dealer participates in the exchange offer and so notifies us, we have agreed to make this prospectus, as amended or supplemented, available to the broker-dealer for use in connection with any such resale. We will promptly send additional copies of this prospectus and any amendment or supplement to any broker-dealer that requests the documents in the letter of transmittal.

We will not receive any proceeds from any sale of exchange notes by broker-dealers or any other persons. Broker-dealers may sell exchange notes received by them for their own account pursuant to the exchange offer from time to time in one or more transactions:

in the over-the-counter market;

in negotiated transactions;

through the writing of options on the exchange notes; or

through a combination of the above methods of resale,

at market prices prevailing at the time of resale, at prices related to the prevailing market prices or negotiated prices. Broker-dealers may resell exchange notes directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any broker-dealer and/or the purchasers of the exchange notes. Any broker-dealer that resells exchange notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of the exchange notes may be deemed to be "underwriters" within the meaning of the Securities Act and any profit on any resale of exchange notes and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

We have agreed to pay all expenses incident to the exchange offer, other than commissions and concessions of any broker-dealer. We estimate the expenses we will incur in connection with the exchange offer to be approximately $125,000, which includes fees and expenses of the exchange agent and trustee, registration fees, and accounting, legal, printing and related fees and expenses. We also will provide indemnification against specified liabilities, including liabilities that may arise under the Securities Act, to broker-dealers that make a market in the old notes and exchange old notes in the exchange offer for exchange notes.

By its acceptance of the exchange offer, any broker-dealer that receives exchange notes pursuant to the exchange offer agrees to notify us before using the prospectus in connection with the sale or transfer of exchange notes. The broker-dealer further acknowledges and agrees that, upon receipt of notice from us of the happening of any event which:

makes any statement in the prospectus untrue in any material respect;

requires the making of any changes in the prospectus to make the statements in the prospectus not misleading; or

may impose upon us disclosure obligations that may have a material adverse effect on us,

which notice we agree to deliver promptly to the broker-dealer, the broker-dealer will suspend use of the prospectus until we have notified the broker-dealer that delivery of the prospectus may resume and have furnished copies of any amendment or supplement to the prospectus to the broker-dealer.

LEGAL MATTERS

Wolf, Block, Schorr and Solis-Cohen LLP, Philadelphia, Pennsylvania will pass upon various legal matters for us in connection with the exchange notes offered hereby. Certain matters of Nevada law will be passed upon for us by Schreck Brignone Godfrey, Las Vegas, Nevada.

EXPERTS

The audited consolidated financial statements and schedules of Mandalay incorporated by reference in this prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are incorporated by reference herein in reliance upon the authority of said firm as experts in giving said reports. The financial statements of Elgin Riverboat Resort-Riverboat Casino incorporated in this registration statement by reference to Amendment No. 1 on Form 10-K/A to Mandalay Resort Group's Annual Report on Form 10-K for the year ended January 31, 2001, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

57

Offer to Exchange up to $300,000,000 of its

9 3/8% Senior Subordinated Notes due 2010

Which Have Been Registered Under the Securities Act of 1933,

For up to $300,000,000 of its
Outstanding 9 3/8% Senior Subordinated Notes due 2010

PROSPECTUS

, 2002

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification Of Directors And Officers.

Section 78.7502 of the Nevada Revised Statutes (the "Nevada Law") permits a corporation to indemnify any of its directors, officers, employees and agents against costs and expenses arising from claims, suits and proceedings if such persons acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Notwithstanding the foregoing, no indemnification may be made in respect of any claim, issue or matter, as to which such person is adjudged to be liable to the corporation unless and only to the extent that a court of competent jurisdiction determines that in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

In accordance with Nevada Revised Statutes 78.037, Article XI of the registrant's Restated Articles of Incorporation provides that no director or officer of the registrant shall be personally liable to the registrant or its stockholders for damages for breach of fiduciary duty as a director or officer, except for (a) acts or omissions which include intentional misconduct, fraud or a knowing violation of law, or (b) the payment of dividends in violation of Nevada Revised Statutes 78.300.

Article X, Section 10.2 of the registrant's Restated Bylaws provides for mandatory indemnification of directors and officers to the fullest extent now or hereafter permitted by law.

The registrant maintains liability insurance under which officers and directors are generally indemnified against losses and liability (including costs, expenses, settlements, and judgments) incurred by them in such capacities, individually or otherwise, other than specified excluded losses. The insurance policy will pay on behalf of the registrant all covered losses for which the registrant grants indemnification of each officer or director as permitted by law which the officer or director becomes legally obligated to pay on account of an indemnifiable claim. The policy generally covers liabilities arising under the federal securities laws, other than specified exclusions such as any payment for a loss arising out of a deliberate criminal or deliberate fraudulent act by the insured.

Item 21. Exhibits And Financial Statement Schedules.

(a) *Exhibits*

4.1	Indenture dated as of December 20, 2001 by and among the Registrant and The Bank of New York, with respect to $300 million aggregate principal amount of 9 3/8% Senior Subordinated Notes due 2010
4.2	Registration Rights Agreement dated as of December 20, 2001 by and among the Registrant and Banc of America Securities LLC, Deutsche Banc Alex. Brown, Inc., Salomon Smith Barney, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Lyonnais Securities (USA) Inc., Credit Suisse First Boston Corporation, Dresdner Kleinwort Wasserstein Grantchester Inc., Scotia Capital (USA) Inc., SG Cowen Securities Corporation, UBS Warburg LLC, and Wells Fargo Brokerage Services LLC
4.3	Revolving Loan Agreement dated as of August 22, 2001, among the Registrant, the banks named therein, Bank of America, N.A., as administrative agent for the banks, and related subsidiary guarantee (Incorporated by reference to Exhibit 4(a) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2001)

4.4	Term Loan Agreement, by and among the Registrant, the banks named therein and Bank of America N.A., as administrative agent, and Citicorp USA, Inc. and Bankers Trust Company, as syndication agents for the banks, and related subsidiary guarantee (Incorporated by reference to Exhibit 4(b) to the Registrant's Quarterly Report for the quarterly period ended July 31, 2001)
4.5	First Amendment Agreement, by and between the Registrant and Bank of America N.A., as administrative agent, acting on behalf of the Requisite Lenders under each amended agreement
5	Opinions of Wolf, Block, Schorr and Solis-Cohen LLP, Philadelphia, Pennsylvania, and Schreck Brignone Godfrey, Las Vegas, Nevada
12	Statement regarding Computation of Ratio of Earnings to Fixed Charges
21	Subsidiaries of Registrant (Incorporated by reference to Exhibit 21 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2000)
23.1	Consent of Wolf, Block, Schorr and Solis-Cohen LLP (included as part of Exhibit 5)
23.2	Consent of Schreck Brignone Godfrey (included as part of Exhibit 5)
23.3	Consent of Arthur Andersen LLP
23.4	Consent of PricewaterhouseCoopers LLP
24	Power of Attorney (included on Page II-4 of this Registration Statement)
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99.1	Form of Letter of Transmittal with respect to the Exchange Offer
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99.3	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9
99.4	Client Letter

99.5 Broker Dealer Letter

In accordance with Regulation S-K 601(b)(4)(iii)(A), the registrant agrees to file applicable agreements with the Securities and Exchange Commission upon request.

(b)

Financial Statements and Schedules

None.

Item 22. Undertakings.

(a) The undersigned registrant hereby undertakes that insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Act"), may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into this prospectus pursuant to Item 4, 10(b), 11, or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(c) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

(d) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) of the Act if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(e) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Las Vegas, State of Nevada, on February 14, 2002.

MANDALAY RESORT GROUP

By: /s/ MICHAEL S. ENSIGN

Michael S. Ensign,
Chairman of the Board

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael S. Ensign and Glenn W. Schaeffer, and each of them, with full power to act without the other, such person's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including pre- and post-effective amendments) to this registration statement, and to file the same, with exhibits and schedules thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ MICHAEL S. ENSIGN Michael S. Ensign	Chairman of the Board, Chief Executive Officer and Chief Operating Officer (Principal Executive Officer)	February 14, 2002
/s/ WILLIAM A. RICHARDSON William A. Richardson	Vice Chairman of the Board	February 14, 2002
/s/ GLENN W. SCHAEFFER Glenn W. Schaeffer	President, Chief Financial Officer, Treasurer and Director (Principal Financial Officer)	February 14, 2002

/s/ LES MARTIN Les Martin	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 14, 2002

/s/ WILLIAM E. BANNEN	Director	February 14, 2002
William E. Bannen		
/s/ ARTHUR H. BILGER	Director	February 14, 2002
Arthur H. Bilger		
/s/ MICHAEL D. MCKEE	Director	February 14, 2002
Michael D. McKee		
/s/ ROSE MCKINNEY-JAMES	Director	February 14, 2002
Rose McKinney-James		
/s/ DONNA B. MORE	Director	February 14, 2002
Donna B. More		

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line;font-size:8pt;">
64,524

Income taxes receivable

46,343

—

—

—

(32,384)

13,959

Prepaid expenses and other current assets

—

—

21,734

188

—

21,922

Assets held for sale								
—								
—								
28,689								
—								
—								
28,689								
Total current assets								
46,343								

24,345

107,977

7,368

(32,384)

153,649

Property, plant and equipment, net				
—				
—				
1,009,209				
52,972				
—				

1,062,181

Intangibles and other assets:

Investments

—

8,338

98,593

—

—

106,931

Investments in subsidiaries

2,240,371

2,058,046

13,929

—

(4,312,346)

—

Goodwill

—

—

690,192

66,181

—

756,373

Other intangible assets

—

—

27,936

9,087

—

37,023

Other assets

—

—

6,681

1

—

6,682

Total assets

$

2,286,714

$

2,090,729

$

1,954,517

$

135,609

$

(4,344,730)

$

2,122,839

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	$ —	$ —	$ 17,295

$

—

$

—

$

17,295

Advance billings and customer deposits

—

—

25,397

1,524

—

26,921

Dividends payable

19,623

—

—

—

—

19,623

Accrued compensation

—

—

19,986

—

—

19,986

Accrued interest

—

9,023

382

—

—

9,405

Accrued expense

18

39

41,526

1,701

—

43,284

Income tax payable

—

10,933

16,226

5,225

(32,384)

—

Current portion of long term debt and capital lease obligations

—

9,100

3,894

177

—

13,171

Liabilities held for sale

—

—

7,746

—

—

7,746

Total current liabilities

19,641

29,095

132,452

8,627

(32,384)

157,431

Long-term debt and capital lease obligations

—

1,369,198

8,892

698

—

1,378,788

Advances due to/from affiliates, net

2,082,449

(1,557,605)

(441,587)

(83,257)

—

—

Deferred income taxes

(32,664)

8,102

238,929

22,996

—

237,363

Pension and postretirement benefit obligations

—

—

91,048

19,277

—

110,325

Other long-term liabilities

70

1,568

14,409

497

—

16,544

Total liabilities

2,069,496

(149,642)

44,143

(31,162)

(32,384)

1,900,451

Shareholders’ equity:

Common Stock

507

—

17,411

30,000

(47,411)

507

Other shareholders’ equity

216,711

2,240,371

1,887,793

136,771

(4,264,935)

216,711

Total Consolidated Communications Holdings, Inc. shareholders’ equity

217,218

2,240,371

1,905,204

166,771

(4,312,346)

217,218

Noncontrolling interest

—

—

5,170

—

—

5,170

Total shareholders’ equity

217,218

2,240,371

1,910,374

166,771

(4,312,346)

222,388

Total liabilities and shareholders' equity

$

2,286,714

$

2,090,729

$

1,954,517

$

135,609

$

(4,344,730)

$

2,122,839

21

Table of Contents

Condensed Consolidating Balance Sheet

(In thousands)

	December 31, 2015					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ 5,877	$ 7,629	$ 2,372	$ —	$ 15,878
Accounts receivable, net	—	—	62,460	6,388	—	68,848
Income taxes receivable	23,390	—	352	125	—	23,867
Prepaid expenses and other current assets	—	—	17,456	359	—	17,815
Total current assets	23,390	5,877	87,897	9,244	—	126,408
Property, plant and equipment, net	—	—	1,043,594	49,667	—	1,093,261
Intangibles and other assets:						
Investments	—	8,171	97,372	—	—	105,543
Investments in subsidiaries	2,189,142	2,018,472	13,567	—	(4,221,181)	—
Goodwill	—	—	698,449	66,181	—	764,630
Other intangible assets	—	—	34,410	9,087	—	43,497
Other assets	—	—	5,187	—	—	5,187
Total assets	$ 2,212,532	$ 2,032,520	$ 1,980,476	$ 134,179	$ (4,221,181)	$ 2,138,526
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$ —	$ —	$ 12,576	$ —	$ —	$ 12,576
Advance billings and customer deposits	—	—	26,023	1,593	—	27,616
Dividends payable	19,551	—	—	—	—	19,551
Accrued compensation	—	—	21,094	789	—	21,883
Accrued interest	136	9,084	133	—	—	9,353

Accrued expense	35	190	41,201	958	—	42,384
Current portion of long term debt and capital lease obligations	—	9,100	1,745	92	—	10,937
Total current liabilities	19,722	18,374	102,772	3,432	—	144,300
Long-term debt and capital lease obligations	—	1,372,149	5,101	642	—	1,377,892
Advances due to/from affiliates, net	1,979,788	(1,548,990)	(360,715)	(70,083)	—	—
Deferred income taxes	(32,641)	762	245,579	22,829	—	236,529
Pension and postretirement benefit obligations	—	—	93,097	19,869	—	112,966
Other long-term liabilities	—	1,084	14,540	516	—	16,140
Total liabilities	1,966,869	(156,621)	100,374	(22,795)	—	1,887,827
Shareholders' equity:						
Common Stock	505	—	17,411	30,000	(47,411)	505
Other shareholders' equity	245,158	2,189,141	1,857,655	126,974	(4,173,770)	245,158
Total Consolidated Communications Holdings, Inc. shareholders' equity	245,663	2,189,141	1,875,066	156,974	(4,221,181)	245,663
Noncontrolling interest	—	—	5,036	—	—	5,036
Total shareholders' equity	245,663	2,189,141	1,880,102	156,974	(4,221,181)	250,699
Total liabilities and shareholders' equity	$ 2,212,532	$ 2,032,520	$ 1,980,476	$ 134,179	$ (4,221,181)	$ 2,138,526

Table of Contents

Condensed Consolidating Statements of Operations

(In thousands)

	Quarter Ended June 30, 2016					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ —	$ 18	$ 175,245	$ 14,897	$ (3,289)	$ 186,871
Operating expenses:						
Cost of services and products (exclusive of depreciation and amortization)	—	—	80,739	3,204	(3,180)	80,763
Selling, general and administrative expenses	1,324	7	35,622	2,209	(109)	39,053
Loss on impairment	—	—	610	—	—	610
Depreciation and amortization	—	—	41,216	2,275	—	43,491
Operating income (loss)	(1,324)	11	17,058	7,209	—	22,954
Other income (expense):						
Interest expense, net of interest income	7	(18,963)	(160)	10	—	(19,106)
Intercompany interest income (expense)	(31,886)	33,824	(2,706)	768	—	—
Investment income	—	—	8,704	—	—	8,704
Equity in earnings of subsidiaries, net	21,443	19,393	219	—	(41,055)	—
Other, net	—	—	(66)	(6)	—	(72)
Income (loss) before income taxes	(11,760)	34,265	23,049	7,981	(41,055)	12,480
Income tax expense (benefit)	(11,836)	12,821	8,490	2,848	—	12,323
Net income (loss)	76	21,444	14,559	5,133	(41,055)	157
Less: net income attributable to noncontrolling interest	—	—	81	—	—	81
Net income (loss) attributable to Consolidated Communications Holdings, Inc.	$ 76	$ 21,444	$ 14,478	$ 5,133	$ (41,055)	$ 76

Total comprehensive income (loss) attributable to common shareholders	$ 744	$ 22,112	$ 15,023	$ 5,266	$ (42,401)	$ 744

Table of Contents

	Quarter Ended June 30, 2015					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ —	$ 87	$ 189,421	$ 14,893	$ (3,391)	$ 201,010
Operating expenses:						
Cost of services and products (exclusive of depreciation and amortization)	—	—	86,418	3,232	(3,274)	86,376
Selling, general and administrative expenses	1,005	45	37,645	4,729	(116)	43,308
Depreciation and amortization	—	—	41,596	2,055	—	43,651
Operating income (loss)	(1,005)	42	23,762	4,877	(1)	27,675
Other income (expense):						
Interest expense, net of interest income	—	(20,542)	105	8	—	(20,429)
Intercompany interest income (expense)	(37,745)	41,575	(4,515)	685	—	—
Loss on extinguishment of debt	—	(41,242)	—	—	—	(41,242)
Investment income	—	—	9,004	—	—	9,004
Equity in earnings of subsidiaries, net	10,326	23,141	116	—	(33,583)	—
Other, net	—	7	(48)	1	—	(40)
Income (loss) before income taxes	(28,424)	2,981	28,424	5,571	(33,584)	(25,032)
Income tax expense (benefit)	(12,456)	(7,345)	8,922	1,775	—	(9,104)
Net income (loss)	(15,968)	10,326	19,502	3,796	(33,584)	(15,928)
Less: net income attributable to noncontrolling interest	—	—	40	—	—	40
Net income (loss) attributable to Consolidated Communications Holdings, Inc.	$ (15,968)	$ 10,326	$ 19,462	$ 3,796	$ (33,584)	$ (15,968)
Total comprehensive income (loss) attributable to common shareholders	$ (15,512)	$ 10,782	$ 19,835	$ 3,887	$ (34,504)	$ (15,512)

24

Table of Contents

Condensed Consolidating Statements of Operations

(In thousands)

	Six Months Ended June 30, 2016					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ —	$ (5)	$ 352,500	$ 29,784	$ (6,562)	$ 375,717
Operating expenses:						
Cost of services and products (exclusive of depreciation and amortization)	—	—	160,453	6,377	(6,347)	160,483
Selling, general and administrative expenses	2,220	7	72,222	5,495	(215)	79,729
Loss on impairment	—	—	610	—	—	610
Depreciation and amortization	—	—	83,077	4,554	—	87,631
Operating income (loss)	(2,220)	(12)	36,138	13,358	—	47,264
Other income (expense):						
Interest expense, net of interest income	46	(37,398)	(408)	8	—	(37,752)
Intercompany interest income (expense)	(63,773)	67,648	(5,405)	1,530	—	—
Investment income	—	166	15,735	—	—	15,901
Equity in earnings of subsidiaries, net	50,162	38,215	361	—	(88,738)	—
Other, net	—	—	(40)	(18)	—	(58)
Income (loss) before income taxes	(15,785)	68,619	46,381	14,878	(88,738)	25,355
Income tax expense (benefit)	(23,710)	18,456	17,201	5,349	—	17,296
Net income (loss)	7,925	50,163	29,180	9,529	(88,738)	8,059
Less: net income attributable to noncontrolling interest	—	—	134	—	—	134
Net income (loss) attributable to Consolidated Communications Holdings, Inc.	$ 7,925	$ 50,163	$ 29,046	$ 9,529	$ (88,738)	$ 7,925
Total comprehensive income (loss)	$ 8,991	$ 51,229	$ 30,137	$ 9,795	$ (91,161)	$ 8,991

attributable to common
shareholders

Table of Contents

	Six Months Ended June 30, 2015					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ —	$ 102	$ 370,236	$ 30,060	$ (6,810)	$ 393,588
Operating expenses:						
Cost of services and products (exclusive of depreciation and amortization)	—	—	166,616	6,180	(6,528)	166,268
Selling, general and administrative expenses	2,140	89	74,521	9,224	(281)	85,693
Depreciation and amortization	—	—	83,151	4,056	—	87,207
Operating income (loss)	(2,140)	13	45,948	10,600	(1)	54,420
Other income (expense):						
Interest expense, net of interest income	(96)	(41,196)	186	3	—	(41,103)
Intercompany interest income (expense)	(75,769)	83,259	(8,882)	1,392	—	—
Loss on extinguishment of debt	—	(41,242)	—	—	—	(41,242)
Investment income	—	326	15,119	—	—	15,445
Equity in earnings of subsidiaries, net	43,136	42,369	165	—	(85,670)	—
Other, net	—	7	(96)	(8)	—	(97)
Income (loss) before income taxes	(34,869)	43,536	52,440	11,987	(85,671)	(12,577)
Income tax expense (benefit)	(26,711)	400	17,728	4,105	—	(4,478)
Net income (loss)	(8,158)	43,136	34,712	7,882	(85,671)	(8,099)
Less: net income attributable to noncontrolling interest	—	—	59	—	—	59
Net income (loss) attributable to Consolidated Communications Holdings, Inc.	$ (8,158)	$ 43,136	$ 34,653	$ 7,882	$ (85,671)	$ (8,158)
Total comprehensive income (loss) attributable to common shareholders	$ (7,603)	$ 43,691	$ 35,337	$ 8,064	$ (87,092)	$ (7,603)

Table of Contents

Condensed Consolidating Statements of Cash Flows

(In thousands)

	Six Months Ended June 30, 2016				
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidated
Net cash (used in) provided by operating activities	$ (63,494)	$ 31,781	$ 129,467	$ 17,751	$ 115,505
Cash flows from investing activities:					
Purchases of property, plant and equipment	—	—	(55,172)	(7,099)	(62,271)
Proceeds from sale of assets	—	—	40	10	50
Net cash used in investing activities	—	—	(55,132)	(7,089)	(62,221)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	—	7,000	—	—	7,000
Payment of capital lease obligation	—	—	(756)	(56)	(812)
Payment on long-term debt	—	(11,550)	—	—	(11,550)
Share repurchases for minimum tax withholding	(71)	—	—	—	(71)
Dividends on common stock	(39,174)	—	—	—	(39,174)
Transactions with affiliates, net	102,739	(8,615)	(81,147)	(12,977)	—
Net cash provided by (used in) financing activities	63,494	(13,165)	(81,903)	(13,033)	(44,607)
Increase (decrease) in cash and cash equivalents	—	18,616	(7,568)	(2,371)	8,677
Cash and cash equivalents at beginning of period	—	5,877	7,629	2,372	15,878
Cash and cash equivalents at end of period	$ —	$ 24,493	$ 61	$ 1	$ 24,555

	Six Months Ended June 30, 2015				
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidated
Net cash (used in) provided by operating activities	$ (78,154)	$ 44,589	$ 119,060	$ 10,321	$ 95,816
Cash flows from investing activities:					
Purchases of property, plant and equipment	—	—	(61,855)	(3,683)	(65,538)
Proceeds from sale of assets	—	—	52	5	57
Proceeds from sale of investments	—	—	846	—	846
Net cash used in investing activities	—	—	(60,957)	(3,678)	(64,635)
Cash flows from financing activities:					
Proceeds from bond offering	—	294,780	—	—	294,780
Proceeds from issuance of long-term debt	—	40,000	—	—	40,000
Payment of capital lease obligation	—	—	(407)	(37)	(444)
Payment on long-term debt	—	(59,550)	—	—	(59,550)
Redemption of senior notes	—	(261,874)	—	—	(261,874)
Payment of financing costs	—	(4,468)	—	—	(4,468)
Share repurchases for minimum tax withholding	(282)	—	—	—	(282)
Dividends on common stock	(39,076)	—	—	—	(39,076)
Transactions with affiliates, net	117,512	(57,989)	(54,490)	(5,033)	—
Net cash provided by (used in) financing activities	78,154	(49,101)	(54,897)	(5,070)	(30,914)
Increase (decrease) in cash and cash equivalents	—	(4,512)	3,206	1,573	267
Cash and cash equivalents at beginning of period	—	4,940	820	919	6,679
Cash and cash equivalents at end of period	$ —	$ 428	$ 4,026	$ 2,492	$ 6,946

27

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. Certain statements in this Quarterly Report on Form 10-Q, including those which relate to the impact on future revenue sources, pending and future regulatory orders, continued expansion of the telecommunications network and expected changes in the sources of our revenue and cost structure resulting from our entrance into new communications markets, are forward-looking statements and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. These forward-looking statements reflect, among other things, our current expectations, plans, strategies and anticipated financial results. There are a number of risks, uncertainties and conditions that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. Many of these circumstances are beyond our ability to control or predict. Moreover, forward-looking statements necessarily involve assumptions on our part. These forward-looking statements generally are identified by the words "believe", "expect", "anticipate", "estimate", "project", "intend", "plan", "should", "may", "will", " be", "will continue" or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Consolidated Communications Holdings, Inc. and its subsidiaries ("Consolidated", the "Company", "we" or "our") to be different from those expressed or implied in the forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements that appear throughout this report. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward–looking statements is included in our 2015 Annual Report on Form 10-K filed with the SEC. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under federal securities laws or the rules and regulations of the SEC, we disclaim any intention or obligation to update or revise publicly any forward-looking statements. You should not place undue reliance on forward-looking statements. Management's Discussion and Analysis ("MD&A") should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes to the financial statements ("Notes") as of and for the quarter and six months ended June 30, 2016 included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Throughout this MD&A, we refer to measures that are not measures of financial performance in accordance with accounting principles generally accepted in the United States ("US GAAP" or "GAAP"). We believe the use of these non-GAAP measures on a consolidated basis provides the reader with additional information that is useful in understanding our operating results and trends. These measures should be viewed in addition to, rather than as a substitute for, those measures prepared in accordance with GAAP. See the "Non-GAAP Measures" section below for a more detailed discussion on the use and calculation of these measures.

Overview

We are an integrated communications services company that operates as both an Incumbent Local Exchange Carrier ("ILEC") and a Competitive Local Exchange Carrier ("CLEC") dependent upon the territory served. We provide an array of services in consumer, commercial and carrier channels in 11 states, including local and long-distance service,

high-speed broadband Internet access, video services, Voice over Internet Protocol ("VoIP"), custom calling features, private line services, carrier grade access services, network capacity services over our regional fiber optic networks, data center and managed services, directory publishing, equipment sales and services, and cloud services.

Total operating revenues decreased $14.1 million and $17.9 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to an $8.8 million and $10.1 million decrease in equipment sales and services revenues, respectively. Equipment sales and services are non-recurring and changes in revenues can be attributed to the timing and volume of customer sales, which can vary each quarter and result in positive or negative fluctuations in our quarterly operating revenues and expenses. In addition, outside billing and support services revenues decreased $1.0 million and $2.1 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 as a result of the sale of our billing services company in late 2015.

We generate the majority of our consolidated operating revenues primarily from subscriptions to our video, data and transport services (collectively "broadband services") to business and residential customers. Consumer broadband

Table of Contents

revenues decreased $1.0 million and $0.1 million for the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015, despite price increases for data and video services implemented in the first quarter of 2016. Total data and video connections decreased 3% and 11%, respectively, as of June 30, 2016 compared to the same period in 2015 as we lost more connections than anticipated as a result of the price increases and increased competition for these subscribers.

As the market demands for data continue to increase as a result of consumer trends toward increased Internet usage, our continued focus is on enhancing product and service offerings, such as our progressively increasing consumer data speeds. We introduced data speeds of up to 1 Gbps to approximately 20,000 of our fiber-to-the-home customers in our Kansas market and a limited portion of our Pennsylvania market in December 2014 and in our Texas market in the first quarter of 2015, with our California market to follow in the second half of 2016. Where 1 Gbps speeds are not yet offered, the maximum broadband speed is 100 Mbps, depending on the geographic market availability. As of June 30, 2016, approximately 28% of the homes in the areas we serve subscribe to our data service. Our exceptional consumer broadband speed allows us to continue to meet the needs of our customers and the demand for higher speeds resulting from the growing trend of over-the-top (“OTT”) content viewing. The availability of 1 Gbps data speed also complements our wireless home networking (“Wi-Fi”) that supports our TV Everywhere service and allows our subscribers to watch their favorite programs at home or away on a computer, smartphone or tablet.

The consumer’s growing acceptance of OTT video services either to augment their current viewing options or to entirely replace their video subscription may impact our future video subscriber base, which could result in a decline in video revenue as well as a reduction in video programing costs. Total video connections decreased 9% as of June 30, 2016 compared to the same period in 2015. We believe the trend in changing consumer viewing habits will continue to impact our business model and strategy of providing consumers the necessary broadband speed to facilitate OTT content viewing.

The remainder of the decrease in total operating revenues was due to an anticipated industry wide trend of a decline in consumer voice services, access lines and related network access. Many consumers are choosing to subscribe to alternative communications services and competition for these subscribers continues to increase. Total voice connections decreased 4% as of June 30, 2016 compared to the same period in 2015. Competition from wireless providers, competitive local exchange carriers and, in some cases, cable television providers has increased in recent years in the markets we serve. We have been able to mitigate some of the access line losses through marketing initiatives and product offerings, such as our VoIP service.

The decrease in our total operating revenues during the quarter and six months ended June 30, 2016 was offset in part by growth in commercial and carrier data and transport services as a result of increased demand for data-based services. We continue to focus on commercial and broadband growth opportunities and are continually expanding our commercial product offerings for both small and large businesses to capitalize on industry technological advances. We can leverage our fiber optic networks and tailor our services for business customers by developing solutions to fit their specific needs. In addition, we recently launched a suite of cloud services and an enhanced hosted voice product, which increases efficiency and reduces IT costs for our customers and enables greater scalability and reliability for businesses. We anticipate future momentum in new commercial services as these new products gain

traction.

As discussed in the “Regulatory Matters” section below, our operating revenues are also impacted by legislative or regulatory changes at the federal and state levels, which could reduce or eliminate the current subsidies revenue we receive. A number of proceedings and recent orders relate to universal service reform, intercarrier compensation and network access charges. There are various ongoing legal challenges to the orders that have been issued. As a result, it is not yet possible to fully determine the impact of the regulatory changes on our operations.

Significant Recent Developments

Acquisition

On April 18, 2016, we entered into a definitive agreement to acquire substantially all of the assets of Champaign Telephone Company, Inc. and its sister company, Big Broadband Services, LLC, a private business communications provider in the Champaign-Urbana, IL area. The acquisition was completed on July 1, 2016. The aggregate purchase price, including

Table of Contents

customary working capital adjustments, consisted of cash consideration of approximately $13.4 million, which was paid from our existing cash resources.

Divestiture

On May 3, 2016, we entered into a definitive agreement to sell all of the issued and outstanding stock of Consolidated Communications of Iowa Company (“CCIC”), formerly Heartland Telecommunications Company of Iowa, for approximately $22.5 million in cash, prior to certain contractual adjustments. CCIC operates as an incumbent local exchange carrier providing telecommunications and data services to residential and business customers in 11 rural communities in northwest Iowa and surrounding areas. As of June 30, 2016, the assets and liabilities to be disposed of were classified as held for sale in the condensed consolidated balance sheet and consisted primarily of property, plant and equipment of $20.2 million, allocated goodwill of $7.6 million and deferred income tax liabilities of $7.4 million. In connection with the classification as assets held for sale, we recognized an impairment loss of $0.6 million during the quarter and six months ended June 30, 2016. The transaction is expected to close in the third quarter of 2016 and is subject to customary closing conditions, including regulatory approvals.

Table of Contents

Results of Operations

The following tables reflect our financial results on a consolidated basis and key operating metrics as of and for the quarters and six months ended June 30, 2016 and 2015.

Financial Data

	Quarter Ended June 30,				Six Months Ended June 30,			
n millions, except for percentages)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
perating Revenues								
ommercial and carrier:								
ata and transport services (includes oIP)	$ 48.6	$ 46.2	$ 2.4	5 %	$ 97.7	$ 92.3	$ 5.4	6 %
oice services	25.3	26.2	(0.9)	(3)	50.3	52.3	(2.0)	(4)
her	2.7	2.8	(0.1)	(4)	5.3	5.4	(0.1)	(2)
	76.6	75.2	1.4	2	153.3	150.0	3.3	2
onsumer:								
oadband (VoIP, data and video)	53.1	54.1	(1.0)	(2)	107.7	107.8	(0.1)	(0)
oice services	14.0	15.1	(1.1)	(7)	28.5	30.7	(2.2)	(7)
	67.1	69.2	(2.1)	(3)	136.2	138.5	(2.3)	(2)
quipment sales and service	10.5	19.3	(8.8)	(46)	20.1	30.2	(10.1)	(33)
ubsidies	13.0	14.5	(1.5)	(10)	26.1	28.9	(2.8)	(10)
etwork access	16.3	17.9	(1.6)	(9)	33.1	36.2	(3.1)	(9)
ther products and services	3.4	4.9	(1.5)	(31)	6.9	9.8	(2.9)	(30)
otal operating revenues	186.9	201.0	(14.1)	(7)	375.7	393.6	(17.9)	(5)
perating Expenses								
ost of services and products	80.8	86.4	(5.6)	(6)	160.5	166.3	(5.8)	(3)
lling, general and administrative sts	39.0	43.3	(4.3)	(10)	79.7	85.7	(6.0)	(7)
oss on impairment	0.6	—	0.6	100	0.6	—	0.6	100
epreciation and amortization	43.5	43.6	(0.1)	(0)	87.6	87.2	0.4	0
otal operating expenses	163.9	173.3	(9.4)	(5)	328.4	339.2	(10.8)	(3)
come from operations	23.0	27.7	(4.7)	(17)	47.3	54.4	(7.1)	(13)
terest expense, net	(19.1)	(20.4)	1.3	6	(37.7)	(41.1)	3.4	8
oss on extinguishment of debt	—	(41.2)	41.2	100	—	(41.2)	41.2	100
her income	8.6	8.9	(0.3)	(3)	15.8	15.3	0.5	3
come tax expense (benefit)	12.3	(9.1)	21.4	235	17.3	(4.5)	21.8	484
et income (loss)	0.2	(15.9)	16.1	101	8.1	(8.1)	16.2	200
et income attributable to ncontrolling interest	0.1	0.1	—	—	0.2	0.1	0.1	100

et income (loss) attributable to mmon shareholders	$ 0.1	$ (16.0)	$ 16.1	101		$ 7.9	$ (8.2)	$ 16.1	196	
djusted EBITDA (1)	$ 78.0	$ 80.3	$ (2.3)	(3)	%	$ 156.6	$ 160.0	$ (3.4)	(2)	%

(1) A non-GAAP measure. See the "Non-GAAP Measures" section below for additional information and reconciliation to the most directly comparable GAAP measure.

Table of Contents

Key Operating Statistics

	As of June 30,				
	2016	2015	Change	% Change	
Consumer customers	262,177	272,882	(10,705)	(4)	%
Voice connections	471,458	493,540	(22,082)	(4)	
Data connections	462,559	448,944	13,615	3	
Video connections	111,617	122,155	(10,538)	(9)	
Total connections	1,045,634	1,064,639	(19,005)	(2)	%

Operating Revenues

Commercial and Carrier

Data and Transport Services

We provide a variety of business communication services to small, medium and large business customers, including many services over our advanced fiber network. The services we offer include scalable high speed broadband Internet access and VoIP phone services which range from basic service plans to virtual hosted systems. In addition to Internet and VoIP services, we also offer private line data services to businesses that include dedicated Internet access through our Metro Ethernet network. Wide Area Network ("WAN") products include point-to-point and multi-point deployments from 2.5 Mbps to 10 Gbps to accommodate the growth patterns of our business customers. Data center and disaster recovery solutions provide a reliable and local colocation option for commercial customers. We also offer wholesale services to regional and national interexchange and wireless carriers, including cellular backhaul and other fiber transport solutions.

Data and transport services revenues increased $2.4 million and $5.4 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to growth in data and video connections and a continued increase in VoIP, internet access and Metro Ethernet revenues. Fiber transport and cellular backhaul revenues also increased as network bandwidth demand for wireless data continues to escalate and as a result of a one-time early termination fee in 2016.

Voice Services

Voice services include basic local phone and long-distance service packages for business customers. The plans include options for voicemail, conference calling, linking multiple office locations and other custom calling features such as caller ID, call forwarding, speed dialing and call waiting. Services can be charged at a fixed monthly rate, a measured rate or can be bundled with selected services at a discounted rate.

Voice services revenues decreased $0.9 million and $2.0 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to a 5% decline in access lines as commercial customers are increasingly choosing alternative technologies, including our own VoIP product, and the broad range of features that Internet based voice services can offer.

Consumer

Broadband Services

Broadband services include revenues from residential customers for subscriptions to our VoIP, data and video products. We offer high speed Internet access at speeds of up to 1 Gbps, depending on the nature of the network facilities that are available, the level of service selected and the location. Our VoIP digital phone service is also available in certain markets as an alternative to the traditional telephone line. Depending on geographic market availability, our video services range from limited basic service to advanced digital television, which includes several plans each with hundreds of local,

Table of Contents

national and music channels including premium and pay-per-view channels as well as video on-demand service. Certain customers may also subscribe to our advanced video services, which consist of high-definition television, digital video recorders ("DVR") and/or a whole home DVR.

Broadband services revenues decreased $1.0 million and $0.1 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015, despite price increases for data and video services implemented in the first quarter of 2016. Total data and video connections decreased 3% and 11%, respectively, as of June 30, 2016 compared to the same period in 2015 as we lost more connections than anticipated as a result of the price increases and increased competition for these subscribers.

Voice Services

We offer several different basic local phone service packages and long-distance calling plans, including unlimited flat-rate calling plans. The plans include options for voicemail and other custom calling features such as caller ID, call forwarding and call waiting. Voice services revenues decreased $1.1 million and $2.2 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to a 9% decline in voice connections. The number of local access lines in service directly affects the recurring revenues we generate from end users and continues to be impacted by the industry-wide decline in access lines. We expect to continue to experience modest erosion in voice connections due to competition from alternative technologies, including our own competing VoIP product.

Equipment Sales and Service

We are an accredited Master Level Unified Communications and Gold Certified Cisco Partner providing equipment solutions and support for business customers. As an equipment integrator, we offer network design, implementation and support services, including maintenance contracts, in order to provide integrated communication solutions for our customers. When an equipment sale involves multiple deliverables, revenues are allocated to each respective element based on relative selling price. Equipment sales and service revenues decreased $8.8 million and $10.1 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015. Equipment sales and services are non-recurring and changes in revenues can be attributed to the timing and volume of customer sales, which can vary each quarter and result in positive or negative fluctuations in our quarterly operating revenues and expenses.

Subsidies

Subsidies consist of both federal and state subsidies, which are designed to promote widely available, quality telephone service at affordable prices in rural areas. Subsidies revenues decreased $1.5 million and $2.8 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to the transition to Connect America Fund ("CAF") Phase II funding and a decrease in state funding support for our Texas ILEC. See the "Regulatory Matters" section below for further discussion of the subsidies we receive.

Network Access Services

Network access services include interstate and intrastate switched access revenues, network special access services and end user access. Switched access revenues include access services to other communications carriers to terminate or originate long-distance calls on our network. Special access circuits provide dedicated lines and trunks to business customers and interexchange carriers. Network access services revenues decreased $1.6 million and $3.1 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to a decline in special access revenues as a result of a reduction in the number of our carrier circuits; however, a portion of the decrease can be attributed to carriers shifting to our fiber Metro Ethernet product, contributing to the growth in that area.

Other Products and Services

Other products and services include revenues from telephone directory publishing, video advertising and billing and support services. Other products and services revenues decreased $1.5 million and $2.9 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to a decline in outside

Table of Contents

billing and support services revenue of $1.0 million and $2.1 million, respectively, as a result of the sale of our billing services company in late 2015. The remainder of the decrease in other products and services revenue for the quarter and six months ended June 30, 2016 compared to the same periods in 2015 was due to a decline in telephone directory advertising revenues.

Operating Expenses

Cost of Services and Products

Cost of services and products decreased $5.6 million and $5.8 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to a reduction in costs of goods sold related to a decline in equipment sales, which can fluctuate each quarter as discussed above. Video programming costs also decreased as a result of a 9% decline in video connections, which was largely offset by an increase in programming costs per channel as costs continue to rise as a result of annual rate increases. Network access costs also increased due to growth in carrier and wireless backhaul services. The change in cost of services and products was also impacted by an increase in pension expense in the current year.

Selling, General and Administrative Costs

Selling, general and administrative costs decreased $4.3 million and $6.0 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to a decline in employee-related costs from a reduction in headcount as part of the Company’s cost saving initiatives implemented in late 2015 as well as a decrease in incentive compensation in the current quarter. Bad debt expense also decreased as a result of recoveries recognized in 2016 and increased reserves in the prior year periods. However, advertising expense increased due to additional radio advertising and marketing promotions in 2016.

Depreciation and Amortization

Depreciation and amortization expense decreased $0.1 million and increased $0.4 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015, primarily due to ongoing capital expenditures related to network enhancements and success-based capital projects for consumer and commercial services, which were offset in part by certain circuit equipment and outside plant becoming fully depreciated during the first half of 2016.

Reclassifications

Certain amounts in our 2015 condensed consolidated financial statements have been reclassified to conform to the 2016 presentation, which consisted primarily of the reclassification of certain operating revenues from network access to commercial and carrier. The change in the classification of these revenues had no impact to total operating revenues as previously reported.

Regulatory Matters

Our revenues are subject to broad federal and/or state regulation, which include such telecommunications services as local telephone service, network access service and toll service and are derived from various sources, including:

- business and residential subscribers of basic exchange services;
- surcharges mandated by state commissions;
- long-distance carriers for network access service;
- competitive access providers and commercial enterprises for network access service; and
- support payments from federal or state programs.

The telecommunications industry is subject to extensive federal, state and local regulation. Under the Telecommunications Act of 1996, federal and state regulators share responsibility for implementing and enforcing statutes and regulations

Table of Contents

designed to encourage competition and to preserve and advance widely available, quality telephone service at affordable prices.

At the federal level, the Federal Communications Commission ("FCC") generally exercises jurisdiction over facilities and services of local exchange carriers, such as our rural telephone companies, to the extent they are used to provide, originate or terminate interstate or international communications. The FCC has the authority to condition, modify, cancel, terminate or revoke our operating authority for failure to comply with applicable federal laws or FCC rules, regulations and policies. Fines or penalties also may be imposed for any of these violations.

State regulatory commissions generally exercise jurisdiction over carriers' facilities and services to the extent they are used to provide, originate or terminate intrastate communications. In particular, state regulatory agencies have substantial oversight over interconnection and network access by competitors of our rural telephone companies. In addition, municipalities and other local government agencies regulate the public rights-of-way necessary to install and operate networks. State regulators can sanction our rural telephone companies or revoke our certifications if we violate relevant laws or regulations.

FCC Matters

In general, telecommunications service in rural areas is more costly to provide than service in urban areas. The lower customer density means that switching and other facilities serve fewer customers and loops are typically longer, requiring greater expenditures per customer to build and maintain. By supporting the high cost of operations in rural markets, Universal Service Fund ("USF") subsidies promote widely available, quality telephone service at affordable prices in rural areas. Revenues from the federal and certain states' USFs decreased $1.5 million and $2.8 million during the quarter and six months ended June 30, 2016 compared to the same period in 2015, respectively, primarily due to the transition to CAF Phase II funding and a decrease in state funding support for our Texas ILEC.

In order for an eligible telecommunications carrier ("ETC") to receive high-cost support, the USF/Intercarrier Compensation ("ICC") Transformation Order requires states to certify annually that USF support is used only for the provision, maintenance and upgrading of facilities and services for which the support is intended. States, in turn, require that ETCs file certifications with them as the basis for the state filings with the FCC. Failure to meet the annual data and certification deadlines can result in reduced support to the ETC based on the length of the delay in certification. For calendar year 2013, the California state certification was due to be filed with the FCC on or before October 1, 2012. We were notified in January 2013 that SureWest Communications ("SureWest") did not submit the required certification to the California Public Utilities Commission ("CPUC") in time to be included in its October 1, 2012 submission to the FCC. In January 2013, we filed a certification with the CPUC and filed a petition with the FCC for a waiver of the filing deadline for the annual state certification. In February 2013, the CPUC filed a certification with the FCC with respect to SureWest. In October 2013, the Wireline Competition Bureau of the FCC denied our petition for a waiver of the annual certification deadline. In November 2013, we applied for a review of the decision made by the FCC staff by the full Commission. Management is optimistic that the Company may prevail

in its application to the Commission and receive USF funding for the period January 1, 2013 through June 30, 2013 based on the change in SureWest's USF filing status caused by the change in the ownership of SureWest, the lack of formal notice by the FCC regarding this change in filing status, the fact that SureWest had a previously filed certification of compliance in effect with the FCC for the two quarters for which USF was withheld and the FCC's past practice of granting waivers to accept late filings in similar situations. However, due to the denial of our petition by the Wireline Competition Bureau and the uncertainty of the collectability of previously recognized revenues, in December 2013 we reversed $3.0 million of previously recognized revenues until such time that the Commission has the opportunity to reach a decision on our application for review.

Our recently acquired Enventis ILEC properties are cost-based rate of return companies. Historically, under FCC rules governing rate making, these ILECs were required to establish rates for their interstate telecommunications services based on projected demand usage for the various services. We projected our earnings through the use of annual cost separation studies, which utilized estimated total cost information and projected demand usage. Carriers were required to follow FCC rules in the preparation of these annual studies. We determined actual earnings from our interstate rates as actual volumes and costs became known. Effective January 1, 2015, our Enventis ILECs are treated as price cap companies for universal service purposes. In March 2015, we filed a petition for waiver to keep them as rate of return companies for

Table of Contents

switched and special access. The petition was granted in October 2015. We expect certain adjustments to take place over 24 months as a result of exiting the National Exchange Carrier Association ("NECA") pool; however, we do not anticipate that they will be material to our condensed consolidated financial statements or results of operations.

An order adopted by the FCC in 2011 (the "Order") will significantly impact the amount of support revenue we receive from the USF, CAF and ICC. The Order reformed core parts of the USF, broadly recast the existing ICC scheme, established the CAF to replace support revenues provided by the current USF and redirected support from voice services to broadband services. In 2012, CAF Phase I was implemented, which froze USF support to price cap carriers until the FCC implemented a broadband cost model to shift support from voice services to broadband services. The Order also modified the methodology used for ICC traffic exchanged between carriers. The initial phase of ICC reform was effective on July 1, 2012, beginning the transition of our terminating switched access rates to bill-and-keep over a seven year period, and as a result, we estimate that our network access revenue for 2016 will be reduced by as much as approximately $1.9 million.

In December 2014, the FCC released a report and order that addressed, among other things, the transition to CAF Phase II funding for price cap carriers and the acceptance criteria for CAF Phase II funding. For companies that accepted the CAF Phase II funding, there is a three year transition period in instances in which their CAF Phase I funding exceeds the CAF Phase II funding. If CAF Phase II funding exceeds CAF Phase I funding, the transitional support is waived and CAF Phase II funding begins immediately. Companies are required to commit to a statewide build out requirement to 10 Mbps downstream and 1 Mbps upstream in funded locations. We accepted the CAF Phase II funding in August 2015. The annual funding under CAF Phase I of $36.6 million will be replaced by annual funding under CAF Phase II of $13.9 million through 2020. In the state of Iowa, where CAF Phase II funding is greater than the CAF Phase I funding, the CAF Phase II funding was received with a retroactive payment back to January 1, 2015. For all other states, funding under CAF Phase II is less than funding under CAF Phase I. The acceptance of funding at the lower level will transition over a three year period, beginning in August 2015, at the rates of 75% of the CAF Phase I funding level in the first year, 50% in the second year and 25% in the third year.

In March 2015, the FCC released its net neutrality order which applies to all wireline and wireless providers of broadband internet access services. The net neutrality order addresses several areas that will be regulated and others that are subject to forbearance. The regulations "bright line" rules disallow blocking, throttling and paid prioritization by internet service providers. The net neutrality order also requires providers to disclose certain information to consumers on rates, fees, data allowances and packet loss. Finally, it gives the FCC codified enforcement authority and it forbears on certain Title II regulations. On June 12, 2015, the net neutrality order became effective and has not resulted in any significant changes to the services we provide our customers, nor has it had a material impact on our condensed consolidated financial position or results of operations.

State Matters

California

In an ongoing proceeding relating to the New Regulatory Framework, the CPUC adopted Decision 06-08-030 in 2006, which grants carriers broader pricing freedom in the provision of telecommunications services, bundling of services, promotions and customer contracts. This decision adopted a new regulatory framework, the Uniform Regulatory Framework ("URF"), which among other things (i) eliminates price regulation and allows full pricing flexibility for all new and retail services, (ii) allows new forms of bundles and promotional packages of telecommunication services, (iii) allocates all gains and losses from the sale of assets to shareholders and (iv) eliminates almost all elements of rate of return regulation, including the calculation of shareable earnings. In December 2010, the CPUC issued a ruling to initiate a new proceeding to assess whether, or to what extent, the level of competition in the telecommunications industry is sufficient to control prices for the four largest ILECs in the state. Subsequently, the CPUC issued a ruling temporarily deferring the proceeding. When the CPUC may open this proceeding is unclear and on hold at this time. The CPUC's actions in this and future proceedings could lead to new rules and an increase in government regulation. The Company will continue to monitor this matter.

Table of Contents

Pennsylvania

In 2011, the Pennsylvania Public Utilities Commission ("PAPUC") issued an intrastate access reform order reducing intrastate access rates to interstate levels in a three-step process, which began in March 2012. With the release of the FCC order in November 2011, the PAPUC temporarily issued a stay. A final stay was issued in 2012 to implement the FCC ordered intrastate access rate changes. The PAPUC consumer affairs advocate is in favor of extending the funding through 2021. The PAPUC had indicated that it would address state universal funding in 2013, but delayed conducting a proceeding pending any state legislative activity. The Company will continue to monitor this matter.

Texas

The Texas Public Utilities Regulatory Act ("PURA") directs the Public Utilities Commission of Texas ("PUCT") to adopt and enforce rules requiring local exchange carriers to contribute to a state universal service fund that helps telecommunications providers offer basic local telecommunications service at reasonable rates in high-cost rural areas. The Texas Universal Service Fund is also used to reimburse telecommunications providers for revenues lost by providing lifeline service. Our Texas rural telephone companies receive disbursements from this fund.

Our Texas ILECs have historically received support from two state funds, the small and rural incumbent local exchange company plan High Cost Fund ("HCF") and the High Cost Assistance Fund ("HCAF"). The HCF is a line-based fund used to keep local rates low. The rate is applied on all residential lines and up to five single business lines. The amount we receive from the HCAF is a frozen monthly amount that was originally developed to offset high intrastate toll rates.

In September 2011, the Texas state legislature passed Senate Bill No. 980/House Bill No. 2603 which, among other things, mandated the PUCT to review the USF and issue recommendations by January 1, 2013 with the intent to effectively reduce the size of the USF. This would be accomplished by implementing an urban floor to offset state funding reductions with a phase-in period of four years. The PUCT recommended that (i) frozen line counts be lifted effective September 1, 2013 and (ii) rural and urban local rate benchmarks be developed. The large company fund review was completed in September 2012 and the PUCT addressed the small fund participants in Docket 41097 Rate Rebalancing ("Docket 41097"), as discussed below.

In June 2013, the Texas state legislature passed Senate Bill No. 583 ("SB 583"). The provisions of SB 583 were effective September 1, 2013 and froze HCF and HCAF support for the remainder of 2013. As of January 1, 2014, our annual $1.4 million HCAF support was eliminated and the frozen HCF support returned to funding on a per line basis. In July 2013, the Company entered into a settlement agreement with the PUCT on Docket 41097, which was approved by the PUCT in August 2013. In accordance with the provisions of the settlement agreement, the HCF draw will be reduced by approximately $1.2 million annually over a four year period beginning June 1, 2014 through

2018. However, we have the ability to fully offset this reduction with increases to residential rates where market conditions allow.

In addition, the PUCT is required to develop a needs test for post-2017 funding and has held workshops on various proposals. The PUCT issued its recommendation to the Texas state commissioners in May 2014, which was approved in December 2014. The needs test allows for a one-time disaggregation of line rates from a per line flat rate, then a competitive test must be met to receive funding. The deadline for submission of the needs test is December 31, 2016. We expect to complete the needs test as required and file for continued funding by the 2016 deadline.

Other Regulatory Matters

We are also subject to a number of regulatory proceedings occurring at the federal and state levels that may have a material impact on our operations. The FCC and state commissions have authority to issue rules and regulations related to our business. A number of proceedings are pending or anticipated that are related to such telecommunications issues as competition, interconnection, access charges, intercarrier compensation, broadband deployment, consumer protection and universal service reform. Some proceedings may authorize new services to compete with our existing services. Proceedings that relate to our cable television operations include rulemakings on set top boxes, carriage of programming, industry consolidation and ways to promote additional competition. There are various on-going legal

Table of Contents

challenges to the scope or validity of FCC orders that have been issued. As a result, it is not yet possible to fully determine the impact of the related FCC rules and regulations on our operations.

Non-Operating Items

Other Income and Expense, Net

Interest expense, net of interest income, decreased $1.3 million and $3.4 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015 primarily due to a reduction in the interest rate for our outstanding senior notes. In June 2015, we issued an additional $300.0 million in 6.50% Senior Notes due 2022, which were used, in part, to redeem the then-remaining amount of our outstanding 10.875% Senior Notes due 2020. Interest expense was also reduced in 2016 from a decline in outstanding debt under our revolving credit facility as well as a decrease in interest expense related to our interest rate swap agreements.

In connection with the redemption in June 2015 of the remaining $227.2 million of the original aggregate principal amount of our 10.875% Senior Notes due 2020, we paid $261.9 million and recognized a loss on the extinguishment of debt of $41.2 million during the quarter and six months ended June 30, 2015.

Other income decreased $0.3 million and increased $0.5 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015, primarily due to a decline in investment income from our wireless partnership interests of $0.3 million during each of the respective periods. In addition, during the six months ended June 30, 2015, an other-than-temporary impairment loss of $0.8 million was recognized as a result of the sale of our equity interest in Central Valley Independent Network, LLC in 2015.

Income Taxes

Income taxes increased $21.4 million and $21.8 million during the quarter and six months ended June 30, 2016, respectively, compared to the same periods in 2015. Our effective tax rate was 98.7% and 36.4% for the quarters ended June 30, 2016 and 2015, respectively, and 68.2% and 35.6% for the six months ended June 30, 2016 and 2015, respectively. For the quarter and six months ended June 30, 2016 and 2015, the effective tax rate differed from the federal and state statutory rates primarily due to non-deductible expenses and differences in allocable income for the Company’s state tax filings. In addition, for the quarter and six months ended June 30, 2016, we recognized approximately $7.5 million of deferred taxes related to the assets held for sale of CCIC. Accounting Standards Codification 740-30-25-7 (“ASC 740”) requires a company to assess whether the excess of the reported amount of an investment in a domestic subsidiary for financial reporting purposes over the underlying tax basis is a taxable

temporary difference. Prior to the quarter ended June 30, 2016, the Company had met the criteria under ASC 740 to not record the tax effects of the taxable temporary difference related to its investment in CCIC as the Company expected to recover its investment in a tax-free manner. On May 3, 2016, the Company entered into a definitive agreement to sell all the issued and outstanding stock of CCIC. The transaction is expected to close in the third quarter of 2016. As of June 30, 2016, the assets and liabilities of CCIC to be sold were classified as held for sale. Due to the change in the expected manner of recovery of its investment in CCIC, the Company recorded the taxable temporary difference associated with the excess of the reported amount of its investment in CCIC over the underlying tax basis. Exclusive of this adjustment, our effective tax rate for the quarter and six months ended June 30, 2016 would have been approximately 38.5% and 38.6%, respectively.

Non-GAAP Measures

In addition to the results reported in accordance with US GAAP, we also use certain non-GAAP measures such as EBITDA and adjusted EBITDA to evaluate operating performance and to facilitate the comparison of our historical results and trends. These financial measures are not measures of financial performance under US GAAP and should not be considered in isolation or as a substitute for net income as a measure of performance and net cash provided by operating activities as a measure of liquidity. They are not, on their own, necessarily indicative of cash available to fund cash needs as determined in accordance with GAAP. The calculation of these non-GAAP measures may not be comparable to similarly titled measures used by other companies. Reconciliations of these non-GAAP measures to the most directly comparable financial measures presented in accordance with GAAP are provided below.

Table of Contents

EBITDA is defined as net earnings before interest expense, income taxes and depreciation and amortization. Adjusted EBITDA is comprised of EBITDA, adjusted for certain items as permitted or required under our credit facility as described in the reconciliations below. These measures are a common measure of operating performance in the telecommunications industry and are useful, with other data, as a means to evaluate our ability to fund our estimated uses of cash.

The following table is a reconciliation of net income (loss) to adjusted EBITDA for the quarters and six months ended June 30, 2016 and 2015:

	Quarter Ended June 30,		Six Months Ended June 30,	
(In thousands, unaudited)	2016	2015	2016	2015
Net income (loss)	$ 157	$ (15,928)	$ 8,059	$ (8,099)
Add (subtract):				
Interest expense, net of interest income	19,106	20,429	37,752	41,103
Income tax expense (benefit)	12,323	(9,104)	17,296	(4,478)
Depreciation and amortization	43,491	43,651	87,631	87,207
EBITDA	75,077	39,048	150,738	115,733
Adjustments to EBITDA:				
Other, net (1)	(5,796)	(7,741)	(10,521)	(12,642)
Investment distributions (2)	7,784	7,087	14,580	14,166
Loss on extinguishment of debt	—	41,242	—	41,242
Non-cash, stock-based compensation (3)	912	710	1,804	1,523
Adjusted EBITDA	$ 77,977	$ 80,346	$ 156,601	$ 160,022

(1) Includes the equity earnings from our investments, dividend income, income attributable to noncontrolling interests in subsidiaries, transaction related costs, including severance, and certain other miscellaneous items.

(2) Includes all cash dividends and other cash distributions received from our investments.

(3) Represents compensation expenses in connection with the issuance of stock awards, which, because of the non-cash nature of these expenses, are excluded from adjusted EBITDA.

Liquidity and Capital Resources

Outlook and Overview

Our operating requirements have historically been funded from cash flows generated from our business and borrowings under our credit facilities. We expect that our future operating requirements will continue to be funded from cash flows from operating activities, existing cash and cash equivalents and, if needed, borrowings under our revolving credit facility and our ability to obtain future external financing. We anticipate that we will continue to use a substantial portion of our cash flow to fund capital expenditures, meet scheduled payments of long-term debt, make dividend payments and invest in future business opportunities.

The following table summarizes our cash flows:

	Six Months Ended June 30,	
(In thousands)	2016	2015
Cash flows provided by (used in):		
Operating activities	$ 115,505	$ 95,816
Investing activities	(62,221)	(64,635)
Financing activities	(44,607)	(30,914)
Increase in cash and cash equivalents	$ 8,677	$ 267

Table of Contents

Cash Flows Provided by Operating Activities

Net cash provided by operating activities was $115.5 million during the six-month period ended June 30, 2016, an increase of $19.7 million compared to the same period in 2015. Cash flows provided by operating activities increased primarily as a result of changes in working capital including a decrease in accounts receivable and accrued expenses related to the timing and volume of equipment sales. In addition, net cash provided by operating activities during the six months ended June 30, 2015 included the payment of various change-in-control and severance agreements as a result of the acquisition of Enventis in 2014. The increase was also attributed to a reduction in cash contributions to our defined benefit pension plan of $4.7 million during the first six months of 2016 as compared to the same period in 2015.

Cash Flows Used In Investing Activities

Net cash used in investing activities was $62.2 million during the six-month period ended June 30, 2016 and consisted primarily of cash used for capital expenditures.

Capital Expenditures

Capital expenditures continue to be our primary recurring investing activity and were $62.3 million during the six-month period ended June 30, 2016, a decrease of $3.3 million compared to the same period in 2015. Capital expenditures for the remainder of 2016 are expected to be $64.0 million to $67.0 million, of which approximately 62% is planned for success-based capital projects for consumer and commercial initiatives. Capital expenditures for the remainder of 2016 and subsequent years will depend on various factors, including competition, changes in technology, regulatory changes and the timing in the deployment of new services. We expect to continue to invest in existing and new services and the expansion of our fiber network in order to retain and acquire more customers through a broader set of products and an expanded network footprint.

Cash Flows Provided by (Used In) Financing Activities

Net cash provided by (used in) financing activities consists primarily of our proceeds from and principal payments on long-term borrowings and the payment of dividends.

Long-term Debt

Credit Agreement

In December 2013, the Company, through certain of its wholly owned subsidiaries, entered into a Second Amended and Restated Credit Agreement with various financial institutions (the "Credit Agreement"). The Credit Agreement consists of a $75.0 million revolving credit facility and initial term loans in the aggregate amount of $910.0 million ("Term 4"). The Credit Agreement also includes an incremental term loan facility which provides the ability to request to borrow up to $300.0 million of incremental term loans subject to certain terms and conditions. Borrowings under the senior secured credit facility are secured by substantially all of the assets of the Company and its subsidiaries, with the exception of Consolidated Communications of Illinois Company and our majority-owned subsidiary, East Texas Fiber Line Incorporated.

The Term 4 loan was issued in an original aggregate principal amount of $910.0 million with a maturity date of December 23, 2020. The Term 4 loan contains an original issuance discount of $4.6 million, which is being amortized over the term of the loan. The Term 4 loan requires quarterly principal payments of $2.3 million and has an interest rate of London Interbank Offered Rate ("LIBOR") plus 3.25% subject to a 1.00% LIBOR floor.

Our revolving credit facility has a maturity date of December 23, 2018 and an applicable margin (at our election) of between 2.50% and 3.25% for LIBOR-based borrowings or between 1.50% and 2.25% for alternate base rate borrowings, depending on our leverage ratio. Based on our leverage ratio as of June 30, 2016, the borrowing margin for the next three month period ending September 30, 2016 will be at a weighted-average margin of 3.00% for a LIBOR-based loan or 2.00% for an alternate base rate loan. The applicable borrowing margin for the revolving credit facility is adjusted quarterly to

Table of Contents

reflect the leverage ratio from the prior quarter-end. Interest is payable at least quarterly. As of June 30, 2016 and December 31, 2015, borrowings of $10.0 million were outstanding under the revolving credit facility. A stand-by letter of credit of $1.6 million, issued primarily in connection with the Company's insurance coverage, was outstanding under our revolving credit facility as of June 30, 2016. The stand-by letter of credit is renewable annually and reduces the borrowing availability under the revolving credit facility. As of June 30, 2016, $63.4 million was available for borrowing under the revolving credit facility.

Net proceeds from asset sales exceeding certain thresholds, to the extent not reinvested, are required to be used to repay loans outstanding under the Credit Agreement.

Credit Agreement Covenant Compliance

The Credit Agreement contains various provisions and covenants, including, among other items, restrictions on the ability to pay dividends, incur additional indebtedness and issue capital stock. We have agreed to maintain certain financial ratios, including interest coverage and total net leverage ratios, all as defined in the Credit Agreement. As of June 30, 2016, we were in compliance with the Credit Agreement covenants.

In general, our Credit Agreement restricts our ability to pay dividends to the amount of our available cash as defined in our Credit Agreement. As of June 30, 2016, and including the $19.6 million dividend declared in May 2016 and paid on August 1, 2016, we had $258.5 million in dividend availability under the credit facility covenant.

Under our Credit Agreement, if our total net leverage ratio, as defined in the Credit Agreement, as of the end of any fiscal quarter is greater than 5.10:1.00, we will be required to suspend dividends on our common stock unless otherwise permitted by an exception for dividends that may be paid from the portion of proceeds of any sale of equity not used to fund acquisitions or make other investments. During any dividend suspension period, we will be required to repay debt in an amount equal to 50.0% of any increase in available cash, among other things. In addition, we will not be permitted to pay dividends if an event of default under the Credit Agreement has occurred and is continuing. Among other things, it will be an event of default if our total net leverage ratio or interest coverage ratio as of the end of any fiscal quarter is greater than 5.25:1.00 and less than 2.25:1.00, respectively. As of June 30, 2016, our total net leverage ratio under the Credit Agreement was 4.22:1.00, and our interest coverage ratio was 4.25:1.00.

6.50% Senior Notes due 2022

In September 2014, we completed an offering of $200.0 million aggregate principal amount of 6.50% Senior Notes due in October 2022 (the "Existing Notes"). The Existing Notes were priced at par, which resulted in total gross

proceeds of $200.0 million. On June 8, 2015, we completed an additional offering of $300.0 million in aggregate principal amount of 6.50% Senior Notes due 2022 (the "New Notes" and together with the Existing Notes, the "Senior Notes"). The New Notes were issued as additional notes under the same indenture pursuant to which the Existing Notes were previously issued on September 18, 2014. The New Notes were priced at 98.26% of par with a yield to maturity of 6.80% and resulted in total gross proceeds of approximately $294.8 million, excluding accrued interest.

The Senior Notes mature on October 1, 2022 and interest is payable semi-annually on April 1 and October 1 of each year. Consolidated Communications, Inc. ("CCI") is the primary obligor under the Senior Notes, and we and certain of our wholly owned subsidiaries have fully and unconditionally guaranteed the Senior Notes. The Senior Notes are senior unsecured obligations of the Company.

The net proceeds from the issuance of the New Notes were used, in part, to redeem the remaining $227.2 million of our original $300.0 million aggregate principal amount of 10.875% Senior Notes due 2020 (the "2020 Notes"). In connection with the redemption of the 2020 Notes, we paid $261.9 million and recognized a loss on the extinguishment of debt of $41.2 million during the quarter and six months ended June 30, 2015.

Table of Contents

Senior Notes Covenant Compliance

Subject to certain exceptions and qualifications, the indenture governing the Senior Notes contains customary covenants that, among other things, limits CCI's and its restricted subsidiaries' ability to: incur additional debt or issue certain preferred stock; pay dividends or make other distributions on capital stock or prepay subordinated indebtedness; purchase or redeem any equity interests; make investments; create liens; sell assets; enter into agreements that restrict dividends or other payments by restricted subsidiaries; consolidate, merge or transfer all or substantially all of its assets; engage in transactions with its affiliates; or enter into any sale and leaseback transactions. The indenture also contains customary events of default.

Among other matters, the Senior Notes indenture provides that CCI may not pay dividends or make other restricted payments, as defined in the indenture, if its total net leverage ratio is 4.75:1.00 or greater. This ratio is calculated differently than the comparable ratio under the Credit Agreement; among other differences, it takes into account, on a pro forma basis, synergies expected to be achieved as a result of certain acquisitions not yet reflected in historical results. As of June 30, 2016, this ratio was 4.41:1.00. If this ratio is met, dividends and other restricted payments may be made from cumulative consolidated cash flow since April 1, 2012, less 1.75 times fixed charges, less dividends and other restricted payments made since May 30, 2012. Dividends may be paid and other restricted payments may also be made from a "basket" of $50.0 million, none of which has been used to date, and pursuant to other exceptions identified in the indenture. Since dividends of $292.3 million have been paid since May 30, 2012, including the quarterly dividend declared in May 2016 and paid on August 1, 2016, there was $402.1 million of the $694.4 million of cumulative consolidated cash flow since May 30, 2012 available to pay dividends as of June 30, 2016. As of June 30, 2016, the Company was in compliance with all terms, conditions and covenants under the indenture governing the Senior Notes.

Capital Leases

We lease certain facilities and equipment under various capital leases which expire between 2016 and 2021. As of June 30, 2016, the present value of the minimum remaining lease commitments was approximately $13.7 million, of which $4.1 million was due and payable within the next twelve months. The leases require total remaining rental payments of $15.8 million as of June 30, 2016, of which $3.9 million will be paid to LATEL LLC, a related party entity.

Dividends

We paid $39.2 million and $39.1 million in dividend payments to shareholders during the six-month periods ended June 30, 2016 and 2015, respectively. In May 2016, our board of directors declared its next quarterly dividend of $0.38738 per common share, which is payable on August 1, 2016 to stockholders of record at the close of business on

July 15, 2016. Our current annual dividend rate is approximately $1.55 per share.

The cash required to fund dividend payments is in addition to our other expected cash needs, which we expect to fund with cash flows from our operations. In addition, we expect we will have sufficient availability under our revolving credit facility to fund dividend payments in addition to any expected fluctuations in working capital and other cash needs, although we do not intend to borrow under this facility to pay dividends.

We believe that our dividend policy will limit, but not preclude, our ability to grow. If we continue paying dividends at the level currently anticipated under our dividend policy, we may not retain a sufficient amount of cash, and may need to seek refinancing to fund a material expansion of our business, including any significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our current expectations. In addition, because we expect a significant portion of cash available will be distributed to holders of common stock under our dividend policy, our ability to pursue any material expansion of our business will depend more than it otherwise would on our ability to obtain third-party financing.

Table of Contents

Sufficiency of Cash Resources

The following table sets forth selected information regarding our financial condition.

(In thousands, except for ratio)	June 30, 2016	December 31, 2015
Cash and cash equivalents	$ 24,555	$ 15,878
Working capital (deficit)	(3,782)	(17,892)
Current ratio	0.98	0.88

Our most significant uses of funds in the remainder of 2016 are expected to be for: (i) dividend payments of approximately $39.2 million; (ii) interest payments on our indebtedness of approximately $35.5 million and principal payments on debt of $4.6 million; and (iii) capital expenditures of between $64.0 million and $67.0 million. In addition, we used approximately $13.4 million to fund the acquisition of Champaign Telephone Company, Inc. and its sister company, Big Broadband Services, LLC in July 2016. In the future our ability to use cash may be limited by our other expected uses of cash, including our dividend policy, and our ability to incur additional debt will be limited by our existing and future debt agreements.

We believe that cash flows from operating activities, together with our existing cash and borrowings available under our revolving credit facility, will be sufficient for at least the next twelve months to fund our current anticipated uses of cash. After that, our ability to fund these expected uses of cash and to comply with the financial covenants under our debt agreements will depend on the results of future operations, performance and cash flow. Our ability to fund these expected uses from the results of future operations will be subject to prevailing economic conditions and to financial, business, regulatory, legislative and other factors, many of which are beyond our control.

We may be unable to access the cash flows of our subsidiaries since certain of our subsidiaries are parties to credit or other borrowing agreements, or are subject to statutory or regulatory restrictions, that restrict the payment of dividends or making intercompany loans and investments, and those subsidiaries are likely to continue to be subject to such restrictions and prohibitions for the foreseeable future. In addition, future agreements that our subsidiaries may enter into governing the terms of indebtedness may restrict our subsidiaries' ability to pay dividends or advance cash in any other manner to us.

To the extent that our business plans or projections change or prove to be inaccurate, we may require additional financing or require financing sooner than we currently anticipate. Sources of additional financing may include commercial bank borrowings, other strategic debt financing, sales of nonstrategic assets, vendor financing or the private or public sales of equity and debt securities. There can be no assurance that we will be able to generate

sufficient cash flows from operations in the future, that anticipated revenue growth will be realized or that future borrowings or equity issuances will be available in amounts sufficient to provide adequate sources of cash to fund our expected uses of cash. Failure to obtain adequate financing, if necessary, could require us to significantly reduce our operations or level of capital expenditures which could have a material adverse effect on our financial condition and the results of operations.

Surety Bonds

In the ordinary course of business, we enter into surety, performance and similar bonds as required by certain jurisdictions in which we provide services. As of June 30, 2016, we had approximately $3.9 million of these bonds outstanding.

Defined Benefit Pension Plans

As required, we contribute to a qualified defined pension plan (the “Retirement Plan”) and non-qualified supplemental retirement plans (collectively the “Pension Plans”) and other post-retirement benefit plans, which provide retirement benefits to certain eligible employees. Contributions are intended to provide for benefits attributed to service to date. Our funding policy is to contribute annually an actuarially determined amount consistent with applicable federal income tax regulations.

The costs to maintain our Pension Plans and future funding requirements are affected by several factors including the expected return on investment of the assets held by the Pension Plan, changes in the discount rate used to calculate pension

Table of Contents

expense and the amortization of unrecognized gains and losses. Returns generated on Pension Plan assets have historically funded a significant portion of the benefits paid under the Pension Plans. We estimate the long-term rate of return of Pension Plan assets will be 7.75%. The Pension Plans invest in marketable equity securities which are exposed to changes in the financial markets. If the financial markets experience a downturn and returns fall below our estimate, we could be required to make a material contribution to the Pension Plan, which could adversely affect our cash flows from operations.

In 2016, we expect to make contributions totaling approximately $0.3 million to our non-qualified supplemental retirement plans and $3.6 million to our other post-retirement benefit plans, which represents a decline of $11.3 million from the total contributions made in 2015. We do not expect to contribute to our qualified defined pension plans in 2016. As of June 30, 2016, we have contributed $0.1 million and $1.6 million to our non-qualified supplemental retirement plans and our other post-retirement benefit plans, respectively. Our contribution amounts meet the minimum funding requirements as set forth in employee benefit and tax laws. See Note 9 to the Condensed Consolidated Financial Statements, included in this report in Part I – Item I “Financial Information” for a more detailed discussion regarding our pension and other post-retirement plans.

Income Taxes

The timing of cash payments for income taxes, which is governed by the Internal Revenue Service and other taxing jurisdictions, will differ from the timing of recording tax expense and deferred income taxes, which are reported in accordance with GAAP. For example, tax laws in effect regarding accelerated or “bonus” depreciation for tax reporting resulted in less cash payments than the GAAP tax expense. Acceleration of tax deductions could eventually result in situations where cash payments will exceed GAAP tax expense.

Regulatory Matters

As discussed in the “Regulatory Matters” section above, in December 2014, the FCC released a report and order that significantly impacts the amount of support revenue we receive from the USF, CAF and ICC by redirecting support from voice services to broadband services. Our annual funding under CAF Phase I of $36.6 million will be replaced by annual funding under CAF Phase II of $13.9 million through 2020. In the state of Iowa, where CAF Phase II funding is greater than the CAF Phase I funding, the CAF Phase II funding was received with a retroactive payment back to January 1, 2015. For all other states, funding under CAF Phase II is less than funding under CAF Phase I. The acceptance of funding at the lower level will transition over a three year period, beginning in August 2015, at the rates of 75% of the CAF Phase I funding level in the first year, 50% in the second year and 25% in the third year.

The Order also modifies the methodology used for ICC traffic exchanged between carriers. As a result of implementing the provisions of the Order, our network access revenue decreased approximately $0.3 million and $0.6

million during the quarter and six months ended June 30, 2016 compared to the same period in 2015, respectively. Our anticipated decline in network access revenue through 2018 is $1.9 million, $2.0 million and $1.9 million in 2016, 2017 and 2018, respectively.

In accordance with the provisions of SB 583, as discussed in the “Regulatory Matters” section above, our annual $1.4 million Texas HCAF support was eliminated effective January 1, 2014. In addition, in accordance with the provisions of the settlement agreement reached with the PUCT, the HCF draw will be reduced by approximately $1.2 million annually over a four year period beginning June 1, 2014 through 2018. However, we have the ability to fully offset this reduction with increases to residential rates where market conditions allow.

Critical Accounting Estimates

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with US GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by management’s application of accounting policies. Our judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. For a full discussion of our accounting

Table of Contents

estimates and assumptions that we have identified as critical in the preparation of our condensed consolidated financial statements, refer to our 2015 Annual Report on Form 10-K filed with the SEC.

Recent Accounting Pronouncements

For information regarding the impact of certain recent accounting pronouncements, see Note 1 “Summary of Significant Accounting Policies” to the Condensed Consolidated Financial Statements, included in this report in Part I - Item I “Financial Information”.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is primarily related to the impact of interest rate fluctuations on our debt obligations. Market risk is the potential loss arising from adverse changes in market interest rates on our variable rate obligations. In order to manage the volatility relating to changes in interest rates, we utilize derivative financial instruments such as interest rate swaps to maintain a mix of fixed and variable rate debt. We do not use derivatives for trading or speculative purposes. Our interest rate swap agreements effectively convert a portion of our floating-rate debt to a fixed-rate basis, thereby reducing the impact of interest rate changes on future cash interest payments. We calculate the potential change in interest expense caused by changes in market interest rates by determining the effect of the hypothetical rate increase on the portion of our variable rate debt that is not subject to a variable rate floor or hedged through the interest rate swap agreements.

As of June 30, 2016, the majority of our variable rate debt was subject to a 1.00% London Interbank Offered Rate ("LIBOR") floor thereby reducing the impact of fluctuations in interest rates. As of June 30, 2016, LIBOR was below the 1.00% floor. Based on our variable rate debt outstanding as of June 30, 2016, a 1.00% change in market interest rates would increase or decrease annual interest expense by approximately $2.9 million and $0.1 million, respectively.

As of June 30, 2016, the fair value of our interest rate swap agreements amounted to a net liability of $1.6 million. Pre-tax deferred losses related to our interest rate swap agreements included in accumulated other comprehensive loss was $1.6 million as of June 30, 2016.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act") that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. In connection with the filing of this Form 10-Q, management evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design to provide reasonable assurance of achieving their objectives and operation of our disclosure controls and procedures as of June 30, 2016. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of June 30, 2016.

Change in Internal Control Over Financial Reporting

Based upon the evaluation performed by our management, which was conducted with the participation of our Chief Executive Officer and Chief Financial Officer, there has been no change in our internal control over financial reporting during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control systems are designed to provide reasonable assurance to the Company’s management, Board of Directors and Audit Committee regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In 2014, Sprint Communications Company L.P. (“Sprint”) along with MCI Communications Services, Inc. and Verizon Select Services Inc. (collectively, “Verizon”) filed lawsuits against us and many other Local Exchange Carriers (“LECs”) throughout the country challenging the switched access charges LECs assessed Sprint and Verizon, as interexchange carriers, for certain calls originating from mobile and wireline devices that are routed to us through an interexchange carrier. The plaintiffs’ position is based on their interpretation of federal law, among other things, and they are seeking refunds of past access charges paid for such calls. The disputed amounts total $2.4 million and cover periods dating back to 2006. CenturyLink, Inc. requested that the U.S. District Court’s Judicial Panel on Multi district Litigation (the “Panel”), which has the authority to transfer the pretrial proceedings to a single court for multiple civil cases involving common questions of fact, transfer and consolidate these cases in one court. The Panel ordered that these cases be transferred to and centralized in the U.S. District Court for the Northern District of Texas (the “Court”). On November 17, 2015, the Court dismissed these complaints based on its interpretation of federal law and held that LECs could assess switched access charges for the calls at issue (the “November Order”). The November Order also allowed the plaintiffs to amend their complaints to assert claims that arise under state laws independent of the dismissed claims asserted under federal law. While Verizon did not make such a filing, on May 16, 2016, Sprint filed Amended Complaints and on June 30, 2016, LEC defendants named in such complaints filed a Joint Motion to Strike or Dismiss the complaints. On August 1, 2016, Sprint filed its Opposition to the Joint Motion and these LEC defendants have until August 26, 2016 to respond.

Relatedly, earlier this year, numerous LECs across the country, including a number of our LEC entities, filed complaints in various U.S. District Courts against Level 3 Communications, LLC and certain of its affiliates (collectively, “Level 3”) for its failure to pay access charges for certain calls that the November Order held could be assessed by LECs. These complaint cases were transferred to and included in the above-referenced consolidated proceeding before the Court. On May 31, 2016, Level 3 filed a Motion to Dismiss these complaints that largely repeated arguments the November Order rejected. On June 30, 2016, the LECs filed a Joint Opposition and on August 1, 2016, Level 3 filed its Reply.

On July 19, 2016, the Court adopted a Scheduling Order proposed by the parties for the remaining proceedings, including, among other things, dates for the parties to informally resolve damage claims, i.e., the amounts in dispute and late payment charges. Once the proceedings before the Court become final following this process, Sprint, Verizon, and Level 3 are expected to appeal the November Order along with any order that may, for similar reasons, deny Level 3’s May 31, 2016 Motion to Dismiss. We have interconnection agreements in place with all wireless carriers and the applicable traffic is being billed at current access rates. Absent a decision by an appellate court that overturns the November Order or a decision granting Level 3’s Motion to Dismiss, it will be difficult for Sprint and Verizon to succeed on any claims against us or for Level 3 to avoid paying the access charges it disputes in this litigation. Therefore, we do not expect any potential settlement or judgment to have an adverse material impact on our financial results or cash flows.

On April 14, 2008, Salsgiver Inc., a Pennsylvania-based telecommunications company, and certain of its affiliates ("Salsgiver") filed a lawsuit against us and our former subsidiaries, North Pittsburgh Telephone Company and North Pittsburgh Systems Inc., in the Court of Common Pleas of Allegheny County, Pennsylvania alleging that we had prevented Salsgiver from connecting their fiber optic cables to our utility poles. Salsgiver sought compensatory and punitive damages as the result of alleged lost projected profits, damage to its business reputation and other costs. Salsgiver originally claimed to have sustained losses of approximately $125.0 million. We believe that these claims are without merit and that the alleged damages are completely unfounded. We had recorded approximately $0.4 million in 2011 in anticipation of the settlement of this case. During the quarter ended September 30, 2013, we recorded an additional $0.9 million, which included estimated legal fees. A jury trial concluded on May 14, 2015 with the jury ruling in our favor. Salsgiver subsequently filed a post-trial motion asking the judge to overturn the jury verdict. That motion was denied. On June 17, 2015, Salsgiver filed an appeal in the Pennsylvania Superior Court. Salsgiver's brief was filed with the Superior Court on December 4, 2015, and we filed our response on January 18, 2016. The Pennsylvania Superior Court held oral arguments on May 17, 2016 and is expected to issue its ruling during the third quarter of 2016. We believe that, despite the appeal, the $1.3 million currently accrued represents management's best estimate of the potential loss if the verdict is overturned in Salsgiver's favor.

Table of Contents

Two of our subsidiaries, Consolidated Communications of Pennsylvania Company LLC ("CCPA") and Consolidated Communications Enterprise Services Inc. ("CCES"), have, at various times, received assessment notices from the Commonwealth of Pennsylvania Department of Revenue ("DOR") increasing the amounts owed for Pennsylvania Gross Receipt Taxes, and/or have had audits performed for the tax years of 2008 through 2013. In addition, a re-audit was performed on CCPA for the 2010 calendar year. For the calendar years for which we received both additional assessment notices and audit actions, those issues have been combined by the DOR into a single docket for each year.

Pennsylvania generally imposes tax on the gross receipts of telephone messages transmitted wholly within the state and telephone messages transmitted in interstate commerce where such messages originate or terminate in Pennsylvania, and the charges for such messages are billed to a service address in the state. In a 2013 decision involving Verizon Telephone Company of Pennsylvania ("Verizon Pennsylvania"), the Commonwealth Court of Pennsylvania held that the gross receipts tax applies to Verizon Pennsylvania's installation of private phone lines because the sole purpose of private lines is to transmit messages. Similarly, the court held that directory assistance is subject to the gross receipts tax because it makes the transition of messages more effective. However, the court did not find Verizon Pennsylvania's nonrecurring charges for the installation of telephone lines, moves of and changes to telephone lines and services and repairs of telephone lines to be subject to the gross receipts tax as no telephone messages are transmitted when Verizon Pennsylvania performs nonrecurring services.

On appeal, the Supreme Court of Pennsylvania recently held in Verizon Pennsylvania, Inc. v. Commonwealth of Pennsylvania that charges for the installation of private phone lines, charges for directory assistance and certain nonrecurring charges were all subject to the state's gross receipt tax. The Supreme Court of Pennsylvania found that all of the services, including those related to nonrecurring charges, in some way made transmission more effective or communication more satisfactory even though such services did not involve actual transmission. This is a partial reversal of the 2013 Commonwealth Court of Pennsylvania decision described above, which had ruled that while the charges for the installation of private phone lines and directory assistance were subject to the state's gross receipts tax, the nonrecurring charges in question were not. As a motion for reconsideration has not been filed with the Supreme Court of Pennsylvania, and the period for such filing has expired, the case is now final.

For the CCES subsidiary, the total additional tax liability calculated by the DOR auditors for the calendar years 2008 through 2013 is approximately $4.1 million. In May 2016, the Commonwealth of Pennsylvania Board of Finance and Revenue reviewed our appeals of cases for the audits in calendar years 2008 through 2013 and held that the charges in question were subject to the state's gross receipt tax. In June 2016, we filed an appeal with the Pennsylvania Court of Common Pleas for the audits in calendar years 2008 through 2013. Our hearing is not expected to occur until June 2017.

For the CCPA subsidiary, the total additional tax liability calculated by the DOR auditors for the calendar years 2008 through 2013 (using the re-audited 2010 number) is approximately $5.0 million. In May 2016, the Commonwealth of Pennsylvania Board of Finance and Revenue reviewed our appeals of cases for the audits in calendar years 2008 through 2013 and held that the charges in question were subject to the state's gross receipts tax. In June 2016, we filed an appeal with the Pennsylvania Court of Common Pleas for the audits in calendar years 2008 through 2013. Our hearing is not expected to occur until June 2017.

We believe that certain of the DOR's findings regarding the Company's additional tax liability for the calendar years 2008 through 2013, for which we have filed appeals, continue to lack merit. However, in light of the Supreme Court of Pennsylvania's decision, we have accrued $1.4 million and $1.2 million for our CCES and CCPA subsidiaries, respectively. These accruals also include the Company's best estimate of the potential 2014 and 2015 additional tax liabilities. We do not believe that the outcome of these claims will have a material adverse impact on our financial results or cash flows.

From time to time we may be involved in litigation that we believe is of the type common to companies in our industry, including regulatory issues. While the outcome of these other claims cannot be predicted with certainty, we do not believe that the outcome of any of these other legal matters will have a material adverse impact on our business, results of operations, financial condition or cash flows.

Table of Contents

ITEM 6. EXHIBITS

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following financial information from Consolidated Communications Holdings, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

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

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

(Registrant)

August 5, 2016	By:	/s/ C. Robert Udell Jr. C. Robert Udell Jr., Chief Executive Officer (Principal Executive Officer)
August 5, 2016	By:	/s/ Steven L. Childers Steven L. Childers, Chief Financial Officer (Principal Financial Officer and Chief Accounting Officer)