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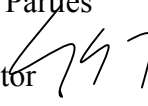
Larry Gregory  
Executive Director

**MISSISSIPPI GAMING COMMISSION**

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INDUSTRY LETTER No. 2004-03  
May 7, 2004

TO: All Licensees and Other Interested Parties

FROM: Larry K. Gregory, Executive Director 

RE: Regulation III. A. 9 – Executive Director’s Requirements for Using the Reserve Method to Fund Periodic Payments

**SUPERCEDES: Industry Letter dated March 26, 2003**

Pursuant to Regulation III. A. 9(c)(3), the Executive Director is granted the authority to establish the requirements under which licensees may use a reserve method for self-funding periodic payments for any game, including a tournament, contest, or promotional activity (hereinafter collectively referred to as “gaming or promotional activity”). The reserve method may be used provided that the licensee complies with the following financial, monitoring and reporting requirements:

Financial Requirements

The licensee must satisfy the following financial requirements at all times:

1. Sufficient reserves maintained in restricted accounts as calculated pursuant to Regulation III. A. 9(b)(13) and reconciled on at least a monthly basis.
2. Either the licensee or the parent holding company must satisfy the following financial requirements at all times:
  - a. A current ratio of not less than 2 to 1. “Current ratio” means current assets divided by current liabilities.

or

Working Capital in excess of \$100 million. “Working Capital” is defined to mean current assets minus current liabilities.

and

- b. An interest coverage ratio of not less than 3 to 1. "Interest coverage ratio" means earnings before interest and taxes (i.e., operating income), plus depreciation and amortization, divided by interest expense.

or

A Debt to EBITDA ratio of not more than 4.75 to 1. "Debt to EBITDA" is defined as total debt (current and long-term debt plus capitalized leases) divided by earnings before interest and taxes ( i.e., operating income) plus depreciation and amortization. For purposes of this calculation, EBITDA shall be computed for a rolling twelve month period.

- c. "Parent holding company" shall mean the consolidated parent entity for purposes of SEC reporting. If the parent holding company is the entity used to meet the financial requirements of number 2, then the licensee must maintain a current ratio of not less than 1 to 1.

Monitoring and Reporting Requirements:

The licensee shall at all times be in compliance with the following conditions for using the reserve method for funding periodic payments:

1. The licensee must send written notification to the Executive Director identifying which of its gaming and promotional activities using periodic payments will be funded using the reserve method. The notification shall provide the necessary information to demonstrate that the licensee meets the aforementioned financial requirements. Such notification shall be submitted by the chief financial officer, or equivalent thereof, at least forty-five (45) days prior to the commencement of such activity. The funding method must be approved in writing by the Executive Director prior to implementation. Once the activity is approved, the licensee need not resubmit such notification for continuing gaming or promotional activity where a prize has been awarded and such activity is immediately begun again or continuously operated. The licensee must also send written notification to the Executive Director identifying the single entity that will meet the ratio or working capital requirements (parent holding company or licensee) and must submit to the Executive Director written notification of any change thereto at least 45 days prior to the end of the quarter or year end, as appropriate. The Executive Director may, for any cause deemed reasonable, require the ratios to be met at either the licensee or parent holding company.
2. Within ten (10) days of funding the periodic payments for prizes won or awarded and where U.S. GSE securities or U.S. Treasury securities are used as the approved funding source, the licensee shall submit written notification to the Executive Director that identifies the name(s) of the financial institution or brokerage firm that was selected to maintain the securities. Such securities shall not be released or redeemed by the

- financial institution or brokerage firm, except at maturity, without the prior written approval of the Executive Director. In addition, prior to maturity, such securities shall not be sold, assigned, transferred, pledged, hypothecated, or disposed of in any manner without the prior written approval of the Executive Director. Executed agreements between the licensee and such entities setting forth these restrictions must be provided to the Executive Director in conjunction with the notification discussed herein. Amendments to such agreements must be approved in the same manner.
3. To demonstrate compliance with the financial requirements, the ratios and working capital figures for both the licensee and parent holding company, including copies of the appropriate financial statements, shall be provided to the Commission for the quarter or fiscal year, as appropriate.
  4. The licensee must engage, at its sole expense, an independent certified public accountant ("Accountant") licensed in the State of Mississippi to examine on a fiscal year basis, and the licensee's chief financial officer, or equivalent thereof, must examine on a fiscal quarter basis the pertinent records and information relating to the aforementioned financial requirements and the licensee's or parent holding company's compliance for each such fiscal year or quarter, respectively.
  5. The licensee and the parent holding company must make available to the Accountant all books, records and information which may be necessary to enable him to make the determination specified in paragraph number 4 above. The Accountant and chief financial officer shall report and certify to the Executive Director in writing, in a format acceptable to the Executive Director, their findings with regard to each respective period under review. The reports and certifications by the Accountant and chief financial officer must be submitted to the Executive Director no later than ninety (90) days after the end of the licensee's fiscal year and thirty (30) days after the end of the quarter, respectively. Such reports must demonstrate the licensee's compliance with the financial requirements of this letter and identify the names of the independent financial institutions or brokerage firms responsible for maintaining the funds or securities, and/or remitting payments to patrons along with the amount of the approved funding sources held by such entities.
  6. If the Accountant or chief financial officer reports and certifies to the Executive Director that the licensee was not in full compliance with all of the aforementioned financial and reporting requirements for the period under review, the Executive Director may require the licensee to obtain a one (1) year letter of credit. The letter of credit shall be in the name of the Mississippi Gaming Commission for an amount sufficient to fund the present value of the then outstanding obligations to be paid to patrons of the affected Mississippi gaming or promotional activity, including progressive systems, of the licensee, and to fund any payments due upon validation of prizes on public display. The Executive Director may also impose additional monitoring or reporting requirements.

- If by the end of the quarter preceding the expiration date of the letter of credit, the licensee continues to be in a state of noncompliance and the licensee has not provided documentation satisfactory to the Executive Director conclusively demonstrating that the letter of credit shall be renewed or replaced or has filed an application for and received a waiver thereof from the Commission, the Executive Director may require draw down(s) on the letter of credit and distribute to any such unpaid patrons cash equal to the present value of such unpaid prizes.
7. If the letter of credit described in paragraph number 5 above is not obtained within fifteen (15) days after the Executive Director directs the licensee to obtain such letter and an administrative extension has not been granted by the Executive Director, the licensee shall immediately notify the Executive Director in writing of such circumstances. Such notification shall also include a written plan that addresses the licensee's arrangements to make payment to unpaid patrons in amounts equal to the present value of any unpaid Mississippi obligations. Pursuant to Regulation III. A. 9(n), the Executive Director may also require that the licensee immediately cease offering any Mississippi gaming or promotional activity, including any of its progressive systems, for which periodic payments are utilized.
  8. The licensee's chief financial officer must immediately notify the Executive Director of any nonpayment of a periodic payment to a winning patron through any Mississippi gaming or promotional activity, or any event or circumstance which may cause the licensee to not be able to fulfill, or which may otherwise impair its ability to satisfy, its payment obligations to any such unpaid patrons. Upon such notification, the Executive Director may invoke or take any additional remedies or corrective action pursuant to Regulation III. A. 9 (o).
  9. The licensee must continuously monitor the ratings of all U.S. GSEs used by the licensee to ensure that each U.S. GSE possesses an issuer credit rating equivalent to the highest investment grade rating given by Standard & Poor's Rating Services and Moody's Investors Service. If the rating of any U.S. GSE used by the licensee falls below the highest investment grade given by the aforementioned rating services, then the licensee shall immediately notify the Executive Director of this downgrade in rating of the U.S. GSE. Additionally, the licensee shall immediately take action to fully fund its reserves with approved funding sources.

Questions regarding these requirements should be directed to Allen Godfrey, Director of Compliance, at (601) 351-2925.