**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-17941, 333-79895, 333-68130, 333-90840, 333-119850, 333-129421 and 333-153852 on Form S-8, and No. 333-156096 on Form S-3 of our reports dated March 15, 2011, relating to the consolidated financial statements of Boyd Gaming Corporation and Subsidiaries, and the effectiveness of Boyd Gaming Corporation and Subsidiaries' internal control over financial reporting, appearing in the Annual Report on Form 10-K of Boyd Gaming Corporation for the year ended December 31, 2010.

/s/ DELOITTE & TOUCHE LLP

Las Vegas, Nevada
March 15, 2011

**EXHIBIT 21.1**

**BOYD GAMING CORPORATION**

LIST OF SUBSIDIARIES:

California Hotel and Casino
d.b.a. California Hotel and Casino
d.b.a. Sam's Town Hotel, Gambling Hall and Bowling Center
(State of Incorporation or Organization) Nevada
(IRS Employer Identification Number) 88-0121743

Boyd Tunica, Inc.
d.b.a. Sam's Town Hotel and Gambling Hall
(State of Incorporation or Organization) Mississippi
(IRS Employer Identification Number) 64-0829658

Sam-Will, Inc.
d.b.a. Fremont Hotel and Casino
(State of Incorporation or Organization) Nevada
(IRS Employer Identification Number) 88-0203673

Eldorado, Inc.
d.b.a. Eldorado Casino
d.b.a. Jokers Wild Casino
(State of Incorporation or Organization) Nevada
(IRS Employer Identification Number) 88-0093922

MSW, Inc.
d.b.a. Main Street Station Hotel, Casino and Brewery
(State of Incorporation or Organization) Nevada
(IRS Employer Identification Number) 88-0310765

Par-A-Dice Gaming Corporation
d.b.a. Par-A-Dice Hotel Casino
(State of Incorporation or Organization) Illinois
(IRS Employer Identification Number) 37-1268902

Treasure Chest Casino, LLC.
d.b.a. Treasure Chest Casino
(State of Incorporation or Organization) Louisiana
(IRS Employer Identification Number) 72-1248550

Blue Chip Casino, LLC.
d.b.a. Blue Chip Hotel, Casino & Spa
(State of Incorporation or Organization) Indiana
(IRS Employer Identification Number) 35-2087676

Boyd Atlantic City, Inc.
(State of Incorporation or Organization) New Jersey
(IRS Employer Identification Number) 93-1221994

California Hotel Finance Co.
(State of Incorporation or Organization) Nevada
(IRS Employer Identification Number) 88-0217850

Boyd Louisiana Racing, Inc.
(State of Incorporation or Organization) Louisiana
(IRS Employer Identification Number) 88-0494602

Boyd Racing, L.L.C.
d.b.a. Delta Downs Racetrack Casino & Hotel
(State of Incorporation or Organization) Louisiana
(IRS Employer Identification Number) 91-2121472

Coast Casinos, Inc.
(State of Incorporation or Organization) Nevada
(IRS Employer Identification Number) 20-0836222

Coast Hotels and Casinos, Inc.
d.b.a. Gold Coast Hotel and Casino
d.b.a. The Orleans Hotel and Casino
d.b.a. Suncoast Hotel and Casino
(State of Incorporation or Organization) Nevada
(IRS Employer Identification Number) 88-0345706

Red River Entertainment of Shreveport, LLC
d.b.a. Sam's Town Hotel and Casino
(State of Incorporation or Organization) Louisiana
(IRS Employer Identification Number) 20-0753582

Boyd Pennsylvania, Inc.
(State of Incorporation or Organization) Pennsylvania
(IRS Employer Identification Number) 51-0559543

Boyd Pennsylvania Partners, LP
(State of Incorporation or Organization) Pennsylvania
(IRS Employer Identification Number) 20-3944905

Echelon Resorts Corporation
(State of Incorporation or Organization) Nevada
(IRS Employer Identification Number) 32-0163131

Echelon Resorts LLC
(State of Incorporation or Organization) Nevada
(IRS Employer Identification Number) 30-0346702

Boyd Florida LLC
(State of Incorporation or Organization) Mississippi
(IRS Employer Identification Number) 35-2271901

FGB Development, Inc.
(State of Incorporation or Organization) Florida
(IRS Employer Identification Number) 20-2310247

**Exhibit 23.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-17941, 333-79895, 333-68130, 333-90840, 333-119850, 333-129421 and 333-153852 on Form S-8 and No. 333-156096 on Form S-3 of our reports dated March 15, 2011, relating to the consolidated financial statements of Marina District Development Company, LLC and subsidiary appearing in this Annual Report on Form 10-K of Boyd Gaming Corporation and Subsidiaries for the year ended December 31, 2010.

/s/ DELOITTE & TOUCHE LLP

Parsippany, NJ
March 15, 2011

**Exhibit 31.1**

**BOYD GAMING CORPORATION**

CERTIFICATION

I, Keith E. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of Boyd Gaming Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2011

/s/ Keith E. Smith

**Keith E. Smith**
**President and Chief Executive Officer**

**Exhibit 31.2**

**BOYD GAMING CORPORATION**

CERTIFICATION

I, Josh Hirsberg, certify that:

1. I have reviewed this annual report on Form 10-K of Boyd Gaming Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2011

/s/ Josh Hirsberg

**Josh Hirsberg**
**Senior Vice President, Chief Financial Officer and Treasurer**

**Exhibit 32.1**

**BOYD GAMING CORPORATION**

CERTIFICATION

In connection with the periodic report of Boyd Gaming Corporation (the "Company") on Form 10-K for the period ended December 31, 2010 as filed with the Securities and Exchange Commission (the "Report"), I, Keith E. Smith, President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: March 15, 2011

/s/ Keith E. Smith

**Keith E. Smith**
**President and Chief Executive Officer**

**Exhibit 32.2**

**BOYD GAMING CORPORATION**

CERTIFICATION

In connection with the periodic report of Boyd Gaming Corporation (the "Company") on Form 10-K for the period ended December 31, 2010 as filed with the Securities and Exchange Commission (the "Report"), I, Josh Hirsberg, Senior Vice President, Chief Financial Officer and Treasurer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: March 15, 2011

/s/ Josh Hirsberg

**Josh Hirsberg**
**Senior Vice President, Chief Financial Officer and Treasurer**

**Exhibit 99.1**

GOVERNMENTAL GAMING REGULATIONS

We are subject to extensive regulation under laws, rules and supervisory procedures primarily in the jurisdictions where our facilities are located or docked. If additional gaming regulations are adopted in a jurisdiction in which we operate, such regulations could impose restrictions or costs that could have a significant adverse effect on us. From time to time, various proposals have been introduced in the legislatures of some of the jurisdictions in which we have existing or planned operations that, if enacted, could adversely affect the tax, regulatory, operational or other aspects of the gaming industry and us. We do not know whether such legislation will be enacted. The federal government has also previously considered a federal tax on casino revenues and the elimination of betting on amateur sporting events and may consider such a tax or eliminations on betting in the future. In addition, gaming companies are currently subject to significant state and local taxes and fees in addition to normal federal and state corporate income taxes, and such taxes and fees are subject to increase at any time. Any material increase in these taxes or fees could adversely affect us.

Some jurisdictions, including Nevada, Illinois, Indiana, Louisiana, Mississippi, New Jersey and Florida, empower their regulators to investigate participation by licensees in gaming outside their jurisdiction and require access to periodic reports respecting those gaming activities. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions.

Under provisions of gaming laws in jurisdictions in which we have operations, and under our organizational documents, certain of our securities are subject to restrictions on ownership which may be imposed by specified governmental authorities. The restrictions may require a holder of our securities to dispose of the securities or, if the holder refuses, or is unable, to dispose of the securities, we may be required to repurchase the securities.

The indenture governing our outstanding notes provides that if a holder of a note or beneficial owner of a note is required to be licensed, qualified or found suitable under the applicable gaming laws and is not so licensed, qualified or found suitable within the time period specified by the applicable gaming authority, the holder will be required, at our request, to dispose of its notes within a time period that either we prescribe or such other time period prescribed by the applicable gaming authority, and thereafter, we shall have the right to redeem such holder's notes.

**Nevada**

The ownership and operation of casino gaming facilities in Nevada are subject to the Nevada Gaming Control Act and the regulations promulgated by the Nevada Gaming Commission thereunder, which we refer to as the Nevada Act, including various local codes and ordinances. Our gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission, which we refer to as the Nevada Commission, the Nevada State Gaming Control Board, which we refer to as the Nevada Board, the Clark County Liquor and Gaming Licensing Board, and the City of Las Vegas, which, with the Nevada Commission and the Nevada Board, we collectively refer to as the Nevada Gaming Authorities.

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy that are concerned with, among other things:

- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- the establishment and maintenance of responsible accounting practices and procedures;
- the maintenance of effective controls over the financial practices of licensees, including establishing minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues;
- providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities;
- the prevention of cheating and fraudulent practices;
- the maintenance of a Gaming Compliance and Reporting Plan, including the establishment of a Gaming Compliance Committee and the retention of a Corporate Compliance Officer; and
- the provision of a source of state and local revenues through taxation and licensing fees.

Changes in such laws, regulations and procedures could have an adverse effect on our gaming operations and our business, financial condition and results of operations.

Corporations that operate casinos in Nevada are required to be licensed by the Nevada Gaming Authorities. A gaming license requires the periodic payment of fees and taxes and is not transferable. We are registered by the Nevada Commission as a publicly traded corporation, or a Registered Corporation. As a Registered Corporation, we are required periodically to submit detailed financial and operating reports to the Nevada Commission and furnish any other information which the Nevada Commission may

require. We have been found suitable by the Nevada Commission to own the stock of California Hotel and Casino and of Coast Casinos, Inc. California Hotel and Casino is licensed by the Nevada Commission to operate non-restricted gaming activities at the California and Sam's Town Las Vegas and is additionally registered as a holding company and approved by the Nevada Gaming Authorities to own the stock of Sam-Will, Inc., the operator of the Fremont, Eldorado, Inc., the operator of the Eldorado Casino and Jokers Wild, and M.S.W., Inc., the operator of Main Street Station. Coast Casinos, Inc. is registered as a holding company and approved by the Nevada Gaming Authorities to own the stock of Coast Hotels and Casinos, Inc., the operator of Gold Coast Hotel and Casino, The Orleans Hotel and Casino, Suncoast Hotel and Casino, and the sports pool only at Renata's Supper Club. In 2003, the Nevada Commission approved Boyd Louisiana Racing Inc. and Boyd Racing L.L.C., d.b.a. Delta Downs Racetrack, Casino & Hotel, to share in the revenue from the conduct of off-track pari-mutuel wagering, under certain conditions, as it pertains to the broadcast of live racing events to licensed Nevada pari-mutuel race books. No person may become a stockholder of, or receive any percentage of profits from, California Hotel and Casino or its subsidiaries or of Coast Casinos, Inc. or its subsidiary without first obtaining licenses and approvals from the Nevada Gaming Authorities, we refer to all of the foregoing entities collectively as the Licensed Subsidiaries. Boyd Gaming and all of its Licensed Subsidiaries have obtained from the Nevada Gaming Authorities the various registrations, approvals, permits and licenses required in order to engage in gaming activities in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, Boyd Gaming and its Licensed Subsidiaries in order to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors and certain key employees of the Licensed Subsidiaries must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Our officers, directors and key employees who are actively and directly involved in gaming activities of the Licensed Subsidiaries may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause which they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. The applicant for licensing or a finding of suitability must pay all the costs of the investigation. Changes in licensed positions must be reported to the Nevada Gaming Authorities within 30 days as prescribed by law and, in addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have jurisdiction to disapprove a change in a corporate position.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with us or any of our Licensed Subsidiaries, the companies involved would have to sever all relationships with such person. In addition, the Nevada Commission may require Boyd Gaming or any of its Licensed Subsidiaries to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or questions pertaining to licensing are not subject to judicial review in Nevada.

Boyd Gaming and its Licensed Subsidiaries are required to submit detailed financial and operating reports to the Nevada Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by the Licensed Subsidiaries must be reported to, and/or approved by, the Nevada Commission.

If it were determined that the Nevada Act was violated by any of the Licensed Subsidiaries, the gaming licenses they hold could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, Boyd Gaming and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act or Regulations at the discretion of the Nevada Commission. Further, a supervisor could be nominated by the Nevada Commission for court appointment to operate our gaming properties and, under certain circumstances, earnings generated during the supervisor's appointment (except for reasonable rental value of our gaming properties) could be forfeited to the State of Nevada. Limitation, conditioning or suspension of any gaming license or the appointment of a supervisor could (and revocation of any gaming license would) materially adversely affect our gaming operations and our business, financial condition and results of operations.

Any beneficial holder of our voting securities, regardless of the number of shares owned, may be required to file an application, be investigated and have his suitability reviewed as a beneficial holder of our voting securities if the Nevada Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires more than 5% of our voting securities to report the acquisition to the Nevada Commission. The Nevada Act requires that beneficial owners of more than 10% of our voting securities apply to the Nevada Commission for a finding of suitability within 30 days after the Chairman of the Nevada Board mails the written notice requiring such filing. Under certain circumstances, an “institutional investor,” as defined in the Nevada Act, which acquires more than 10%, but not more than 25%, of our voting securities may apply to the Nevada Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes only. An institutional investor that has obtained such a waiver may, in certain circumstances, hold up to 29% of our voting securities and maintain its waiver for a limited period

of time. An institutional investor shall not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or any of our gaming affiliates, or any other action which the Nevada Commission finds to be inconsistent with holding our voting securities for investment purposes only. Activities that are not deemed to be inconsistent with holding voting securities for investment purposes include only:

- voting on all matters voted on by stockholders;
- making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in our management, policies or operations; and
- such other activities as the Nevada Commission may determine to be consistent with such investment intent.

If the beneficial holder of voting securities who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board, may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock of a Registered Corporation beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offense. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us, or any of our Licensed Subsidiaries, we:

- pay that person any dividend or interest upon voting securities of Boyd Gaming;
- allow that person to exercise, directly or indirectly, any voting right conferred through securities held by the person;
- pay remuneration in any form to that person for services rendered or otherwise; or
- fail to pursue all lawful efforts to require such unsuitable person to relinquish their voting securities for cash at fair market value.

Additionally, the Clark County Liquor and Gaming Licensing Board has taken the position that it has the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming license.

The Nevada Commission may, at its discretion, require the holder of any debt security of a Registered Corporation to file applications, be investigated and be found suitable to own the debt security of a Registered Corporation. If the Nevada Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Act, the Registered Corporation can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Commission, it:

- pays to the unsuitable person any dividend, interest, or any distribution whatsoever;
- recognizes any voting right by such unsuitable person in connection with such securities;
- pays the unsuitable person remuneration in any form; or
- makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

We are required to maintain a current stock ledger in Nevada which may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner.

We may not make a public offering of our securities without the prior approval of the Nevada Commission if the securities or the proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for such purposes. Any representation to the contrary is unlawful. In September 2009, the Nevada Commission granted us two years, the maximum time permitted, in which to make public offerings of debt or equity. This two-year approval or continuous or delayed public offering approval, also known as a shelf approval, is subject to certain conditions and expires in September 2011, at which time we will seek to renew the approval. The Nevada Commission's approval may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada Board.

Changes in control of Boyd Gaming through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby he obtains control, may not occur without the prior approval of the Nevada

Commission. Entities seeking to acquire control of a Registered Corporation must satisfy the Nevada Gaming Authorities in a variety of stringent standards prior to assuming control of such Registered Corporation. The Nevada Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchase of voting securities and corporate defense tactics affecting Nevada gaming licensees, and Registered Corporations that are affiliated with those licensees, may be injurious to stable and productive corporate gaming. The Nevada Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to:

- assure the financial stability of corporate gaming operators and their affiliates;
- preserve the beneficial aspects of conducting business in the corporate form; and
- promote a neutral environment for the orderly governance of corporate affairs.

Approvals are, in certain circumstances, required from the Nevada Commission before we can make exceptional repurchases of voting securities above the current market price thereof and before a corporate acquisition opposed by management can be consummated. As a Registered Corporation, the Nevada Act also requires prior approval of a plan of recapitalization proposed by our board of directors in response to a tender offer made directly to our stockholders for the purposes of acquiring control of us.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada, Clark County and the City of Las Vegas. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually and are based upon:

- a percentage of the gross revenues received;
- the number of gaming devices operated; or
- the number of table games operated.

An excise tax is also paid by casino operations upon admission to certain facilities offering live entertainment, including the selling of food, refreshment and merchandise in connection therewith.

Any person who is licensed, required to be licensed, registered, required to be registered, or is under common control with such persons, which we refer to as Licensees, and who proposes to become involved in a gaming venture outside of Nevada is required to deposit with the Nevada Board, and thereafter maintain, a revolving fund in the amount of $10,000 to pay the expenses of investigation of the Nevada Board of their participation in such foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Commission. Thereafter, Licensees are required to comply with certain reporting requirements imposed by the Nevada Act. Licensees are also subject to disciplinary action by the Nevada Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the foreign gaming operation, fail to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in activities that are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employ a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the ground of personal unsuitability.

The sale of food or alcoholic beverages at our Nevada casinos is subject to licensing, control and regulation by the applicable local authorities. All licenses are revocable and are not transferable. The agencies involved have full power to limit, condition, suspend or revoke any such license, and any such disciplinary action could, and a revocation would, have a significant adverse effect upon the operations of the affected casino or casinos.

**Illinois**

We are subject to the jurisdiction of the Illinois gaming authorities as a result of our ownership and operation of Par-A-Dice Hotel Casino in East Peoria, Illinois.

In February 1990, the State of Illinois legalized riverboat gambling. The Illinois Riverboat Gambling Act, which we refer to as the initial Illinois Act, authorizes the five-member Illinois Gaming Board, which we refer to as the Illinois Board, to issue up to ten riverboat gaming owners' licenses on navigable streams within or forming a boundary of the State of Illinois except for Lake Michigan and any waterway in Cook County, which includes Chicago. Pursuant to the initial Illinois Act, a licensed owner who holds greater than a 10% interest in one riverboat operation could hold no more than a 10% interest in any other riverboat operation. In addition, the initial Illinois Act restricted the location of certain of the ten owners' licenses. Four of the licenses were to be located on the Mississippi River, one license was to be at a location on the Illinois River south of Marshall County and one license had to be located on the Des Plaines River in Will County. The remaining licenses were not restricted as to location. Currently,

nine owners' licenses are in operation, including one license in each of Alton, Aurora, East Peoria, East St. Louis, Elgin, Metropolis, Rock Island and two licenses in Joliet.

The tenth license that was initially granted to Emerald Casino Inc. - an operator in East Dubuque which we refer to as Emerald Casino - was not renewed by the Illinois Board and was the subject of protracted litigation that concluded. Various appeals in the Illinois Appellate Court for the First and Fourth Districts followed the Illinois Board's denial of Emerald Casino's request for renewal of the tenth license on March 6, 2001 and subsequent revocation of the license in December 2005. Although the Illinois Appellate Court ultimately ordered the Illinois Board to issue Emerald Casino's license for renewal, the Illinois Appellate Court also affirmed the Illinois Board's decision to revoke that license. The Illinois Supreme Court refused Emerald Casino's request to review the latter decision, and Emerald Casino announced that it would not pursue any additional appeals in the matter. As a result, the Board authorized a bid process to issue the tenth license to a new operator. On December 6, 2007, the Illinois Department of Central Management Services issued a Request for Proposal to receive bids from investment banking firms to oversee the bid process. Credit Suisse was the successful bidder and oversaw the bid process for the tenth Illinois gaming license. Seven bids were submitted to the Illinois Board to provide gaming operations in Waukegan, Rosemont, Des Plaines, Stickney, Country Club Hills, Calumet City, and Harvey. The Illinois Board selected the Waukegan, Rosemont and Des Plaines sites as the three finalists. On December 22, 2008, the Illinois Board announced that it awarded the tenth Illinois gaming license to Midwest Gaming & Entertainment LLC, which will develop and operate a casino in Des Plaines. The exact date on which this casino's operations will begin is unknown, and therefore the impact that the tenth Illinois licensed gaming operation may have on the Par-A-Dice Casino cannot be determined at this time.

Furthermore, under the initial Illinois Act, no gambling could be conducted while a riverboat was docked. A gaming excursion could last no more than four hours, and a gaming excursion was deemed to have started when the first passenger boarded a riverboat. Gaming could continue during passenger boarding for a period of up to 30 minutes. Gaming was also allowed for a period of up to 30 minutes after the gangplank or its equivalent was lowered, thereby allowing passengers to exit the riverboat. During the 30-minute exit time period, new passengers were not allowed to board the riverboat. Although riverboats were mandated to cruise, there were certain exceptions. If a riverboat captain reasonably determined that either it was unsafe to transport passengers on the waterway due to inclement weather or the riverboat had been rendered temporarily inoperable by unforeseeable mechanical or structural difficulties or river icing, the riverboat could remain dockside or return to the dock. In those situations, a gaming excursion could commence or continue while the gangplank or its equivalent was raised and remained raised, in which event the riverboat was not considered docked. If a gaming excursion had to begin or continue with the gangplank or its equivalent raised, and the riverboat did not leave the dock, entry of new patrons on to the riverboat was prohibited until the completion of the excursion.

In June of 1999, amendments to the Illinois Act, which we refer to as the Amended Illinois Act, were passed by the legislature and signed into law by the Governor. The Amended Illinois Act redefined the conduct of gaming in the state. Pursuant to the Amended Illinois Act, riverboats can conduct gambling without cruising, and passengers can enter and leave a riverboat at any time. In addition, riverboats may now be located upon any water within Illinois, and not just navigable waterways. There is no longer any prohibition of a riverboat being located in Cook County. Riverboats are now defined as self-propelled excursion boats or permanently moored barges. The Amended Illinois Act requires that only three, rather than four, owners' licenses, be located on the Mississippi River. The 10% ownership prohibition has also been removed. Therefore, subject to certain Illinois Board rules, individuals or entities could own more than one riverboat operation.

The Amended Illinois Act also allows for the relocation of a riverboat home dock. A licensee that was not conducting riverboat gambling on January 1, 1998, may apply to the Illinois Board for renewal and approval of relocation to a new home dock and the Illinois Board shall grant the application and approval of the new home dock upon the licensee providing to the Illinois Board authorization from the new dockside community. Any licensee that relocates in accordance with the provisions of the Amended Illinois Act must attain a level of at least 20% minority ownership of such a gaming operation.

The initial Illinois Act strictly regulates the facilities, persons, associations and practices related to gaming operations. The initial Illinois Act grants the Illinois Board specific powers and duties, and all other powers necessary and proper to fully and effectively execute the initial Illinois Act for the purpose of administering, regulating and enforcing the system of riverboat gaming. The Illinois Board has authority over every person, association, corporation, partnership and trust involved in riverboat gaming operations in the State of Illinois.

The initial Illinois Act requires the owner of a riverboat gaming operation to hold an owner's license issued by the Illinois Board. Each owner's license permits the holder to own up to two riverboats; however, gaming participants are limited to 1,200 for any owner's license. The number of gaming participants will be determined by the number of gaming positions available. Gaming positions are counted as follows:

- electronic gaming devices positions will be determined as 90% of the total number of devices available for play;

- craps tables will be counted as having ten gaming positions; and
- games utilizing live gaming devices, except for craps, will be counted as having five gaming positions.

Each owner's license initially runs for a period of three years. Thereafter, the license must be renewed annually. Under the Amended Illinois Act, the Board may renew an owner's license for up to four years. An owner licensee is eligible for renewal upon payment of the applicable fee and a determination by the Illinois Board that the licensee continues to meet all of the requirements of the initial Illinois Act and Illinois Board rules. The owner's license for Par-A-Dice Riverboat Casino initially expired in February 1995. Since that time the license has been renewed every four years, the maximum time permitted by the Illinois Act. An ownership interest in an owner's license may not be transferred or pledged as collateral without the prior approval of the Illinois Board.

Pursuant to the Amended Illinois Act, which removed the 10% ownership prohibition, the Illinois Board established certain rules to effectuate this statutory change. In deciding whether to approve direct or indirect ownership or control of an owner's license, the Illinois Board shall consider the impact of any economic concentration of the ownership or control. No direct or indirect ownership or control shall be approved which will result in undue economic concentration of the ownership of riverboat gambling operations in Illinois. Undue economic concentration means that a person or entity would have actual or potential domination of riverboat gambling in Illinois sufficient to:

- substantially impede or suppress competition among holders of owners' licenses;
- adversely impact the economic stability of the riverboat casino industry in Illinois; or
- negatively impact the purposes of the initial Illinois Act, including tourism, economic development, benefits to local communities, and State and local revenues.

The Illinois Board will consider the following criteria in determining whether the approval of the issuance, transfer or holding of a license will create undue economic concentration:

- the percentage share of the market presently owned or controlled by the person or entity;
- the estimated increase in the market share if the person or entity is approved to hold the owner's license;
- the relative position of other persons or entities that own or control owners' licenses in Illinois;
- the current and projected financial condition of the riverboat gaming industry;
- the current market conditions, including proximity and level of competition, consumer demand, market concentration, and any other relevant characteristics of the market;
- whether the license to be approved has separate organizational structures or other independent obligations;
- the potential impact on the projected future growth and development of the riverboat gambling industry, the local communities in which licenses are located, and the State of Illinois;
- the barriers to entry into the riverboat gambling industry and if the approval of the license will operate as a barrier to new companies and individuals desiring to enter the market;
- whether the approval of the license is likely to result in enhancing the quality and customer appeal of products and services offered by riverboat casinos in order to maintain or increase their respective market shares;
- whether a restriction on the approval of the additional license is necessary in order to encourage and preserve competition in casino operations; and
- any other relevant information.

The initial Illinois Act does not limit the maximum bet or per patron loss. Minimum and maximum wagers on games are set by the owner licensee. Wagering may not be conducted with money or other negotiable currency. No person under the age of 21 is permitted to wager and wagers may only be received from a person present on the riverboat. With respect to electronic gaming devices, the payout percentage may not be less than 80% nor more than 100%.

An admission tax is imposed on the owner of a riverboat operation. Effective July 1, 2003, additional amendments to the Amended Illinois Act were passed by the legislature and signed into law by the Governor, which we refer to as the Second Amended Illinois Act. Under the Second Amended Illinois Act, for an owner licensee that admitted 2,300,000 persons or fewer in the previous calendar year, the admission tax is $4.00 per person and for a licensee that admitted more than 2,300,000 persons in the previous calendar year, the admission tax is $5.00. Additionally, a wagering tax is imposed on the adjusted gross receipts, as defined in the initial Illinois Act, of a riverboat operation. As of July 1, 2003, pursuant to the Second Amended Illinois Act, the wagering tax was increased as follows: 15% of annual adjusted gross receipts up to and including $25 million; 27.5% of annual adjusted gross receipts in excess of $25 million but not exceeding $37.5 million; 32.5% of annual adjusted gross receipts in excess of $37.5 million but not exceeding $50 million; 37.5% of annual adjusted gross receipts in excess of $50 million but not exceeding $75 million; 45% of annual adjusted gross receipts in excess of $75 million but not exceeding $100 million; 50% of annual adjusted gross receipts in excess of $100 million but not exceeding $250 million; and 70% of annual adjusted gross receipts in excess of $250 million. The owner licensee is required, on a daily basis, to wire the wagering tax payment to the Illinois Board. The wagering

tax as outlined in the Second Amended Illinois Act shall no longer be imposed beginning on the earlier of (i) July 1, 2005; (ii) the first date after the effective date of the Second Amended Illinois Act that riverboat gambling operations are conducted pursuant to the dormant tenth license or (iii) the first day that riverboat gambling operations are conducted under the authority of an owner's license that is in addition to the ten owners' licenses authorized by the Initial Act. Thereafter, the tax will roll back to the rates as outlined in the Amended Illinois Act.

Effective July 1, 2005, additional amendments to the Second Amended Act were passed by the legislature and signed into law by the Governor, which we refer to as the Third Amended Illinois Act. Under the Third Amended Act, for an owner that admitted 1,000,000 persons or fewer in calendar year 2004, the admission tax is $2.00 and for all other licensees it is $3.00 per person admitted. Additionally, the wagering tax provisions were “rolled back” to the rates as defined in the Amended Illinois Act. Thus, the effective wager tax rates are: 15% of annual adjusted gross receipts up to and including $25 million; 22.5% of annual adjusted gross receipts in excess of $25 million but not exceeding $50 million; 27.5% of annual adjusted gross receipts in excess of $50 million but not exceeding $75 million; 32.5% of annual adjusted gross receipts in excess of $75 million but not exceeding $100 million; 37.5% of annual adjusted gross receipts in excess of $100 million but not exceeding $150 million; 45% of annual adjusted gross receipts in excess of $150 million but not exceeding $200 million; and 50% of annual adjusted gross receipts in excess of $200 million, which we refer to as the Privilege Tax. In addition to payment of the above listed amounts, by June 15 of each year, each owner (other than an owner that admitted 1,000,000 or fewer persons in calendar year 2004) must pay to the Illinois Board the amount, if any, by which the base amount for the licensed owner exceeds the amount of tax paid pursuant to the Third Amended Act. The base amount for a riverboat in East Peoria is $43 million. This obligation terminates on the earliest of (i) July 1, 2007, (ii) the first day after the effective date of the Third Amended Act that riverboat gambling operations are conducted pursuant to a dormant license, (iii) the first day that riverboat gambling operations are conducted under the authority of an owner's license that is in addition to the ten owners' licenses initially authorized, or (iv) the first day that a licensee under the Illinois Horse Racing Act of 1975 conducts gaming operations with slot machines or other electronic gaming devices. The obligation to meet these base amount requirements terminated on July 1, 2007.

The Illinois Board has the authority to reduce the above mentioned wagering tax obligation imposed under the Third Amended Act by an amount the Board deems reasonable for acts of God, terrorism, bioterrorism or a condition beyond the control of the owner licensee. There can be no assurance that the Illinois legislature will not enact additional legislation regarding admission and wagering tax rates.

Effective May 26, 2006, additional amendments to the Third Amended Act were passed by the legislature and signed into law by the Governor, which we refer to as the Fourth Amended Act. Under the Fourth Amended Act, and for a period of two (2) years beginning May 26, 2006, owner licensees that operate a riverboat with adjusted gross receipts in 2004 greater than $200 million paid - in addition to the amounts referenced above - an amount equal to 3% of the adjusted gross receipts received into the Horse Racing Equity Trust Fund, which we refer to as the Surcharge. This provision affected four owner licensees, but did not apply to Par-A-Dice Hotel Casino in East Peoria, Illinois.

On May 30, 2006, four days after the Fourth Amended Act was signed into law, the four casinos affected by the Surcharge filed a lawsuit in the Circuit Court of the Twelfth Judicial Circuit in Will County, Illinois against the Treasurer of the State of Illinois and the Illinois Racing Board. The four-count Complaint sought a declaratory judgment that the Fourth Amended Act's Surcharge was unconstitutional and a permanent injunction against its enforcement. On March 26, 2007, the Illinois circuit court granted summary judgment in favor of the four casinos for violation of the Illinois Constitution's Uniformity Clause, but in favor of the defendants and the racetracks that later intervened on the remaining claims in the complaint. The defendants and the racetracks filed an appeal with the Illinois Supreme Court, which reversed the lower court's decision and ruled in favor of the State. The affected casinos appealed this decision to the US Supreme Court, and, on June 8, 2009, the U.S. Supreme Court denied the petition for a writ of certiorari.

On June 10, 2009 the same four casinos filed a motion to reopen the judgment based on new evidence in the original trial court in Illinois. The judge denied the petition to reopen the case and the casinos appealed on January 15, 2010. Following a ruling by the Illinois Appellate Court refusing to stay the distribution of the funds held in protest, the four casinos voluntarily dismissed the appeal. Additionally, a civil RICO suit was also filed in the Northern District of Illinois against former governor Rod Blagojevich et al. and John Johnston, owner of Balmoral Park Racetrack and Maywood Park Racetrack. The suit claims that the taxed casinos were the victims of the criminal conduct of the former governor and the conspiracy between the former governor and the named racetracks. The RICO suit is the only suit open at this time. All other court proceedings have been concluded and ruled upon in favor of the State. Par-A-Dice Hotel and Casino is not a party to any of the foregoing lawsuits.

Effective December 15, 2008, the legislature passed and the Governor signed into law amendments that re-enact similar provisions of the Fourth Amended Act, which require the same casinos to pay the Surcharge until the earliest of the following occurs: (i) December 15, 2011; (ii) any organization licensee begins to operate a slot machine or video game of chance under the Illinois

Horse Racing Law of 1975 or the initial Illinois Act; (iii) payments begin under subsection (c-5) of Section 13 of the initial Illinois Act or (iv) the wagering tax imposed under Section 13 of the initial Illinois Act is increased to reflect a tax rate that is at least as stringent or more stringent than the wagering tax imposed under the Second Amended Act described above. A second state court claim challenging the constitutionality of the 2008 act was dismissed with prejudice on November 19, 2009. On February 11, 2011, the Appellate Court affirmed. The new law does not apply to the Par-A-Dice Hotel and Casino.

Effective June 6, 2006, additional amendments to the Fourth Amended Act were passed by the legislature and signed into law by the Governor, which we refer to as the Fifth Amended Act to restate and clarify the Third Amended Act as to the amount of payments an owner licensee is required to make to the Illinois Board. The Fifth Amended Act now provides that - in addition to any amounts due pursuant to the Privilege Tax - each owner licensee (other than an owner that admitted 1,000,000 or fewer persons in calendar year 2004) must pay to the Illinois Board the amount by which its pre-determined base amount exceeds the amount of “net privilege tax” remitted. The Fifth Amended Act defines “net privilege tax” as all Privilege Taxes paid by a licensed owner to the Illinois Board, less the amount equal to 5% of the adjusted gross receipts generated by an owner licensee that is paid from the State Gaming Fund to the unit of local government designated as the home dock of the owner licensee's riverboat. As stated above, the requirement to pay the difference between pre-determined base amounts and “net privilege taxes” terminated on July 1, 2007.

In addition to owner's licenses, the Illinois Board also requires licensing for all vendors of gaming supplies and equipment and for all employees of a riverboat gaming operation. The Illinois Board is authorized to conduct investigations into the conduct of gaming and into alleged violations of the Illinois Act and the Illinois Board rules. Employees and agents of the Illinois Board have access to and may inspect any facilities relating to the riverboat gaming operation.

A holder of any license is subject to the imposition of fines, suspension or revocation of such license, or other action for any act or failure to act by himself or his agents or employees, that is injurious to the public health, safety, morals, good order and general welfare of the people of the State of Illinois, or that would discredit or tend to discredit the Illinois gaming industry or the State of Illinois. Any riverboat operations not conducted in compliance with the initial Illinois Act may constitute an illegal gaming place and consequently may be subject to criminal penalties, which penalties include possible seizure, confiscation and destruction of illegal gaming devices and seizure and sale of riverboats and dock facilities to pay any unsatisfied judgment that may be recovered and any unsatisfied fine that may be levied. The initial Illinois Act also provides for civil penalties, equal to the amount of gross receipts derived from wagering on the gaming, whether unauthorized or authorized, conducted on the day of any violation. The Illinois Board may revoke or suspend licenses, as the Illinois Board may see fit and in compliance with applicable laws of the State of Illinois regarding administrative procedures and may suspend an owner's license, without notice or hearing, upon a determination that the safety or health of patrons or employees is jeopardized by continuing a riverboat's operation. The suspension may remain in effect until the Illinois Board determines that the cause for suspension has been abated and it may revoke the owner's license upon a determination that the owner has not made satisfactory progress toward abating the hazard.

If the Illinois Board has suspended, revoked or refused to renew the license of an owner or if a riverboat gambling operation is closing and the owner is voluntarily surrendering its owner's license, the Illinois Board may petition the local circuit court, which we refer to as the Court, in which the riverboat is situated for appointment of a receiver. The court will have sole jurisdiction over any and all issues pertaining to the appointment of a receiver. The Illinois Board will specify the specific powers, duties and limitations for the receiver, including but not limited to the authority to:

- hire, fire, promote and discipline personnel and retain outside employees or consultants;
- take possession of any and all property, including but not limited to its books, records, and papers;
- preserve or dispose of any and all property;
- continue and direct the gaming operations under the monitoring of the Illinois Board;
- discontinue and dissolve the gaming operation;
- enter into and cancel contracts;
- borrow money and pledge, mortgage or otherwise encumber the property;
- pay all secured and unsecured obligations;
- institute or defend actions by or on behalf of the holder of an owner's license; and
- distribute earnings derived from gaming operations in the same manner as admission and wagering taxes are distributed under Sections 12 and 13 of the initial Illinois Act.

The Illinois Board will submit at least three nominees to the Court. The nominees may be individuals or entities selected from an Illinois Board approved list of pre-qualified receivers who meet the same criteria for a finding of preliminary suitability for licensure under Sections 3000.230(c)(2)(B) and (C) of the rules promulgated by the Illinois Board. In the event that the Illinois Board seeks the appointment of a receiver on an emergency basis, the Illinois Board will submit at least two nominees selected from the Illinois Board approved list of pre-qualified receivers to the Court and will issue a Temporary Operating Permit to the receiver appointed

by the Court. A receiver, upon appointment by the court, will before assuming his or her duties, execute and post the same bond as an owner licensee pursuant to Section 10 of the initial Illinois Act.

The receiver will function as an independent contractor, subject to the direction of the Court; however, the receiver will also provide to the Illinois Board regular reports and provide any information deemed necessary for the Illinois Board to ascertain the receiver's compliance with all applicable rules and laws. From time to time, the Illinois Board may, at its sole discretion, report to the Court on the receiver's level of compliance and any other information deemed appropriate for disclosure to the Court. The term and compensation of the receiver shall be set by the Court. The receiver will provide to the Court and the Illinois Board at least 30 days written notice of any intent to withdraw from the appointment or to seek modification of the appointment. Except as otherwise provided by action to the Illinois Board, the gaming operation will be deemed a licensed operation subject to all rules of the Illinois Board during the tenure of any receivership.

The Illinois Board requires that a “Key Person” of an owner licensee submit a Personal Disclosure or Business Entity Form and be investigated and approved by the Illinois Board. The Illinois Board shall certify for each applicant for or holder of an owner's license each position, individual or Business Entity that is to be approved by the Illinois Board and maintain suitability as a Key Person. With respect to an applicant for or the holder of an owner's license, Key Person shall include:

- any Business Entity and any individual with an ownership interest or voting rights of more than 5% in the licensee or applicant, and the trustee of any trust holding such ownership interest or voting rights;
- the directors of the licensee or applicant and its chief executive officer, president and chief operating officer, or their functional equivalents; and
- all other individuals or Business Entities that, upon review of the applicant's or licensee's Table of Organization, Ownership and Control (as discussed below), the Illinois Board determines hold a position or a level of ownership, control or influence that is material to the regulatory concerns and obligations of the Illinois Board for the specified licensee or applicant.

In order to assist the Illinois Board in its determination of Key Persons, applicants for or holders of an owner's license shall provide to the Illinois Board a Table of Organization, Ownership and Control, which we refer to as the Table. The Table will identify in sufficient detail the hierarchy of individuals and Business Entities that, through direct or indirect means, manage, own or control the interest and assets of the applicant or license holder. If a Business Entity identified in the Table is a publicly-traded company, the following information must be provided in the Table:

- the name and percentage of ownership interest of each individual or Business Entity with ownership of more than 5% of the voting shares of the entity, to the extent such information is known or contained in Schedules 13D or 13G filed with the Securities and Exchange Commission;
- to the extent known, the names and percentage of interest of ownership of persons who are relatives of one another and who together (as individuals or through trusts) exercise control over or own more than 10% of the voting shares of the entity; and
- any trust holding more than 5% of the ownership or voting interest in the entity, to the extent such information is known or contained in Schedules 13D or 13G filed with the Securities and Exchange Commission. The Table may be disclosed under the Freedom of Information Act.

Each owner licensee must provide a means for the economic disassociation of a Key Person in the event such economic disassociation is required by an order of the Illinois Board. Based upon findings from an investigation into the character, reputation, experience, associations, business probity and financial integrity of a Key Person, the Illinois Board may enter an order upon the licensee or require the economic disassociation of such Key Person.

Furthermore, each applicant or owner licensee must disclose the identity of every person, association, trust or corporation having a greater than 1% direct or indirect pecuniary interest in an owner licensee or in the riverboat gaming operation with respect to which the license is sought. The Illinois Board may also require an applicant or owner licensee to disclose any other principal or investor and require the investigation and approval of such individuals.

The Illinois Board (unless the investor qualifies as an Institutional Investor) requires a Personal Disclosure Form from any person or entity who or which, individually or in association with others, acquires directly or indirectly, beneficial ownership of more than 5% of any class of voting securities or non-voting securities convertible into voting securities of a publicly-traded corporation which holds an ownership interest in the holder of an owner's license. If the Illinois Board denies an application for such a transfer and if no hearing is requested, the applicant for the transfer of ownership interest must promptly divest those shares in the publicly-traded parent corporation. The holder of an owner's license would not be able to distribute profits to a publicly-traded parent corporation until such shares have been divested. If a hearing is requested, the shares need not be divested and profits may be

distributed to a publicly-held parent corporation pending the issuance of a final order from the Illinois Board.

An Institutional Investor that, individually or jointly with others, cumulatively acquires, directly or indirectly, 5% or more of any class of voting securities of a publicly-traded licensee or a licensee's publicly-traded parent corporation shall, within no less than ten days after acquiring such securities, notify the administrator of the Illinois Board, who we refer to as the Administrator, of such ownership and shall provide any additional information as may be required. If an Institutional Investor (as specified above) acquires 10% or more of any class of voting securities of a publicly-traded licensee or a licensee's publicly-traded parent corporation, then it shall file an Institutional Investor Disclosure Form within 45 days after acquiring such level of ownership interest. The owner licensee shall notify the Administrator as soon as possible after it becomes aware that it or its parent is involved in an ownership acquisition by an Institutional Investor. The Institutional Investor also has an obligation to notify the Administrator of its ownership interest.

In addition to Institutional Investor Disclosure Forms, certain other forms may be required to be submitted to the Illinois Board. An owner licensee must submit a Marketing Agent Form to the Illinois Board for each Marketing Agent with whom it intends to do business. A Marketing Agent is a person or entity, other than a junketeer or an employee of a riverboat gaming operation, who is compensated by the riverboat gaming operation in excess of $100 per patron per trip for identifying and recruiting patrons. Key Persons of owner licensees must submit Trust Identification Forms for trusts, excluding land trusts, for which they are a grantor, trustee or beneficiary each time such a trust relationship is established, amended or terminated.

Applicants for and holders of an owner's license are required to obtain formal approval from the Illinois Board for changes in the following areas:

- Key Persons;
- type of entity;
- equity and debt capitalization of the entity;
- investors or debt holders;
- source of funds;
- applicant's economic development plan;
- riverboat capacity or significant design change;
- gaming positions;
- anticipated economic impact; or
- agreements, oral or written, relating to the acquisition or disposition of property (real or personal) of a value greater than $1 million.

A holder of an owner's license is allowed to make distributions to its stockholders only to the extent that such distribution would not impair the financial viability of the gaming operation. Factors to be considered by the licensee include, but are not limited to, the following:

- cash flow, casino cash and working capital requirements;
- debt service requirements, obligations and covenants associated with financial instruments;
- requirements for repairs and maintenance and capital improvements;
- employment or economic development requirements of the Amended Illinois Act; and
- a licensee's financial projections.

The Illinois Board may waive any licensing requirement or procedure provided by rule if it determines that such waiver is in the best interests of the public and the gaming industry. Also, the Illinois Board may, from time to time, amend or change its rules. In general, uncertainty exists regarding the Illinois gaming regulatory environment due to limited experience in interpreting the Illinois Act.

Additionally, on July 13, 2009, Governor Pat Quinn signed the Video Gaming Act (230 ILCS 40/ Art 5) making video gaming terminals legal in Illinois. The Act allows for video gaming terminals to be placed in certain liquor establishments, truck stops and fraternal/ veterans clubs throughout the state. Under the Video Gaming Act, municipalities are authorized to pass an ordinance prohibiting video gaming within the corporate limits of the municipality and county boards may pass ordinances prohibiting video gaming within the unincorporated areas of the county. On January 26, 2011, the Illinois Court of Appeals found the Video Gaming Act to be unconstitutional due to a violation of the single subject rule. The State appealed the decision to the Illinois Supreme Court on February 1, 2011. The State also filed motions, which were approved by the Illinois Supreme Court, permitting the Illinois Board to continue its review of applications filed pursuant to the Video Gaming Act. Although video gaming terminals may not be placed within 1,000 feet of the home dock of a riverboat licensed under the Riverboat Gambling Act, it is unclear at this time what effect the passage of this act may have on the operations of existing license holders.

From time to time, various proposals have been introduced in the Illinois legislature that, if enacted, would affect the taxation, regulation, operation or other aspects of the gaming industry or Boyd Gaming. Some of this legislation, if enacted, could adversely affect the gaming industry or Boyd Gaming, and no assurances can be given as to whether such legislation or similar legislation will be enacted.

One such piece of legislation that may affect the profitability of the gaming industry in Illinois is the Smoke Free Illinois Act, which became effective on January 1, 2008 and bans smoking in nearly all public places in Illinois, including bars, restaurants, work places, schools and casinos. Senate Bill 890, which we refer to as Bill SB890, was introduced on May 25, 2007 in an attempt to exempt the casinos - including Boyd's Par-A-Dice riverboat casino in East Peoria, Illinois - from the Smoke Free Illinois Act for a period of five years. Although the Senate Executive Committee voted 9-4 to approve a casino exemption on May 30, 2007, the Illinois Senate ultimately voted down Bill SB890 on June 1, 2007. The effect the Smoke Free Illinois Act has had on the profitability of the gaming industry, and our Par-A-Dice casino in particular, remains unclear.

A potential piece of legislation that may have affected the gaming industry in Illinois is House Bill 4194, which we refer to as Bill 4194 that was introduced to the Illinois General Assembly on December 11, 2007. Bill 4194 was an attempt to expand gaming in Illinois by introducing one additional riverboat license, a land-based casino located in Chicago, Illinois, the ability of existing and new casinos to purchase additional gaming positions, and the ability of Illinois horse race tracks to operate slot machines and video poker upon the payment of a per-position fee. Bill 4194 also called for the formation of a new Gaming Board appointed by the Governor and a new Gaming Enforcement Division to monitor gaming operations, conduct background checks, conduct investigations and investigate violations of the Illinois Gaming Act. Although Bill 4194 was not enacted, bills providing for a gaming expansion bill have been introduced in 2010. HB 0091, which we refer to as Bill 0091, was filed on January 27, 2010 and would add four additional owners' licenses, including one in Chicago. It would also allow for owners licensees to competitively bid for unused gaming positions and would authorize slot machines at horse racetracks. Bill 0091 is pending in the House Executive Committee. HB5110, which we refer to as Bill 5110, was filed on January 29, 2010 and provides for the issuance of a license to operate a riverboat in Danville, Illinois. HB4885, which we refer to as Bill 4885, provides for the issuance of a license to operate a riverboat in a municipality with a population of less than 50,000 and which is more than 50 miles from a licensed riverboat. Bill 5110 and Bill 4885 were pending in the House Rules Committee, but the legislative session ended before the Bills could be put to a vote resulting in their expiration. SB3371, which we refer to as Bill 3371, would have also authorized slot machine gambling at horse racetracks, but the legislative session ended causing Bill 3371 to expire.

Continuing efforts to revise the manner in which the Illinois Board is appointed and operates would affect the gaming industry. SB3384, which we refer to as Bill 3384, was introduced on February 10, 2010. Bill 3384 would end the term of the current members of the Illinois Board and require the Governor to replace them with persons nominated by a specified Nominating Panel. Bill 3384 would prohibit the Illinois Board from taking action with regard to a license until the new members are appointed. Bill 3384 would also require Illinois Board approval for contracts entered into by an owner's licensee in an aggregate amount of $10,000 or more or for a term exceeding 365 days. The legislative session ended while Bill 3384 was pending in the House Assignments Committee resulting in its expiration.

Another potential piece of legislation that, if passed, will directly affect the gaming industry is Illinois House Bill 0261, which we refer to as Bill 0261 that was introduced to the Illinois General Assembly on January 23, 2009. Bill 0261 would remove the provisions setting the admission tax rate at $3 per person admitted into a casino for licensees that have been conducting gambling operations since 2004. It would also provide that if a licensed owner of a riverboat in operation on January 1, 2009 has capital projects of at least $45,000,000 that are approved by the Illinois Gaming Board after January 1, 2006 or for which at least $45,000,000 in capital expenditures have been made after January 1, 2006, then no admissions tax will be imposed on admissions to that riverboat; however, if a riverboat does not have admissions tax imposed on it, an additional privilege tax of 1% of adjusted gross receipts will be imposed on that riverboat. On May 26, 2009, the Illinois House voted against concurring with Senate amendments to this bill, which included the provisions described above. This matter was returned to the Senate Assignments Committee on August 15, 2009, but the Bill expired when the legislative session ended.

Similar bills have recently been filed in the Illinois General Assembly. HB5962, which we refer to as Bill 5962, and SB3574, which we refer to as Bill 3574, also eliminate the admissions tax for certain riverboats. Those that qualify must have been in operation on January 1, 2009, have had capital projects of at least $45,000,000 approved by the Illinois Board in calendar years 2006 through 2009 and at least $45,000,000 in expenditures in calendar years 2006 through 2009. Bill 5962 and Bill 3574 also impose the additional 1% privilege tax. SB3542, which we refer to as Bill 3542, has similar provisions which apply to riverboats with capital projects of at least $75,000,000 approved by the Illinois Board in calendar years 2006 through 2009. All three bills were introduced on February 10, 2010. Bill 5962 was pending in the House Rules Committee, when the legislative session ended resulting in its expiration. The Senate voted against Bill 3574 on March 10, 2010, and Bill 3542 also expired when the legislative session ended.

Additionally, Illinois Senate Bill 1654 , which we refer to as Bill 1654, which was introduced to the Illinois General Assembly on February 19, 2009, would permit the State to enter into a management agreement with a third party to manage or operate the Illinois Lottery. If passed, it would also permit individuals to purchase Illinois lottery tickets on-line. On August 15, 2009, Bill 1654 was referred to the Senate Assignments Committee. However, on July 13, 2009, the Governor approved Public Acts 96-034 and 96-037, which we refer to as Acts 96-034 and 96-037, which permit the State's entry into a management agreement with a private party to manage the Illinois Lottery. Acts 96-034 and 96-037 also authorize the Illinois Lottery to conduct a pilot program to permit the purchase of Illinois lottery tickets on-line. Both Acts condition online sales upon the issuance of a U.S. Department of Justice memorandum stating that online sales are permitted under the U.S. Unlawful Internet Gambling Enforcement Act of 2006. On October 16, 2008, the Department of Justice issued its opinion and concluded, in part, that it would be permissible under the federal lottery statute exemption for a State to contract with private firms to provide goods and services necessary to enable the State to conduct its lottery. On September 15, 2010, Illinois selected Northstar Lottery Group to be the private manager of the Illinois Lottery; however, on January 26, 2011, in the same ruling that found the Video Gaming Act to be unconstitutional, the Illinois Court of Appeals found the Acts 9-034 and 96-037 to be unconstitutional due to a violation of the single subject rule. The State appealed the decision to the Illinois Supreme Court on February 1, 2011. It is unclear what effect, if any, the private management of the lottery or internet sales of lottery tickets would have on the Illinois gaming industry.

The issue of keeping minors and self-excluded patrons out of Illinois casinos has prompted the Illinois Board to consider issuing a requirement that each Illinois casino check the identification of all patrons entering the casino's gaming areas. The Illinois Board held a special meeting on December 3, 2007 to allow the public and industry representatives to speak on the issue. The Illinois Board also conducted studies at selected casinos during which the identification of all patrons was checked for a specific period of time. Although the Illinois Board decided to not make identification checks mandatory, it is anticipated that the issue will continue to be of interest to the Illinois Board. Industry leaders in Illinois have expressed concern that mandatory identification checks may adversely affect gaming revenues, as such checks not only invoke privacy concerns, but may affect the number of patrons visiting Illinois casinos by causing some of them to visit casinos in neighboring states that do not perform such checks.

**New Jersey**

On June 11, 2003 the New Jersey Casino Control Commission, or NJCCC, found that Marina District Development Company, LLC, a New Jersey limited liability company, which we refer to as the Operating Company, complied with all the requirements of the Casino Control Act for the issuance of a casino license to own and operate the Borgata Hotel Casino and Spa. The effective date of the license was July 2, 2003, the date the NJCCC issued the Operating Company with an Operation Certificate. Such casino license was valid for a one year period and was renewed in June of 2004 for an additional one year period. On June 30, 2005 the casino license of the Operating Company was renewed for a five-year period and is subject to successive five-year renewal periods thereafter with the most recent renewal effective July 1, 2010 for a five-year period ending June 30, 2015.

MDDC is a wholly-owned subsidiary of Marina District Development Holding Company, LLC, which we refer to as the Holding Company, i.e. the Holding Company is the sole member of the Operating Company. Boyd Atlantic City, Inc., or BAC and MAC Corp., a wholly-owned subsidiary of Mirage Resorts, Inc., or MAC, are members of the Holding Company and have 50% ownership interests therein, and BAC is the Managing Member of the Holding Company.

The ownership and operation of casino gaming facilities in New Jersey are subject to the Casino Control Act and the regulations of the NJCCC and the New Jersey Division of Gaming Enforcement (“NJDGE”) collectively, sometimes hereinafter referred to as the “Gaming Authorities”. In general, the Casino Control Act and the regulations promulgated thereunder contain detailed provisions concerning, among other things:

- the granting of casino licenses;
- the suitability of the approved hotel facility and the amount of authorized casino space and gaming units permitted therein;
- the qualification of natural persons and entities related to the casino licensee;
- the licensing and registration of employees and vendors of casino licensees;
- the rules of the games;
- the selling and redeeming of gaming chips;
- the granting and duration of credit and the enforceability of gaming debts;
- the management control procedures, accountability, and cash control methods and reports to gaming agencies;
- the security standards;
- the manufacture and distribution of gaming equipment;
- the equal opportunity for employees and casino operators, contractors of casino facilities, and others; and
- advertising and entertainment; and
- alcoholic beverages.

The Gaming Authorities are empowered under the Casino Control Act to regulate a wide spectrum of gaming and non-gaming related activities and to approve the form of ownership and financial structure of not only a casino licensee, but also its entity qualifiers and intermediary and holding companies.

No casino hotel facility may operate unless the appropriate license and approvals are obtained from the Gaming Authorities, which has broad discretion with regard to the issuance, renewal, revocation, and suspension of such licenses and approvals, which are nontransferable. The qualification criteria with respect to the holder of a casino license include the following:

- its financial stability, integrity and responsibility;
- the integrity and adequacy of its financial resources which bear any relation to the casino project;
- its good character, honesty, and integrity; and
- the sufficiency of its business ability and casino experience to establish the likelihood of creation and maintenance of a successful, efficient casino operation.

The NJCCC may reopen licensing hearings at any time and must reopen a licensing hearing at the request of the the NJDGE.

To be considered financially stable, a licensee must demonstrate the following ability:

- to pay winning wagers when due;
- to achieve a gross operating profit;
- to pay all local, state, and federal taxes when due;
- to make necessary capital and maintenance expenditures to insure that it has a superior first-class facility; and
- to pay, exchange, refinance or extend debts which will mature and become due and payable during the license term.

In the event a licensee fails to demonstrate financial stability, the Gaming Authorities may take such action as it deems necessary to fulfill the purposes of the Casino Control Act and protect the public interest, including:

- issuing conditional license approvals or determinations;
- establishing an appropriate cure period;
- imposing reporting requirements;
- placing restrictions on the transfer of cash or the assumption of liability;
- requiring reasonable reserves or trust accounts;
- denying licensure; or
- appointing a conservator.

Pursuant to the Casino Control Act, regulations and precedent, no entity may hold a casino license unless: (1) each officer of the casino licensee; (2) each director of the casino licensee; (3) each person who directly or indirectly holds any beneficial interest or ownership of the securities issued by such casino licensee; (4) any holder who in the opinion of the director of the NJDGE has the ability to control the casino license or to elect a majority of the board of directors of casino licensee; and (5) each holding, intermediary or subsidiary company of the casino licensee obtains and maintains qualification approval from the Gaming Authorities. As to each holding, intermediary and subsidiary company of an applicant for or holder of a casino license, such applicants and holders shall be required to establish and maintain the qualifications of the following: (1) each corporate officer as defined in the Casino Control Act; (2) each director; (3) each person who directly or indirectly holds a beneficial interest or ownership interest of 5% or more in such company; (4) any person who in the opinion of the director of the NJDGE has the ability to control or elect a majority of the board of directors of such company; and (5) any other person who the director may consider appropriate obtains and maintains qualification approval from the Gaming Authorities.

In addition, each party to an agreement for the management of a casino is required to hold a casino license, and the party who is to manage the casino must own at least 10% of all the outstanding equity securities of the casino licensee. Such an agreement shall provide for:

- the complete management of the casino;
- the sole and unrestricted power to direct the casino operations; and
- a term long enough to ensure the reasonable continuity, stability, independence and management of the casino.

**Qualification Requirements and Waivers for Certain Institutional Investors**

An entity qualifier or intermediary or holding company is required to be qualified by the NJCCC and meet the same basic standards for approval as a casino licensee; provided, however, that Director of the NJDGE, shall have the authority to waive any or all of the qualification requirements for any corporate officer as defined in the NJ Act, each director and each person who directly or indirectly holds a beneficial interest or ownership interest of 5% or more in such company. Applicants for and holders of casino licenses shall be required to establish and maintain the qualifications of any financial backer, investor, mortgagee, bondholder, or holders of indentures, notes or other evidences of indebtedness, either in effect or proposed which bears relation to the casino

operation or casino hotel premises who holds 25% or more of such financial instruments or evidences of indebtedness; provided however in circumstances of default, any person holding 10% of such financial instruments or evidences of indebtedness shall be required to establish and maintain his qualifications. The director of the NJDGE may, in his discretion, require that any other financial backer, investor, mortgagee, bondholder, or holder of indentures, notes or other evidences of indebtedness who does not meet the threshold set forth herein to establish and maintain his qualifications. Banks and licensed lending institutions shall be exempt from any qualification requirements under this act if such bank or licensed lending institution is acting in the ordinary course of business.

An Institutional Investor is defined by the Casino Control Act as any:

- retirement fund administered by a public agency for the exclusive benefit of federal, state, or local public employees;
- investment company registered under the Investment Company Act of 1940;
- collective investment trust organized by banks under Part Nine of the Rules of the Comptroller of the Currency;
- closed end investment trust;
- chartered or licensed life insurance company or property and casualty insurance company;
- banking and other chartered or licensed lending institution;
- investment advisor registered under the Investment Advisers Act of 1940; and
- such other persons as the NJDGE may determine for reasons consistent with the policies of the Casino Control Act.

An Institutional Investor is granted a waiver by the NJDGE from financial source or other qualification requirements applicable to a holder of publicly-traded securities, in the absence of a prima facie showing by the NJDGE that there is any cause to believe that the Institutional Investor may be found unqualified, on the basis of NJDGE findings that:

- its holdings were purchased for investment purposes only and, upon request by the NJDGE, it files a certified statement to the effect that is has no intention of influencing or affecting the affairs of the issuer, the casino licensee or its holding or intermediary companies; provided, however, that the Institutional Investor will be permitted to vote on matters put to the vote of the outstanding security holders; and
- if the securities are debt securities of a casino licensee's holding or intermediary companies or another subsidiary company of the casino licensee's holding or intermediary companies which is related in any way to the financing of the casino licensee and represent either:
  - 25% or less of the total outstanding debt of the company; or
  - 50% or less of any issue of outstanding debt of the company, unless the full issue is in the amount of $150 million or less;
- the securities are under 25% of the equity securities of a casino licensee's holding or intermediary companies; or
- if the securities so held exceed such percentages, upon a showing of good cause. The NJDGE may grant a waiver of qualification to an Institutional Investor holding a higher percentage of such securities upon a showing of good cause and if the conditions specified above are met.

Generally, the NJDGE requires each institutional holder seeking waiver of qualification to execute a certification to the effect that:

- the holder has reviewed the definition of Institutional Investor under the Casino Control Act and believes that it meets the definition of Institutional Investor;
- the securities are those of a publicly-traded corporation;
- the holder purchased the securities for investment purposes only and holds them in the ordinary course of business;
- the holder has no involvement in the business activities of, and no intention of influencing or affecting the affairs of the issuer, the casino licensee, or any affiliate; and
- if the holder subsequently determines to influence or affect the affairs of the issuer, the casino licensee or any affiliate, will provide not less than 30 days' prior notice of such intent and will file with the NJCCC an application for qualification before taking any such action.

If an Institutional Investor changes its investment intent, or if the Gaming Authorities find reasonable cause to believe that it may be found unqualified, the Institutional Investor may take no action with respect to the security holdings, other than to divest itself of such holdings, until it has applied for interim casino authorization and has executed a trust agreement pursuant to such an application.

The Casino Control Act imposes certain restrictions upon the issuance, ownership, and transfer of securities of a Regulated Company, and defines the term “security” to include instruments which evidence a direct or indirect beneficial ownership or creditor interest in a Regulated Company including, but not limited to, mortgages, debentures, security agreements, notes and warrants and any disposition thereof shall be effective five business days after the NJCCC receives notice of such disposition, unless within the 5 business day period the NJCCC disapproves of such disposition.

If the Gaming Authorities find that a holder of such securities is not qualified under the Casino Control Act, it has the right to take

any remedial action it may deem appropriate, including the right to force divestiture by such disqualified holder of such securities. In the event that certain disqualified holders fail to divest themselves of such securities, the Gaming Authorities have the power to revoke or suspend the casino license affiliated with the Regulated Company which issued the securities. If a holder is found unqualified, it is unlawful for the holder:

- to exercise, directly or through any trustee or nominee, any right conferred by such securities; or
- to receive any dividends or interest upon any such securities or any remuneration, in any form, from its affiliated casino licensee for services rendered or otherwise.

With respect to non-publicly-traded securities, the Casino Control Act and regulations require that the corporate charter or partnership agreement of a Regulated Company establish:

- a right of prior approval by the Gaming Authorities with regard to transfers of securities, shares and other interests; and
- an absolute right in the Regulated Company to repurchase at the market price or the purchase price, whichever is the lesser, any such security, share, or other interest in the event that the Gaming Authorities disapprove a transfer.

With respect to publicly-traded securities, such corporate charter or partnership agreement is required to establish that any such securities of the entity are held subject to the condition that, if a holder thereof is found to be disqualified, such holder shall dispose of such securities.

Whenever any person enters into a contract to transfer any property which relates to an on-going casino operation, including a security of the casino licensee or a holding or intermediary company or entity qualifier, under circumstances which would require that the transferee obtain licensure or be qualified under the Casino Control Act, and that person is not already licensed or qualified, the transferee is required to apply for interim authorization. Furthermore, the closing or settlement date in the contract may not be earlier than the 121st day after the submission of a complete application for licensure or qualification together with a fully executed trust agreement in a form approved by the Gaming Authorities. If, after the report of the NJDGE and a hearing by the NJCCC, the NJCCC grants interim authorization, the property will be subject to a trust. If the NJCCC denies interim authorization, the contract may not close or settle until the NJCCC makes a determination on the qualifications of the applicant. If the NJCCC denies qualification, the contract will be terminated for all purposes, and there will be no liability on the part of the transferor.

If, as the result of a transfer of publicly-traded securities of a Regulated Company or a financing entity of a Regulated Company, any person is required to qualify under the Casino Control Act, that person is required to file an application for licensure or qualification within 30 days after the Gaming Authorities determine that qualification is required or declines to waive qualification.

The application must include a fully executed trust agreement in a form approved by the Gaming Authorities, or in the alternative, within 120 days after a determination that qualification is required; the person whose qualification is required must divest such securities as the NJCCC may require in order to remove the need to qualify.

The NJCCC may grant interim casino authorization where it finds by clear and convincing evidence that:

- statements of compliance have been issued pursuant to the Casino Control Act;
- the casino hotel is an approved hotel in accordance with the Casino Control Act;
- the trustee satisfies qualification criteria applicable to casino key employees, except for residency; and
- interim operation will best serve the interests of the public.

When the NJCCC finds the applicant qualified, the trust will terminate. If the NJCCC denies qualification to a person who has received interim casino authorization, the trustee is required to endeavor, and is authorized, to sell, assign, convey, or otherwise dispose of the property subject to the trust to such persons who are licensed or qualified or shall themselves obtain interim casino authorization.

Where a holder of publicly-traded securities is required, in applying for qualification as a financial source or qualifier, to transfer such securities to a trust in application for interim casino authorization and the NJCCC thereafter orders that the trust become operative:

- during the time the trust is operative, the holder may not participate in the earnings of the casino hotel or receive any return on its investment or debt security holdings; and
- after disposition, if any, of the securities by the trustee, proceeds distributed to the unqualified holder may not exceed the lower of their actual cost to the unqualified holder or their value calculated as if the investment had been made on the date the trust became operative.

The Gaming Authorities may permit a licensee to increase its casino space if the licensee agrees to add a prescribed number of qualifying sleeping units within two years after the commencement of gaming operations in the additional casino space. However,

if the casino licensee does not fulfill such agreement due to conditions within its control, the licensee will be required to close the additional casino space, or any portion of thereof that the Gaming Authorities determine should be closed.

The Gaming Authorities are authorized to establish annual fees for the renewal of casino licenses. The renewal fee is based upon the cost of maintaining control and regulatory activities prescribed by the Casino Control Act, and may not be less than $100,000 for a one-year casino license nor less than $200,000 for a five-year casino license. Additionally, casino licenses are subject to potential assessments to fund any annual operating deficits incurred by the NJCCC or the NJDGE. Additionally, each casino licensee is also required to pay an annual tax of 8% on its gross casino revenues. Furthermore, there is a $3.00 room tax fee on all rooms, including complimentary rooms, the proceeds of which, commencing in fiscal year 2007, will be primarily deposited into a special fund for use by the Casino Reinvestment Development Authority. There is also an annual license fee of $500 for each slot machine maintained for use or in use in any casino.

An investment alternative tax imposed on the gross casino revenues of each licensee in the amount of 2.5% is due and payable on the last day of April following the end of the calendar year. A licensee is obligated to pay the investment alternative tax for a period of 50 years. This investment alternative tax may be offset by investment tax credits equal to 1.25% of gross gaming revenue, which are obtained by purchasing bonds issued by, or investing in housing or other development projects approved by, the Casino Reinvestment Development Authority.

If, at any time, it is determined that a Regulated Company has violated the Casino Control Act, or that any such entity cannot meet the qualification requirements of the Casino Control Act, such entity could be subject to fines or the suspension or revocation of its license or qualification. If a Regulated Company's license is suspended for a period in excess of 120 days or revoked, or upon the failure or refusal to renew a casino license, the NJCCC could appoint a conservator to operate or dispose of such entity's casino hotel facilities. The conservator would be required to act under the direct supervision of the Gaming Authorities and would be charged with the duty of conserving, preserving and, if permitted, continuing the operation of such casino hotel. During the period of true conservatorship, a former or suspended casino licensee is entitled to a fair rate of return out of net earnings, if any, on the property retained by the conservator. The Gaming Authorities may also discontinue any conservatorship action and direct the conservator to take such steps as are necessary to affect an orderly transfer of the property of a former or suspended casino licensee.

Casino employees are subject to more stringent requirements than non-casino employees and must meet applicable standards pertaining to financial stability, responsibility, good character, honesty, integrity and New Jersey residency. These requirements have resulted in significant competition among Atlantic City casino operators for the services of qualified employees.

Casinos must follow certain procedures which are outlined in the Casino Control Act when granting gaming credit and recording counter checks which have been exchanged, redeemed or consolidated. Gaming debts arising in Atlantic City in accordance with applicable regulations are enforceable in the courts of the State of New Jersey.

If a patron does not claim money or redeem the representation of debt owed to such patron from a gaming transaction within one year of the date of the transaction, the obligation of the casino licensee to pay the patron shall expire. 25% of the money or the value of the debt shall be paid to the Casino Revenue Fund by the casino licensee, and the remaining 75% shall be retained by the casino licensee, provided the licensee uses the full amount for marketing purposes. Obligations incurred prior to the effective date of April 5, 2009 expire one year after such effective date, at which time 50% of the money or the value of the debt shall be paid to the Casino Revenue Fund, subject to the requirement that each casino licensee was required, on or before June 30, 2009, to make a payment to the Casino Revenue Fund in an amount equal to 25% of the value of the money or debt owed to its patrons as a result of gaming transactions that occurred more than one year prior to the effective date, which payment was credited towards the total obligation to make payments in an amount equal to 50% of the value of such expired gaming related obligations.

On January 15, 2006, the New Jersey State Legislature enacted the Smoke-Free Air Act that became effective April 15, 2006. This law called for smoke-free environments in essentially all indoor workplaces and places open to the public including places of business and service-related activities. The law contains several exceptions including an exemption for all casino floor space and 20% of a hotel's designated hotel rooms. On February 15, 2007, Atlantic City promulgated a local ordinance that is more restrictive than the aforementioned state law. Specifically this ordinance reduced the casino floor exemption to 25% of a casino's floor space. As such, smoking will be prohibited on 75% of a casino's floor space and permitted on 25% of a casino's floor space subject to the following conditions:

- By April 15, 2007, casinos were required to limit smoking to 25% of their casino floor space, which areas initially were not required to be enclosed and separately ventilated.

- Ultimately, the 25% of the casino floor in which smoking would be permissible was required to be enclosed and separately ventilated. Casinos had five months from April 15, 2007 to submit construction plans for such enclosures to applicable authorities for the issuance of building permits and related required approvals. Once permits were issued, the casinos had 90 days to commence construction of the enclosures. Borgata has set aside special enclosed smoking lounges in order to

comply with Atlantic City's partial smoking ban.

- In April 2008, Atlantic City voted to completely ban smoking on the casino floor, to take effect in October 2008; however, as a consequence of the economic downturn, in October 2008, Atlantic City voted to overturn the temporary smoking ban, returning to the 2007 law restricting smoking to no more than twenty-five percent of the casino floor.
- The postponement of the full smoking ban became effective on November 16, 2008.
- In December 2009, Atlantic City's City Council announced it would not consider a full smoking ban until at least the end of 2011.

Under the Atlantic City ordinance, smoking remains permissible in 20% of a hotel's designated hotel rooms, consistent with state law.

**Louisiana**

In the State of Louisiana, we, through our wholly owned subsidiaries, own and operate three gaming properties: Treasure Chest Casino in Kenner, Delta Downs Racetrack, Casino & Hotel in Vinton and Sam's Town Hotel and Casino in Shreveport. The operation and management of riverboat casinos, slot machine operations at certain racetracks and live racing facilities in Louisiana are subject to extensive state regulation. The Louisiana Riverboat Economic Development and Gaming Control Act, or the Riverboat Act, became effective on July 19, 1991. The Louisiana Pari-Mutuel Live Racing Facility Economic Redevelopment and Gaming Control Act, or the Slots Act, became effective on July 9, 1997. The statutory scheme regulating live and off-track betting, or the Horse Racing Act, has been in existence for decades.

The Riverboat Act states, among other things, that certain of the policies of the State of Louisiana are:

- to develop a historic riverboat industry that will assist in the growth of the tourism market;
- to license and supervise the riverboat industry from the period of construction through actual operation;
- to regulate the operators, manufacturers, suppliers and distributors of gaming devices; and
- to license all entities involved in the riverboat gaming industry.

The Slots Act states, among other things, that certain policies of the State of Louisiana are:

- to revitalize and rehabilitate pari-mutuel racing facilities through the allowance of slot machine operations at certain racetracks; and
- to regulate and license owners of such facilities.

The Horse Racing Act states, among other things, that certain policies of the State of Louisiana are:

- to encourage the development of horse racing with pari-mutuel wagering on a high plane;
- to encourage the development and ownership of race horses;
- to regulate the business of racing horses and to provide the orderly conduct of racing;
- to provide financial assistance to encourage the business of racing horses; and
- to provide a program for the regulation, ownership, possession, licensing, keeping, breeding and inoculation of horses.

Both the Riverboat Act and the Slots Act make it clear, however, that no holder of a license or permit possesses any vested interest in such license or permit and that the license or permit may be revoked at any time.

In a special session held in April 1996, the Louisiana legislature passed the Louisiana Gaming Control Act, or the Gaming Control Act, which created the Louisiana Gaming Control Board, or the Gaming Control Board. Pursuant to the Gaming Control Act, all of the regulatory authority, control and jurisdiction of licensing for both riverboats and slot facilities was transferred to the Gaming Control Board. The Gaming Control Board came into existence on May 1, 1996 and is made up of nine members and two ex-officio members (the Secretary of Revenue and Taxation and the superintendent of Louisiana State Police). It is domiciled in Baton Rouge and regulates riverboat gaming, the land-based casino in New Orleans, racetrack slot facilities and video poker. The Attorney General acts as legal counsel to the Gaming Control Board. Any material alteration in the method whereby riverboat gaming or slot facilities is regulated in the State of Louisiana could have an adverse effect on the operations of the Treasure Chest, Delta Downs and Sam's Town Shreveport.

***Riverboats***

The Louisiana legislature also passed legislation requiring each parish (county) where riverboat gaming is currently authorized

to hold an election in order for the voters to decide whether riverboat gaming will remain legal in that parish. Treasure Chest is located in Jefferson Parish, Louisiana. Jefferson Parish approved riverboat gaming at a special election held on November 6, 1996. Sam's Town Shreveport is located in Caddo Parish, Louisiana which approved riverboat gaming at the special election held on November 6, 1996.

The Riverboat Act approved the conducting of gaming activities on a riverboat, in accordance with the Riverboat Act, on twelve separate waterways in Louisiana. The Riverboat Act allows the Gaming Control Board to issue up to fifteen licenses to operate riverboat gaming projects within the state, with no more than six in any one parish. There are presently fifteen licenses issued and thirteen riverboats operating currently. Two riverboats are not operational; one is under construction in Baton Rouge by Pinnacle Entertainment and the other license was conditionally awarded to Creative Casinos by the Gaming Control Board for the construction of a riverboat in Calcasieu Parish.

Pursuant to the Riverboat Act and the regulations promulgated thereunder, each applicant which desired to operate a riverboat casino in Louisiana was required to file a number of separate applications for a Certificate of Preliminary Approval, all necessary gaming licenses and a Certificate of Final Approval. No final Certificate was issued without all necessary and proper certificates from all regulatory agencies, including the U.S. Coast Guard, the U.S. Army Corps of Engineers, local port authorities and local levee authorities.

Both the Treasure Chest project and the Sam's Town Shreveport project applications for a Certificate of Preliminary Approval were properly filed and each received a Certificate of Preliminary Approval in 1993 (at that time Sam's Town Shreveport was owned by Harrah's Entertainment) and both received their original license in 1994. These licenses have been renewed and are subject to certain general operational conditions and are subject to revocation pursuant to applicable laws and regulations.

We and certain of our directors and officers and certain of our key personnel were found suitable to operate riverboat gaming in the State of Louisiana. New directors, officers and certain key employees associated with gaming must also be found suitable by the Gaming Control Board prior to working in gaming-related areas. These approvals may be immediately revoked for a number of causes as determined by the Gaming Control Board. The Gaming Control Board may deny any application for a certificate, permit or license for any cause found to be reasonable by the Gaming Control Board. The Gaming Control Board has the authority to require us to sever our relationships with any persons for any cause deemed reasonable by the Gaming Control Board or for the failure of that person to file necessary applications with the Gaming Control Board.

The current Louisiana riverboat gaming license of Treasure Chest is valid for five years and will expire on May 18, 2015. The Sam's Town Shreveport license is also valid for five years and will expire on March 8, 2015. A hearing on the renewal was held January 19, 2010 and the renewal was approved.

We are involved in legal proceedings with an unsuccessful applicant for the original Treasure Chest riverboat license in Louisiana.

Alvin C. Copeland, the sole shareholder (now deceased) of an unsuccessful applicant for a riverboat license at the location of our Treasure Chest Casino, made several attempts to have the Treasure Chest license revoked and awarded to his company. In 1999 and 2000, Copeland unsuccessfully opposed the renewal of the Treasure Chest license and has brought two separate legal actions against us. In November 1993, Copeland objected to the relocation of Treasure Chest Casino from the Mississippi River to its current site on Lake Pontchartrain. The predecessor to the Louisiana Gaming Control Board allowed the relocation over Copeland's objection. Copeland then filed an appeal of the agency's decision with the Nineteenth Judicial District Court. Through a number of amendments to the appeal, Copeland improperly attempted to transform the appeal into a direct action suit and sought the revocation of the Treasure Chest license. Treasure Chest intervened in the matter in order to protect its interests. The appeal/suit, as it related to Treasure Chest Casino, was dismissed by the District Court and that dismissal was upheld on appeal by the First Circuit Court of Appeal. Additionally, in 1999, Copeland filed a direct action against Treasure Chest and certain other parties seeking the revocation of Treasure Chest's license, an award of the license to him and monetary damages. The suit was dismissed by the trial court citing that Copeland failed to state a claim on which relief could be granted. The dismissal was appealed by Copeland to the First Circuit Court of Appeal. On June 21, 2002, the First Circuit Court of Appeal reversed the trial court's decision and remanded the matter to the trial court. On January 14, 2003, we filed a motion to dismiss the matter and that motion was partially denied. The Court of Appeal refused to reverse the denial of the motion to dismiss. In May 2004, we filed additional motions to dismiss on other grounds. There was no activity regarding this matter during 2005 and 2006, and the case was set to be dismissed by the court for failure to prosecute by the plaintiffs in mid-May 2007; however on May 1, 2007, the plaintiff filed a motion to set a hearing date related to the motions to dismiss. The hearing was scheduled for September 10, 2007, at which time all parties agreed to postpone the hearing indefinitely. The hearing has not been rescheduled. Subsequently, Copeland died and his estate has been substituted as the proper party plaintiff. On June 9, 2009, the plaintiff filed to have the exceptions set for hearing. The parties decided to submit the exceptions to the court on the previously filed briefs. The court issued a ruling denying the exceptions on August 9, 2010. Copeland's counsel indicated a desire to move forward with the litigation and requested that the

parties respond to outstanding discovery. Subsequently, on August 11, 2010, Guidry filed a Third Party Demand against the U.S. Attorney's Office seeking enforcement of Guidry's plea agreement which would limit Guidry's exposure in the case. On September 9, 2010, the U.S. Attorney's Office removed the suit to the U.S. District Court, Middle District of Louisiana. Pending before the District Court are a Motion to Dismiss for failing to state a cause of action filed by Guidry, asserting the same arguments he tried in state court, which the Company joined and a Motion to Dismiss for Lack of Subject Matter Jurisdiction filed by the U.S. Attorney. The motions have been fully briefed and submitted to the Court and will be heard by the U.S. District Court on March 16, 2011. If the case is dismissed for lack of subject matter jurisdiction, it will be remanded to the state court. We currently are vigorously defending the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it could have a significant adverse effect on our business, financial condition and results of operations.

Annual fees are currently charged to each riverboat project as follows:

- $50,000 per year for the first year and $100,000 for each year thereafter; and
- 21.5% of net gaming proceeds.

Additionally, each local government may charge a boarding fee or admissions tax. Treasure Chest pays the City of Kenner a fee of $2.50 per passenger boarding the vessel. Sam's Town Shreveport pays admission taxes of 4.75% of adjusted gross receipts to various local governmental bodies. Any increase in these fees or taxes could have a material and detrimental effect on the operations of Treasure Chest and Sam's Town.

***Slot Facilities***

The Slots Act allows for four separate “eligible facilities” to operate slot machines at live horse racing pari-mutuel facilities (one each in Calcasieu Parish, St. Landry Parish, Bossier Parish and Orleans Parish). Each facility may, upon proper licensure, operate slot machines in up to 15,000 square feet of gaming space.

Gaming licenses and approvals are issued by the Gaming Control Board, and are subject to revocation for any cause deemed reasonable by the Gaming Control Board. Our operation of slot machines at Delta Downs is subject to strict regulation by the Gaming Control Board and the Louisiana State Police. Extensive regulations concerning accounting, internal controls, underage patrons and other aspects of slot machine operations have been promulgated by the Gaming Control Board. Failure to adhere to these rules and regulations can result in substantial fines and the suspension or revocation of the license to conduct slot machine operations. Any failure to comply with the Louisiana Gaming Control Board's rules or regulations in the future could ultimately result in the revocation of our license to operate slot machines at Delta Downs.

Annual Fees and taxes currently charged Delta Downs under the Slots Acts are as follows:

- 15% of the annual net slot machine proceeds are dedicated to supplement purses of the live horse race meets held at the facility;
- 3% of the annual net slot machine proceeds dedicated to horse breeders associations;
- 18.5% taxable net slot machine proceeds are paid to the state;
- $0.25 per person attending live racing and off-track betting facilities during those periods when it is conducting race meetings, only on those days when there are scheduled live races at its racetrack (currently Thursdays through Sundays) from the hours of 6:00 p.m. until 12:00 a.m. and during those periods when it is not conducting live racing (i.e., between race meetings) only on Thursdays through Mondays from the hours of 12:00 p.m. until 12:00 a.m. Delta Down's current license is valid through October of 2011.

***Gaming Control Board***

At any time, the Gaming Control Board may investigate and require the finding of suitability of any stockholder, beneficial stockholder, officer or director of Boyd Gaming or of any of its subsidiaries. The Gaming Control Board requires all holders of more than a 5% interest in the license holder to submit to suitability requirements. Additionally, if a shareholder who must be found suitable is a corporate or partnership entity, then the shareholders or partners of the entity must also submit to investigation. The sale or transfer of more than a 5% interest in any riverboat or slot project is subject to Gaming Control Board approval.

Pursuant to the regulations promulgated by the Gaming Control Board, all licensees are required to inform the Gaming Control Board of all debt, credit, financing and loan transactions, including the identity of debt holders. Our subsidiaries, Treasure Chest Casino, L.L.C., Boyd Racing, L.L.C., and Red River Entertainment of Shreveport, LLC (Sam's Town Shreveport) are licensees and are subject to these regulations. In addition, the Gaming Control Board, in its sole discretion, may require the holders of such debt securities to file applications and obtain suitability certificates from the Gaming Control Board. Although the Riverboat Act and the Slots Act do not specifically require debt holders to be licensed or to be found suitable, the Gaming Control Board retains the discretion to investigate and require that any holders of debt securities be found suitable under the Riverboat Act or the Slots

Act. Additionally, if the Gaming Control Board finds that any holder exercises a material influence over the gaming operations, a suitability certificate will be required. If the Gaming Control Board determines that a person is unsuitable to own such a security or to hold such an indebtedness, the Gaming Control Board may propose any action which it determines proper and necessary to protect the public interest, including the suspension or revocation of the license. The Gaming Control Board may also, under the penalty of revocation of license, issue a condition of disqualification naming the person(s) and declaring that such person(s) may not:

- receive dividends or interest in debt or securities;
- exercise directly or through a nominee a right conferred by the securities or indebtedness;
- receive any remuneration from the licensee;
- receive any economic benefit from the licensee; or
- continue in an ownership or economic interest in a licensee or remain as a manager, director or partner of a licensee.

Any violation of the Riverboat Act, the Slots Act or the rules promulgated by the Gaming Control Board could result in substantial fines, penalties (including a revocation of the license) and criminal actions. Additionally, all licenses and permits issued by the Gaming Control Board are revocable privileges and may be revoked at any time by the Gaming Control Board.

***Live Horse Racing***

Pari-mutuel betting and the conducting of live horse race meets in Louisiana are strictly regulated by the Louisiana State Racing Commission, which we refer to as the Racing Commission. The Racing Commission is comprised of thirteen members and is domiciled in New Orleans, Louisiana. In order to be approved to conduct a live race meet and to operate pari-mutuel wagering (including off-track betting), an applicant must show, among other things:

- racing experience;
- financial qualifications;
- moral and financial qualifications of applicant and applicant's partners, officers and officials;
- the expected effect on the breeding and horse industry;
- the expected effect on the State's economy; and
- the hope of financial success.

In May 2001, a subsidiary of Boyd Gaming applied for and received approval from the Racing Commission to buy Delta Downs. Approval was also granted to conduct live race meets and to operate pari-mutuel wagering at the Delta Downs facility and to conduct off-track wagering at Delta Downs. The term of these licenses is ten years.

Any alteration in the regulation of riverboat casinos, slot machine operations at certain racetracks, or live racing facilities could have a material adverse effect on the operations of Treasure Chest, Delta Downs, or Sam's Town Shreveport.

**Mississippi**

The ownership and operation of casino gaming facilities in the State of Mississippi, such as those at Sam's Town Tunica, are subject to extensive state and local regulation, but primarily the licensing and regulatory control of the Mississippi Gaming Commission, or the Mississippi Commission.

The Mississippi Gaming Control Act, or the Mississippi Act, is similar to the Nevada Gaming Control Act. The Mississippi Commission has adopted regulations that are also similar in many respects to the Nevada gaming regulations.

The laws, regulations and supervisory procedures of the Mississippi Commission are based upon declarations of public policy that are concerned with, among other things:

- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- the establishment and maintenance of responsible accounting practices and procedures;
- the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing for reliable record keeping and requiring the filing of periodic reports with the Mississippi Commission;
- the prevention of cheating and fraudulent practices;
- providing a source of state and local revenues through taxation and licensing fees; and
- ensuring that gaming licensees, to the extent practicable, employ Mississippi residents.

The regulations are subject to amendment and interpretation by the Mississippi Commission. We believe that our compliance with the licensing procedures and regulatory requirements of the Mississippi Commission will not affect the marketability of our securities. Changes in Mississippi laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse effect on us and our business, financial condition and results of operations.

The Mississippi Act provides for legalized gaming in each of the fourteen counties that border the Gulf Coast or the Mississippi River, but only if the voters in the county have not voted to prohibit gaming in that county.

Currently, gaming is permissible in nine of the fourteen eligible counties in the state and gaming operations have commenced in seven counties. Traditionally, Mississippi law required gaming vessels to be located on the Mississippi River or on navigable waters in eligible counties along the Mississippi River, or in the waters lying south of the counties along the Mississippi Gulf Coast. However, the Mississippi Legislature amended the Mississippi Act to permit licensees in the three counties along the Gulf Coast to establish land-based casino operations provided the gaming areas do not extend more than 800 feet beyond the nineteen-year mean high water line, except in Harrison County where the 800-foot limit can be extended as far as the greater of 800 feet beyond the 19 year mean high water line or the southern boundary of Highway 90. Due to another change in the Mississippi Act, the Commission has also permitted licensees in approved Mississippi River counties to conduct gaming operations on permanent structures, provided that the majority of any such structure is located on the river side of the "bank full" line of the Mississippi River.

Our Sam's Town Tunica casino is located on barges situated in a specially constructed basin several hundred feet inland from the Mississippi River. In the past, whether basins such as the one in which our casino barges are located constituted “navigable waters” suitable for gaming under Mississippi law was a controversial issue. The Mississippi Attorney General issued an opinion in July 1993 addressing legal locations for gaming vessels under the Mississippi Act and the Mississippi Commission later approved the location of the casino barges on the Sam's Town Tunica site as legal under the opinion of the Mississippi Attorney General. Although a competitor requested the Mississippi Commission to review and reconsider its decision, the Mississippi Commission declined to do so and since that date has issued or renewed licenses to Sam's Town Tunica on several separate occasions. Continued licensing of Sam's Town Tunica requires demonstration of compliance with the Mississippi Attorney General's “navigable waters” opinion, a requirement which has been imposed on many Tunica County licensees. We believe that Sam's Town Tunica is in compliance with the Mississippi Act and the Mississippi Attorney General's “navigable waters” opinion. However, no assurance can be given that a court ultimately would conclude that our casino barges at Sam's Town Tunica are located on navigable waters within the meaning of Mississippi law. If the basin in which our Sam's Town Tunica casino barges presently are located was not deemed navigable waters within the meaning of Mississippi law, such a decision would have a significant adverse effect on us and our business, financial condition and results of operations.

The Mississippi Act permits unlimited stakes gaming on a 24-hour basis and does not restrict the percentage of space which may be utilized for gaming. The Mississippi Act permits substantially all traditional casino games and gaming devices.

We and any subsidiary of ours that operates a casino in Mississippi, which we refer to as a Gaming Subsidiary, are subject to the licensing and regulatory control of the Mississippi Commission. We are registered under the Mississippi Act as a publicly traded corporation, or a Registered Corporation, of Boyd Tunica, Inc., the owner and operator of Sam's Town Tunica, a licensee of the Mississippi Commission. As a Registered Corporation, we are required periodically to submit detailed financial and operating reports to the Mississippi Commission and furnish any other information the Mississippi Commission may require. If we are unable to continue to satisfy the registration requirements of the Mississippi Act, we and any Gaming Subsidiary cannot own or operate gaming facilities in Mississippi. No person may become a stockholder of or receive any percentage of profits from a licensed subsidiary of a Registered Corporation without first obtaining licenses and approvals from the Mississippi Commission. We have obtained such approvals in connection with the licensing of Sam's Town Tunica.

A Gaming Subsidiary must maintain a gaming license from the Mississippi Commission to operate a casino in Mississippi. Such licenses are issued by the Mississippi Commission subject to certain conditions, including continued compliance with all applicable state laws and regulations. There are no limitations on the number of gaming licenses that may be issued in Mississippi. Gaming licenses require the payment of periodic fees and taxes, are not transferable, are issued for a three-year period and must be renewed periodically thereafter. Sam's Town Tunica's current gaming license expires in December of 2013.

Certain of our officers and employees and the officers, directors and certain key employees of Sam's Town Tunica must be found suitable or approved by the Mississippi Commission. We believe that we have obtained, applied for or are in the process of applying for all necessary findings of suitability with respect to Boyd Gaming or Sam's Town Tunica, although the Mississippi Commission, in its discretion, may require additional persons to file applications for findings of suitability. In addition, any person having a material relationship or involvement with us may be required to be found suitable, in which case those persons must pay the costs

and fees associated with such investigation. The Mississippi Commission may deny an application for a finding of suitability for any cause that it deems reasonable. Changes in certain licensed positions must be reported to the Mississippi Commission. In addition to its authority to deny an application for a finding of suitability, the Mississippi Commission has jurisdiction to disapprove a change in any corporate position or title and such changes must be reported to the Mississippi Commission. The Mississippi Commission has the power to require us and our Mississippi Gaming Subsidiary to suspend or dismiss officers, directors and other key employees or sever relationships with other persons who refuse to file appropriate applications or whom the authorities find unsuitable to act in such capacities. Determination of suitability or questions pertaining to licensing are not subject to judicial review in Mississippi.

At any time, the Mississippi Commission has the power to investigate and require the finding of suitability of any record or beneficial stockholder of Boyd Gaming. The Mississippi Act requires any person who acquires more than five percent of any class of voting securities of a Registered Corporation, as reported to the Securities and Exchange Commission, or SEC, to report the acquisition to the Mississippi Commission, and such person may be required to be found suitable. Also, any person who becomes a beneficial owner of more than ten percent of any class of voting securities of a Registered Corporation, as reported to the SEC, must apply for a finding of suitability by the Mississippi Commission and must pay the costs and fees that the Mississippi Commission incurs in conducting the investigation. If a stockholder who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners.

The Mississippi Commission generally has exercised its discretion to require a finding of suitability of any beneficial owner of more than five percent of any class of voting securities of a Registered Corporation. However, under certain circumstances, an “institutional investor,” as defined in the Mississippi Commission's regulations, which acquires more than ten percent, but not more than fifteen percent, of the voting securities of a Registered Corporation may apply to the Mississippi Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes only. An institutional investor shall not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of the board of directors of the Registered Corporation, any change in the corporate charter, bylaws, management, policies or operations, or any of its gaming affiliates, or any other action which the Mississippi Commission finds to be inconsistent with holding the voting securities for investment purposes only. Activities which are not deemed to be inconsistent with holding voting securities for investment purposes include:

- voting on all matters voted on by stockholders;
- making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in management, policies or operations; and
- such other activities as the Mississippi Commission may determine to be consistent with such investment intent.

Any person who fails or refuses to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Mississippi Commission may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any person found unsuitable and who holds, directly or indirectly, any beneficial ownership of our securities beyond such time as the Mississippi Commission prescribes, may be guilty of a misdemeanor. We may be subject to disciplinary action if, after receiving notice that a person is unsuitable to be a stockholder or to have any other relationship with us or any Gaming Subsidiary owned by us, the company involved:

- pays the unsuitable person any dividend or other distribution upon such person's voting securities;
- recognizes the exercise, directly or indirectly, of any voting rights conferred by securities held by the unsuitable person;
- pays the unsuitable person any remuneration in any form for services rendered or otherwise, except in certain limited and specific circumstances; or
- fails to pursue all lawful efforts to require the unsuitable person to divest himself of the securities, including, if necessary, the immediate purchase of the securities for cash at a fair market value.

We may be required to disclose to the Mississippi Commission, upon request, the identities of the holders of our debt or other securities. In addition, under the Mississippi Act, the Mississippi Commission, in its discretion, may require the holder of any debt security of a Registered Corporation to file an application, be investigated and be found suitable to own the debt security if the Mississippi Commission has reason to believe that the ownership of the debt security by the holder would be inconsistent with the declared policies of the State of Mississippi.

Although the Mississippi Commission generally does not require the individual holders of obligations such as notes to be investigated and found suitable, the Mississippi Commission retains the discretion to do so for any reason, including but not limited to, a default, or where the holder of the debt instruments exercises a material influence over the gaming operations of the entity

in question. Any holder of debt securities required to apply for a finding of suitability must pay all investigative fees and costs of the Mississippi Commission in connection with such an investigation.

If the Mississippi Commission determines that a person is unsuitable to own a debt security, then the Registered Corporation may be sanctioned, including the loss of its approvals, if without the prior approval of the Mississippi Commission, it:

- pays to the unsuitable person any dividend, interest, or any distribution whatsoever;
- recognizes any voting right by the unsuitable person in connection with those securities;
- pays the unsuitable person remuneration in any form; or
- makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

Each Mississippi Gaming Subsidiary must maintain in Mississippi a current ledger with respect to the ownership of its equity securities and we must maintain in Mississippi a current list of our stockholders which must reflect the record ownership of each outstanding share of any class of our equity securities. The ledger and stockholder lists must be available for inspection by the Mississippi Commission at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Mississippi Commission. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We must also render maximum assistance in determining the identity of the beneficial owner.

The Mississippi Act requires that the certificates representing securities of a Registered Corporation bear a legend indicating that the securities are subject to the Mississippi Act and the regulations of the Mississippi Commission. We have received from the Mississippi Commission a waiver of this legend requirement. The Mississippi Commission has the power to impose additional restrictions on the holders of our securities at any time.

Substantially all material loans, leases, sales of securities and similar financing transactions by a Registered Corporation or a Gaming Subsidiary must be reported to or approved by the Mississippi Commission. A Mississippi Gaming Subsidiary may not make a public offering of its securities but may pledge or mortgage casino facilities. A Registered Corporation may not make a public offering of its securities without the prior approval of the Mississippi Commission if any part of the proceeds of the offering is to be used to finance the construction, acquisition or operation of gaming facilities in Mississippi or to retire or extend obligations incurred for those purposes. Such approval, if given, does not constitute a recommendation or approval of the investment merits of the securities subject to the offering. We have received a waiver of the prior approval requirement with respect to public offerings and private placements of securities, subject to certain conditions, including the ability of the Mississippi Commission to issue a stop order with respect to any such offering if the staff determines it would be necessary to do so.

Under the regulations of the Mississippi Commission, a Gaming Subsidiary may not guarantee a security issued by an affiliated company pursuant to a public offering, or pledge its assets to secure payment or performance of the obligations evidenced by the security issued by the affiliated company, without the prior approval of the Mississippi Commission. A pledge of the stock of a Gaming Subsidiary and the foreclosure of such a pledge are ineffective without the prior approval of the Mississippi Commission. Moreover, restrictions on the transfer of an equity security issued by a Gaming Subsidiary or its holding companies and agreements not to encumber such securities are ineffective without the prior approval of the Mississippi Commission. We have obtained approvals from the Mississippi Gaming Commission for such guarantees, pledges and restrictions in connection with offerings of securities, subject to certain restrictions, but we must obtain separate prior approvals from the Mississippi Commission for pledges and stock restrictions in connection with certain financing transactions. Moreover, the regulations of the Mississippi Commission require us to file a Loan to Licensees Report with the Mississippi Gaming Commission within thirty (30) days following certain financing transactions and the offering of certain debt securities. If the Mississippi Commission were to deem it appropriate, the Mississippi Commission could order such transaction rescinded.

Changes in control of us through merger, consolidation, acquisition of assets, management or consulting agreements or any act or conduct by a person by which he or she obtains control, may not occur without the prior approval of the Mississippi Commission. Entities seeking to acquire control of a Registered Corporation must satisfy the Mississippi Commission in a variety of stringent standards prior to assuming control of the Registered Corporation. The Mississippi Commission also may require controlling stockholders, officers, directors, and other persons having a material relationship or involvement with the entity proposing to acquire control to be investigated and found suitable as part of the approval process relating to the transaction.

The Mississippi legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and other corporate defense tactics that affect corporate gaming licensees in Mississippi and Registered Corporations may be injurious to stable and productive corporate gaming. The Mississippi Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Mississippi's gaming industry and further Mississippi's policy to:

- assure the financial stability of corporate gaming operators and their affiliates;
- preserve the beneficial aspects of conducting business in the corporate form; and
- promote a neutral environment for the orderly governance of corporate affairs.

Approvals are, in certain circumstances, required from the Mississippi Commission before a Registered Corporation may make exceptional repurchases of voting securities (such as repurchases which treat holders differently) in excess of the current market price and before a corporate acquisition opposed by management can be consummated. Mississippi's gaming regulations also require prior approval by the Mississippi Commission of a plan of recapitalization proposed by the Registered Corporation's board of directors in response to a tender offer made directly to the Registered Corporation's shareholders for the purpose of acquiring control of the Registered Corporation.

Neither we nor any Gaming Subsidiary may engage in gaming activities in Mississippi while also conducting gaming operations outside of Mississippi without approval of, or a waiver of such approval by, the Mississippi Commission. The Mississippi Commission may require determinations that, among other things, there are means for the Mississippi Commission to have access to information concerning the out-of-state gaming operations of us and our affiliates. We previously have obtained, or otherwise qualified for, a waiver of foreign gaming approval from the Mississippi Commission for operations in other jurisdictions in which we conduct gaming operations and will be required to obtain approval or a waiver of such approval from the Mississippi Commission prior to engaging in any additional future gaming operations outside of Mississippi; provided, however, that such a waiver shall be automatically granted under the Mississippi Commission's regulations in connection with foreign gaming activities (except for internet gaming activities) conducted (i) within the fifty (50) states or any territory of the United States, (ii) on board any cruise ship embarking from a port located therein, and (iii) in any other jurisdiction in which a casino operator's license or its equivalent is not required in order to legally conduct gaming operations.

If the Mississippi Commission were to determine that we or Sam's Town Tunica had violated a gaming law or regulation, the Mississippi Commission could limit, condition, suspend or revoke our approvals and the license of Sam's Town Tunica, subject to compliance with certain statutory and regulatory procedures. In addition, we, Sam's Town Tunica and the persons involved could be subject to substantial fines for each separate violation. Because of such a violation, the Mississippi Commission could attempt to appoint a supervisor to operate the casino facilities. Limitation, conditioning or suspension of any gaming license or approval or the appointment of a supervisor could (and revocation of any gaming license or approval would) materially adversely affect us and our business, financial condition and results of operations.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Mississippi and to the counties and cities in which a Gaming Subsidiary's operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually. Generally, gaming fees and taxes are based upon the following:

- a percentage of the gross gaming revenues received by the casino operation;
- the number of gaming devices operated by the casino; or
- the number of table games operated by the casino.

The license fee payable to the State of Mississippi is based upon “gaming receipts” (generally defined as gross receipts less payouts to customers as winnings) and the current maximum tax rate imposed is eight percent of all gaming receipts in excess of $134,000 per month. The foregoing license fees we pay are allowed as a credit against our Mississippi income tax liability for the year paid. The gross revenues fee imposed by Tunica County in which Sam's Town Tunica is located equals approximately four percent of the gaming receipts.

The Mississippi Commission's regulations require as a condition of licensure or license renewal that an existing licensed gaming establishment's plan include adequate parking facilities in close proximity to the casino complex and infrastructure facilities, such as hotels, which amount to at least 100% of the casino cost. The Mississippi Commission's current infrastructure requirement applies to new casinos or acquisitions of closed casinos. Sam's Town Tunica was grandfathered under a prior version of that regulation that required the infrastructure investment to equal only 25% of the casino's cost.

The sale of alcoholic beverages by Sam's Town Tunica is subject to licensing, control and regulation by both the local jurisdiction and the Alcoholic Beverage Control Division, or ABC, of the Mississippi State Tax Commission. Sam's Town Tunica is in an area designated as special resort area, which allows Sam's Town Tunica to serve alcoholic beverages on a 24-hour basis. If the ABC laws are violated, the ABC has the full power to limit, condition, suspend or revoke any license for the serving of alcoholic beverages or to place such licensee on probation with or without conditions. Any such disciplinary action could (and revocation would) have a significant adverse effect upon us and our business, financial condition and results of operations. Certain of our

officers and managers at Sam's Town Tunica must be investigated by the ABC in connection with our liquor permits and changes in certain key positions must be approved by the ABC.

**Indiana**

The Indiana Riverboat Gaming Act, or the Indiana Act, was passed in 1993 and authorized the issuance of up to eleven Riverboat Owner's Licenses to be operated from counties that are contiguous to the Ohio River, Lake Michigan and Patoka Lake. Five riverboats operate from counties contiguous to the Ohio River and five operate from counties contiguous to Lake Michigan. Subsequent legislation has amended or modified the Indiana Act, including:

- Legislation adopted in May 2003 eliminated the Riverboat Owner's License for a riverboat to be docked in a county contiguous to Patoka Lake. However, the General Assembly authorized the Indiana Gaming Commission to enter into a contract pursuant to which an Operating Agent can operate a riverboat in Orange County, which is contiguous to Patoka Lake, on behalf of the Indiana Gaming Commission. This contract was awarded to Blue Sky Casino, LLC, d/b/a French Lick Casino & Resort, which commenced operations on November 3, 2006.
- Legislation enacted in April 2007 specified a riverboat cannot be moved from the county in which it was docked on January 1, 2007, to another county.
- In May 2008 the horse track located in Anderson, Indiana commenced slot operations and in June 2008 the horse track located in Shelbyville, Indiana commenced slot operations. Each horse track may install up to 2,000 slot machines ("Racino"). The Indiana Gaming Commission may authorize the installation of additional slot machines at each Racino.

The Indiana Act and rules promulgated thereunder provide for the strict regulation of the facilities, persons, associations and practices related to gaming operations. The Indiana Act vests the seven member Indiana Gaming Commission with the power and duties of administering, regulating and enforcing riverboat gaming in Indiana. In 2005 the Indiana Act was amended to change the residency requirements of Indiana Gaming Commission members requiring only one member, rather than three, reside in counties contiguous to Lake Michigan and to the Ohio River. The Indiana Gaming Commission's jurisdiction extends to every person, association, corporation, partnership and trust involved in any riverboat gaming operation located in the State of Indiana.

The Indiana Act requires that the owner of a riverboat gambling operation hold a Riverboat Owner's License issued by the Indiana Gaming Commission. The applicants for a Riverboat Owner's License must submit a comprehensive application and the substantial owners and key persons must submit personal disclosure forms. The company, substantial owners and key persons must undergo an exhaustive background investigation prior to the issuance of a Riverboat Owner's License. A person who owns or will own five percent of a Riverboat Owner's License must automatically undergo the background investigation. The Indiana Gaming Commission may investigate any person with any level of ownership interest. The Operating Agent of an Orange County riverboat and Racino licensees undergo the same background investigation as a Riverboat Licensee. If the holder of a Riverboat license, the Riverboat Licensee or the Operating Agent is a publicly-traded corporation, its Articles of Incorporation must contain language concerning transfer of ownership, suitability determinations and possible divestiture of ownership if a shareholder is found unsuitable.

A Riverboat Owner's License and Operating Contract entitle the licensee or the Operating Agent to operate one riverboat. The Indiana Act was amended in May 2003 to allow a person to hold up to one hundred percent of two individual Riverboat Owner's Licenses. In addition, a transfer fee of two million dollars will be imposed on a Riverboat Licensee who purchases or otherwise acquires a controlling interest in a second Indiana Riverboat Owner's License.

Pursuant to language that became effective on July 1, 2009, each riverboat licensee, Operating Agent and Racino licensee must execute and submit a Power of Attorney and name a Trustee who would operate the casino and related facilities if a statutory event occurs and the Indiana Gaming Commission adopts a resolution authorizing the Trustee to temporarily conduct the riverboat gambling operations. Specifically, the Indiana Gaming Commission may adopt a resolution authorizing a Trustee to temporarily conduct riverboat gambling operations if any of the following occurs: (i) The Indiana Gaming Commission revokes the owner's license; (ii) the Indiana Gaming Commission declines to the renew the owner's license; (iii) a proposed transferee is denied a license when attempting to purchase a riverboat and current owner is unable or unwilling to retain ownership of the riverboat; or (iv) a licensee agrees, in writing, to relinquish control of a riverboat to a trustee as approved by the Indiana Gaming Commission. The Power of Attorney and potential Trustees had to be submitted by November 1, 2009. Blue Chip's Power of Attorney and its proposed Trustee was approved by the Indiana Gaming Commission at its March 4, 2009, business meeting.

All riverboats must comply with applicable federal and state laws including, but not limited to, U.S. Coast Guard regulations. Each riverboat must be certified to carry at least five hundred passengers and be at least one hundred fifty feet in length. Those riverboats located in counties contiguous to the Ohio River must replicate historic Indiana steamboat passenger vessels of the nineteenth century. The Indiana Act does not limit the number of gaming positions allowed on each riverboat. The only limitation

on the number of permissible patrons allowed is established by the U.S. Coast Guard Certificate of Inspection in the specification of the riverboat's capacity. In 2005 the Indiana Act was amended to allow the Indiana Gaming Commission to adopt an alternative certification process if the U.S. Coast Guard discontinues issuing Certifications of Inspections to Indiana riverboats. On June 7, 2007, the Indiana Gaming Commission adopted the Guide for Alternate Certification of Continuously Moored, Self-Propelled, Riverboat Gaming Vessels in the State of Indiana. Vessels with an existing Certificate of Inspection operating as a dockside riverboat casino will be accepted as-is into the Alternative Certification program, subject to satisfactory completion of the United States Coast Guard procedures for becoming a Permanently Moored Vessel and a satisfactory inspection by ABS Consulting. Upon surrendering the United States Coast Guard Certificate of Inspection rules and regulation of the Occupational Health and Safety Administration will apply to the vessel and its crew, including casino personnel.

The Indiana Gaming Commission, after consultation with the Corps, may determine those navigable waterways located in counties contiguous to Lake Michigan or the Ohio River that are suitable for riverboats. If the Corps rescinds approval for the operation of a riverboat gambling facility, the Riverboat Owner's License issued by the Indiana Gaming Commission is void and the Riverboat Licensee may not commence or must cease conducting gambling operations.

The initial Riverboat Owner's License ran for a period of five years. Thereafter, the license is subject to renewal on an annual basis upon a determination by the Indiana Gaming Commission that it continues to be eligible to hold a Riverboat Owner's License pursuant to the Indiana Act and rules promulgated thereunder. After the expiration of the initial license, the Riverboat Owner's License must be renewed annually with each Riverboat Licensee undergoing a complete reinvestigation every three years. The Indiana Gaming Commission reserves the right to investigate Riverboat Licensees at any time it deems necessary. The initial license was issued to Blue Chip Casino, Inc., the predecessor to Blue Chip Casino, LLC, in August of 1997. Blue Chip underwent a reinvestigation in 2008 and its license was renewed. The license is good for a period of one year and must be renewed annually. Blue Chip's license was renewed in September 2010 for the period from August 18, 2010 to August 17, 2011 and its next requisite reinvestigation will occur in August 2011. The Operating Contract for an Orange County riverboat is valid for a period of twenty years. However, the Operating Agent is to be reinvestigated every three years to determine continued suitability. In addition, the Indiana Gaming Commission has the right to reinvestigate the Operating Agent at any time it deems necessary. Racino licenses must be renewed annually with a reinvestigation every three years.

Pursuant to legislation enacted in 2009, all riverboat licensees, Operating Agents, and Racino licensees must a submit to the Indiana Gaming Commission for approval a proposed Power of Attorney identifying the person who would temporarily operate the facility on a temporary basis and upon approval of the Indiana Gaming Commission (“Trustee”). The Trustee is to operate the facility if one of the following occurs: (i) the Indiana Gaming Commission revokes the license or the Operating Agreement; (ii) the Indiana Gaming Commission does not renew a license or an Operating Agent contract; (iii) a proposed transferee of a license or Operating Agent is denied a license or an Operating Agent Contract and the licensee or Operating Agent is unwilling to retain ownership of the riverboat or Racino; or (iv) the licensee agrees, in writing, to relinquish control to a trustee approved by the Indiana Gaming Commission. The Indiana Gaming Commission will establish a deadline for all licensees and Operating Agents to submit a proposed Power of Attorney. After the deadline passes the Indiana Gaming Commission may not renew a license or Operating Agent Contract until the Power of Attorney is submitted and the Indiana Gaming Commission has approved the Power of Attorney and the proposed trustee. If the Indiana Gaming Commission adopts a resolution authorizing a trustee to temporarily operate a riverboat or a Racino the licensee will have 180 days from the date the resolution is adopted to sell the riverboat or Racino to a person approved by the Indiana Gaming Commission. If the riverboat or Racino is not sold within 180 days the trustee may sell the riverboat or Racino to a person approved by the Indiana Gaming Commission. All licensees must apply for and hold all other licenses necessary for the operation of a riverboat gambling operation, including, but not limited to, alcoholic beverage licenses and food preparation licenses.

Neither the Riverboat Owner's License nor the Operating Contract may be leased, hypothecated or have money borrowed or loaned against it. An ownership interest in a Riverboat Owner's License or an Operating Contract may only be transferred in accordance with the Indiana Act and rules promulgated thereunder.

The Indiana Act does not limit the amount a patron may bet or lose. Minimum and maximum wagers for each game are set by the Riverboat Licensee or an Operating Agent. Wagering may not be conducted with money or other negotiable currency. No person under the age of 21 is permitted to wager on or be present on a riverboat. Wagers may only be taken from a person present on the riverboat. All electronic gaming devices must pay out in a theoretical range that is at least eighty but less than one hundred percent of the amount wagered. In addition, in May 2003, the Indiana General Assembly adopted legislation authorizing twenty-four hour operation for all Indiana riverboats upon application to, and approval by, the Indiana Gaming Commission. The Indiana Gaming Commission had previously allowed only twenty-one hour gaming. As a result of the legislative change and upon receipt of the requisite approval, Blue Chip commenced twenty-four hour gaming on August 1, 2003.

Pursuant to legislation adopted in May 2003, the Indiana Gaming Commission adopted rules to establish and implement a voluntary

exclusion program that requires, among other things, (i) that persons who participate in the voluntary exclusion program be included on a list of persons excluded from all Indiana riverboats, (ii) that persons who participate in the voluntary exclusion program may not seek readmittance to Indiana riverboats, (iii) Riverboat Licensees and Operating Agents must make reasonable efforts, as determined by the Indiana Gaming Commission, to cease all direct marketing efforts to a person participating in the voluntary exclusion program, and (iv) a Riverboat Licensee or Operating Agent may not cash a check of, or extend credit to, a person participating in the voluntary exclusion program. The voluntary exclusion program does not preclude a Riverboat Licensee or Operating Agent from seeking payment of a debt accrued by a person before entry into the voluntary exclusion program. The Indiana Gaming Commission has commenced the voluntary exclusion program and, as of December 2008, 2,921 individuals had requested voluntary exclusion from Indiana riverboats for at least a one year period. Of that number, 3,434 of the individuals were active participants in the program as of February 2010.

The Indiana General Assembly amended the Indiana Act in 2002 to allow riverboats to choose between continuing to conduct excursions or operate dockside. The Indiana Gaming Commission authorized riverboats to commence dockside operations on August 1, 2002. Blue Chip opted to operate dockside and commenced dockside operations on August 1, 2002. Pursuant to the legislation, the tax rate was increased from 20% to 22.5% during any time an Indiana riverboat does not operate dockside. For those riverboats that operate dockside, the following graduated tax rate is applicable: (i) 15% of the first $25 million of adjusted gross receipts, which we refer to as AGR; (ii) 20% of AGR in excess of $25 million, but not exceeding $50 million; (iii) 25% of AGR in excess of $50 million, but not exceeding $75 million; (iv) 30% of AGR in excess of $75 million, but not exceeding $150 million; and (v) 35% of AGR in excess of $150 million, but not exceeding $600 million; (vi) 40% of AGR in excess of $600 million. AGR is based on Indiana's fiscal year (July 1 of one year through June 30 of the following year). The Operating Agent in Orange County will pay the wagering tax on the same basis as the other ten Indiana riverboats. The Indiana Act requires that Riverboat Licensees pay a $3.00 admission tax for each person. A riverboat that opts to continue excursions pays the admission tax on a per excursion basis while a riverboat that operates dockside pays the admission tax on a per entry basis. Legislation enacted in April 2007 provides the Indiana Gaming Commission with the authority to adopt rules to determine the point at which a patron is considered admitted to a riverboat. The Orange County Operating Agent must pay a $4.00 admission tax for each person that enters the riverboat. Racino licensees must pay the following graduated wagering tax: (i) 25% of the first $100 million; (ii) 30% of AGR in excess of $100 million, but not exceeding $150 million; (iii) 35% of AGR in excess of $150 million, but not exceeding $600 million; (iv) 40% of AGR in excess of $600 million. The Indiana Act provides for the suspension or revocation of a license whose owner does not timely submit the wagering or admission tax. Racino licensees must also pay (i) a 3% county slot machines wagering fee not to exceed $8 million in a fiscal year; (ii) an annual $500,00 problem gambling fee; (iii) 15% of its respective AGR to horsemen's purses, horsemen's associations and the gaming integrity fee; and (iv) an annual supplemental fee of 1% AGR to the Operating Agent for the first five years of operation and, thereafter, an annual renewal fee of $100 per slot machine.

In April 2007 the Indiana General Assembly amended the manner in which riverboats are to be taxed for property tax purposes. Retroactive to March 1, 2006, riverboats are to be taxed based on the lowest valuation as determined by an application of each of the following methodologies: (i) cost approach; (ii) sales comparison approach; and (iii) income capitalization approach. Alternatively the Riverboat Licensee and the respective Township Assessor may reach an agreement regarding the value of the riverboat. All Indiana state excise taxes, use taxes and gross retail taxes apply to sales made on a riverboat. In 2004 the Indiana Supreme Court ruled that vessels purchased out of the State of Indiana and brought into the State of Indiana would be subject to Indiana sales tax. Additionally, the Supreme Court declined to hear an Indiana Tax Court case that determined wagering tax payments made by a riverboat could not be deducted from the riverboat's adjusted gross income.

The Indiana Gaming Commission is authorized to conduct investigations into gambling games, the maintenance of equipment, and violations of the Indiana Act as it deems necessary. The Indiana Gaming Commission may subject a Riverboat Licensee, an Operating Agent or a Racino licensee to fines, suspension or revocation of its license or Operating Contract for any conduct that violates the Indiana Act, rules promulgated thereunder or that constitutes a fraudulent act.

The Riverboat Licensee, Operating Agent and Racino licensees must carry insurance in types and amounts as required by the Indiana Gaming Commission. By rule promulgated by the Indiana Gaming Commission, neither a Riverboat Licensee, Operating Agent nor a Racino licensee may enter into or perform any contract or transaction in which it transfers or receives consideration that is not commercially reasonable or that does not reflect the fair market value of goods and services rendered or received. All contracts are subject to disapproval by the Indiana Gaming Commission and contracts should reflect the potential for disapproval.

The Indiana Act places special emphasis on minority and women business enterprise participation in the riverboat industry. The Indiana Gaming Commission recently hired consultants who performed a Statistical Analysis of the Utilization of minority and women business enterprises by Riverboat Licensees and the Operating Agents. Based on the results of that Statistical Analysis Riverboat Licensees, Operating Agents and Racino licensees must establish goals of expending ten and nine-tenths percent of the total dollars spent on construction expenditures with women business enterprises. The Indiana Gaming Commission encourages the purchase of goods and services in the following categories from minority and women business enterprises based on the capacity

measurement determined by the Statistical Analysis: (i) Twenty-three and two-tenths percent with minority-owned construction firms; (ii) four and two-tenths percent with minority-owned procurement firms; (iii) two and five-tenths percent with women-owned procurement firms; (iv) eleven and two-tenths percent with minority-owned professional services firms; (v) seven and eight-tenths percent with women-owned professional services firms; (vi) two and nine-tenths percent of other expenditures with minority-owned firms; and (vii) one and eight-tenths percent with other women-owned firms. Riverboat Licensees, Operating Agents and Racino licensees may be subject to a disciplinary action for failure to meet the minority and women business enterprise expenditure goals.

By rule promulgated by the Indiana Gaming Commission, a Riverboat Licensee or affiliate may not enter into a debt transaction in excess of $1 million without the prior approval of the Indiana Gaming Commission. A debt transaction is any transaction that will result in the encumbrance of assets. Unless waived, approval of debt transactions requires consideration by the Indiana Gaming Commission at two business meetings. The Indiana Gaming Commission, by resolution, has authorized the Executive Director, subject to subsequent approval by the Indiana Gaming Commission, to approve debt transactions after a review of the documents and consultation with the Chair and the Indiana Gaming Commission's outside financial analyst.

A rule promulgated by the Indiana Gaming Commission requires the reporting of currency transactions to the Indiana Gaming Commission after the transactions are reported to the federal government. Indiana rules also require that Riverboat Licensees track and maintain logs of transactions that exceed $3,000. The Indiana Gaming Commission has promulgated a rule that prohibits distributions, excluding distributions for the payment of taxes, by a Riverboat Licensee to its partners, shareholders, itself or any affiliated entity if the distribution would impair the financial viability of the riverboat gaming operation. The Indiana Gaming Commission has also promulgated a rule mandating Riverboat Licensees to maintain a cash reserve to protect patrons against defaults in gaming debts. The cash reserve is to be equal to a Riverboat Licensee's average payout for a three-day period based on the riverboat's performance the prior calendar quarter. The cash reserve can consist of cash on hand, cash maintained in Indiana bank accounts and cash equivalents not otherwise committed or obligated. In January 2011, the Indiana Gaming Commission extended an Emergency Rule originally promulgated based on two Supreme Court decisions clearly establishing the Indiana Gaming Commission's authority over Local Development Agreements between Riverboat, Contracting Agent and Racino licensees and the local community in which each is located. The Emergency Rule requires recipients of local development payments to follow specific guidelines to promote openness and transparency in the receipt, dissemination and use of the payments. SB 325, which has passed the Senate and has been sent to the House for its consideration, tracts the language of the Emergency Rule.

The Indiana Act prohibits contributions to a candidate for a state legislative or local office or to a candidate's committee or to a regular party committee by:

- a person who owns at least one percent of a Riverboat Licensee, Operating Agent or Racino licensee;
- a person who is an officer of a Riverboat Licensee, Operating Agent or Racino Licensee;
- a person who is an officer of a person that owns at least one percent of a Riverboat Licensee, Operating Agent or Racino Licensee; or
- a person who is a political action committee of a Riverboat Licensee, Operating Agent, or Racino Licensee.

The prohibition against political contributions extends for three years following a change in the circumstances that resulted in the prohibition.

Individuals employed on a riverboat and in certain positions must hold an occupational license issued by the Indiana Gaming Commission. Suppliers of gaming equipment and gaming or revenue tracking services must hold a supplier's license issued by the Indiana Gaming Commission. By rule promulgated by the Indiana Gaming Commission, Riverboat Licensees, Operating Agents and Racino Licensees who employ non-licensed individuals in positions requiring licensure or who purchase supplies from a non-licensed entity may be subject to a disciplinary action.

**Florida**

In the State of Florida, we, through wholly owned indirect subsidiaries, own and operate one gaming facility, the Dania Jai-Alai Fronton in Dania, Broward County, Florida. Jai-Alai is a Spanish ball game that under Florida law allows the operator of the Fronton, to accept pari-mutuel wagers on the outcome of the game. Pari-mutuel wagering on Jai-Alai games is subject to extensive state regulation under Chapter 550 of the Florida Statutes and Chapter 61D of the Florida Administrative Code. The statutory scheme regulating the conduct of Jai-Alai games has been in existence since the 1930s.

Two separate pari-mutuel permits operate at the Dania Jai-Alai Fronton. The main Jai-Alai permit, presently owned by our indirect subsidiary, now known as The Aragon Group, which we refer to as Aragon, was issued by the State of Florida in 1953; and under law, that permit was originally authorized to operate only during the winter tourist season, running from December 1 through the following April 30. In 1980, the Florida legislature enacted a law that allowed for the creation of a summer Jai-Alai permit in

both Miami-Dade and Broward Counties, which permit was authorized to operate from May 1 through November 30. After passage of the law authorizing summer Jai-Alai activities, a summer Jai-Alai license was issued by the State of Florida to the predecessor to the current owner of the permit, now known as Summersport Enterprises, LLC, which we refer to as Summersport. Summersport is one of our indirect subsidiaries. By holding both permits, year round Jai-Alai operations were authorized for the Dania Jai-Alai Fronton. Through subsequent legislative changes, the restriction on the number of days the Jai-Alai permit owned by Aragon could operate was lifted, thereby allowing year round operation under that permit. The restriction on the operational days for the summer Jai-Alai permit was not lifted, however, and therefore remains in effect. Presently, through our indirect subsidiaries, we own and operate under both of the permits.

In addition to conducting pari-mutuel wagering on Jai-Alai games, the following additional forms of gaming are authorized at the Dania Jai-Alai Fronton:

- simulcast wagering on pari-mutuel events, including wagering on all of the other pari-mutuel sports authorized under Florida law, such as thoroughbred and harness horse racing and greyhound racing; and
- poker and dominoes under a special cardroom license held by certain Florida pari-mutuel permit holders including Aragon and Summersport.

See the “Slot Machine Gaming” section below for a discussion of the possibility of slot machine gaming at the Dania Jai-Alai Fronton if and when a slot machine license is effective at such facility.

***Jai-Alai and other pari-mutuel wagering activities***

Conducting Jai-Alai games and accepting pari-mutuel wagering on those games is strictly regulated by the Florida Division of Pari-Mutuel Wagering, which we refer to as the Pari-Mutuel Division. The Pari-Mutuel Division is an executive branch administrative agency, with the director serving at the pleasure of the Governor. All actions taken by the Pari-Mutuel Division are subject to the provisions of the Florida Administrative Procedures Act as contained in Chapter 120 of the Florida Statutes.

The Pari-Mutuel Division's authority is granted under Chapter 550 of the Florida Statutes. Chapter 550 of the Florida Statutes imposes a number of statutory duties on the Pari-Mutuel Division, including the duty to:

- adopt rules for the control, supervision and direction over all applicants, permit holders and licensees and over the conduct of all pari-mutuel activities and events to assure compliance with the provisions of Chapter 550 and to otherwise protect the interest of the public by assuring the integrity of the outcome of the pari-mutuel events;
- oversee the making and distribution of all pari-mutuel pools;
- collect taxes and require compliance with all financial reporting requirements; and
- conduct investigations of applicants for permits and licenses to assure compliance with the moral and financial qualifications set forth in Chapter 550.

Other provisions of Chapter 550, including but not limited to Florida Statute 550.615, grant Jai-Alai permit holders, including Aragon and Summersport, the right to accept pari-mutuel wagers on other pari-mutuel events that are conducted live at other pari-mutuel facilities within and without the State of Florida. The foregoing sections, which grant additional rights to pari-mutuel wagering, list many exceptions to the general rule authorizing the simulcasting of signals. These exceptions include restrictive provisions designed to protect a permitholder's live meet from the forced transmission of a simulcast signal within the live permitholder's “market area.” Nonetheless, both Aragon and Summersport are actively engaged in the business of accepting wagers on simulcast events conducted by consenting facilities that have elected not to enforce the “market area” restrictions or which are conducted by consenting facilities outside of the “market area.”

There is a question whether certain provisions of Chapter 550, Florida Statutes remain valid law in Florida. On September 6, 2007, the Florida Supreme Court declared that subsection (6) of Florida Statute 550.615 was unconstitutional (because it was deemed a “special law” and not a general law) and therefore void. However, the Court failed to address how its ruling operated in tandem with Florida Statute 550.71, which affirmatively states that if a provision of a statute adopted as part of Chapter 96-364, Laws of Florida, is deemed to be invalid, then the act as a whole is void and has no effect. In a special concurring opinion, two Florida Supreme Court justices believed that in light of Florida Statute 550.71, all of Chapter 96-364, Laws of Florida was invalid. Chapter 96-364, Laws of Florida, effected substantial changes in the laws regulating the pari-mutuel industry. The justices noted that many provisions of Chapter 96-364, Laws of Florida, have been amended and the new provisions are not subject to the non-severable clause of Florida Statute 550.71. While these justices' opinions are not legally authoritative, a future ruling on the impact of Florida Statute 550.71 may have an impact on the remaining provisions of Chapter 96-364, Laws of Florida, including Florida Statute 550.6335 with regard to permissible surcharges on intertrack wagering and Florida Statute 550.70 with regard to jai alai facilities.

***Poker and domino activities under Cardroom license***

In 1996, the Florida legislature first authorized the issuance of Cardroom licenses to the holders of pari-mutuel permits, subject to a local option approval by the county commission in the Florida county where the pari-mutuel permitholder conducted its business. Section 849.086 of the Florida Statutes contains the statutory authority for cardroom activities and also contains the applicable regulatory framework. The tax rate for cardroom operations is 10 percent of gross receipts. Cardroom activity was authorized by the Broward County Commission in 1996 and shortly thereafter both Aragon and Summersport applied for and received from the Pari-Mutuel Division Cardroom licenses. Initially, poker games only were authorized under section 849.086, however, during the 2007 session of the legislature, this section was expanded to include dominoes as an authorized game. In addition, the 2007 legislation made other important changes to the regulatory scheme under which cardrooms operate, including increasing the maximum bet to $5.00 with three raises per round, modifying the days of operation of cardrooms so that cardroom activities may now occur on days when no live pari-mutuel activities are being conducted, loosening the limitations on tournament play, authorizing giveaways and jackpots and increasing the annual license fee per table to $1,000.

A bill was passed in 2009, which, among other things, removed certain wager and buy-in limits (including the $5.00 maximum bet implemented by the 2007 legislature) and permitted cardroom operators to operate cardrooms for 18 hours per day Monday through Friday and 24 hours per day on Saturday, Sunday and certain holidays. These legislative changes became effective on July 1, 2010.

***Slot Machine Gaming***

In November 2004, voters in the State of Florida amended the Constitution of the State of Florida to allow the voters of Miami-Dade and Broward Counties to decide whether to approve slot machine gaming within existing pari-mutuel facilities in their respective county. Our Fronton is located in Broward County and therefore met the initial qualification threshold contained in the constitutional amendment. Broward County voters approved the local referendum in March 2005. Accordingly, if and when our slot machine license is effective, slot machine gaming may be lawfully conducted at the facility known as the Dania Jai-Alai Fronton.

The regulatory scheme for slot machine gaming is contained within Chapter 551 of the Florida Statutes, which law became effective on January 4, 2006. Although there are pari-mutuel facilities in numerous other counties in the State of Florida, the legislation, tracking the constitutional amendment, also restricted slot machine gaming to pari-mutuel facilities in Miami-Dade and Broward Counties, if voters in such county approved the local referendum. Further, only existing pari-mutuel facilities can be approved locations for slot machine gaming.

As originally adopted, the 2006 law governing slot machine gaming included the following material features:

- the facility may be operated 365 days per year, 16 hours per day;
- the maximum number of machines is 1,500 Vegas-style (Class III) slot machines per facility;
- the annual license fee is $3 million;
- the tax payable to the State of Florida is 50% of net slot revenue;
- the machines will not accept coins or currency, but are ticket in/ticket out;
- the minimum age to play the machines is 21 years;
- ATMs are not permitted within the facility; and
- the Pari-Mutuel Division is required to enforce the provisions of Chapter 551, including through use of its investigatory and police powers.

Beginning in late 2006, slot machine gaming began at other pari-mutuel facilities in Broward County, with Gulfstream Park, a thoroughbred racing facility located in Hallandale, Florida, which opened in October 2006; Mardi Gras Gaming, a greyhound racing facility also located in Hallandale, Florida, which opened in December 2006; and Pompano Park, a harness horse racing facility located in Pompano Beach, Florida, which opened in April 2007. In January 2007, Aragon was granted a slot machine license by the Pari-Mutuel Division. Due to various factors, we postponed our plans to install and operate slot machines at our Dania Jai Alai Fronton facility and decided not to renew Aragon's slot machine license, which was in good standing and expired June 30, 2008. The non-renewal itself would not prevent Aragon from obtaining a slot machine license in the future.

Based upon the initial activity at the other facilities, the legislature in 2007 made several amendments to Chapter 551, including:

- the increase of authorized slot machines to 2,000 per facility;

- allowing ATMs to be placed within the pari-mutuel wagering areas of the facility;
- authorizing off-site storage facilities for slot machines; and
- increasing the hours of operation to18 hours per weekday and 24 hours per weekend day.

The foregoing described legislative changes became effective on July 4, 2007.

In 2009, the legislature made additional amendments to Chapter 551, including the following:

- revising the annual license fee to $2.5 million for the 2010-2011 fiscal year; and $2 million for each year thereafter;
- revising the tax rate for slot machine licensees to 35% of net slot revenue; and
- providing for minimum annual tax revenue from the operation of slot machines, that, if not met by the aggregate amount of tax paid by all slot licensees for the year, must be paid on a pro rata basis by facilities licensed to operate slot machines during the applicable year.

The foregoing described legislative changes became effective on July 1, 2010.

***Las Vegas-Style "Banked" Table Games***

Florida has a significant Seminole Indian tribal community (the "Tribe"). The Tribe operates seven casinos throughout the state of Florida. One of the Tribe's largest casinos is the Seminole Hard Rock Hotel & Casino in Hollywood, FL. This casino is only a few miles away from the Dania Jai-Alai Fronton.

On April 7, 2010, the Tribe signed a tribal-state compact with Governor Charlie Crist that allowed Las Vegas-style "banked" table games - such as blackjack and baccarat - to be played in the Tribe's casinos statewide, with the exception of its Big Cypress and Brighton casinos. These forms of "banked" games are otherwise prohibited by Florida law. Under the compact, the state also pledged that it would limit the ability of Florida pari-mutuels to offer these games. The compact has a term of 20 years. The Tribe's authorization for the conduct of "banked" card games will terminate after five years unless the authorization is renewed or the state permits any other person, organization or entity, except a federally recognized tribe, to conduct such games. In return for this exclusive right, the Tribe promised substantial remuneration to the state. The currently licensed pari-mutuel facilities in Broward and Miami-Dade Counties, including the Dania Jai-Alai Fronton, may be authorized by the state to conduct "banked" games without relieving the Tribe of revenue sharing obligations. If "banked" games are authorized at such facilities, the Tribe's revenue sharing obligations may be reduced, but not eliminated, if the Tribe's annual Net Win in Broward County is less than the Net Revenue Base as such terms are defined by the compact.

The compact was submitted to the legislature, where it was approved as part of Senate Bill 622 (2010) and signed into law by Governor Charlie Crist on April 28, 2010. The U.S. Department of Interior, federal overseer of Indian affairs, approved the compact on June 24, 2010. Since this gaming has commenced, Florida pari-mutuels, including the Dania Jai-Alai Fronton, have been economically affected.

# Marina District Development Company, LLC and Subsidiary

**(A Wholly-Owned Subsidiary of Marina District Development Holding Co., LLC)**

Consolidated Financial Statements

for the Years Ended December 31, 2010, 2009 and 2008

and Report of Independent Registered Public Accounting Firm

# Marina District Development Company, LLC and Subsidiary

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Members of
Marina District Development Company, LLC
Atlantic City, New Jersey

We have audited the accompanying consolidated balance sheets of Marina District Development Company, LLC, a New Jersey limited liability company ("MDDC"), the parent of Marina District Finance Company, Inc., a New Jersey corporation ("MDFC") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Boyd Gaming Corporation and Subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2011, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Las Vegas, Nevada
March 15, 2011

**MARINA DISTRICT DEVELOPMENT COMPANY, LLC**
**CONSOLIDATED BALANCE SHEETS**
**(In thousands)**

| | December 31, | |
|---|---|---|
| | **2010** | **2009** |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 42,099 | $ 46,894 |
| Accounts receivable, net | 30,224 | 30,601 |
| Inventories | 4,387 | 4,427 |
| Prepaid expenses and other current assets | 10,545 | 10,781 |
| Income taxes receivable | — | 1,600 |
| Deferred income taxes | 1,221 | 1,320 |
| **Total current assets** | 88,476 | 95,623 |
| Property and equipment, net | 1,312,196 | 1,366,008 |
| Investment in unconsolidated subsidiary, net | 5,185 | 5,515 |
| Debt financing costs, net | 6,736 | 4,389 |
| Other assets, net | 33,928 | 30,416 |
| **Total assets** | $ 1,446,521 | $ 1,501,951 |
| | | |
| **LIABILITIES AND MEMBER EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable | $ 7,797 | $ 8,861 |
| Income taxes payable, net | 6,504 | 8,009 |
| Accrued liabilities | 94,735 | 65,932 |
| **Total current liabilities** | 109,036 | 82,802 |
| Long-term debt, net | 835,370 | 679,619 |
| Deferred income taxes | 13,922 | 14,082 |
| Other long-term tax liabilities | 10,792 | 10,102 |
| Other liabilities | 15,870 | 16,565 |
| | | |
| **Commitments and contingencies (Note 7)** | | |
| | | |
| Member equity | 461,531 | 698,781 |
| **Total liabilities and member equity** | $ 1,446,521 | $ 1,501,951 |

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

**MARINA DISTRICT DEVELOPMENT COMPANY, LLC**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| **REVENUES** | | | |
| **Operating revenues:** | | | |
| Gaming | $ 643,904 | $ 691,428 | $ 734,306 |
| Food and beverage | 147,751 | 143,410 | 147,334 |
| Room | 115,199 | 113,143 | 110,616 |
| Other | 42,931 | 42,620 | 52,207 |
| Gross revenues | 949,785 | 990,601 | 1,044,463 |
| Less promotional allowances | 211,356 | 213,193 | 213,974 |
| **Net revenues** | 738,429 | 777,408 | 830,489 |
| **COST AND EXPENSES** | | | |
| **Operating costs and expenses:** | | | |
| Gaming | 263,823 | 280,620 | 311,387 |
| Food and beverage | 69,489 | 64,217 | 66,494 |
| Room | 13,992 | 11,940 | 13,863 |
| Other | 34,334 | 34,908 | 39,784 |
| Selling, general and administrative | 123,963 | 128,164 | 130,503 |
| Maintenance and utilities | 63,435 | 59,900 | 71,322 |
| Depreciation and amortization | 69,640 | 78,719 | 76,096 |
| Preopening expenses | — | 699 | 5,570 |
| Other items and write-downs, net | 60 | (28,606) | 162 |
| **Total operating costs and expenses** | 638,736 | 630,561 | 715,181 |
| **Operating income** | 99,693 | 146,847 | 115,308 |
| **Other expense** | | | |
| Interest expense, net of amounts capitalized | 50,199 | 27,668 | 29,049 |
| **Total other expense** | 50,199 | 27,668 | 29,049 |
| Income before provision for state income taxes | 49,494 | 119,179 | 86,259 |
| Provision for state income taxes | (5,273) | (10,938) | (2,970) |
| **Net income** | $ 44,221 | $ 108,241 | $ 83,289 |

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

**MARINA DISTRICT DEVELOPMENT COMPANY, LLC**
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER EQUITY**
**(In thousands)**

| | Capital Contributions | Retained Earnings | Total Member Equity |
|---|---|---|---|
| **Balances, January 1, 2008** | $ 477,507 | $ 189,174 | $ 666,681 |
| Distributions | — | (39,159) | (39,159) |
| Net income | — | 83,289 | 83,289 |
| **Balances, December 31, 2008** | 477,507 | 233,304 | 710,811 |
| Distributions | — | (120,271) | (120,271) |
| Net income | — | 108,241 | 108,241 |
| **Balances, December 31, 2009** | 477,507 | 221,274 | 698,781 |
| Distributions | (30,807) | (250,664) | (281,471) |
| Net income | — | 44,221 | 44,221 |
| **Balances, December 31, 2010** | $ 446,700 | $ 14,831 | $ 461,531 |

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

**MARINA DISTRICT DEVELOPMENT COMPANY, LLC**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| **Cash Flows from Operating Activities** | | | |
| **Net income** | $ 44,221 | $ 108,241 | $ 83,289 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | | |
| Depreciation and amortization | 69,640 | 78,719 | 76,096 |
| Gain from insurance recoveries | — | (28,735) | — |
| Amortization of debt financing costs | 4,908 | 4,069 | 2,216 |
| Amortization of discounts on senior secured notes | 1,294 | — | — |
| Deferred income taxes | (61) | 3,931 | 2,208 |
| Provision for doubtful accounts | 3,469 | 8,021 | 4,643 |
| Other operating activities | 1,450 | 3,208 | 117 |
| **Changes in operating assets and liabilities:** | | | |
| Accounts receivable | (3,092) | (3,477) | (593) |
| Inventories | 40 | 1,072 | (1,113) |
| Prepaid expenses and other current assets | 236 | (1,653) | (1,326) |
| Income taxes receivable/payable | 95 | 18,719 | 10,961 |
| Other long-term tax asset | 208 | (983) | — |
| Other assets, net | (3,945) | (9,386) | (5,692) |
| Accounts payable and accrued liabilities | 27,739 | (10,908) | (3,736) |
| Other long-term tax liabilities | 690 | (69) | 467 |
| Other liabilities | (695) | 13,969 | (807) |
| **Net cash provided by operating activities** | 146,197 | 184,738 | 166,730 |
| **Cash Flows from Investing Activities** | | | |
| Capital expenditures | (15,663) | (15,107) | (161,876) |
| Insurance proceeds for replacement assets | — | 17,603 | 15,397 |
| Investment in unconsolidated subsidiary, net | (1,060) | (2,707) | (3,753) |
| **Net cash used in investing activities** | (16,723) | (211) | (150,232) |
| **Cash Flows from Financing Activities** | | | |
| Borrowings under bank credit facility | 686,643 | 851,283 | 1,815,596 |
| Payments under bank credit facility | (1,305,362) | (912,200) | (1,797,760) |
| Net proceeds from issuance of senior secured notes | 773,176 | — | — |
| Debt financing costs, net | (7,255) | (135) | (4,351) |
| Distributions to member | (281,471) | (120,271) | (39,159) |
| **Net cash used in financing activities** | (134,269) | (181,323) | (25,674) |
| **Increase (decrease) in cash and cash equivalents** | (4,795) | 3,204 | (9,176) |
| **Cash and cash equivalents, beginning of period** | 46,894 | 43,690 | 52,866 |
| **Cash and cash equivalents, end of period** | $ 42,099 | $ 46,894 | $ 43,690 |
| | | | |
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Cash paid for interest, net of amounts capitalized | $ 13,117 | $ 24,449 | $ 30,522 |
| Cash paid (refunded) for income taxes, net | 4,340 | (11,713) | (10,199) |
| | | | |
| **Supplemental Schedule of Noncash Investing and Financing Activities** | | | |
| Payables incurred for capital expenditures | $ — | $ — | $ 3,378 |
| Extinguishment of previous credit facility with advance from new credit facility | 73,010 | — | — |

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

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Organization***

MDDC is the parent of MDFC. MDFC is a 100% owned finance subsidiary of MDDC, which has fully and unconditionally guaranteed its securities.

MDDC was incorporated in July 1998 and has been operating since July 2003. MDFC was incorporated in 2000 and has been a wholly-owned subsidiary of MDDC since its inception. We developed, own and operate Borgata Hotel Casino and Spa, including The Water Club at Borgata (collectively, "Borgata"). Borgata is located on a 45.6-acre site at Renaissance Pointe in Atlantic City, New Jersey and is an upscale destination resort and gaming entertainment property.

Borgata was developed as a joint venture between Boyd Atlantic City, Inc. ("BAC"), a wholly-owned subsidiary of Boyd Gaming Corporation ("Boyd"), and MAC, Corp. ("MAC"), a second tier, wholly-owned subsidiary of MGM Resorts International (the successor in interest to MGM MIRAGE) ("MGM"). The joint venture operates pursuant to an operating agreement, in which BAC and MAC each originally held a 50% interest in Marina District Development Holding Co., LLC, MDDC's parent holding company ("MDDHC").

As managing member of MDDHC pursuant to the terms of the operating agreement between BAC and MAC (the "Operating Agreement"), BAC, through MDDHC, has responsibility for the oversight and management of our day-to-day operations. We do not presently record a management fee to BAC, as our management team performs these services directly or negotiates contracts to provide for these services. As a result, the costs of these services are directly borne by us and are reflected in our consolidated financial statements. Boyd, the parent of BAC, is a diversified operator of 15 wholly-owned gaming entertainment properties. Headquartered in Las Vegas, Boyd has other gaming operations in Nevada, Illinois, Louisiana, Mississippi and Indiana.

On March 24, 2010, MAC transferred its 50% ownership interest (the "MGM Interest") in MDDHC, and certain land leased to MDDC into a divestiture trust, of which MGM and its subsidiaries are the economic beneficiaries (the "Divestiture Trust"), for sale to a third-party in connection with MGM's settlement agreement with the Division of Gaming Enforcement Office of the Attorney General of the State of New Jersey (the "NJDGE"). BAC has a right of first refusal on any sale of the MGM Interest. We continue to operate under normal business conditions throughout MGM's sales efforts, and do not believe that it has had or will have a material impact on our operations.

Upon the transfer of the MGM Interest into the Divestiture Trust, MGM relinquished all of its specific participating rights under the Operating Agreement, and Boyd effectively obtained control of Borgata. As a result, beginning on March 24, 2010, our financial position and results of operations have been included in the consolidated financial statements of Boyd. This resulting change in control required acquisition method accounting by Boyd in accordance with the authoritative accounting guidance for business combinations; however, there was no resulting direct impact on our consolidated financial statements.

***Principles of Consolidation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and include the accounts of MDDC and MDFC. All material intercompany accounts and transactions have been eliminated.

Investment in unconsolidated subsidiary, which is less than 50% owned and does not meet the consolidation criteria of the authoritative accounting guidance for voting or variable interest models, is accounted for under the equity method. See Note 3, *Investment in and Advances to Unconsolidated Subsidiary, Net*.

***Cash and Cash Equivalents***

Cash and cash equivalents include highly liquid investments with maturities of three months or less at their date of purchase, and are on deposit with high credit quality financial institutions. The carrying values of these instruments approximate their fair values due to their short maturities.

***Accounts Receivable, Net***

Accounts receivable consist primarily of casino, hotel and other receivables. Accounts receivable are typically non-interest bearing and are initially recorded at cost. Accounts are written off when management deems the account to be uncollectible. An estimated allowance for doubtful accounts is maintained to reduce our receivables to their carrying amount. The allowance is estimated based on specific review of customer accounts as well as management's experience with collection trends in the casino industry

and current economic and business conditions. As a result, the net carrying value approximates fair value.

The activity comprising our allowance for doubtful accounts is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | | (In thousands) | |
| **Beginning balance, January 1** | $ 24,556 | $ 21,308 | $ 19,707 |
| Additions | 3,469 | 8,021 | 4,643 |
| Deductions | (4,712) | (4,773) | (3,042) |
| **Ending balance, December 31** | $ 23,313 | $ 24,556 | $ 21,308 |

Management does not believe that any significant concentrations of credit risk existed as of December 31, 2010.

***Inventories***
Inventories consist primarily of food and beverage and retail items and are stated at the lower of cost or market. Cost is determined using the average cost method.

***Property and Equipment***
Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, over the shorter of the asset's useful life or term of the lease.

The estimated useful lives of our major components of property and equipment are:

| | |
|---|---|
| Building and improvements | 10 through 40 years |
| Furniture and equipment | 3 through 7 years |

Gains or losses on disposals of assets are recognized as incurred, using the specific identification method. Costs of major improvements are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred.

We evaluate the carrying value of long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For an asset that is to be disposed of, we recognize the asset at the lower of carrying value or fair market value, less costs of disposal, as estimated based on comparable asset sales, solicited offers, or a discounted cash flow model. For a long-lived asset to be held and used, we review the asset for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We then compare the estimated undiscounted future cash flows of the asset to the carrying value of the asset. The asset is not impaired if the undiscounted future cash flows exceed its carrying value. If the carrying value exceeds the undiscounted future cash flows, then an impairment charge is recorded, typically measured using a discounted cash flow model, which is based on the estimated future results of the relevant reporting unit discounted using our weighted-average cost of capital and market indicators of terminal year free cash flow multiples. If an asset is under development, future cash flows include remaining construction costs. All resulting recognized impairment charges are recorded as operating expenses.

***Capitalized Interest***
Interest costs, primarily associated with our expansion projects, were capitalized as part of the cost of our constructed assets. Interest costs, which included commitment fees, letter of credit fees and the amortized portion of deferred financing fees, were capitalized on amounts expended for the respective projects using our weighted-average cost of borrowing. Capitalization of interest ceased when the respective project, or discernible portions of the projects, was substantially completed. We amortize capitalized interest over the estimated useful life of the related asset. We did not capitalize any interest during the year ended December 31, 2010. Capitalized interest for the years ended December 31, 2009 and 2008 was less than $0.1 million and $8.8 million, respectively.

***Investment in Unconsolidated Subsidiary, Net***
Investment in unconsolidated subsidiary is accounted for under the equity method. Under the equity method, carrying value is adjusted for our share of the investees' earnings and losses, as well as capital contributions to and distributions from this entity.

We evaluate our investment in this unconsolidated subsidiary for impairment when events or changes in circumstances indicate that the carrying value of such investment may have experienced an other-than-temporary decline in value. If such conditions exist, we compare the estimated fair value of the investment to its carrying value to determine if an impairment is indicated and determine whether such impairment is other-than-temporary based on our assessment of all relevant factors.

***Debt Financing Costs***

Debt financing costs, which include legal, and other direct costs related to the issuance of our outstanding debt, are deferred and amortized to interest expense over the contractual term of the underlying long-term debt using the effective interest method. In the event that our debt is modified, repurchased or otherwise reduced prior to its original maturity date, we ratably reduce the unamortized debt financing costs.

***CRDA Investments***

New Jersey state law provides, among other things, for an assessment of licensees equal to 1.25% of gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. Generally, a licensee may satisfy this investment obligation by: (i) investing in qualified eligible direct investments; (ii) making qualified contributions; or (iii) depositing funds with the New Jersey Casino Reinvestment Development Authority (“CRDA”). Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates. Our net deposits with the CRDA eligible to be used to fund qualified investments were $21.9 million as of December 31, 2010, and are included in other assets, net on our consolidated balance sheet.

***Loyalty Programs***

We have established promotional programs to encourage repeat business from frequent and active customers. Members earn points based on gaming activity, and such points can be redeemed for a specified period of time, principally for restricted free play slot machine credits and complimentary goods and services. We accrue for earned points expected to be redeemed as a promotional allowance. The accruals are based on estimates and assumptions regarding the mix of restricted free play and complimentary goods and services expected to be redeemed and the costs of providing those benefits. Historical data is used to assist in the determination of the estimated accruals. The points accruals for our loyalty programs are included in accrued liabilities on our consolidated balance sheets.

***Long-Term Debt, Net***

Long-term debt is reported at amortized cost. The discounts on the senior secured notes and the transaction costs paid to the initial purchasers upon issuance are recorded as adjustments to the face amounts of our outstanding debt. This resulting difference between the net proceeds upon issuance of the senior secured notes and the face amounts of the senior secured notes is accreted to interest expense using the effective interest method.

***Income Taxes***

MDDHC is treated as a partnership for federal income tax purposes; therefore, federal income taxes are the responsibility of BAC and MAC. In New Jersey, casino partnerships are subject to state income taxes under the New Jersey Casino Control Act; therefore, we are required to record New Jersey state income taxes. In 2004, we were granted permission by New Jersey, pursuant to a ruling request, to file a consolidated New Jersey corporation business tax return with BAC and MAC. The amounts reflected in our consolidated financial statements are on a stand-alone basis; however, we file a state consolidated tax return with BAC and MAC.

The amounts due to BAC and MAC (or subsequent to its divestiture, to the Divestiture Trust) are a result of the respective tax attributes BAC and MAC have contributed to the consolidated state tax return. A reconciliation of the components of our stand-alone state income taxes payable is presented below:

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Amounts receivable - State | $ (398) | $ (134) |
| Amounts payable to BAC and Divestiture Trust | 6,902 | 8,143 |
| **Income taxes payable, net** | $ 6,504 | $ 8,009 |

***Self-Insurance Reserves***

We are currently self-insured up to $75 million, $1 million, $0.25 million and $0.25 million with respect to each catastrophe related property damage claim, non-catastrophe related property damage claim, general liability claim and non-union employee medical case, respectively. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of estimates for claims incurred but not yet reported. In estimating these accruals, we consider historical loss experience and make judgments about the expected levels of costs per claim. Management believes the estimates of future liability are reasonable based upon our methodology; however, changes in property values, replacement costs, health care costs, accident frequency and severity and other factors could materially affect the estimate for these liabilities. Self-insurance reserves are included in other liabilities on our consolidated balance sheets.

***Revenue Recognition***

Gaming revenue represents the net win from gaming activities, which is the aggregate difference between gaming wins and losses. The majority of our gaming revenue is counted in the form of cash and chips and therefore is not subject to any significant or complex estimation procedures. Cash discounts, commissions and other incentives to customers related to gaming play are recorded as a reduction of gross gaming revenues.

Room revenue recognition criteria are met at the time of occupancy.

Food and beverage revenue recognition criteria are met at the time of service.

***Promotional Allowances***

The retail value of accommodations, food and beverage, and other services furnished to guests on a complimentary basis is included in gross revenues and then deducted as promotional allowances. Promotional allowances also include incentives such as cash, goods and services (such as complimentary rooms and food and beverages) earned in our loyalty programs. We reward customers, through the use of loyalty programs, with points based on amounts wagered or won that can be redeemed for a specified period of time, principally for restricted free play slot machine credits and complimentary goods and services. We record the estimated retail value of these goods and services as revenue and then record a corresponding deduction as promotional allowances.

The amounts included in promotional allowances for the years ended December 31, 2010, 2009 and 2008 are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | | (In thousands) | |
| Rooms | $ 70,329 | $ 75,655 | $ 69,723 |
| Food and beverage | 57,944 | 61,839 | 65,219 |
| Other | 83,083 | 75,699 | 79,032 |
| **Total promotional allowances** | $ 211,356 | $ 213,193 | $ 213,974 |

The estimated costs of providing such promotional allowances for the years ended December 31, 2010, 2009 and 2008 are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | | (In thousands) | |
| Rooms | $ 22,057 | $ 24,250 | $ 23,876 |
| Food and beverage | 42,141 | 45,806 | 51,148 |
| Other | 11,075 | 11,070 | 17,247 |
| **Total** | $ 75,273 | $ 81,126 | $ 92,271 |

***Gaming Taxes***

We are subject to taxes based on gross gaming revenues in New Jersey. These gaming taxes are an assessment of our gaming revenues and are recorded as a gaming expense in the consolidated statements of operations. These taxes totaled approximately $47.8 million, $52.4 million and $58.6 million for the years ended December 31, 2010, 2009 and 2008, respectively.

***Advertising Expense***
Direct advertising costs are expensed the first time such advertising appears. Advertising costs from continuing operations are included in selling, general and administrative expenses on the consolidated statements of operations and totaled $12.9 million, $12.0 million and $13.5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

***Preopening Expenses***
Certain costs of start-up activities were expensed as incurred. We did not incur any preopening costs during the year ended December 31, 2010. During the years ended December 31, 2009 and 2008, we expensed $0.7 million and $5.6 million in preopening expenses, respectively.

***Concentration of Credit Risk***
Financial instruments that subject the Company to credit risk consist of cash equivalents, accounts receivable and CRDA deposits.

The Company's policy is to limit the amount of credit exposure to any one financial institution, and place investments with financial institutions evaluated as being creditworthy, or in short-term money market funds which are exposed to minimal interest rate and credit risk. The Company has bank deposits which may at times exceed federally-insured limits.

Concentration of credit risk, with respect to gaming receivables, is limited through the Company's credit evaluation process. The Company issues markers to approved gaming customers only following credit checks and investigations of creditworthiness.

***Certain Risks and Uncertainties***
The Company's operations are dependent on its continued licensing by the state gaming commission. The loss of our license could have a material adverse effect on future results of operations.

The Company is dependent on geographically local markets for a significant number of its customers and revenues. If economic conditions in these areas deteriorate or additional gaming licenses are awarded in these markets, the Company's results of operations could be adversely affected.

The Company is dependent on the economy of the United States, in general, and any deterioration in the national economic, energy, credit and capital markets could have a material adverse effect on future results of operations.

***Use of Estimates***
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates incorporated into our consolidated financial statements include the estimated allowance for doubtful accounts receivable, the estimated useful lives for depreciable and amortizable assets, measurement of our equity interest in Atlantic City Express Service, LLC ("ACES"), estimated cash flows in assessing the recoverability of long-lived assets, certain tax liabilities, self-insured liability reserves, various loyalty point programs, fair values of assets and liabilities measured at fair value, fair values of assets and liabilities disclosed at fair value, contingencies and litigation, claims and assessments. Actual results could differ from these estimates.

***Recently Issued Accounting Pronouncements***
*FASB Accounting Standards Codification*
On July 1, 2009, the Financial Accounting Standards Board Accounting Standards Codification™ (the “ASC”) became the source of authoritative accounting principles recognized by the Financial Accounting Standards Board ("FASB") to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The implementation of the Codification did not initially have an impact on our consolidated financial statements, as it did not modify any existing authoritative GAAP.

Subsequent to the adoption of the Codification, any change to the source of authoritative GAAP will be communicated through an Accounting Standards Update (“ASU”). ASUs will be published by the FASB for all authoritative GAAP promulgated by the FASB, regardless of the form in which such guidance may have been issued prior to release of the Codification. Prior to inclusion in an ASU, the standard-setting organizations and regulatory agencies continue to issue proposed changes to the accounting standards in previous form (e.g., FASB Statements of Financial Accounting Standards, Emerging Issues Task Force Abstracts, FASB Staff Positions, SEC Staff Accounting Bulletins, etc.).

A variety of additional proposed or otherwise potential accounting standards are currently under study by standard-setting

organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, that the implementation of such proposed standards would have on our consolidated financial statements.

*Convergence Project*
The FASB and the International Accounting Standards Board (“IASB”) have each committed to develop high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting through a convergence of the presently separate standards. The FASB believes that the ultimate goal of convergence is a single set of high-quality, international accounting standards that companies worldwide would use for both domestic and cross-border financial reporting, which would require the convergence of GAAP and International Financial Reporting Standards ("IFRS").

The FASB's mission is to improve U.S. financial accounting standards for the benefit of present and potential investors, lenders, donors, and other creditors. The FASB believes that pursuing convergence of accounting standards is consistent with that mission. That is because investors, companies, auditors, and other participants in the U.S. financial reporting system should benefit from the increased comparability that would result from internationally converged accounting standards.

The FASB and IASB are working towards a work plan to address the significant differences in existence today; however, converged standards may be issued in 2011. While the ultimate timing of adoption of IFRS in the United States has not been committed, we will continue to evaluate the potential impact of the convergence standard on our consolidated financial statements.

## NOTE 2. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Land | $ 87,301 | $ 87,301 |
| Buildings and improvements | 1,391,304 | 1,388,396 |
| Furniture and equipment | 297,831 | 287,936 |
| Construction in progress | 7,330 | 8,100 |
| **Total property and equipment** | 1,783,766 | 1,771,733 |
| Less accumulated depreciation | 471,570 | 405,725 |
| **Property and equipment, net** | $ 1,312,196 | $ 1,366,008 |

Depreciation expense was $69.4 million, $76.7 million and $74.9 million during the years ended December 31, 2010, 2009 and 2008, respectively. Major items included in construction in progress at December 31, 2010 and 2009 consisted of various maintenance capital projects currently in process.

We test certain of these property and equipment assets for recoverability if a recent operating or cash flow loss, combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses, is associated with the use of a long-lived asset.

Impairment is the condition that exists when the carrying amount of a long-lived asset exceeds its fair value. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. That assessment shall be based on the carrying amount of the asset at the date it is tested for recoverability. An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

## NOTE 3. INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARY, NET

In 2006, we entered into an agreement with two other Atlantic City casinos (both of which are owned by Caesars Entertainment Corp, formerly Harrah's Entertainment Inc.) to form ACES. With each member having a 33.3% interest, this New Jersey limited liability company was formed for the purpose of contracting with New Jersey Transit to operate express rail service between

Manhattan and Atlantic City, which operations commenced in February 2009. Each member has guaranteed, jointly and severally, liability for all terms, covenants and conditions of the ACES agreement with New Jersey Transit consisting primarily of the necessary operating and capital expenses of ACES. The responsibilities of the managing member will rotate annually among the members. Our investment in ACES was $5.2 million at December 31, 2010.

## NOTE 4. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Accrued expenses and other liabilities | $ 25,000 | $ 26,120 |
| Payroll and related expenses | 18,609 | 19,116 |
| Gaming liabilities | 19,470 | 19,906 |
| Accrued interest | 31,656 | 790 |
| **Total accrued liabilities** | $ 94,735 | $ 65,932 |

## NOTE 5. LONG-TERM DEBT, NET

Long-term debt, net consists of the following:

| | December 31, 2010 | | | | December 31, 2009 |
|---|---|---|---|---|---|
| | Outstanding Principal | Unamortized Discount | Unamortized Origination Fees | Long-Term Debt, Net | Long-Term Debt, Net |
| | | | (In thousands) | | |
| Bank credit facility | $ 60,900 | $ — | $ — | $ 60,900 | $ 679,619 |
| 9.50% senior secured notes due 2015 | 400,000 | (3,969) | (9,319) | 386,712 | — |
| 9.875% senior secured notes due 2018 | 400,000 | (2,648) | (9,594) | 387,758 | — |
| | $ 860,900 | $ (6,617) | $ (18,913) | $ 835,370 | $ 679,619 |

***Bank Credit Facility***

Our bank credit facility provides for a $150.0 million senior secured revolving credit facility and matures in August 2014. The bank credit facility is guaranteed on a senior secured basis by MDDC and any future subsidiaries of MDDC and is secured by a first priority lien on substantially all assets, subject to certain exceptions. The obligations under the bank credit facility will have priority in payment to payment of the senior secured notes, discussed below.

Neither BAC nor MAC, either of their parent companies, or the Divestiture Trust are guarantors of our new bank credit facility.

Outstanding borrowings under the bank credit facility accrue interest at a rate based upon either: (i) the highest of (a) the agent bank's quoted prime rate, (b) the one-month Eurodollar rate plus 1.00%, or (c) the daily federal funds rate plus 1.50%, and in any event not less than 1.50% (such highest rate, the “base rate”), or (ii) the Eurodollar rate, plus with respect to each of clause (i) and (ii) an applicable margin as provided in the bank credit facility. In addition, a commitment fee is incurred on the unused portion of the bank credit facility ranging from 0.50% per annum to 1.00% per annum.

At December 31, 2010, the outstanding balance under the bank credit facility was $60.9 million, leaving contractual availability of $89.1 million. The blended interest rate on the outstanding borrowings at December 31, 2010 was 4.5%.

The bank credit facility contains certain financial and other covenants, including, without limitation, (i) establishing a minimum consolidated earnings before interest, income taxes and depreciation and amortization ("EBITDA") (as defined in the bank credit facility) of $150 million over each trailing twelve-month period ending on the last day of each calendar quarter; (ii) establishing a minimum liquidity (as defined in the bank credit facility) of $30 million as of the end of each calendar quarter; (iii) imposing limitations on MDFC's ability to incur additional debt; and (iv) imposing restrictions on our ability to pay dividends and make other distributions, make certain restricted payments, create liens, enter into transactions with affiliates, merge or consolidate, and

engage in unrelated business activities. We believe that we were in compliance with the bank credit facility covenants, including minimum consolidated EBITDA and minimum liquidity, which, at December 31, 2010, were $170.7 million and $89.2 million, respectively.

In connection with closing of the bank credit facility and the senior secured notes, the former bank credit facility, which provided up to $730 million in aggregate availability and was scheduled to mature in January 2011, was terminated. The outstanding balance, including all principal and accrued interest amounts of $604.4 million were repaid in full on August 6, 2010. As a result of the termination, during the year ended December 31, 2010, we wrote-off approximately $2.0 million of unamortized debt financing costs associated with the former credit facility. At December 31, 2009, the outstanding balance under this former bank credit facility was $679.6 million, and the blended interest rate on the outstanding borrowings at such date was 2.7%.

***Senior Secured Notes***

*9.5% Senior Secured Notes Due 2015*
On August 6, 2010, MDFC issued, through a private placement, $400 million principal amount of 9.5% senior secured notes due 2015, at an issue price of 98.943%, resulting in a discount at issuance of $4.1 million. The notes require semi-annual interest payments on April 15 and October 15, commencing April 15, 2011. The notes are guaranteed on a senior secured basis by MDDC and any future restricted subsidiaries of MDDC. The notes contain covenants that, among other things, limit MDFC's ability and the ability of MDDC to (i) incur additional indebtedness or liens; (ii) pay dividends or make distributions; (iii) make certain investments; (iv) sell or merge with other companies; and (v) enter into certain types of transactions. We believe that we were in compliance with these covenants at December 31, 2010.

At any time prior to October 15, 2013, the notes may be redeemed at 100% of the principal amount thereof, plus a “make-whole premium” and accrued and unpaid interest. In addition, until October 15, 2013, MDFC may redeem up to 35% of the notes at a redemption price of 109.50% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds from certain equity offerings. In addition, at any time prior to October 15, 2013, MDFC may redeem up to an aggregate of 10% of the notes in each twelve month period at a redemption price of 103% of the principal amount thereof plus accrued and unpaid interest, if any, to, but not including, the redemption date. On or after October 15, 2013, MDFC shall have the option to redeem the 2015 notes, in whole or in part, at redemption prices (expressed as percentages of the principal amount) ranging from 104.75% beginning on October 15, 2013 to 102.375% beginning on October 15, 2014, plus accrued and unpaid interest, to the applicable redemption date.

*9.875% Senior Secured Notes Due 2018*
On August 6, 2010, MDFC issued, through a private placement, $400 million principal amount of 9.875% senior secured notes due 2018, at an issue price of 99.315%, resulting in an original issue discount of $2.7 million. The notes require semi-annual interest payments on February 15 and August 15, commencing February 15, 2011. The notes are guaranteed on a senior secured basis by MDDC and any future restricted subsidiaries of MDDC. The notes contain covenants that, among other things, limit MDFC's ability and the ability of MDDC to (i) incur additional indebtedness or liens; (ii) pay dividends or make distributions; (iii) make certain investments; (iv) sell or merge with other companies; and (v) enter into certain types of transactions. We believe that we were in compliance with these covenants at December 31, 2010.

At any time prior to August 15, 2014, the notes may be redeemed at 100% of the principal amount thereof, plus a “make-whole premium” and accrued and unpaid interest. In addition, until August 15, 2013, MDFC may redeem up to 35% of the notes at a redemption price of 109.875% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds from certain equity offerings. In addition, at any time prior to August 15, 2013, MDFC may redeem up to an aggregate of 10% of the notes in each twelve month period at a redemption price of 103% of the principal amount thereof plus accrued and unpaid interest, if any, to, but not including, the redemption date. On or after August 15, 2014, MDFC shall have the option to redeem the 2018 notes, in whole or in part, at redemption prices (expressed as percentages of the principal amount) ranging from 104.938% beginning on August 15, 2014, to 102.469% beginning on August 15, 2015, to 100% beginning on August 15, 2016 and thereafter, plus accrued and unpaid interest, to the applicable redemption date.

The original issue discounts have been recorded as adjustments to the face amounts of these notes and are being accreted to interest expense over the terms of the notes using the effective interest method. At December 31, 2010, the effective interest rate on the 9.50% notes due 2015 notes was 10.2% and on the 9.875% notes due 2018 was 10.3%.

In connection with the private placement of the notes, we entered into a registration rights agreement with the initial purchasers in which we agreed to file a registration statement with the SEC to permit the holders to exchange or resell the notes. We must use reasonable best efforts to have the registration statement declared effective within 310 days after the issuance of the notes and

consummate the exchange offer within 365 days after the issuance of the notes, subject to certain suspension and other rights set forth in the registration rights agreement. In the event that the registration statement is not filed or declared effective or the exchange offer is not consummated within these deadlines, the agreement provides that additional interest will accrue on the principal amount of the notes at a rate of 0.25% per annum during the 90-day period immediately following any of these events and will increase by 0.25% per annum at the end of each subsequent 90-day period, but in no event will the penalty rate exceed 1.00% per annum. There are no other alternative settlement methods and, other than the 1.00% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of consideration that could be transferred in the event we do not meet the registration statement filing requirements. We currently intend to file a registration statement, have it declared effective and consummate any exchange offer within these time periods. Accordingly, we do not believe that payment of additional interest under the registration payment arrangement is probable and, therefore, no related liability has been recorded in the consolidated financial statements.

The scheduled maturities of the face amounts of long-term debt, as of December 31, 2010 are as follows (in thousands):

| For the Year Ending December 31, | |
|---|---|
| 2011 | $ — |
| 2012 | — |
| 2013 | — |
| 2014 | 60,900 |
| 2015 | 400,000 |
| Thereafter | 400,000 |
| | $ 860,900 |

## NOTE 6. INCOME TAXES

***Provision for State Income Taxes***

A summary of the provision for state income taxes is as follows:

| | December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | | (In thousands) | |
| State | | | |
| Current | $ 4,436 | $ 7,007 | $ 762 |
| Deferred | 837 | 3,931 | 2,208 |
| **Provision for state income taxes** | $ 5,273 | $ 10,938 | $ 2,970 |

The following table provides a reconciliation between the state statutory rate and the effective income tax rate where both are expressed as a percentage of income.

| | December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Tax provision at state statutory rate | 9.0% | 9.0% | 9.0% |
| Interest | 1.4 | (0.3) | 1.0 |
| New jobs investment tax credit | — | — | (5.8) |
| Other, net | 0.3 | 0.5 | (0.8) |
| **Total state income tax provision** | 10.7% | 9.2% | 3.4% |

***Deferred Tax Assets and Liabilities***

Deferred tax assets and liabilities are provided to record the effects of temporary differences between the tax basis of an asset or liability and its amount as reported in our consolidated balance sheets. These temporary differences result in taxable or deductible amounts in future years.

The components comprising the Company's net deferred state tax liability are as follows:

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| **Deferred tax assets** | | |
| Gaming taxes | $ 1,801 | $ 1,607 |
| Provision for doubtful accounts | 1,792 | 1,882 |
| Reserve for employee benefits | 577 | 628 |
| Preopening expenses | — | 32 |
| Other | 881 | 562 |
| **Gross deferred state tax assets** | 5,051 | 4,711 |
| **Deferred state tax liabilities** | | |
| Difference between book and tax basis of property | $ 16,710 | $ 16,408 |
| Reserve differential for gaming activities | 146 | 164 |
| Other | 896 | 901 |
| **Gross deferred state tax liabilities** | 17,752 | 17,473 |
| **Net deferred state tax liabilities** | $ 12,701 | $ 12,762 |

The items comprising our deferred income taxes as presented on our consolidated balance sheets are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Non-current deferred income tax liability | $ 13,922 | $ 14,082 |
| Current deferred income tax asset | 1,221 | 1,320 |
| **Net deferred state tax liability** | $ 12,701 | $ 12,762 |

In connection with our formation in 2000, MAC contributed assets consisting of land and South Jersey Transportation Authority bonds with a tax basis of approximately $9.2 million and $13.8 million, respectively. The recorded book value of those assets was $90 million. Pursuant to the Joint Venture and Tax Sharing Agreements between MAC and BAC, any subsequent gain or loss associated with the sale of the MAC contributed property would be allocated directly to MAC for both state and federal income tax purposes. As such, no state deferred tax liability has been recorded in connection with the book and tax basis differences related to the MAC contributed property.

*New Jersey New Jobs Investment Tax Credit*
Based on New Jersey state income tax rules, we are eligible for a refundable state tax credit under the New Jersey New Jobs Investment Tax Credit ("New Jobs Tax Credit") because we made a qualified investment in a new business facility that created new jobs. We recorded $5.0 million of net New Jobs Tax Credits in arriving at our state income taxes on the consolidated statement of operations for the year ended December 31, 2008.

***Accounting for Uncertain Tax Positions***
The impact an uncertain income tax position has on a filed income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Accounting guidance, which is applicable to all income tax positions, provides direction on derecognition, classification, interest and penalties, accounting in interim periods and disclosure.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | | (In thousands) | |
| **Unrecognized tax benefit, January 1** | $ 8,714 | $ 7,789 | $ 8,220 |
| Additions based on tax positions related to current year | 236 | 333 | 252 |
| Additions based on tax positions related to prior years | — | 1,852 | 55 |
| Reductions based on tax positions settled with taxing authorities | — | (121) | — |
| Reductions based on tax positions related to prior years | (114) | (1,139) | (738) |
| **Unrecognized tax benefit, December 31** | $ 8,836 | $ 8,714 | $ 7,789 |

Included in the $8.8 million balance of unrecognized tax benefits at December 31, 2010 are $5.8 million of tax benefits that, if recognized, would affect the effective tax rate and $3.0 million of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes.

We recognize accrued interest and penalties related to unrecognized tax benefits in the income tax provision. During the years ended December 31, 2010, 2009 and 2008, we recognized accrued interest of approximately $0.8 million, $(0.3) million and $0.9 million, respectively. We have accrued $3.0 million and $2.2 million for the payment of interest accrued at December 31, 2010 and 2009, respectively.

***Status of Examinations***

We are subject to state taxation in New Jersey and our state tax returns are subject to examination for tax years ended on or after December 31, 2001. Statute expirations, related to state income tax returns filed for years prior to December 31, 2006 have been extended to January 31, 2012. The statute of limitations for all remaining state income tax returns will begin to expire over the period October 2012 through October 2015. As we are a partnership for federal income tax purposes, we are not subject to federal income tax.

During the first quarter 2011, the Internal Revenue Service began fieldwork in connection with the audit of our federal income tax returns filed for the years ended December 31, 2005 through 2009. During 2009, the Internal Revenue Service concluded its field examination of our federal income tax returns filed for the years ended December 31, 2003 and December 31, 2004. We reached a partial agreement in connection with the adjustments proposed in the audit and are appealing the unresolved issues. Any adjustments related to the federal examination would affect MAC and BAC, as we are not subject to federal income tax. Additionally, our New Jersey state income tax returns for the years ended December 31, 2003 through December 31, 2006 are under audit by the New Jersey Division of Taxation. As the audit is in its preliminary stages, it is difficult to determine when these examinations will be closed. We have recorded the expected state tax impact, to our unrecognized tax benefits, of certain federal income tax adjustments that have been settled with the Internal Revenue Service, for which the state and federal tax treatment should be consistent. As it relates to years under audit and unaudited open years, we do not anticipate any material changes or required cash payments, over the next 12 month period, to our unrecognized tax benefits as of December 31, 2010.

## NOTE 7. COMMITMENTS AND CONTINGENCIES

***Commitments***

*Leases*

As of December 31, 2010, MDDC owns approximately 26.0 acres of land and all improvements thereon with respect to that portion of the property consisting of the Borgata hotel. In addition, MDDC, as lessee, entered into a series of ground leases with MGM, as lessor, for a total of approximately 19.6 acres of land underlying the public space expansion, the rooms expansion, a parking structure, a surface parking lot, and a proposed alternative parking structure. On November 4, 2010, MGM announced that it had closed the sale of land leased to MDDC for the public space expansion, rooms expansion, parking structure and proposed alternative parking structure. Other than MDDC's obligation to pay rent (in an amount equal to the amount paid under the parking structure ground lease) and property taxes pursuant to the alternative parking structure ground lease, our obligations under the ground leases were not modified by the sale. The leases consist of:

- Lease and Option Agreement, dated as of January 16, 2002, as amended by a letter agreement, dated April 10, 2009, a letter agreement, dated September 21, 2009, the Modification of Lease and Option Agreement, dated as of August 20, 2004, and the Second Modification of Employee Parking Structure Lease and Option Agreement, dated March 23, 2010, for approximately 2.0 acres of land underlying the parking garage;

- Expansion Ground Lease, dated as of January 1, 2005, as amended by the Modification of Expansion Ground Lease, dated March 23, 2010, for approximately 3.5 acres of land underlying the Public Space Expansion;
- Tower Expansion & Additional Structured Parking Ground Lease Agreement, dated as of January 1, 2005, as amended by the Modification of Tower Expansion & Additional Structured Parking Ground Lease Agreement, dated February 20, 2010, and the Second Modification of Tower Expansion & Additional Structured Parking Ground Lease Agreement, dated March 23, 2010, for approximately 1.6 acres of land underlying the Rooms Expansion and 2.7 acres of land underlying a parking structure each;
- Surface Lot Ground Lease, dated as of August 20, 2004, as amended by the Modification of Surface Lot Ground Lease, dated March 23, 2010, for approximately 8.4 acres of land consisting of the surface parking lot; and
- Ground Lease Agreement, dated as of March 23, 2010, for approximately 1.4 acres of land underlying a proposed additional parking structure.

Pursuant to the alternative parking structure ground lease, (i) commencing on the date of the Divestiture Trust's agreement to sell the land underlying the ground leases, MDDC became responsible for all real property taxes assessed against the land underlying the alternative parking structure ground lease and (ii) payment of monthly rent under the alternative parking structure ground lease shall be deferred until the earliest to occur of (x) the date 18 months following the execution of the sale agreement, (y) completion of construction of The Water Club parking garage, and (z) expiration of the term of the Divestiture Trust. Effective as of the date of execution of the sale agreement, the monthly rent due under the alternative parking structure ground lease was in an amount consistent with the rent due under the parking structure ground lease on a per square foot basis.

The lease terms extend until December 31, 2070 with the exception of the surface parking lot lease which could be terminated by either party upon 30 days written notice. In addition, the surface parking lot ground lease will terminate on any termination of the Divestiture Trust, unless the NJCCC approves an extended term of such lease.

MDDC owns all improvements made on the leased lands during the term of each ground lease. Upon expiration of such term, ownership of such improvements reverts back to the landlord.

If during the term of the rooms expansion ground lease, the public space expansion ground lease or the alternate parking structure ground lease, the third party landlord ("Landlord") or any person associated with the Landlord is found by the NJCCC to be unsuitable to be associated with a casino enterprise and such person is not removed from such association in a manner acceptable to the NJCCC, then MDDC may, upon written notice to the Landlord, elect to purchase the leased land for the appraised value as determined under the terms of such ground leases, unless the Landlord elects, upon receipt of such notice, to sell the land to a third party, subject to the ground leases. If the Landlord elects to sell the land to a third party but is unable to do so within one year, then the Landlord must sell the land to MDDC for the appraised value.

In addition, MDDC has an option to purchase the land leased under the parking structure ground lease at any time during the term of that lease so long as it is not in default thereunder, at fair market value as determined in accordance with the terms of parking structure ground lease. In the event that the land underlying the surface parking lot ground lease is sold to a third party, MDDC has the option to build a parking garage, if necessary, to replace the lost parking spaces on the land underlying the alternate parking structure ground lease.

*Future Minimum Lease Payments and Rental Income*
Future minimum lease payments required under noncancelable operating leases (principally for land, see above and Note 12, *Related Party Transactions*) as of December 31, 2010 are as follows (in thousands):

| | | |
|---|---|---|
| 2011 | $ | 6,558 |
| 2012 | | 6,435 |
| 2013 | | 5,861 |
| 2014 | | 5,708 |
| 2015 | | 5,708 |
| Thereafter | | 313,949 |
| **Total** | $ | 344,219 |

For the years ended December 31, 2010, 2009 and 2008, total rent expense was $12.0 million, $12.7 million and $13.8 million, respectively, portions of which were related to our rooms expansion were included in preopening expense in the consolidated statements of operations.

Future minimum rental income, which is primarily related to retail and restaurant facilities located within our properties, as of December 31, 2010 is as follows (in thousands):

| | | |
|---|---|---|
| 2011 | $ | 1,772 |
| 2012 | | 1,772 |
| 2013 | | 1,206 |
| 2014 | | 413 |
| 2015 | | 413 |
| Thereafter | | 832 |
| **Total** | $ | 6,408 |

For the years ended December 31, 2010, 2009 and 2008, total rent income was $3.3 million, $3.3 million and $3.6 million, respectively, which is recorded as other income in the consolidated statements of operations.

*Tax Credits*
Based on New Jersey state income tax rules, we are eligible for a refundable state tax credit under the New Jobs Tax Credit because we made a qualified investment in a new business facility that created new jobs. We recorded $5.0 million of net New Jobs Tax Credits in arriving at our state income tax provision for the year ended December 31, 2008.

*Expansions*
On June 27, 2008, we held the grand opening of our second hotel, The Water Club. The Water Club is a 798-room hotel, featuring five swimming pools, a state-of-the-art spa, and additional meeting and retail space. We financed the expansion from our cash flows from operations and through borrowings under our bank credit facility.

On September 23, 2007, The Water Club, then under construction, sustained a fire that caused damage to property with a carrying value of approximately $11.4 million. Our insurance policies included coverage for replacement costs related to property damage, with the exception of minor amounts principally related to insurance deductibles and certain other limitations. In addition, we had “delay-in-completion” insurance coverage for The Water Club for certain costs, subject to various limitations and deductibles. On August 10, 2009, we reached a final settlement of $40 million with our insurance carrier and recognized a gain of $28.7 million, included in other items and write-downs, net, on our consolidated statement of income, representing the amount of insurance advances in excess of the $11.3 million carrying value of assets damaged and destroyed by the fire (after our $0.1 million deductible).

*Utility Contract*
In 2005, we amended our executory contracts with a wholly-owned subsidiary of a local utility company, extending the end of the terms to 20 years from the opening of The Water Club. The utility company provides us with electricity and thermal energy (hot water and chilled water). Obligations under the thermal energy executory contract contain both fixed fees and variable fees based upon usage rates. The fixed fee components under the thermal energy executory contract are currently estimated at approximately $11.4 million per annum. We also committed to purchase a certain portion of our electricity demand at essentially a fixed rate, which is estimated at approximately $1.7 million per annum. Electricity demand in excess of the commitment is subject to market rates based on our tariff class.

*Investment Alternative Tax*
The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. Generally, we may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to fifty years and bear interest at below market rates.

Our CRDA obligations for the years ended December 31, 2010 and 2009 were $8.1 million and $8.7 million, respectively, of which valuation provisions of $4.6 million and $5.1 million, respectively, were recorded due to the respective underlying agreements.

*Purse Enhancement Agreement*
In August 2008, we and the ten other casinos in the Atlantic City market (collectively, the “Casinos”) entered into a Purse Enhancement Agreement (the “Agreement”) with the New Jersey Sports & Exposition Authority (the “NJSEA”) and the CRDA in the interest of further deferring or preventing the proliferation of competitive gaming at New Jersey racing tracks through December 31, 2011. In addition to the continued prohibition of casino gaming in New Jersey outside of Atlantic City, legislation

was enacted to provide for the deduction of certain promotional gaming credits from the calculation of the tax on casino gross revenue.

Under the terms of the Agreement, the Casinos are required to make scheduled payments to the NJSEA totaling $90 million to be used for certain authorized purposes (the "Authorized Uses") as defined by the Agreement. In the event any of the $90 million is not used by NJSEA for the Authorized Uses by January 1, 2012, the unused funds shall be returned by NJSEA to the Casinos pro rata based upon the share each casino contributed. For each year, each casino's share of the scheduled payments will equate to a percentage representing its gross gaming revenue for the prior calendar year compared to the gross gaming revenues for that period for all Casinos. Each casino, solely and individually, shall be responsible for its respective share of the scheduled amounts due. In the event that any casino shall fail to make its payment as required, the remaining Casinos shall have the right, but not the obligation, to cure a payment delinquency. As a result, we expense our pro rata share of the $90 million, estimated to be approximately $15.0 million based on our actual market shares of gross gaming revenue, on a straight-line basis over the applicable term of the Agreement. We recorded expense of $5.1 million and $4.8 million during the years ended December 31, 2010 and 2009, respectively.

***Contingencies***

*Legal Matters*
We are subject to various claims and litigation in the ordinary course of business. In our opinion, all pending legal matters are either adequately covered by insurance, or if not insured, will not have a material adverse impact on our financial position, results of operations or cash flows.

## NOTE 8. FAIR VALUE MEASUREMENTS

We have adopted the authoritative accounting guidance for fair value measurements, which does not determine or affect the circumstances under which fair value measurements are used, but defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

These inputs create the following fair value hierarchy:

- *Level 1*: Quoted prices for identical instruments in active markets.
- *Level 2*: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- *Level 3*: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As required by the guidance for fair value measurements, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, assets and liabilities categorized as Level 3 may be measured at fair value using inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

***Balances Measured at Fair Value***
The following tables show the fair values of certain of our financial instruments (in thousands).

| | December 31, 2010 | | | |
|---|---|---|---|---|
| | Balance | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | |
| Cash and cash equivalents | $ 42,099 | $ 42,099 | $ — | $ — |
| CRDA deposits | 35,759 | 35,759 | — | — |

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Balance | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | |
| Cash and cash equivalents | $ 46,894 | $ 46,894 | $ — | $ — |
| CRDA deposits | 31,492 | 31,492 | — | — |

The fair value of our cash and cash equivalents, classified in the fair value hierarchy as Level 1, is based on statements received from our banks at December 31, 2010 and 2009. The fair value of our CRDA deposits, classified in the fair value hierarchy as Level 1, is based on statements received from the CRDA at December 31, 2010 and 2009.

***Balances Disclosed at Fair Value***

The following table provides the fair value measurement information about our long-term debt at December 31, 2010.

| | December 31, 2010 | | | |
|---|---|---|---|---|
| | Outstanding Face Amount | Carrying Value | Estimated Fair Value | Fair Value Hierarchy |
| | (In thousands) | | | |
| Bank credit facility | $ 60,900 | $ 60,900 | $ 60,900 | Level 2 |
| 9.50% Senior Secured Notes due 2015 | 400,000 | 386,712 | 375,111 | Level 1 |
| 9.875% Senior Secured Notes due 2018 | 400,000 | 387,758 | 379,518 | Level 1 |
| Total long-term debt | $ 860,900 | $ 835,370 | $ 815,529 | |

The estimated fair value of our bank credit facility at December 31, 2010 approximates its carrying value due to the short-term nature and variable repricing of the underlying Eurodollar loans comprising our bank credit facility. The estimated fair values of our senior secured notes are based on quoted market prices as of December 31, 2010.

There were no transfers between Level 1 and Level 2 measurements during the year ended December 31, 2010.

## NOTE 9. OTHER ITEMS AND WRITE-DOWNS, NET

Other items and write-downs, net, is comprised of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | | (In thousands) | |
| Loss on disposal of assets | $ 60 | $ 129 | $ 1 |
| Gain from insurance recoveries | — | (28,735) | — |
| Fire-related other items and write-downs, net | — | — | 161 |
| **Other items and write-downs, net** | $ 60 | $ (28,606) | $ 162 |

*Loss on Disposal of Assets*

Loss on disposal of assets is comprised of amounts recognized in connection with our disposal of assets in the ordinary course of business.

*Gain from Insurance Recoveries*

On September 23, 2007, The Water Club, our 798-room boutique hotel expansion then under construction, sustained a fire that caused damage to property with a carrying value of approximately $11.4 million. Our insurance policies included coverage for replacement costs related to property damage, with the exception of minor amounts principally related to insurance deductibles and certain other limitations. In addition, we carried “delay-in-completion” insurance coverage for The Water Club for certain costs, subject to various limitations and deductibles. On August 10, 2009, we reached a final settlement of $40 million with our insurance carrier and recognized a gain of $28.7 million, included in other items and write-downs, net on our consolidated statement of operations, representing the amount of insurance advances in excess of the $11.3 million carrying value of assets damaged and destroyed by the fire (after our $0.1 million deductible).

## NOTE 10. EMPLOYEE BENEFIT PLANS

We contribute to multi-employer pension plans under various union agreements. Contributions, based on wages paid to covered employees, totaled approximately $6.0 million, $5.8 million and $6.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. Our share of the unfunded vested liability related to its pension plans is $47.1 million.

We have a retirement savings plan under Section 401(k) of the Internal Revenue Code covering our non-union employees. The plan allows employees to defer up to the lessor of the Internal Revenue Code prescribed maximum amount or 100% of their income on a pre-tax basis through contributions to the plan. We expensed our voluntary contributions to the 401(k) plan of $1.5 million, $1.7 million and $3.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

## NOTE 11. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table presents selected quarterly financial information for the years ended December 31, 2010 and 2009.

| | Year Ended December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Year |
| | (In thousands) | | | | |
| **Summary Operating Results:** | | | | | |
| Net revenues | $ 175,066 | $ 186,892 | $ 207,687 | $ 168,784 | $ 738,429 |
| Operating income | 19,570 | 24,712 | 37,871 | 17,540 | 99,693 |
| Net income (loss) | 12,520 | 17,287 | 18,550 | (4,136) | 44,221 |

| | Year Ended December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Year |
| | (In thousands) | | | | |
| **Summary Operating Results:** | | | | | |
| Net revenues | $ 187,890 | $ 191,513 | $ 222,597 | $ 175,408 | $ 777,408 |
| Operating income | 25,492 | 27,269 | 77,028 | 17,058 | 146,847 |
| Net income | 16,449 | 18,261 | 62,619 | 10,912 | 108,241 |

## NOTE 12. RELATED PARTY TRANSACTIONS

We engage in transactions with BAC and MAC in the ordinary course of business. Related party balances are non-interest bearing and are included in accounts receivable or accrued liabilities, as applicable, on the consolidated balance sheets.

***Ground Leases***

We entered into a series of ground lease agreements with MGM totaling 19.6 acres that provides the land on which our existing employee parking garage, public space expansion, rooms expansion, modified surface parking lot and proposed alternative parking structure reside. The lease terms extend until December 31, 2070 with the exception of the surface parking lot lease which could be terminated by either party upon 30 days written notice. We did not have any amounts due to MGM or the new land owner for these types of expenditures at either December 31, 2010 or 2009. On November 4, 2010, MGM sold the land comprising the employee parking garage, public space expansion, rooms expansion and proposed alternative parking structure reside. Related rent incurred was $5.4 million, $6.5 million and $6.1 million for the years ended December 31, 2010, 2009 and 2008, respectively, which was included in selling, general and administrative on the consolidated statements of operations.

Pursuant to the ground lease agreements, we are responsible for reimbursing the land owner for related property taxes paid on our behalf. We did not have any amounts due to MGM or the new land owner for these types of expenditures at either December 31, 2010 or 2009. Related property tax incurred was $12.9 million, $12.2 million and $11.7 million for the years ended December 31, 2010, 2009 and 2008, respectively, which was included in selling, general and administrative on the consolidated statements of operations.

***Compensation of Certain Employees***

We reimburse BAC for compensation paid to employees performing services for us and for out-of-pocket costs and expenses incurred related to travel. BAC is also reimbursed for various payments made on our behalf, primarily related to third party insurance premiums and certain financing fees. The related amounts due to BAC for these types of expenditures paid by BAC

were $0.9 million and $0.8 million at December 31, 2010 and 2009, respectively. Reimbursable expenditures were $9.1 million, $7.4 million and $9.2 million for each of the years ended December 31, 2010, 2009 and 2008, respectively. In each case, reimbursable expenses are included in selling, general and administrative on the consolidated statements of operations.

## NOTE 13. SUBSEQUENT EVENTS

We have evaluated all events or transactions that occurred after December 31, 2010 and through March 15, 2011, the date these consolidated financial statements were available to be issued. During this period, we did not have any material subsequent events.