

BOYD GAMING CORP  
Form 10-Q  
May 10, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

FORM 10-Q

---

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-12882

---

BOYD GAMING CORPORATION  
(Exact name of registrant as specified in its charter)

---

Nevada 88-0242733  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
3883 Howard Hughes Parkway, Ninth Floor, Las Vegas, NV 89169  
(Address of principal executive offices) (Zip Code)  
(702) 792-7200  
(Registrant's telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 30, 2012
Common stock, \$0.01 par value	87,747,167



Table of Contents

BOYD GAMING CORPORATION  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE PERIOD ENDED MARCH 31, 2013  
 TABLE OF CONTENTS

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u> <u>Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012</u>	<u>5</u>
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity for the three months ended March 31, 2013</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>68</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>68</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>69</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>69</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>91</u>
<u>Signature Page</u>	<u>92</u>

Table of Contents

## PART I. Financial Information

## Item 1. Financial Statements (Unaudited)

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

as of March 31, 2013 and December 31, 2012

	March 31, 2013	December 31, 2012
	(In thousands, except share data) (Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$358,354	\$192,828
Restricted cash	25,005	22,900
Accounts receivable, net	59,964	62,040
Inventories	18,406	18,618
Prepaid expenses and other current assets	89,919	48,709
Income taxes receivable	1,498	2,875
Deferred income taxes and other current tax assets	8,216	7,623
Total current assets	561,362	355,593
Property and equipment, net	3,612,508	3,624,988
Assets held for development	—	331,770
Debt financing costs, net	79,187	85,468
Restricted investments held by variable interest entity	—	21,382
Other assets, net	99,715	98,425
Intangible assets, net	1,107,284	1,119,638
Goodwill, net	694,929	694,929
Total assets	\$6,154,985	\$6,332,193
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$200,759	\$61,570
Accounts payable	106,681	91,210
Accrued liabilities	412,894	364,542
Deferred income taxes and income taxes payable	656	8,129
Current deferred tax liability	7,116	—
Current maturities of non-recourse obligations of variable interest entity	—	225,113
Total current liabilities	728,106	750,564
Long-term debt, net of current maturities	4,637,063	4,827,853
Deferred income taxes	149,193	139,943
Other long-term tax liabilities	25,906	43,457
Other liabilities	109,432	103,249
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized; 86,892,311 and 86,871,977 shares outstanding	869	869
Additional paid-in capital	659,780	655,694
Retained earnings (accumulated deficit)	(359,094	) (351,810

Edgar Filing: BOYD GAMING CORP - Form 10-Q

Accumulated other comprehensive income	(667	) (962	)
Total Boyd Gaming Corporation stockholders' equity	300,888	303,791	
Noncontrolling interest	204,397	163,336	
Total stockholders' equity	505,285	467,127	
Total liabilities and stockholders' equity	\$6,154,985	\$6,332,193	

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

3

---

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 for the three months ended March 31, 2013 and 2012

	Three Months Ended	
	March 31,	
	2013	2012
	(In thousands, except per share data)	
	(Unaudited)	
<b>REVENUES</b>		
Operating revenues:		
Gaming	\$633,767	\$535,748
Food and beverage	111,864	106,132
Room	63,855	65,997
Other	39,420	35,832
Gross revenues	848,906	743,709
Less promotional allowances	111,923	110,626
Net revenues	736,983	633,083
<b>COST AND EXPENSES</b>		
Operating costs and expenses:		
Gaming	298,409	248,955
Food and beverage	60,167	54,078
Room	13,100	14,135
Other	28,221	26,061
Selling, general and administrative	124,905	109,717
Maintenance and utilities	39,353	38,763
Depreciation and amortization	70,071	50,014
Corporate expense	15,356	12,871
Preopening expense	2,365	1,660
Asset transactions costs	3,013	45
Other operating charges, net	1,566	202
Total operating costs and expenses	656,526	556,501
Operating income	80,457	76,582
Other expense (income):		
Interest income	(656)	) (4
Interest expense, net	95,682	) 63,828
Other income	(518)	) —
Total other expense, net	94,508	) 63,824
Income (loss) before income taxes	(14,051)	) 12,758
Income taxes	2,424	) (6,283
Net income (loss)	(11,627)	) 6,475
Net loss (income) attributable to noncontrolling interest	4,343	) (623
Net income (loss) attributable to Boyd Gaming Corporation	\$(7,284)	) \$5,852
Basic net income (loss) per common share	\$(0.08)	) \$0.07
Weighted average basic shares outstanding	87,974	) 87,530
Diluted net income (loss) per common share	\$(0.08)	) \$0.07
Weighted average diluted shares outstanding	87,974	) 87,987

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

4

---

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 for the three months ended March 31, 2013 and 2012

	Three Months Ended March 31,	
	2013	2012
	(In thousands) (Unaudited)	
Net income (loss)	\$(11,627	) \$6,475
Other comprehensive income, net of tax:		
Fair value of derivative instruments, net	—	2,440
Fair value of adjustments to available-for-sale securities, net of tax of \$0	295	—
Comprehensive income (loss)	(11,332	) 8,915
Less: other comprehensive income attributable to noncontrolling interest	—	2,440
Less: net income (loss) attributable to noncontrolling interest	(4,343	) 623
Comprehensive income (loss) attributable to Boyd Gaming Corporation	\$(6,989	) \$5,852

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



Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
 for the three months ended March 31, 2013

	Boyd Gaming Corporation Stockholders' Equity						
	Common Stock		Additional Paid-in Capital	Retained Earnings/ Accumulated Deficit	Accumulated Other Comprehensive Income (Loss), Net	Noncontrolling Interest	Total
	Shares	Amount					
	(In thousands, except share data)						
	(Unaudited)						
Balances, January 1, 2013	86,871,977	\$869	\$655,694	\$(351,810 )	\$ (962 )	\$ 163,336	\$467,127
Net loss	—	—	—	(7,284 )	—	(4,343 )	(11,627 )
Unrealized gain on investment available for sale	—	—	—	—	295	—	295
Stock options exercised	20,334	—	158	—	—	—	158
Tax effect from share-based compensation arrangements	—	—	(163 )	—	—	—	(163 )
Share-based compensation costs	—	—	4,091	—	—	—	4,091
Deconsolidation of LVE	—	—	—	—	—	45,404	45,404
Balances, March 31, 2013	86,892,311	\$869	\$659,780	\$(359,094 )	\$ (667 )	\$ 204,397	\$505,285

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

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 for the three months ended March 31, 2013 and 2012

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
	(Unaudited)	
Cash Flows from Operating Activities		
Net income (loss)	\$(11,627	) \$6,475
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	70,071	50,014
Amortization of debt financing costs	4,009	3,150
Amortization of discounts on debt	4,505	889
Share-based compensation expense	4,091	3,116
Deferred income taxes	8,920	8,679
Noncash asset write-downs	19	42
Other operating activities	982	3,486
Changes in operating assets and liabilities:		
Restricted cash	(2,105	) 1,706
Accounts receivable, net	538	779
Inventories	212	570
Prepaid expenses and other current assets	(4,745	) (94
Current other tax asset	(618	) —
Income taxes receivable	1,377	908
Other long-term tax assets	9,863	57
Other assets, net	(6,407	) 208
Accounts payable and accrued liabilities	23,042	(11
Income taxes payable	—	248
Other long-term tax liabilities	(20,292	) (3,219
Other liabilities	6,283	485
Net cash provided by operating activities	88,118	77,488
Cash Flows from Investing Activities		
Capital expenditures	(22,581	) (32,796
Proceeds from sale of Echelon, net	343,750	—
Cash paid for exercise of LVE option	(187,000	) —
Other investing activities	(103	) 28
Net cash provided by (used in) investing activities	134,066	(32,768
Cash Flows from Financing Activities		
Borrowings under bank credit facility	202,200	134,800
Payments under bank credit facility	(232,025	) (184,425
Borrowings under Peninsula bank credit facility	68,200	—
Payments under Peninsula bank credit facility	(78,863	) —
Borrowings under Borgata bank credit facility	103,600	182,900
Payments under Borgata bank credit facility	(109,600	) (200,600
Debt financing costs, net	694	(44
Proceeds from issuance of non-recourse debt by variable interest entity	—	919
Payments on notes payable	(10,814	) —

Edgar Filing: BOYD GAMING CORP - Form 10-Q

Payments on non-recourse debt of variable interest entity	—	(250	)	
Other financing activities	(50	)	(62	)
Net cash used in financing activities	(56,658	)	(66,762	)
Change in cash and cash equivalents	165,526	(22,042	)	
Cash and cash equivalents, beginning of period	192,828	178,756		
Cash and cash equivalents, end of period	\$358,354	\$156,714		

7

---

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)  
 for the three months ended March 31, 2013 and 2012

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
	(Unaudited)	
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$88,261	\$49,173
Cash paid (received) for income taxes, net	(1,313	) (137
Supplemental Schedule of Noncash Investing and Financing Activities		
Payables incurred for capital expenditures	\$18,445	\$6,311
Assets and Liabilities Deconsolidated of Variable Interest Entity		
Current assets	\$184,013	\$—
Long-term assets	2,429	—
Total assets deconsolidated	\$186,442	\$—
Current liabilities	\$48,366	\$—
Noncontrolling interests	(48,924	) —
Total liabilities and noncontrolling interests deconsolidated	\$(558	) \$—

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

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

---

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Boyd Gaming Corporation (and together with its subsidiaries, the "Company," "Boyd Gaming," "we" or "us") was incorporated in the state of Nevada in 1988 and has been operating since 1973. The Company's common stock is traded on the New York Stock Exchange under the symbol "BYD".

We are a diversified operator of 21 wholly owned gaming entertainment properties and one controlling interest in a limited liability company. Headquartered in Las Vegas, Nevada, we have gaming operations in Nevada, Illinois, Indiana, Iowa, Kansas, Louisiana, Mississippi, and New Jersey.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and footnote disclosures necessary for complete financial statements in conformity with accounting principles generally accepted in the United States ("GAAP").

The results for the periods indicated are unaudited, but reflect all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of financial position, results of operations and cash flows. Results of operations and cash flows for the interim periods presented herein are not necessarily indicative of the results that would be achieved during a full year of operations or in future periods.

The accompanying condensed consolidated financial statements include the accounts of Boyd Gaming Corporation and its subsidiaries. Investments in unconsolidated affiliates, which are less than 50% owned and do not meet the consolidation criteria of the authoritative accounting guidance for voting interest, controlling interest or variable interest entities, are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on March 18, 2013.

Reclassifications

Certain prior period amounts presented in our consolidated financial statements have been reclassified to conform to the current presentation. These reclassifications related to other assets that were previously accumulated in assets held for development for the year ended December 31, 2012. This reclassification had no effect on our total assets as previously reported in our condensed consolidated balance sheet. In addition, asset transaction costs that were previously accumulated in other operating charges were disaggregated in our consolidated statements of operations for the three months ended March 31, 2013 and 2012, respectively. This reclassification had no effect on our retained earnings or net income (loss) as previously reported.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 cash incentives to customers related to gaming play are recorded as a reduction of gross gaming revenues. Race revenue recognition criteria are met at the time the results of the event are official. Room revenue recognition criteria are met at the time of occupancy. Food and beverage revenue recognition criteria are met at the time of service.

#### Asset Transaction Costs

Asset transaction costs are comprised of certain costs incurred related to the activities associated with various acquisition opportunities and other business development activities, as well as, transaction costs incurred to dispose of assets, including, but not limited to, the sales of Echelon and Dania.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

**Promotional Allowances**

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as a promotional allowance. Promotional allowances also include incentives such as cash, goods and services (such as complimentary rooms and food and beverages) earned in our slot bonus point program. We reward customers, through the use of bonus programs, with points based on amounts wagered that can be redeemed for a specified period of time, principally for cash play, and to a lesser extent for goods or services, depending upon the property. We record the estimated retail value of these goods and services as revenue and then deduct them as a promotional allowance.

The amounts included in promotional allowances for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Rooms	\$35,120	\$34,682
Food and beverage	50,788	48,298
Other	26,015	27,646
Total promotional allowances	\$111,923	\$110,626

The estimated costs of providing such promotional allowances for the three months ended March 31, 2013 and 2012 are as follows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Rooms	\$14,711	\$14,827
Food and beverage	45,059	44,851
Other	5,126	5,806
Total cost of promotional allowances	\$64,896	\$65,484

**Gaming Taxes**

We are subject to taxes based on gross gaming revenues in the jurisdictions in which we operate. These gaming taxes are assessed based on our gaming revenues and are recorded as a gaming expense in the condensed consolidated statements of operations. These taxes totaled approximately \$102.3 million and \$71.3 million for the three months ended March 31, 2013 and 2012, respectively.

**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. Our net deposits with the CRDA, held by Borgata, eligible to be used to fund qualified investments were \$29.1

million and \$28.5 million as of March 31, 2013 and December 31, 2012, respectively, and are included in other assets, net, on our consolidated balance sheets.

**Investment**

We have an investment in \$22.4 million aggregate principal amount of 7.5% Urban Renewal Tax Increment Revenue Bonds, Taxable Series 2007 ("City Bonds"). This investment is classified as available-for-sale and is recorded at fair-value. The fair value at March 31, 2013 was \$18.2 million. At March 31, 2013, \$0.3 million is included as a current asset in other current assets, and \$17.9 million is included in long-term other assets, net.



Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

---

Income Taxes

Income taxes are recorded under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and attributable to operating loss and tax credit carryforwards. We reduce the carrying amounts of deferred tax assets by a valuation allowance, if based on the available evidence it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically based on a more-likely-than-not realization threshold. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with the usability of operating loss and tax credit carryforwards before expiration, and tax planning alternatives.

For the three months ended March 31, 2013, in accordance with GAAP, we have computed our provision for income taxes by applying the actual effective tax rate, under the discrete method, to quarter-to-date income. The discrete method was used to calculate the income tax expense or benefit as the annual effective tax rate was not considered a reliable estimate of year-to-date income tax expense or benefit. Our current rate is impacted by adjustments that are largely independent of our operating results before taxes. Such adjustments relate primarily to the accrual of non-cash tax expense in connection with the tax amortization of indefinite lived intangible assets that are not available to offset existing deferred tax assets. The deferred tax liabilities created by the tax amortization of these intangibles cannot be used to offset corresponding increases in the net operating loss deferred tax assets in determining our valuation allowance. As such, we believe this method provides the most reliable estimate of year-to-date income tax expense.

Other Long Term Tax Liabilities

The Company's income tax returns are subject to examination by the Internal Revenue Service ("IRS") and other tax authorities in the locations where it operates. The Company assesses potentially unfavorable outcomes of such examinations based on accounting standards for uncertain income taxes, which prescribe a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

Uncertain tax position accounting standards apply to all tax positions related to income taxes. These accounting standards utilize a two-step approach for evaluating tax positions. Recognition occurs when the Company concludes that a tax position, based on its technical merits, is more likely than not to be sustained upon examination.

Measurement is only addressed if the position is deemed to be more likely than not to be sustained. The tax benefit is measured as the largest amount of benefit that is more likely than not to be realized upon settlement. Use of the term "more likely than not" indicates the likelihood of occurrence is greater than 50%.

Tax positions, failing to qualify for initial recognition, are recognized in the first subsequent interim period that they meet the "more likely than not" standard. If it is subsequently determined that a previously recognized tax position no longer meets the "more likely than not" standard, it is required that the tax position be derecognized. Accounting standards for uncertain tax positions specifically prohibit the use of a valuation allowance as a substitute for derecognition of tax positions. As applicable, the Company will recognize accrued penalties and interest related to unrecognized tax benefits in the provision for income taxes.

Unrecognized tax benefits at March 31, 2013 and December 31, 2012 are \$22.0 million and \$38.4 million, respectively. Included in the \$22.0 million balance of unrecognized tax benefits at March 31, 2013, are \$19.9 million of benefits that, if recognized, would impact the effective tax rate. We recognize accrued interest related to unrecognized tax benefits in our income tax provision. We have accrued \$9.0 million and \$12.4 million of interest and penalties in our consolidated balance sheet as of March 31, 2013 and December 31, 2012.

In 2013, we reached agreement on certain proposed adjustments in connection with our IRS examination for tax years ended 2005 through 2009. As a result of the agreed adjustments, we reduced our unrecognized tax benefits by \$16.7 million, of which \$0.9 million impacted our effective tax rate. Such agreements also resulted in a reduction to the interest accrued on our unrecognized tax benefits and a corresponding benefit to our tax provision of \$3.8 million. During 2012, we reached an agreement with the Appeals Division in our IRS examination for tax years ended 2001 through 2004. We reduced our federal unrecognized tax benefits, primarily related to the settlement, by approximately \$20.8 million on a net basis, of which \$0.1 million impacted our effective tax rate. Additionally, we reduced the interest accrued on our federal unrecognized tax benefits by approximately \$4.9 million and recorded a \$3.2 million benefit to our tax provision.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

We are in various stages of the examination and appeals process in connection with many of our audits and it is difficult to determine when these examinations will be closed; however, it is reasonably possible over the next twelve-month period, that we may experience a decrease in our unrecognized tax benefits, as of March 31, 2013, of up to \$10.1 million. Approximately \$8.0 million of the total reduction would impact our effective tax rate.

**Earnings per Share**

Basic earnings per share is computed by dividing net income applicable to Boyd Gaming Corporation's stockholders, by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the additional dilution for all potentially-dilutive securities, such as stock options.

The weighted average number of common and common equivalent shares used in the calculations of basic and diluted earnings per share calculations for the three months ended March 31, 2013 and 2012, consisted of the following amounts:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Weighted average shares outstanding:		
Basic	87,974	87,530
Potential dilutive effect	—	457
Diluted	87,974	87,987

Due to the net loss for the three months ended March 31, 2013, the effect of all potential common share equivalents was anti-dilutive, and therefore all such shares were excluded from the computation of diluted weighted average shares outstanding. Such exclusion included anti-dilutive options totaling 9.1 million, for the three months ended March 31, 2013 and have been excluded from the computation of diluted earnings per share, as these shares were out of the money. Anti-dilutive options totaling 8.1 million have been excluded during the three months ended March 31, 2012, as these shares were out of the money.

**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 condensed consolidated financial statements include the estimated allowance for doubtful accounts receivable, the estimated useful lives for depreciable and amortizable assets, recoverability of assets held for development, measurement of the fair value of our controlling interest and the noncontrolling interest in Borgata, fair valuations of acquired assets and assumed liabilities, estimated cash flows in assessing the recoverability of long-lived assets and assumptions relative to the valuation and impairment of goodwill and intangible assets, estimated valuation allowances for deferred tax assets, accruals for slot bonus point programs, estimates of certain tax liabilities and uncertain tax positions, determination of self-insured liability reserves, computation of share-based payment valuation assumptions, estimates of fair values of assets and liabilities measured at fair value, estimates of fair values of assets and liabilities disclosed at fair value, fair values of derivative instruments and assessments of contingencies and litigation and claims. Actual results could differ from these estimates.

Recently Issued Accounting Pronouncements

A variety of 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.

Accounting Standards Update 2013-02 Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("Update 2013-02")

In February 2013, the Financial Accounting Standards Board ("FASB") issued Update 2013-02 which is an amendment to Topic 220-10 of the Accounting Standards Codification ("ASC").

The objective of Update 2013-02 is to amend ASC 220-10 to require entities to provide information about amounts reclassified out of other comprehensive income by component. The Company is required to present, either on the face of the financial statements

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

or in the notes, the amounts reclassified from other comprehensive income to the respective line items in the Condensed Consolidated Statements of Comprehensive Income (Loss).

Update 2013-02 is effective for interim and annual periods beginning after December 15, 2012. In February 2013, the Company adopted Update 2013-02. Update 2013-02 will not have a material impact on our consolidated financial statements.

## NOTE 3. ACQUISITIONS AND DIVESTITURES

## Acquisition of Peninsula Gaming

## Overview

On November 20, 2012, we completed the acquisition of Peninsula Gaming pursuant to an Agreement and Plan of Merger (the "Merger Agreement") entered into on May 16, 2012. Accordingly, the acquired assets and liabilities of Peninsula Gaming are included in our consolidated balance sheets as of March 31, 2013 and December 31, 2012 and the results of its operations and cash flows are reported in our consolidated statements of operations and cash flows for the three months ended March 31, 2013.

## Status of Purchase Price Allocation

The Company has recognized the assets acquired and liabilities assumed in the Merger based on preliminary fair value estimates as of the date of the Merger. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. As such, management has not completed its valuation analysis and calculations in sufficient detail necessary to arrive at the final estimates of the fair value of the assets acquired and liabilities assumed, along with the related allocations of goodwill and intangible assets. The fair values of certain tangible assets, intangible assets, the note payable to seller, certain contingent liabilities and residual goodwill are the most significant areas not yet finalized and therefore are subject to change. The final fair value determinations are expected to be completed no later than the third quarter of 2013. The final fair value determinations may be significantly different than those reflected in the consolidated balance sheets at March 31, 2013 and December 31, 2012.

## Supplemental Unaudited Pro Forma Information

The following table presents pro forma results of the Company, as though Peninsula Gaming had been acquired as of January 1, 2012. The pro forma results do not necessarily represent the results that may occur in the future. The pro forma amounts include the historical operating results of the Company and Peninsula Gaming prior to the acquisition, with adjustments directly attributable to the acquisition.

	Three Months Ended March 31, 2012		
	Boyd Gaming Corporation (As Reported) (In thousands)	Peninsula Gaming	Boyd Gaming Corporation (Pro Forma)
Condensed Statements of Operations			
Net revenues	\$633,083	\$134,658	\$767,741
Net income attributable to Boyd Gaming Corporation	\$5,852	\$385	\$6,237
Basic and diluted earnings per share	\$0.07		\$0.07

#### Disposition of Echelon

On March 1, 2013, we entered into a definitive agreement to sell the Echelon site for \$350 million in cash. The sale agreement included the 87-acre land parcel, as well as site improvements. The transaction was completed on March 4, 2013, and we realized approximately \$157.0 million in net proceeds from the sale after consideration of direct transaction costs and after payment of a portion of the proceeds to a third party to fulfill our obligations to LVE Energy Partners, LLC (See Note 5, Deconsolidation of LVE Energy Partners, LLC.)

#### Disposition of Dania Jai-Alai

On February 22, 2013, we and Dania Entertainment entered into an agreement (the "New Dania Agreement") for the sale of certain assets and liabilities of the Dania Jai-Alai Business, our pari-mutuel facility, located in Dania Beach, Broward County, Florida at which jai-alai and related gaming operations are conducted, including poker and inter-track wagering, for a purchase price of \$65.5 million. As part of the New Dania Agreement, the \$7 million deposit previously paid to us by Dania Entertainment will be applied

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

---

to the purchase price. The closing of the transactions contemplated by the New Dania Agreement is expected to occur on or prior to May 24, 2013, subject to certain closing conditions.

NOTE 4. BORGATA HOTEL CASINO AND SPA

The Company and MGM Resorts International ("MGM") each originally held a 50% interest in Marina District Development Holding Co., LLC ("Holding Company"). The Holding Company owns all the equity interests in Marina District Development Company, LLC, d.b.a. Borgata Hotel Casino and Spa. We are the managing member of Holding Company, and we are responsible for the day-to-day operations of Borgata, including the improvement of the facility and business. As a result, we consolidate the Borgata into our financial statements.

On March 24, 2010, MGM transferred its interest in the Holding Company ("MGM Interest") to a divestiture trust ("Divestiture Trust") established for the purpose of selling the MGM Interest to a third party as a part of a settlement agreement between MGM and the New Jersey Department of Gaming Enforcement (the "NJDE").

On February 20, 2013, MGM announced that it had entered into an amendment with the NJDE, effective February 13, 2013, pursuant to which MGM was allowed to reapply to the New Jersey Casino Control Commission for licensure in New Jersey with the March 24, 2013, deadline to sell the MGM Interest deferred pending the outcome of the licensure process.

NOTE 5. DECONSOLIDATION OF LVE ENERGY PARTNERS, LLC

In connection with the Echelon transaction, on March 4, 2013, we exercised an option to acquire the central energy center assets from LVE Energy Partners, LLC ("LVE"), a joint venture between Marina Energy LLC and DCO ECH Energy, LLC, for \$187 million. We immediately sold these assets to the buyer of Echelon, and our agreements with LVE were terminated.

Prior to these transactions, we had determined that we were the primary beneficiary of the contract with LVE, which required us to consolidate LVE for financial statement purposes. As a result of the March 4, 2013 transactions, we ceased consolidation of LVE as of that date.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

The effects of the consolidation of LVE on our financial position as of December 31, 2012, and its impact on our results of operations for the three months ended March 31, 2013 and 2012 are reconciled by respective line items to amounts as reported in

our condensed consolidated balance sheets and condensed consolidated statements of operations as follows:

	December 31, 2012			
	Boyd Gaming Corporation (as historically presented)	LVE, LLC	Eliminations	Boyd Gaming Corporation (as consolidated)
	(In thousands)			
<b>ASSETS</b>				
Current assets	\$354,140	\$1,453	\$—	\$355,593
Property and equipment, net	3,624,988	—	—	3,624,988
Assets held for development	168,251	163,519	—	331,770
Debt financing costs, net	83,020	2,448	—	85,468
Restricted investments	—	21,382	—	21,382
Other assets	98,425	—	—	98,425
Intangible assets, net	1,119,638	—	—	1,119,638
Goodwill, net	694,929	—	—	694,929
Total Assets	\$6,143,391	\$188,802	\$—	\$6,332,193
<b>LIABILITIES</b>				
Current maturities of long-term debt	\$61,570	\$—	\$—	\$61,570
Accounts payable	91,046	164	—	91,210
Accrued and other liabilities	356,056	8,486	—	364,542
Income taxes payable	8,129	—	—	8,129
Non-recourse obligations of variable interest entity	—	225,113	—	225,113
Long-term debt, net of current maturities	4,827,853	—	—	4,827,853
Deferred income taxes	139,943	—	—	139,943
Long-term tax and other liabilities	146,706	—	—	146,706
<b>STOCKHOLDERS' EQUITY</b>				
Common stock	869	—	—	869
Additional paid-in capital	655,694	—	—	655,694
Retained earnings	(351,810)	) —	—	(351,810)
Accumulated other comprehensive income (loss)	(962)	) —	—	(962)
Noncontrolling interest	208,297	(44,961)	) —	163,336
Total Liabilities and Stockholders' Equity	\$6,143,391	\$188,802	\$—	\$6,332,193





Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

	Three Months Ended March 31, 2013			
	Boyd Gaming Corporation (In thousands)	LVE, LLC	Eliminations	Boyd Gaming Corporation (as consolidated)
<b>REVENUES</b>				
Other revenue	\$39,420	\$1,933	\$(1,933)	) \$39,420
<b>COSTS AND EXPENSES</b>				
Selling, general and administrative	\$124,905	\$—	\$—	\$124,905
Preopening expenses	\$2,365	\$—	\$—	\$2,365
Operating income	\$80,457	\$1,933	\$(1,933)	) \$80,457
Other expense				
Interest expense, net	\$93,306	\$2,376	\$—	\$95,682
Income (loss) before income taxes	\$(11,675)	) \$(443)	) \$(1,933)	) \$(14,051)
Income taxes	2,424	—	—	2,424
Net income (loss)	(9,251)	) (443)	) (1,933)	) (11,627)
Net (income) loss attributable to noncontrolling interest	3,900	—	443	4,343
Net income (loss) attributable to Boyd Gaming Corporation	\$(5,351)	) \$(443)	) \$(1,490)	) \$(7,284)

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

	Three Months Ended March 31, 2012				
	Boyd Gaming Corporation (as historically presented)		LVE, LLC	Eliminations	Boyd Gaming Corporation (as consolidated)
	(In thousands)				
<b>REVENUES</b>					
Other revenue	\$35,832	\$2,724		\$(2,724)	) \$35,832
<b>COSTS AND EXPENSES</b>					
Maintenance and utilities	\$38,763	\$—		\$—	) \$38,763
Preopening expenses	\$4,384	\$—		\$(2,724)	) \$1,660
Operating income	\$73,861	\$2,721		\$—	) \$76,582
<b>Other expense</b>					
Interest expense, net	\$60,435	\$3,393		\$—	) \$63,828
Income (loss) before income taxes	\$13,430	\$(672)	)	\$—	) \$12,758
Income taxes	(6,283)	)	—	—	(6,283)
Net income (loss)	7,147	(672)	)	—	6,475
Net (income) loss attributable to noncontrolling interest	(1,295)	)	672	—	(623)
Net income (loss) attributable to Boyd Gaming Corporation	\$5,852	\$—		\$—	) \$5,852

The reduction in other revenue and preopening expenses reflects the elimination of the Periodic Fee paid by Boyd Gaming to LVE. Such fee was recognized as revenue by LVE, but eliminated in consolidation completely, thereby having no impact on our consolidated other revenues. Although this Periodic Fee is eliminated in this consolidation, it was actually paid to LVE directly on a monthly basis through March 4, 2013, the date we completed the Echelon transaction.

## NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	March 31, 2013 (In thousands)	December 31, 2012
Land	\$377,748	\$377,748
Buildings and improvements	3,830,279	3,827,980
Furniture and equipment	1,314,007	1,306,150

Edgar Filing: BOYD GAMING CORP - Form 10-Q

Riverboats and barges	188,760	187,620
Construction in progress	59,123	27,707
Other	23,013	23,013
Total property and equipment	5,792,930	5,750,218
Less accumulated depreciation	2,180,422	2,125,230
Property and equipment, net	\$3,612,508	\$3,624,988

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

Depreciation expense for the three months ended March 31, 2013 and 2012 was \$58.2 million and \$48.9 million, respectively. Other property and equipment presented in the table above relates to the net realizable value of construction materials inventory that was previously included in assets held for development during the year ended December 31, 2012, and that was not disposed of with the sale of the Echelon project. Such assets are not in service and are not currently being depreciated.

## NOTE 7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	March 31, 2013				
	Weighted Average Life Remaining	Gross Carrying Value (In thousands)	Cumulative Amortization	Cumulative Impairment Losses	Intangible Assets, Net
Amortizing intangibles:					
Customer relationships	4.3 years	\$ 154,000	\$(34,461)	) \$—	\$ 119,539
Non-competition agreement	0.7 years	3,200	(1,155)	) —	2,045
Favorable lease rates	35.2 years	45,370	(9,129)	) —	36,241
Development agreement	—	21,373	—	) —	21,373
		223,943	(44,745)	) —	179,198
Indefinite lived intangible assets:					
Trademarks	Indefinite	191,800	—	(5,000)	) 186,800
Gaming license rights	Indefinite	955,246	(33,960)	(180,000)	) 741,286
		1,147,046	(33,960)	(185,000)	) 928,086
Balance, March 31, 2013		\$ 1,370,989	\$(78,705)	) \$(185,000)	) \$ 1,107,284
	December 31, 2012				
	Weighted Average Life Remaining	Gross Carrying Value (In thousands)	Cumulative Amortization	Cumulative Impairment Losses	Intangible Assets, Net
Amortizing intangibles:					
Customer relationships	4.5 years	\$ 154,000	\$(23,059)	) \$—	\$ 130,941
Non-competition agreement	0.9 years	3,200	(354)	) —	2,846
Favorable lease rates	35.4 years	45,370	(8,867)	) —	36,503
Development agreement	—	21,373	—	) —	21,373
		223,943	(32,280)	) —	191,663
Indefinite lived intangible assets:					
Trademarks	Indefinite	191,800	—	(5,000)	) 186,800
Gaming license rights	Indefinite	955,135	(33,960)	(180,000)	) 741,175

Edgar Filing: BOYD GAMING CORP - Form 10-Q

	1,146,935	(33,960	) (185,000	) 927,975
Balance, December 31, 2012	\$1,370,878	\$(66,240	) \$(185,000	) \$1,119,638

18

---

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	March 31, 2013	December 31, 2012
	(In thousands)	
Payroll and related expenses	\$93,625	\$86,716
Interest	60,624	67,145
Gaming liabilities	79,466	85,561
Accrued liabilities	179,179	125,120
Total accrued liabilities	\$412,894	\$364,542

## NOTE 9. LONG-TERM DEBT

Long-term debt, net of current maturities consists of the following:

	March 31, 2013			
	Outstanding Principal	Unamortized Discount	Unamortized Origination Fees	Long-Term Debt, Net
	(In thousands)			
Boyd Debt:				
Boyd Gaming Long-Term Debt:				
Bank credit facility	\$1,445,025	\$(4,464)	) \$(2,866)	) \$1,437,695
9.125% senior notes due 2018	500,000	—	(7,010)	) 492,990
9.00% senior notes due 2020	350,000	—	—	350,000
6.75% senior subordinated notes due 2014	215,668	—	—	215,668
7.125% senior subordinated notes due 2016	240,750	—	—	240,750
HoldCo Note	147,800	(29,145)	) —	118,655
	2,899,243	(33,609)	) (9,876)	) 2,855,758
Peninsula Gaming Debt:				
Bank credit facility	843,738	—	—	843,738
8.375% senior notes due 2018	350,000	—	—	350,000
Other	19	—	—	19
	1,193,757	—	—	1,193,757
Total Boyd Debt	4,093,000	(33,609)	) (9,876)	) 4,049,515
Borgata Debt:				
Bank credit facility	14,000	—	—	14,000
9.50% senior secured notes due 2015	398,000	(2,328)	) (5,467)	) 390,205
9.875% senior secured notes due 2018	393,500	(2,033)	) (7,365)	) 384,102
	805,500	(4,361)	) (12,832)	) 788,307

Edgar Filing: BOYD GAMING CORP - Form 10-Q

Less current maturities	200,759	—	—	200,759
Long-term debt, net	\$4,697,741	\$(37,970	) \$(22,708	) \$4,637,063



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

	December 31, 2012			
	Outstanding	Unamortized	Unamortized	Long-Term
	Principal	Discount	Origination	Debt, Net
	(In thousands)			
<b>Boyd Debt:</b>				
<b>Boyd Gaming Long-Term Debt:</b>				
Bank credit facility	\$1,474,850	\$(5,001)	\$(3,214)	\$1,466,635
9.125% senior notes due 2018	500,000	—	(7,320)	492,680
9.00% senior notes due 2020	350,000	—	—	350,000
6.75% senior subordinated notes due 2014	215,668	—	—	215,668
7.125% senior subordinated notes due 2016	240,750	—	—	240,750
HoldCo Note and other	158,141	(32,666)	—	125,475
	2,939,409	(37,667)	(10,534)	2,891,208
<b>Peninsula Gaming Debt:</b>				
Bank credit facility	854,400	—	—	854,400
8.375% senior notes due 2018	350,000	—	—	350,000
Other	494	(3)	—	491
	1,204,894	(3)	—	1,204,891
<b>Total Boyd Debt</b>	<b>4,144,303</b>	<b>(37,670)</b>	<b>(10,534)</b>	<b>4,096,099</b>
<b>Borgata Debt:</b>				
Bank credit facility	20,000	—	—	20,000
9.50% senior secured notes due 2015	398,000	(2,525)	(5,928)	389,547
9.875% senior secured notes due 2018	393,500	(2,103)	(7,620)	383,777
	811,500	(4,628)	(13,548)	793,324
Less current maturities	61,570	—	—	61,570
<b>Long-term debt, net</b>	<b>\$4,894,233</b>	<b>\$(42,298)</b>	<b>\$(24,082)</b>	<b>\$4,827,853</b>

**Boyd Gaming Corporation Debt****Bank Credit Facility**

The blended interest rate for outstanding borrowings under our Second Amended and Restated Credit Agreement (as amended, the "Credit Facility") was 4.2% at both March 31, 2013 and December 31, 2012. At March 31, 2013, approximately \$1.45 billion was outstanding under our Credit Facility, with \$8.5 million allocated to support various letters of credit, leaving remaining contractual availability of approximately \$278.4 million.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## Amounts Outstanding

The net amounts outstanding under the Credit Facility are comprised of the following:

	March 31, 2013	December 31, 2012
	(In thousands)	
Extended Revolving Facility	\$660,000	\$660,000
Initial Term Loan	443,750	450,000
Increased Term Loan	328,125	332,500
Swing Loan	5,820	24,135
Total outstanding borrowings under Credit Facility, net	\$1,437,695	\$1,466,635

## Availability

Presently, our Credit Facility is comprised of the following components and commitments:

	Available Capacity (In thousands)	Present Borrowings	Remaining Availability
Extended Revolving Facility	\$960,000	\$660,000	\$278,398
Initial Term Loan	500,000	443,750	—
Increased Term Loan	350,000	328,125	—
Total commitments under Credit Facility	\$1,810,000	\$1,431,875	\$278,398

## Guarantees

The Company's obligations under the Credit Facility, subject to certain exceptions, are guaranteed by certain of the Company's subsidiaries and are secured by the capital stock of certain subsidiaries. In addition, subject to certain exceptions, the Company and each of the guarantors granted the administrative agent first priority liens and security interests on substantially all of their real and personal property (other than gaming licenses and subject to certain other exceptions) as additional security for the performance of the secured obligations under the Credit Facility.

## Compliance with Financial Covenants

The Credit Facility contains certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a minimum consolidated interest coverage ratio of 2.00 to 1.00, (ii) establishing a maximum permitted consolidated total leverage ratio (discussed below), (iii) establishing a maximum permitted secured leverage ratio (discussed below), (iv) imposing limitations on the incurrence of indebtedness, (v) imposing limitations on transfers, sales and other dispositions and (vi) imposing restrictions on investments, dividends and certain other payments. Subject to certain exceptions, the Company may be required to repay the amounts outstanding under the Credit Facility in connection with certain asset sales and issuances of certain additional secured indebtedness. We believe that, at March 31, 2013, we were in compliance with the Credit Facility covenants.

## Senior Notes

9.125% Senior Notes due December 2018

## Significant Terms

The notes are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. The notes contain certain restrictive covenants

that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restricted subsidiaries (as defined in the indenture governing the notes) to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. We believe that we were in compliance with these covenants at March 31, 2013.

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

---

Senior Notes

9.00% Senior Notes due July 2020

The notes are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. The notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restrictive subsidiaries (as defined in the indenture governing the notes) to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. We believe that we were in compliance with these covenants at March 31, 2013.

Pursuant to the registration rights agreement entered into with the initial purchasers on June 8, 2012, the date these notes were issued, we agreed that, subject to certain suspension and other rights provided in the Registration Rights Agreement, we would file a registration statement with the SEC with respect to a registered exchange offer to exchange the 2020 notes for new notes with terms substantially identical in all material respects to the 2020 notes, and consummate the exchange offer within 365 days of the issuance of the notes. We filed the registration statement with the SEC on March 22, 2013. The registration statement was declared effective on April 23, 2013 and the exchange offer is in process.

Senior Subordinated Notes

6.75% Senior Subordinated Notes due April 2014

The notes contain certain restrictive covenants regarding, among other things, incurrence of debt, sales of assets, mergers and consolidations, and limitations on restricted payments (as defined in the indenture governing the notes). We believe that we were in compliance with these covenants at March 31, 2013.

On March 7, 2013, we announced that we would redeem \$150 million of the notes at a redemption price of 100.00% plus accrued and unpaid interest to the redemption date, April 6, 2013, subject to the right of holders of record on April 1, 2013 to receive accrued and unpaid interest on the redemption date. The redemption was completed on April 6 and resulted in a write-off of unamortized debt fees of \$0.3 million which will be recognized in our second quarter 2013 financial results.

On April 30, 2013, we announced that we would redeem the remaining \$65.7 million notes at a redemption price of 100.00% plus accrued and unpaid interest to the redemption date, May 30, 2013, subject to the right of holders of record on April 1, 2013 to receive accrued and unpaid interest on the redemption date. The redemption is expected to result in a write-off of unamortized debt fees of \$0.1 million, which will be recognized in our second quarter 2013 financial results.

Senior Subordinated Notes

7.125% Senior Subordinated Notes due February 2016

The notes contain certain restrictive covenants regarding, among other things, incurrence of debt, sales of assets, mergers and consolidations, and limitations on restricted payments (as defined in the indenture governing the notes). We believe that we were in compliance with these covenants at March 31, 2013.

Current Maturities of Our Indebtedness

We classified certain non-extending balances under our Credit Facility as a current maturity, as such amounts come due within the next twelve months. On March 7, 2013, we announced the redemption of \$150 million, 6.75% Notes due 2014, and have reclassified these notes from long-term to current. In March 2012, we reclassified \$10.9 million for a note payable that matured on February 28, 2013 from long-term to current.

#### Debt Service Requirements

Debt service requirements under our current outstanding senior subordinated notes and senior notes consist of semi-annual interest payments (based upon fixed annual interest rates ranging from 6.75% to 9.125%) and principal repayment of our 6.75% and 7.125% senior subordinated notes due on April 15, 2014 and February 1, 2016, respectively, and principal repayment of our 9.125% senior notes due on December 1, 2018, and our 9.00% senior notes due on July 1, 2020.

#### Peninsula Gaming Debt

##### Bank Credit Facility

The blended interest rate for outstanding borrowings under the Peninsula Gaming \$875.0 million senior secured credit facility (the "Peninsula Credit Facility") was 5.7% at both March 31, 2013 and at December 31, 2012. At March 31, 2013,

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

---

approximately \$843.7 million was outstanding under the Peninsula Credit Facility, with \$5.8 million allocated to support various letters of credit, leaving remaining contractual availability of \$23.4 million.

**Guarantees and Collateral**

Peninsula Gaming's obligations under the Peninsula Credit Facility, subject to certain exceptions, are guaranteed by Peninsula Gaming's subsidiaries and are secured by the capital stock and equity interests of Peninsula Gaming's subsidiaries. In addition, subject to certain exceptions, Peninsula Gaming and each of the guarantors granted the collateral agent first priority liens and security interests on substantially all of the real and personal property (other than gaming licenses and subject to certain other exceptions) of Peninsula Gaming and its subsidiaries as additional security for the performance of the obligations under the Peninsula Credit Facility. The obligations under the Revolver rank senior in right of payment to the obligations under the Term Loan.

**Compliance with Financial and Other Covenants**

The Peninsula Credit Facility contains certain financial and other covenants, including, without limitation, various covenants requiring the maintenance of (i) beginning with the fiscal quarter ended March 31 2013, a maximum consolidated leverage ratio over each 12-month period ending on the last fiscal day of each quarter; (ii) beginning with the fiscal quarter ended March 31, 2013, a minimum consolidated interest coverage ratio of 2.0 to 1.0 as of the end of each calendar quarter; and (iii) a maximum amount of capital expenditures for each fiscal year. Substantially all of Peninsula Gaming's net assets were restricted from distribution under the Peninsula Gaming Notes and Credit Facility subject to specific amounts allowed for certain investments and other restricted payments as well as payments under a management services agreement between Peninsula Gaming and Boyd Acquisition Sub. We believe we were in compliance with our financial covenants at March 31, 2013.

**Senior Notes**

**8.375% Senior Notes due February 2018**

The notes are fully and unconditionally guaranteed, on a joint and several basis, by Peninsula Gaming, LLC's subsidiaries (other than Peninsula Gaming Corp.). The notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restrictive subsidiaries (as defined in the indenture governing the notes) to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. We believe that we were in compliance with these covenants at March 31, 2013.

**Borgata Debt**

**Borgata Bank Credit Facility**

The blended interest rate for outstanding borrowings under the MDFC \$60 million payment priority secured revolving credit facility (the "Borgata bank credit facility) was 4.9% at both March 31, 2013 and December 31, 2012. At March 31, 2013, approximately \$14.0 million was outstanding under the credit facility leaving contractual availability of \$46.0 million.

**Guarantees**

The Borgata bank credit facility is guaranteed on a senior secured basis by Marina District Development Company, LLC ("MDDC") and any future subsidiaries of MDDC and is secured by a first priority lien on substantially all of

Borgata's assets, subject to certain exceptions. The obligations under the Borgata bank credit facility have priority in payment to Borgata's senior secured notes.

Neither Boyd Gaming Corporation, nor its subsidiaries are guarantors of the Borgata bank credit facility, as amended. Compliance with Financial and Other Covenants

The Borgata bank credit facility, as amended, contains certain financial and other covenants, including, without limitation, (i) establishing a minimum consolidated EBITDA (as defined in the Borgata bank credit facility) of \$125 million over each trailing twelve-month period ending on the last day of each calendar quarter; (ii) imposing limitations on Marina District Finance Company Inc.'s ("MDFC") ability to incur additional debt; and (iii) imposing restrictions on Borgata's 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 MDFC was in compliance with the amended Borgata bank credit facility covenants at March 31, 2013.

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

---

Borgata Senior Secured Notes

9.5% Senior Secured Notes Due 2015

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 MDDC'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. MDDC believes that it was in compliance with these covenants at March 31, 2013.

Borgata Senior Secured Notes

9.875% Senior Secured Notes Due 2018

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 MDDC'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. MDDC believes that it was in compliance with these covenants at March 31, 2013.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Commitments

There have been no material changes to our commitments described under Note 13, Commitments and Contingencies, in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 18, 2013.

Contingencies

Copeland

Alvin C. Copeland, the sole shareholder (deceased) of an unsuccessful applicant for a riverboat license at the location of our Treasure Chest Casino ("Treasure Chest"), has 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 Treasure Chest. In November 1993, Copeland objected to the relocation of Treasure Chest 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 unsuccessfully 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, 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 Louisiana 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 yet been rescheduled. Mr. Copeland has since passed away and his son, the executor of his estate, has petitioned the court to be substituted as plaintiff in the case. 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, Robert J. Guidry, the co-defendant, 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, which may result in the case being remanded to state court. The U.S. District Court heard the motions on March 16, 2011. A ruling has not yet been issued. On April 1, 2011, the U.S. Attorney's Office moved for summary judgment, maintaining its jurisdictional argument as well as seeking substantive relief. On September 2, 2011, the judge issued an Order stating that the case should be remanded to state district court but allowed for additional filings by September 13, 2011. A Remand Order was issued on September 15, 2011, sending the case back to the 19th Judicial District Court, East Baton Rouge Parish, State of Louisiana. Guidry filed a motion for partial

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

---

summary judgment on November 14, 2011 to limit the damages in the case. Treasure Chest joined in the motion. The hearing on the Motion for Partial Summary Judgment was held on September 10, 2012. On October 3, 2012, Judge Clark granted the motion which effectively struck Copeland's demands for lost profits, the value of the Treasure Chest license and the value of Treasure Chest's success. On October 26, 2012, Copeland filed a supervisory writ application with the First Circuit Court of Appeal asking that the partial summary judgment be reversed. Treasure Chest and Guidry opposed the writ. On February 13, 2013, the writ was denied leaving intact the partial summary judgment. Discovery is proceeding. 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 Treasure Chest's business, financial condition and results of operations.

Nevada Use Tax Refund Claims

On March 27, 2008, the Nevada Supreme Court issued a decision in Sparks Nugget, Inc. vs. The State of Nevada Department of Taxation (the "Department"), holding that food purchased for subsequent use in the provision of complimentary and/or employee meals was exempt from use tax. As a result of this decision, refund claims were filed for use taxes paid, over the period November 2000 through May 2008, on food purchased for subsequent use in complimentary and employee meals at our Nevada casino properties. We estimate the refund to be in the range of \$17.9 million to \$21.4 million, including interest. In 2009, the Department audited and denied our refund claim while simultaneously issuing a \$12.3 million sales tax deficiency assessment, plus interest of \$7.5 million. We appealed both the denial of the refund claim as well as the deficiency assessment in a hearing before the Nevada Administrative Law Judge ("ALJ") in September 2010. In April 2011, the judge issued a split decision, granting a refund on employee meals and applying a sales tax measure on complimentary meals; however, the ruling barred retroactive application of the sales tax measure to all years in the refund claim period, effectively overturning the Department's 2009 deficiency assessment. Both we and the Department appealed the decision to the Nevada State Tax Commission (the "Commission"). On August 8, 2011, the Commission remanded the case back for a second administrative hearing, which was held on September 26, 2011, to allow for the introduction of additional supporting documentation. The ALJ issued a decision on November 8, 2011, reversing her position on the employee meal refund claim while also affirming the denial of the complimentary meal refund, as well as the denial of a retroactive application of the sales tax measure to both employee and complimentary meals. The ALJ's decision was affirmed in a Commission hearing on January 23, 2012. On February 15, 2012 we filed a petition for judicial review in Clark County District Court. We received a split decision at our District Court hearing on October 17, 2012. The District Court Judge (the "Judge") affirmed the ALJ decision that sales tax was applicable to complimentary meals and reversed the decision on employee meals, concluding that such meals were exempt from sales tax. The Department has asserted that, although the statute of limitations prohibits their ability to collect incremental sales tax on complimentary meals, the statutes provide for an offset of the incremental sales tax against refunds due on employee meals. As such, the Department believes that it is not required to pay the employee meal refunds. The Judge did not issue a decision with respect to the refund claim offset. We are appealing the decision on complimentary meals to the Nevada State Supreme Court and the Department has appealed the decision on employee meals. The State Supreme Court has suspended our briefing schedule, pending a decision to either accept the appeal or remand the case back to District Court for a remedy on the offset issue. Due to the uncertainty surrounding the ultimate resolution of our appeal to the State Supreme Court, we will not record any gain until a final, non-appealable decision has been rendered.

On February 14, 2012, the Department issued a policy directive, requesting that affected taxpayers begin collecting and remitting sales tax on complimentary and employee meals. In late March 2012, we petitioned the Commission, along with other affected parties, to repeal or suspend the policy directives subject to promulgation in accordance with the appropriate statutory requirements. The Department responded by issuing a draft regulation and the Commission

approved the draft regulation on June 25, 2012; however, as required under Nevada Revised Statutes, such regulation must be approved by a legislative commission before its enactment. The legislative commission has not yet taken any action with respect to the regulation and it is uncertain when such action will occur. The Department revised its policy directive on July 6, 2012, providing for a deferral on the remittance of the purported tax due until the occurrence of a defined future event, as well as the removal of the imposition of all penalties and interest on such tax. Although the Department is deferring remittance of the tax, it believes the liability for sales tax begins to accrue as of February 15, 2012. We have not collected, remitted or accrued a liability for sales tax on complimentary and employee meals at our Nevada casino properties, for periods subsequent to February 15, 2012, as we do not believe it is probable, based on procedural issues with the enforcement of the proposed regulation and the technical merits of the Department's arguments, that we owe this tax. Although not probable, it is reasonably possible that the opinion of the court may differ from our interpretation of the procedural and legal issues noted above. In the event we were to receive an adverse decision on the issues deemed to be reasonably possible, we estimate that the resulting tax assessment on complimentary meals could range between \$0.8 million and \$3.5 million, as of March 31, 2013.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

**Blue Chip Property Taxes**

Blue Chip received a property tax assessment for its 2010 tax year in January 2013 but has not received valuation notices or final tax rates for the years 2011 through 2013. The 2010 tax assessment increased the taxable property value approximately 46% over the settlement valuation agreed to in Blue Chip's 2009 appeal. We have made the minimum required payment against provisional bills received for the tax years 2010 through 2013, all of which were based on our 2006 appeal valuation. We have appealed the 2010 tax assessment and believe the assessments for the period from January 1, 2010 through March 31, 2013 could result in a total property tax obligation, net of previous payments, ranging between \$4.5 million and \$15.5 million. We have accrued, net of the payment of the minimum requirements discussed above, approximately \$15.5 million for this property tax liability as of March 31, 2013, based on what we believe to be the most likely outcome within our range, once all valuations have been received and all tax rates have been finalized; however, we can provide no assurances that the estimated amount accrued will approximate the actual amount assessed. The final tax assessment notices for the period January 1, 2011 through March 31, 2013, which have not been received as of March 31, 2013, could result in further adjustment to our estimated property tax liability at Blue Chip.

**Legal Matters**

We are also parties to various legal proceedings arising in the ordinary course of business. We believe that, except for the Copeland matter discussed above, all pending claims, if adversely decided, would not have a material adverse effect on our business, financial position or results of operations.

**NOTE 11. STOCKHOLDERS' EQUITY AND STOCK INCENTIVE PLANS****Share-Based Compensation**

We account for share-based awards exchanged for employee services in accordance with the authoritative accounting guidance for share-based payments. Under the guidance, share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense, net of estimated forfeitures, over the employee's requisite service period.

The following table provides classification detail of the total costs related to our share-based employee compensation plans reported in our condensed consolidated statements of operations.

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Gaming	\$59	\$59
Food and beverage	11	11
Room	5	5
Selling, general and administrative	298	297
Corporate expense	3,718	2,744
Total share-based compensation expense	\$4,091	\$3,116

**NOTE 12. NONCONTROLLING INTEREST**

Noncontrolling interest represents: (i) the 50% interest in Borgata, held by the Divestiture Trust for the economic benefit of MGM, which was initially recorded at fair value at the date of the effective change in control, on March 24, 2010; and (ii) until the Echelon Transaction, which closed on March 4, 2013, all 100% of the members' equity interest in LVE, the variable interest entity which had been consolidated in our financial statements, but in which we hold no equity interest.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

Changes in the noncontrolling interest during the three months ended March 31, 2013 are as follows:

	Three Months Ended March 31, 2013			Total
	Borgata (In thousands)	LVE	Other	
Balance, January 1, 2013	\$208,277	\$(44,961)	\$20	\$163,336
Attributable net loss	(3,900)	(443)	—	(4,343)
Comprehensive income	—	—	—	—
Deconsolidation of LVE on March 4, 2013	—	45,404	—	45,404
Balance, March 31, 2013	\$204,377	\$—	\$20	\$204,397

## NOTE 13. 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.

	March 31, 2013			
	Balance (In thousands)	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$358,354	\$358,354	\$—	\$—
Restricted cash	25,005	25,005	—	—

Edgar Filing: BOYD GAMING CORP - Form 10-Q

CRDA deposits	29,101	—	—	29,101
Investment available for sale	18,223	—	—	18,223
<b>Liabilities</b>				
Merger earnout	\$8,983	\$—	\$—	\$8,983
Contingent payments	4,522	—	—	4,522

27

---

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

	December 31, 2012			
	Balance (In thousands)	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents	\$ 192,828	\$ 192,828	\$—	\$—
Restricted cash	22,900	22,900	—	—
CRDA deposits	28,464	—	—	28,464
Investment available for sale	17,907	—	—	17,907
<b>Liabilities</b>				
Merger earnout	\$9,800	\$—	\$—	\$9,800

**Cash and Cash Equivalents**

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 March 31, 2013 and December 31, 2012.

**CRDA Deposits**

The fair value of Borgata's CRDA deposits, classified in the fair value hierarchy as Level 3, is based on estimates of the realizable value applied to the balances on statements received from the CRDA at March 31, 2013 and December 31, 2012.

**Investment Available for Sale**

We are the only holder of the City Bonds and there is no quoted market price for this instrument. As such, the fair value of this investment is classified as Level 3 in the fair value hierarchy. The estimate of the fair value of such investment was determined using a combination of current market rates and estimates of market conditions for instruments with similar terms, maturities, and degrees of risk and an estimate from an independent source of what market participants would use in pricing the bonds. Unrealized gains and losses on this instrument resulting from changes in the fair value of the instrument are not charged to earnings, but rather are recorded as other comprehensive income (loss) in the stockholders' equity section of the Company's balance sheets. The carrying value of the investment available for sale is included in Other assets, net, on the consolidated balance sheets. The discount associated with this investment is netted with the investment on the consolidated balance sheets and is being accreted over the life of the investment using the effective interest method. The accretion of such discount is included in Interest income on the consolidated statements of operations.

**Merger Earnout**

Under the terms of the Merger Agreement, Boyd Acquisition II, LLC, an indirect wholly owned subsidiary of Boyd, is obligated to make an additional payment to PGP in 2016 if Kansas Star Casino's ("KSC") EBITDA, as defined in the Merger Agreement, for 2015 exceeds \$105.0 million. The additional payment would be equal to 7.5 times the amount by which KSC's 2015 EBITDA exceeds \$105.0 million. The actual payout will be determined based on actual EBITDA of KSC for calendar year 2015, and payments are not limited by a maximum value. If the actual 2015 EBITDA of KSC is less than the target, the Company is not required to make any additional consideration payment. The liability was initially recorded upon consummation of the Merger, at the estimated fair value of the earnout using



the modified Black-Scholes option pricing model, which requires the following assumptions: expected EBITDA volatility, forecasted 2015 EBITDA, risk-free interest rates and risk adjusted discount rate. We formed our assumptions using historical experience in the gaming industry and observable market conditions. The contingent consideration agreement will be fair valued periodically with updated assumptions and any change in the fair value of the obligation will be included in the Consolidated Statements of Comprehensive Income (Loss). At March 31, 2013 and December 31, 2012, there were outstanding liabilities of \$9.0 million and \$9.8 million, respectively, related to the merger earnout which are included in Other liabilities on the condensed consolidated balance sheets.

#### Contingent Payments

In connection with KSC's acquisition of the land upon which KSC's casino was developed, KSC agreed to pay a former casino project developer and option holder 1% of KSC's EBITDA each month for a period of ten years commencing December 20, 2011. The liability was initially recorded upon consummation of the Merger, at the estimated fair value of the contingent land purchase

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

price using a discounted cash flows approach. At March 31, 2013, there was a current liability of \$0.9 million related to this agreement which is included in Accrued liabilities on the respective condensed consolidated balance sheets and a long-term obligation of \$3.6 million which is included in Other liabilities on the respective condensed consolidated balance sheets.

The following table summarizes the fair value of the Company's Level 3 assets and liabilities for the three months ended March 31, 2013.

	Three Months Ended March 31, 2013			
	Assets		Liabilities	
	Investment Available for Sale (In thousands)	CRDA Deposits	Merger Earnout	Contingent Payments
Balance at January 1, 2013	\$17,907	\$28,464	\$(9,800)	\$(4,563)
Total gains (losses) (realized or unrealized):				
Included in earnings	21	637	817	(194)
Included in other comprehensive income (loss)	295	—	—	—
Transfers in or out of Level 3	—	—	—	—
Purchases, sales, issuances and settlements:				
Settlements	—	—	—	235
Ending balance at March 31, 2013	\$18,223	\$29,101	\$(8,983)	\$(4,522)
Gains (losses) included in earnings attributable to the change in unrealized gains relating to assets and liabilities still held at the reporting date:				
Included in interest income	\$21	\$—	\$—	\$—
Included in interest expense	—	—	—	(194)
Included in non-operating income	—	—	817	—

The table below summarizes the significant unobservable inputs used in calculating fair value for our Level 3 assets and liabilities:

	Valuation Technique	Unobservable Input	Rate	
Investment available for sale	Discounted cash flow	Discount rate	10.5	%
CRDA deposits	Valuation Allowance	Reserves	33.0	%
Merger earnout	Option Model	Risk-free interest rate	0.4	%
		Risk-adjusted discount rate	14.5	%
		EBITDA volatility	21.3	%

Contingent payments	Discounted cash flow	Discount rate	18.5	%
---------------------	-------------------------	---------------	------	---

29

---

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## Balances Disclosed at Fair Value

The following tables provide the fair value measurement information about our note receivable, obligation under minimum assessment agreements and other financial instruments at March 31, 2013 and December 31, 2012.

	March 31, 2013			
	Outstanding Face Amount (In thousands)	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Assets				
Note receivable	\$2,488	\$2,488	\$2,488	Level 3
Liabilities				
Obligation under assessment arrangements	\$38,345	\$29,049	\$28,795	Level 3
Other financial instruments	500	421	421	Level 3
	December 31, 2012			
	Outstanding Face Amount (In thousands)	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Assets				
Note receivable	\$2,470	\$2,470	\$2,470	Level 3
Liabilities				
Obligation under assessment arrangements	\$38,787	\$29,335	\$29,113	Level 3
Other financial instruments	500	413	413	Level 3

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

	March 31, 2013 Outstanding Face Amount (In thousands)	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Boyd Debt:				
Boyd Gaming Debt:				
Bank credit facility	\$1,445,025	\$1,437,695	\$1,450,813	Level 2
9.125% Senior Notes due 2018	500,000	492,990	527,750	Level 1
9.00% Senior Notes due 2020	350,000	350,000	366,538	Level 1
6.75% Senior Subordinated Notes due 2014	215,668	215,668	215,938	Level 1
7.125% Senior Subordinated Notes due 2016	240,750	240,750	243,759	Level 1
Other	147,800	118,655	123,424	Level 3
	2,899,243	2,855,758	2,928,222	
Peninsula Gaming Debt:				
Bank credit facility	843,738	843,738	857,152	Level 2
8.375% senior notes due 2018	350,000	350,000	371,875	Level 1
Other	19	19	19	Level 3
	1,193,757	1,193,757	1,229,046	
Total Boyd debt	4,093,000	4,049,515	4,157,268	
Borgata Debt:				
Borgata bank credit facility	14,000	14,000	14,000	Level 2
Borgata 9.50% Senior Secured Notes due 2015	398,000	390,205	418,059	Level 1
Borgata 9.875% Senior Secured Notes due 2018	393,500	384,102	414,379	Level 1
Total Borgata debt	805,500	788,307	846,438	
Total debt	\$4,898,500	\$4,837,822	\$5,003,706	

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

	December 31, 2012		Estimated Fair Value	Fair Value Hierarchy
	Outstanding Face Amount (In thousands)	Carrying Value		
Boyd Debt:				
Boyd Gaming Debt:				
Bank credit facility	\$1,474,850	\$1,466,635	\$1,508,516	Level 2
9.125% Senior Notes due 2018	500,000	492,680	523,995	Level 1
9.00% Senior Notes due 2020	350,000	350,000	347,158	Level 1
6.75% Senior Subordinated Notes due 2014	215,668	215,668	216,460	Level 1
7.125% Senior Subordinated Notes due 2016	240,750	240,750	236,537	Level 1
Other	158,141	125,475	123,424	Level 3
	2,939,409	2,891,208	2,956,090	
Peninsula Gaming Debt:				
Bank credit facility	854,400	854,400	868,838	Level 2
8.375% Senior Notes due 2018	350,000	350,000	367,721	Level 1
Other	494	491	494	Level 3
	1,204,894	1,204,891	1,237,053	
Total Boyd Debt	4,144,303	4,096,099	4,193,143	
Borgata Debt:				
Borgata bank credit facility	20,000	20,000	20,000	Level 2
Borgata 9.50% Senior Secured Notes due 2015	398,000	389,547	402,275	Level 1
Borgata 9.875% Senior Secured Notes due 2018	393,500	383,777	373,825	Level 1
Total Borgata debt	811,500	793,324	796,100	
Total debt	\$4,955,803	\$4,889,423	\$4,989,243	

The estimated fair value of the Credit Facility is based on a relative value analysis performed on or about March 31, 2013 and December 31, 2012. The estimated fair value of Borgata's bank credit facility at March 31, 2013 and December 31, 2012 approximates its carrying value due to the short-term nature and variable repricing of the underlying Eurodollar loans comprising the Borgata bank credit facility. The estimated fair values of our senior subordinated and senior notes and Borgata's senior secured notes are based on quoted market prices as of March 31, 2013 and December 31, 2012, respectively. Debt included in the "Other" category is fixed-rate debt that is due March 2013 and is not traded and does not have an observable market input; therefore, we have estimated its fair value based on a discounted cash flow approach, after giving consideration to the changes in market rates of interest, creditworthiness of both parties, and credit spreads.

There were no transfers between Level 1, Level 2 and Level 3 measurements during three months ended March 31, 2013 or 2012.

## Fair Value of Non-Recourse Obligations of Variable Interest Entity

At March 31, 2013 and December 31, 2012, the carrying value of LVE's long-term debt approximates its fair value due to the prevailing interest rates on the debt, which are comparable to market.

NOTE 14. SEGMENT INFORMATION

We have aggregated certain of our properties in order to present five Reportable Segments: (i) Las Vegas Locals; (ii) Downtown Las Vegas; (iii) Midwest and South; (iv) Peninsula Gaming; and (v) Atlantic City. The table below lists the classification of each of our properties.

32

---

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

---

Las Vegas Locals	
Gold Coast Hotel and Casino	Las Vegas, Nevada
The Orleans Hotel and Casino	Las Vegas, Nevada
Sam's Town Hotel and Gambling Hall	Las Vegas, Nevada
Suncoast Hotel and Casino	Las Vegas, Nevada
Eldorado Casino	Henderson, Nevada
Jokers Wild Casino	Henderson, Nevada
Downtown Las Vegas	
California Hotel and Casino	Las Vegas, Nevada
Fremont Hotel and Casino	Las Vegas, Nevada
Main Street Station Casino, Brewery and Hotel	Las Vegas, Nevada
Midwest and South	
Sam's Town Hotel and Gambling Hall	Tunica, Mississippi
IP Casino Resort Spa	Biloxi, Mississippi
Par-A-Dice Hotel Casino	East Peoria, Illinois
Blue Chip Casino, Hotel & Spa	Michigan City, Indiana
Treasure Chest Casino	Kenner, Louisiana
Delta Downs Racetrack Casino & Hotel	Vinton, Louisiana
Sam's Town Hotel and Casino	Shreveport, Louisiana
Peninsula Gaming	
Diamond Jo Dubuque	Dubuque, Iowa
Diamond Jo Worth	Northwood, Iowa
Evangeline Downs Racetrack and Casino	Opelousas, Louisiana
Amelia Belle Casino	Amelia, Louisiana
Kansas Star Casino	Mulvane, Kansas
Atlantic City	
Borgata Hotel Casino & Spa	Atlantic City, New Jersey

Results of Operations

We determine each of our wholly owned property's profitability based upon Property EBITDA, which represents each property's earnings before interest expense, income taxes, depreciation and amortization, preopening expenses, other operating charges, net, share-based compensation expense, deferred rent, change in value of derivative instruments, and gain/loss on early retirements of debt, as applicable. Reportable Segment Adjusted EBITDA is the aggregate sum of the Property EBITDA for each of the properties included in our Las Vegas Locals, Downtown Las Vegas, and Midwest and South, and Peninsula Gaming segments, and also includes our share of Borgata's operating income before net amortization, preopening and other items.

Results for Downtown Las Vegas include the results of our travel agency and captive insurance company in Hawaii.



We reclassify the reporting of corporate expense on the accompanying table in order to exclude it from our subtotal for Reportable Segment Adjusted EBITDA and include it as part of total other operating costs and expenses. Furthermore, corporate expense excludes its portion of share-based compensation expense. Corporate expense represents unallocated payroll, professional fees, aircraft expenses and various other expenses not directly related to our casino and hotel operations. Other operating costs and expenses include Property EBITDA from Dania Jai-Alai, deferred rent, and share-based compensation expense charged to our Reportable Segments. Interest expense is net of interest income and amounts capitalized.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

The following table sets forth, for the periods indicated, certain operating data for our Reportable Segments, and reconciles Adjusted EBITDA to operating income, as reported in our accompanying condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Net Revenues		
Las Vegas Locals	\$152,827	\$154,789
Downtown Las Vegas	54,083	57,008
Midwest and South	229,117	243,722
Peninsula Gaming	133,913	—
Atlantic City	165,644	176,150
Reportable Segment Net Revenues	735,584	631,669
Other	1,399	1,414
Net Revenues	\$736,983	\$633,083
Reportable Segment Adjusted EBITDA		
Las Vegas Locals	\$39,205	\$38,486
Downtown Las Vegas	7,111	8,432
Midwest and South	49,682	58,130
Peninsula Gaming	50,712	—
Atlantic City	28,405	38,881
Reportable Segment Adjusted EBITDA	175,115	143,929
Other operating costs and expenses		
Corporate expense	11,638	10,127
Deferred Rent	957	996
Depreciation and Amortization	70,071	50,014
Preopening Expenses	2,365	1,660
Share-based compensation expense	4,091	3,116
Asset transaction costs	3,013	45
Other operating charges, net	2,523	1,389
Total other operating costs and expenses	94,658	67,347
Operating income	\$80,457	\$76,582

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## Total Assets

The Company's total assets by Reportable Segment consisted of the following amounts at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
	(In thousands)	
Assets		
Las Vegas Locals	\$1,221,301	\$1,215,494
Downtown Las Vegas	131,776	133,689
Midwest and South	1,355,925	1,367,063
Peninsula Gaming	1,586,807	1,604,778
Atlantic City	1,412,560	1,388,562
Total Reportable Segment assets	5,708,369	5,709,586
Corporate	408,346	395,436
Other	38,270	227,171
Total assets	\$6,154,985	\$6,332,193

## NOTE 15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Separate condensed consolidating financial information for our subsidiary guarantors and non-guarantors of our 9.125% Senior Notes due December 2018 and 9.00% Senior Notes due July 2020 is presented below. The notes are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. The non-guarantors primarily represent special purpose entities, tax holding companies, our less significant operating subsidiaries and our less than wholly owned subsidiaries.

The tables below present the condensed consolidating balance sheets as of March 31, 2013 and December 31, 2012 and the condensed consolidating statements of operations for the three months ended March 31, 2013 and 2012 and the condensed consolidating statements of cash flows for the three months ended March 31, 2013 and 2012. The Company has corrected certain prior year amounts in the current year presentation to reflect certain intercompany activities between the parent and the sub-groups that had previously been excluded from the presentation, and to properly record the impact of certain reclassification entries within the correct sub-group.

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## Condensed Consolidating Balance Sheets

	March 31, 2013					
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (100% Owned) (In thousands)	Non- Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
<b>Assets</b>						
Cash and cash equivalents	\$ 163,855	\$ 124,658	\$ 33,308	\$ 36,533	\$—	\$ 358,354
Other current assets	87,965	(8,049 )	43,212	80,866	(986 )	203,008
Property and equipment, net	63,628	1,862,935	495,634	1,190,311	—	3,612,508
Investments in subsidiaries	3,111,455	266,031	14,226	—	(3,391,712 )	—
Intercompany receivable	—	481,285	10	(229 )	(481,066 )	—
Other assets, net	45,491	12,915	76,734	43,762	—	178,902
Intangible assets, net	—	467,712	578,384	61,188	—	1,107,284
Goodwill, net	—	212,795	482,134	—	—	694,929
Total assets	\$ 3,472,394	\$ 3,420,282	\$ 1,723,642	\$ 1,412,431	\$ (3,873,764 )	\$ 6,154,985
<b>Liabilities and Stockholders' Equity</b>						
<b>Equity</b>						
Current maturities of long-term debt	\$ 192,500	\$—	\$ 8,259	\$—	\$—	\$ 200,759
Current liabilities	64,146	241,671	86,710	135,514	(694 )	527,347
Intercompany payable	344,461	—	136,517	—	(480,978 )	—
Long-term debt, net of current maturities	2,544,603	—	1,304,153	788,307	—	4,637,063
Other long-term liabilities	25,796	182,210	38,083	38,442	—	284,531
Common stock	869	31,129	(9,500 )	—	(21,629 )	869
Additional paid-in capital	659,780	2,756,184	250,504	480,833	(3,487,521 )	659,780
Retained earnings (deficit)	(359,094 )	209,088	(90,417 )	(30,665 )	(88,006 )	(359,094 )
Accumulated other comprehensive loss, net	(667 )	—	(667 )	—	667	(667 )
Total Boyd Gaming Corporation stockholders' equity	300,888	2,996,401	149,920	450,168	(3,596,489 )	300,888
Noncontrolling interest	—	—	—	—	204,397	204,397
Total stockholders' equity	300,888	2,996,401	149,920	450,168	(3,392,092 )	505,285
Total liabilities and stockholders' equity	\$ 3,472,394	\$ 3,420,282	\$ 1,723,642	\$ 1,412,431	\$ (3,873,764 )	\$ 6,154,985



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## Condensed Consolidating Balance Sheets - continued

December 31, 2012

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (100% Owned) (In thousands)	Non- Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
<b>Assets</b>						
Cash and cash equivalents	\$2,520	\$118,714	\$36,902	\$34,692	\$—	\$192,828
Other current assets	87,493	(4,371 )	32,862	50,751	(3,970 )	162,765
Property and equipment, net	67,500	1,691,120	500,660	1,365,708	—	3,624,988
Assets held for development	775	330,995	—	—	—	331,770
Investments in subsidiaries	3,089,125	267,777	4,103	—	(3,361,005 )	—
Intercompany receivable	(134,385 )	264,686	10	(224 )	(130,087 )	—
Other assets, net	45,880	12,791	81,856	64,748	—	205,275
Intangible assets, net	—	468,229	589,845	61,564	—	1,119,638
Goodwill, net	—	212,795	482,134	—	—	694,929
Total assets	\$3,158,908	\$3,362,736	\$1,728,372	\$1,577,239	\$(3,495,062 )	\$6,332,193
<b>Liabilities and Stockholders' Equity</b>						
<b>Equity</b>						
Current maturities of long-term debt	\$42,500	\$10,341	\$8,729	\$—	\$—	\$61,570
Non-recourse debt	—	—	—	225,113	—	225,113
Current liabilities	66,121	208,399	80,792	109,442	(873 )	463,881
Intercompany payable	—	—	128,198	—	(128,198 )	—
Long-term debt, net of current maturities	2,723,234	—	1,311,295	793,324	—	4,827,853
Other long-term liabilities	23,262	185,717	41,289	36,350	31	286,649
Common stock	869	31,128	—	—	(31,128 )	869
Additional paid-in capital	655,694	2,756,184	250,504	480,833	(3,487,521 )	655,694
Retained earnings (deficit)	(351,810 )	170,967	(91,473 )	(67,823 )	(11,671 )	(351,810 )
Accumulated other comprehensive loss, net	(962 )	—	(962 )	—	962	(962 )
Total Boyd Gaming Corporation stockholders' equity	303,791	2,958,279	158,069	413,010	(3,529,358 )	303,791
Noncontrolling interest	—	—	—	—	163,336	163,336
Total stockholders' equity	303,791	2,958,279	158,069	413,010	(3,366,022 )	467,127
Total liabilities and stockholders' equity	\$3,158,908	\$3,362,736	\$1,728,372	\$1,577,239	\$(3,495,062 )	\$6,332,193



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## Condensed Consolidating Statements of Operations

	Three Months Ended March 31, 2013					Eliminations	Consolidated				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (100% Owned) (In thousands)	Non- Guarantor Subsidiaries (Not 100% Owned)							
Net revenues	\$37,175	\$424,664	\$152,350	\$167,577	\$(44,783	)	\$736,983				
Costs and expenses											
Operating	462	231,768	79,519	88,148	—		399,897				
Selling, general and administrative	11,814	61,087	17,229	34,775	—		124,905				
Maintenance and utilities	—	21,457	3,579	14,317	—		39,353				
Depreciation and amortization	1,714	30,424	22,325	15,608	—		70,071				
Corporate expense	13,886	116	1,354	—	—		15,356				
Preopening expenses	1,030	2,789	414	4	(1,872	)	2,365				
Other operating charges, net	2,849	1,259	137	334	—		4,579				
Intercompany expenses	325	31,752	10,836	—	(42,913	)	—				
Total costs and expenses	32,080	380,652	135,393	153,186	(44,785	)	656,526				
Equity in earnings of subsidiaries	27,812	(4,425	)	—	—	(23,387	)	—			
Operating income (loss)	32,907	39,587	16,957	14,391	(23,385	)	80,457				
Other expense (income)											
Interest expense, net	43,774	2,842	25,259	23,151	—		95,026				
Other income	—	—	(518	)	—		(518	)			
Total other expense, net	43,774	2,842	24,741	23,151	—		94,508				
Income (loss) before income taxes	(10,867	)	36,745	(7,784	)	(8,760	)	(23,385	)	(14,051	)
Income taxes	3,583	(1,669	)	(2	)	512		—		2,424	
Net income (loss)	(7,284	)	35,076	(7,786	)	(8,248	)	(23,385	)	(11,627	)
Net loss attributable to noncontrolling interest	—	—	—	—	4,343		4,343				
Net income (loss) attributable to controlling interest	\$(7,284	)	\$35,076	\$(7,786	)	\$(8,248	)	\$(19,042	)	\$(7,284	)



Edgar Filing: BOYD GAMING CORP - Form 10-Q

Comprehensive income (loss)	\$(6,989	)	\$35,076	\$(7,491	)	\$(8,248	)	\$(23,680	)	\$(11,332	)
--------------------------------	----------	---	----------	----------	---	----------	---	-----------	---	-----------	---

38

---

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## Condensed Consolidating Statements of Operations - continued

	Three Months Ended March 31, 2012					Eliminations	Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (100% Owned) (In thousands)	Non- Guarantor Subsidiaries (Not 100% Owned)			
Net revenues	\$33,009	\$442,364	\$15,111	\$178,875	\$(36,276	)	\$633,083
Costs and expenses							
Operating	456	236,987	15,364	90,422	—		343,229
Selling, general and administrative	11,339	62,721	3,114	32,543	—		109,717
Maintenance and utilities	—	23,948	508	14,307	—		38,763
Depreciation and amortization	2,130	32,061	693	15,130	—		50,014
Corporate expense	12,556	5	310	—	—		12,871
Preopening expenses	384	3,899	(31	) 132	(2,724	)	1,660
Other operating charges, net	29	247	—	(29	) —		247
Intercompany expenses	332	32,725	495	—	(33,552	)	—
Total costs and expenses	27,226	392,593	20,453	152,505	(36,276	)	556,501
Equity in earnings of subsidiaries	25,979	1,044	—	—	(27,023	)	—
Operating income (loss)	31,762	50,815	(5,342	) 26,370	(27,023	)	76,582
Other expense (income)							
Interest expense, net	36,169	3,780	—	23,875	—		63,824
Total other expense, net	36,169	3,780	—	23,875	—		63,824
Income (loss) before income taxes	(4,407	) 47,035	(5,342	) 2,495	(27,023	)	12,758
Income taxes	10,259	(17,402	) 1,437	(577	) —		(6,283
Net income (loss)	5,852	29,633	(3,905	) 1,918	(27,023	)	6,475
Net loss attributable to noncontrolling interest	—	—	—	—	(623	)	(623
Net income (loss) attributable to controlling interest	\$5,852	\$29,633	\$(3,905	) \$1,918	\$(27,646	)	\$5,852
Comprehensive income (loss)	\$5,852	\$29,633	\$(3,905	) \$4,358	\$(27,023	)	\$8,915



Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## Condensed Consolidating Statements of Cash Flows

	Three Months Ended March 31, 2013					Eliminations	Consolidated
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (100% Owned) (In thousands)	Non- Guarantor Subsidiaries (Not 100% Owned)			
Cash flows from operating activities							
Net cash from operating activities	\$39,351	\$18,438	\$23,025	\$11,020	\$(3,716)	)	\$88,118
Cash flows from investing activities							
Capital expenditures	(1,028)	(12,494)	(5,904)	(3,155)	—	)	(22,581)
Proceeds from Echelon sale	343,750	—	—	—	—	)	343,750
Cash paid for LVE option	(187,000)	—	—	—	—	)	(187,000)
Investment in subsidiaries	(3,716)	—	—	—	3,716	)	—
Other investing activities	—	—	(79)	(24)	—	)	(103)
Net cash from investing activities	152,006	(12,494)	(5,983)	(3,179)	3,716	)	134,066
Cash flows from financing activities							
Borrowings under bank credit facility	202,200	—	68,200	103,600	—	)	374,000
Payments under bank credit facility	(232,025)	—	(78,863)	(109,600)	—	)	(420,488)
Debt issuance costs, net	694	—	—	—	—	)	694
Payments under note payable	(10,341)	—	(473)	—	—	)	(10,814)
Distributions to parent	9,500	—	(9,500)	—	—	)	—
Other financing activities	(50)	—	—	—	—	)	(50)
Net cash from financing activities	(30,022)	—	(20,636)	(6,000)	—	)	(56,658)
Net change in cash and cash equivalents	161,335	5,944	(3,594)	1,841	—	)	165,526
Cash and cash equivalents, beginning of period	2,520	118,714	36,902	34,692	—	)	192,828
	\$163,855	\$124,658	\$33,308	\$36,533	\$—	)	\$358,354

Cash and cash equivalents,  
end of period

40

---

Table of Contents

## BOYD GAMING CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

## Condensed Consolidating Statements of Cash Flows - continued

Three Months Ended March 31, 2012

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (100% Owned) (In thousands)	Non- Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
Cash flows from operating activities						
Net cash from operating activities	\$58,559	\$(2,182)	\$(209)	\$21,320	\$—	\$77,488
Cash flows from investing activities						
Capital expenditures	(7,566)	(7,736)	(28)	(17,466)	—	(32,796)
Investment in subsidiaries	(1,390)	—	—	1,390	—	—
Other investing activities	—	—	—	28	—	28
Net cash from investing activities	(8,956)	(7,736)	(28)	(16,048)	—	(32,768)
Cash flows from financing activities						
Borrowings under bank credit facility	134,800	—	—	182,900	—	317,700
Payments under bank credit facility	(184,425)	—	—	(200,600)	—	(385,025)
Payments on long-term debt	(44)	—	—	—	—	(44)
Payments on obligations of variable interest entity	—	—	—	919	—	919
Other financing activities	117	(179)	—	(250)	—	(312)
Net cash from financing activities	(49,552)	(179)	—	(17,031)	—	(66,762)
Net change in cash and cash equivalents						
Cash and cash equivalents, beginning of period	364	128,185	3,944	46,263	—	178,756
Cash and cash equivalents, end of period	\$415	\$118,088	\$3,707	\$34,504	\$—	\$156,714

NOTE 16. SUBSEQUENT EVENTS

We have evaluated all events or transactions that occurred after March 31, 2013. During this period, the following subsequent events occurred:

On April 6, 2013, we redeemed \$150 million of outstanding 6.75% Senior Subordinated Notes due 2014 ("6.75% Notes");

On May 1, 2013, we announced that we would redeem the remainder of the outstanding 6.75% Notes for approximately \$65.7 million at a redemption price of 100.00% plus accrued and unpaid interest to the redemption date, May 30, 2013, subject to the right of holders of record on April 1, 2013 to receive accrued and unpaid interest on the redemption date.

On May 1, 2013, we entered into the First Amendment to Credit Agreement (the "Amendment"), among PGL, certain financial institutions and Bank of America, N.A. ("Bank of America"), as administrative agent (in such capacity, "Administrative Agent") for the lenders. Among other things, the Amendment: (i) decreases the applicable margin with respect to the Term Loan to 3.25% in the case of Eurodollar Rate Loans and 2.25% in the case of Base Rate Loans, (ii) reduces the minimum Eurodollar Rate with respect to the Term Loan to 1.00% per annum, (iii) requires the Company to pay a premium of 1.00% of the principal amount prepaid for full or partial repayments of Term Loans through the issuance of indebtedness having a lower interest rate than described in clause (i) above during the period of six calendar months after the effective date of the Amendment and requires payment of an amendment fee of 1.00% during such period payable to lenders who consent to any such reduced interest rate, (iv) extends the deadline for delivery of year-end reports to 90 days after the end of each fiscal year of the Company, (v) clarifies the definition

Table of Contents

BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012

---

of Consolidated Adjusted EBITDA with respect to management fees and (vi) allows quarterly amortization installments to be paid prior to the last day of the applicable quarter.

42

---



Table of Contents

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

Executive Overview

Boyd Gaming Corporation (the “Company,” “Boyd Gaming,” “we” or “us”) is a multi-jurisdictional gaming company that has been operating for approximately 37 years.

We are a diversified operator of 21 wholly owned gaming entertainment properties and one controlling interest in a limited liability company. Headquartered in Las Vegas, Nevada, we have gaming operations in Nevada, Illinois, Indiana, Iowa, Kansas, Louisiana, Mississippi, and New Jersey which we aggregate in order to present the following five reportable segments:

Las Vegas Locals

Gold Coast Hotel and Casino	Las Vegas, Nevada
The Orleans Hotel and Casino	Las Vegas, Nevada
Sam's Town Hotel and Gambling Hall	Las Vegas, Nevada
Suncoast Hotel and Casino	Las Vegas, Nevada
Eldorado Casino	Henderson, Nevada
Jokers Wild Casino	Henderson, Nevada

Downtown Las Vegas

California Hotel and Casino	Las Vegas, Nevada
Fremont Hotel and Casino	Las Vegas, Nevada
Main Street Station Casino, Brewery and Hotel	Las Vegas, Nevada

Midwest and South

Sam's Town Hotel and Gambling Hall	Tunica, Mississippi
IP Casino Resort Spa	Biloxi, Mississippi
Par-A-Dice Hotel Casino	East Peoria, Illinois
Blue Chip Casino, Hotel & Spa	Michigan City, Indiana
Treasure Chest Casino	Kenner, Louisiana
Delta Downs Racetrack Casino & Hotel	Vinton, Louisiana
Sam's Town Hotel and Casino	Shreveport, Louisiana

Peninsula Gaming

Diamond Jo Dubuque	Dubuque, Iowa
Diamond Jo Worth	Northwood, Iowa
Evangeline Downs Racetrack and Casino	Opelousas, Louisiana
Amelia Belle Casino	Amelia, Louisiana
Kansas Star Casino	Mulvane, Kansas

Atlantic City

Borgata Hotel Casino & Spa	Atlantic City, New Jersey
----------------------------	---------------------------

Our Emphasis

We operate gaming entertainment properties, most of which also include hotel, dining, retail and other amenities. Our main business emphasis is on slot revenues, which are highly dependent upon the number and spending levels of customers at our properties, which affects our operating results.

Our properties have historically generated significant operating cash flow, with the majority of our revenue being cash-based. While we do provide casino credit, subject to certain gaming regulations and jurisdictions, most of our customers wager with cash and pay for non-gaming services by cash or credit card.

Our industry is capital intensive; we rely heavily on the ability of our properties to generate operating cash flow in order to fund maintenance capital expenditures, fund acquisitions, provide excess cash for future development, repay debt financing and associated interest costs, purchase our debt or equity securities, pay income taxes and pay dividends.

43

---

## Table of Contents

### Our Key Performance Indicators

We use several key performance indicators to evaluate the operations of our wholly owned properties and Borgata. These key performance indicators include the following:

#### Gaming revenue indicators:

Slot handle means the dollar amount wagered in slot machines and table game drop means the total amount of cash deposited in table games drop boxes, plus the sum of markers issued at all table games. Slot handle and table game drop are indicators of volume and/or market share.

Slot win and table game hold means the difference between customer wagers and customer winnings on slot machines and table games, respectively. Slot win and table game hold percentages represent the relationship between slot handle and table game drop to gaming wins and losses.

Food and beverage revenue indicators: average guest check is the average amount spent per customer visit and is an indicator of volume and product offerings; number of guests served is an indicator of volume; and the cost per guest served is an indicator of operating margin.

Room revenue indicators: hotel occupancy rate is an indicator of volume measuring the utilization of our available rooms; and average daily rate ("ADR") is a price indicator.

### Our Strategy

Our overriding strategy is to increase shareholder value. We follow several strategic initiatives on which we are focused to improve and grow our business.

#### Strengthening our Balance Sheet

We remain committed to finding opportunities to strengthen our balance sheet through diversifying and increasing cash flows to provide for deleveraging.

#### Operating Efficiently

We also remain committed to operating more efficiently, and endeavor to prevent unneeded expense in our business. The efficiencies of our business model position us to flow a substantial portion of revenue gains directly to the bottom line. Margin improvements will remain a driver of profit growth for the Company going forward.

#### Evaluating Acquisition Opportunities

We evaluate potential transactions and acquisition in a way that is strategic, deliberate, and disciplined. Our intention is to pursue opportunities that are a good fit for our business, deliver a solid return for shareholders, and are available at the right price.

#### Maintaining our Brand

The ability of our employees to deliver great customer service remains a key differentiator for our Company and our brands. Our employees are a big reason that our customers continue to choose our properties over the competition across the country.

#### Our Focus

Our focus has been, and will continue to remain on: (i) ensuring our existing operations are managed as efficiently as possible and remain positioned for growth; (ii) our capital structure and strengthening our balance sheet, not just by paying down debt, but also by strengthening our operations and diversifying our asset base; and (iii) our growth strategy, which is built on finding those assets that are a good strategic fit and provide an appropriate return to our shareholders.

#### Overall Outlook

We believe that our key operating results for the three months ended March 31, 2013 demonstrate a slight recovery impacted by reduced discretionary spending, particularly among our casual players. Consumer confidence negatively influenced results, as consumers decreased confidence led to reduced discretionary spending as a result of higher payroll taxes and uncertainties regarding future expectations that included potential higher unemployment and lower incomes. Over the course of the past several years, the severe economic recession has had a profound effect on consumer confidence, and has generally shifted spending away from discretionary items, such as leisure, hospitality, gaming and entertainment activities. We believe the economic recovery slowed and consumer confidence retracted during the first quarter of 2013. With consideration to the challenging macroeconomic environment, we continue to look for opportunities to strengthen our balance sheet and deleverage. During the three months ended March 31, 2013, we entered an agreement for the sale of certain assets and liabilities of our Dania Jai-Alai pari-mutuel facility, located in Dania Beach, Broward County, Florida. We expect the sale of Dania to occur on or prior to May 24, 2013, subject to certain closing restrictions. In addition, on March 1, 2013, we entered into a definitive agreement to sell the Echelon site, and

## Table of Contents

related site improvements for \$350 million in cash. The transaction was completed on March 4, 2013 and we realized approximately \$157.0 million in net proceeds from the sale. In addition to the benefit of monetizing the Echelon assets, we will realize savings benefits of approximately \$16 million to \$17 million per year due to the elimination of annually recurring reopening expenses related to site preservation. The monetization of Echelon and Dania reflect our commitment to strengthen our balance sheet and improve our long-term financial position.

### Positioning

We continually work to position our Company for greater success by strengthening our existing operations and growing through capital investment and other strategic initiatives.

### Boyd Brand Awareness

We have established a nationwide branding initiative and loyalty program. Previously, players were able to use their "Club Coast" or "B Connected" cards to earn and redeem points at nearly all of our wholly owned Boyd Gaming properties in Nevada, Illinois, Indiana, Louisiana and Mississippi. In June 2010, we launched an enhanced, multi-property player loyalty program under the "B Connected" brand, which replaced the "Club Coast" program. Customers under the "Club Coast" program were able to keep all earned benefits and club points they had previously earned under the program. The new "B Connected" club, among other benefits, extends the time period over which players may qualify for promotion and increases the credits awarded to reel slot and table games players. In addition to the "B Connected" player loyalty program, we launched the "B Connected Mobile" program in July 2010. "B Connected Mobile," the first multi-property, loyalty-program-based iPhone and Android application of its kind in the gaming industry, is a personalized mobile application that delivers customized offers and information directly to a customer's iPhone, iPad or Android device, making "B Connected Mobile" the first application of its kind available on multiple platforms. The application further expands the benefits of the "B Connected" program by providing real-time personalized information on hotel, dining and gaming offers when a customer visits a Boyd property, instant access to event information, schedules and special offers, and a search engine which allows customers to find Boyd Gaming casinos that have their favorite machines and displays the games' locations on a casino floor map, the ability to track "B Connected" point balances in real time, and the ability to make immediate hotel or restaurant reservations. These tools allow our customers to receive the greatest value from their B Connected membership, and ensure that our marketing is as effective as possible.

We continued to improve our B Connected loyalty program with the introduction of "B Connected Social" in the first quarter of 2012, which rewards users for using B Connected Online, B Connected Mobile, or sharing offers and events on social networks. B Connected Social is a dynamic network loyalty program that allows B Connected members to share offers with friends, connect to their favorite social networks, check in online via certain social networks, as well as, participate in a variety of online activities including interfacing with B Connected Online or B Connected Mobile, participate in online contests, and register for alerts to deliver targeted information specific to the B Connected member.

### Borgata Brand Awareness

Borgata sponsors its own program to expand its brand awareness and leverage its strong loyalty card program, predicated on efforts to use marketing and promotional programs to serve an important role: to retain existing customers, maintain trip frequency and acquire new customers. Borgata offers its guests comprehensive, competitive and targeted marketing and promotion programs. The "My Borgata Rewards" program, for example, offers players a hassle-free way of earning slot dollars, comp dollars and other rewards and benefits based on game play, with convenient on-line access of account balances and other program information. In addition, Borgata strives to differentiate its casino with high-quality guest services to further enhance overall brand and customer experience to position Borgata as the must visit property in Atlantic City.

### Other Promotional Activities

From time to time, we offer other promotional offers and discounts targeted towards new customers, frequent customers, inactive customers, customers of various levels of play, and prospective customers who have not yet visited our properties, as well as mid-week and other promotional activities that seek to generate visits to our properties during slower periods. Comp dollars, generally in the form of monetary discounts, and other rewards generally can only be redeemed at our restaurants, retail and spa facilities.

#### Development Activities

We regularly evaluate opportunities for growth through the development of gaming operations in existing or new markets, along with opportunities associated with acquiring other gaming entertainment facilities.

#### Other Events

##### 6.75% Senior Subordinated Notes Redemption

On March 7, 2013, we announced and notified the trustee for our 6.75% Senior Subordinated Notes due 2014 (the "6.75% Notes")

Table of Contents

that on April 6, 2013, we would redeem \$150 million of our outstanding 6.75% Notes due 2014 at a redemption price of 100.00% plus accrued and unpaid interest to the redemption date, April 6, 2013, subject to the right of holders of record on April 1, 2013 to receive accrued and unpaid interest on the redemption date. Subsequent to the end of first quarter, we announced our election to redeem all remaining 6.75% Notes on May 30, 2013, at a redemption price of 100% plus accrued and unpaid interest to the redemption date.

**Disposal of Dania Jai-Alai**

On February 22, 2013, we and Dania Entertainment entered into the New Dania Agreement for the sale of certain assets and liabilities of the Dania Jai-Alai Business, our pari-mutuel facility located in Dania Beach, Broward County, Florida at which jai-alai and related gaming operations are conducted, including poker and inter-track wagering, for a purchase price of \$65.5 million. As part of the New Dania Agreement, the \$7.0 million deposit previously paid to us by Dania Entertainment will be applied to the purchase price. The closing of the transactions contemplated by the New Dania Agreement is expected to occur on or prior to May 24, 2013, subject to certain closing conditions.

**RESULTS OF OPERATIONS**

The results for the three months ended March 31, 2013 reflect the results of Peninsula Gaming, which we acquired (the "Peninsula Acquisition") on November 20, 2012.

**Overview of Key Operating Results**

Three Months Ended March 31, 2013 and 2012

The following provides a summary of certain key operating results:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Net revenues	\$736,983	\$633,083
Operating income	80,457	76,582
Net income (loss) attributable to Boyd Gaming Corporation	(7,284	) 5,852

**Net revenues**

Net revenues were \$737.0 million for the three months ended March 31, 2013, compared to \$633.1 million for the comparable period in the prior year. Overall, we saw decreases in net revenues among most of our reportable segments lead by a 6.0% decrease at Borgata. Despite the decrease in net revenues at Borgata, Borgata remains the leader in table game drop and slot handle in Atlantic City. The acquisition of Peninsula added \$133.9 million in incremental revenues. We believe our results reflect a decrease in discretionary spending, particularly among our casual players.

**Operating income**

Operating income increased by \$3.9 million, or 5.1%, to \$80.5 million, during the three months ended March 31, 2013, compared to the corresponding period of the prior year, due to the acquisition of Peninsula Gaming, partially offset by the flow through impact of a decrease in net revenues in our Midwest and South segment.

**Net income (loss) attributable to Boyd Gaming Corporation**

Net loss attributable to Boyd Gaming was \$7.3 million for the three months ended March 31, 2013, which reflected a loss before income taxes of \$11.6 million, offset by an income tax benefit and net income attributable to noncontrolling interests of \$2.4 million and \$4.3 million, respectively. This net loss attributable to Boyd Gaming compared to net income attributable to Boyd Gaming of \$5.9 million for the corresponding period of the prior year.

Operating Revenues

Three Months Ended March 31, 2013 and 2012

The following analysis discusses our operating revenues, on a consolidated basis, which is further supplemented by operating segment detail below.

We derive the majority of our gross revenues from our gaming operations, which produced approximately 75% and 72% of gross revenues for the three months ended March 31, 2013 and 2012, respectively. Food and beverage gross revenues, which produced approximately 13% and 14% of gross revenues for the three months ended March 31, 2013 and 2012, represent the next most



Table of Contents

significant revenue source, followed by room and other, both of which separately contributed less than 8% of gross revenues during these respective periods.

The following table presents our gross revenues and expenses for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
<b>GROSS REVENUES</b>		
Gaming	\$633,767	\$535,748
Food and beverage	111,864	106,132
Room	63,855	65,997
Other	39,420	35,832
Total Gross Revenues	\$848,906	\$743,709
<b>COSTS AND EXPENSES</b>		
Gaming	\$298,409	\$248,955
Food and beverage	60,167	54,078
Room	13,100	14,135
Other	28,221	26,061
Total Costs and Expenses	\$399,897	\$343,229
<b>MARGINS</b>		
Gaming	52.9%	53.5%
Food and beverage	46.2%	49.0%
Room	79.5%	78.6%
Other	28.4%	27.3%

#### Three Months Ended March 31, 2013 and 2012

##### Gaming

Gaming revenues are significantly comprised of the net win from our slot machine operations and table games. The \$98.0 million, or 18.3%, increase in gaming revenues during the three months ended March 31, 2013 as compared to the corresponding period of the prior year, was due primarily to \$125.9 million of incremental gaming revenues from the acquisition of Peninsula Gaming, partially offset by a \$27.9 million combined decrease in gaming revenues among our Las Vegas Locals, Downtown Las Vegas, Midwest and South, and Atlantic City markets. The decrease in our same segment comparison, excluding Peninsula Gaming, was primarily due to a decrease of \$13.6 million and \$9.8 million in gross gaming revenues in our Midwest and South and Borgata segments, respectively. Consolidated same segment table game drop and table game win, excluding Peninsula Gaming, decreased 6.3% and 7.7%, respectively, during the three months ended March 31, 2013, compared to the same period in the prior year. Consolidated same segment slot drop and slot win decreased 4.2% and 4.1%, respectfully, during the three months ended March 31, 2013 compared to the same period in the prior year. Gaming expense increased during the three months ended March 31, 2013 primarily due to the addition of the Peninsula Gaming segment, offset by decreases in variable expenses associated with reduced gaming volume among our same segment comparison compared to the same period in the prior year.

##### Food and Beverage

Food and beverage revenues increased \$5.7 million, or 5.4%, during the three months ended March 31, 2013, as compared to the corresponding period of the prior year, and included \$9.7 million earned by the Peninsula Gaming

segment during the three months ended March 31, 2013. The incremental food and beverage revenues earned by the Peninsula Gaming segment during the three months ended March 31, 2013 were offset by a 3.8% decrease in the number of guests served among our other segments during the comparable period in the prior year. The \$6.1 million increase in food and beverage costs was due to \$2.9 million incremental costs associated with the Peninsula Gaming segment. Additionally, excluding the Peninsula Gaming segment, there was a 1.4% increase in the cost per cover during the three months ended March 31, 2013, compared to the same period in the prior year.

Table of Contents

Room

Room revenues decreased by \$2.1 million, or 3.2%, during the three months ended March 31, 2013, due to 1.8% decrease in the ADR that was not offset by an 0.4% increase in the hotel occupancy rate, compared to the corresponding period of the prior year. Room expenses decreased \$1.0 million during the three months ended March 31, 2013, compared to the same period in the prior year, due to a 2.3% decrease in the cost per room as a result of our cost containment measures.

Other

Other revenues increased \$3.6 million and other expenses increased \$2.1 million during the three months ended March 31, 2013, as compared to the corresponding period of the prior year, solely due to the the incremental revenues and expenses associated with the Peninsula Gaming acquisition that occurred on November 20, 2012. Other revenues relate to patronage visits at the differing amenities at our properties, including entertainment and nightclub revenues, retail sales, theater tickets and other venues.

Revenues and Adjusted EBITDA by Reportable Segment

We determine each of our properties' profitability based upon Adjusted EBITDA, which represents earnings before interest expense, income taxes, depreciation and amortization, deferred rent, preopening expenses, share-based compensation expense, and other operating items, net, as applicable. Reportable Segment Adjusted EBITDA is the aggregate sum of the Adjusted EBITDA for each of the properties comprising our Las Vegas Locals, Downtown Las Vegas, Midwest and South, Peninsula Gaming and Atlantic City segments before net amortization, preopening and other items.

Table of Contents

The following table presents our net revenues and Adjusted EBITDA by Reportable Segment for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Net revenues		
Las Vegas Locals	\$152,827	\$154,789
Downtown Las Vegas	54,082	57,008
Midwest and South	229,118	243,722
Peninsula Gaming	133,913	—
Atlantic City	165,644	176,150
Reportable Segment Net Revenues	735,584	631,669
Other	1,399	1,414
Net revenues	\$736,983	\$633,083
Adjusted EBITDA		
Las Vegas Locals	\$39,205	\$38,486
Downtown Las Vegas	7,111	8,432
Midwest and South	49,682	58,130
Peninsula Gaming	50,712	—
Wholly owned Adjusted Property EBITDA	146,710	105,048
Corporate expense	(11,638)	(10,127)
Wholly owned Adjusted EBITDA	135,072	94,921
Atlantic City	28,405	38,881
Adjusted EBITDA	\$163,477	\$133,802

Significant factors that affected our Reportable Segment Net Revenues for the three months ended March 31, 2013, as compared to the corresponding period of the prior year, are listed below:

**Las Vegas Locals**

We continue to contend with an aggressive promotional environment in the Las Vegas Locals market. Although we have seen signs of recovery in the local housing market, our casual players continue to remain cautious based on unemployment concerns and the impact of higher payroll taxes. We will continue to focus our marketing efforts on our casual players along with our cost containment measures.

**Three Months Ended March 31, 2013 and 2012**

Net revenues decreased by 1.3% during the three months ended March 31, 2013, as compared to the corresponding period of the prior year, primarily due to a 6.5% decrease in table game drop, and an 1.2% decrease in table game win. Additionally, we experienced a 4.8% decrease in slot drop and a 2.2% decrease in slot win. Room revenues were essentially flat as a 3.5% increase in the average hotel occupancy rate was offset by a 1.0% decrease in the ADR. The decrease in net revenues reflects a more competitive and slower recovery in the Las Vegas Locals market as compared to the national economy.

**Downtown Las Vegas**

We continue to tailor our marketing programs to cater to our Hawaiian market. In order to run more efficiently, during 2012 we reduced the number of weekly flights from five to four, lowering our fuel expense and maximizing our use of available seats without significantly reducing the number of customers flying into Las Vegas. We remain optimistic for a sustainable recovery as the Downtown region continues to undertake new development projects and attract new

businesses.

Three Months Ended March 31, 2013 and 2012

Net revenues decreased 5.1% during the three months ended March 31, 2013, as compared to the corresponding period of the prior year, due primarily to a 1.6% decrease in table game drop and a 2.5% decrease in slot drop. Hotel occupancy rates remained

49

---

## Table of Contents

relatively flat while ADR decreased 1.8%. Food and beverage revenues remained relatively flat despite a 4.5% increase in the average check, as this was offset by 5.0% decrease in the number of guests served. During the three months ended March 31, 2013, our Hawaiian market represented approximately 55% of our occupied rooms in this segment compared to 57% in the corresponding period of the prior year.

### Midwest and South

Our Midwest and South segment experienced a difficult quarter after historically showing more resiliency to the economic weakness which negatively affected other regions of our business. Regional results were impacted by several winter storms that reduced discretionary travel.

### Three Months Ended March 31, 2013 and 2012

Net revenues decreased \$14.6 million, or 6.0%, during the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. Slot drop decreased 5.5% and slot win decreased 5.6%, which was coupled with a 3.2% decrease in table game drop and a 6.3% decrease in table game win. Additionally, the hotel occupancy rate decreased 7.0%, while ADR remained relatively flat. Food covers decreased 8.2%, which was not offset by a 2.6% increase in the average guest check.

### Peninsula Gaming

Our Peninsula Gaming segment benefited from the opening of the Kansas Star's permanent facility during December 2012. Overall, results for the three months ended March 31, 2013 were impacted by several major snow storms which reduced discretionary travel. We remain optimistic about the continued development of the Kansas Star property, which includes the arena conversion and construction of an equine center. The arena conversion is scheduled for completion by the end of the second quarter of 2013 and the entire construction project must be completed no later than January 14, 2015.

### Atlantic City

The Atlantic City market continues to be challenging due to increased local and regional competition. During 2012, a property in the Marina District was remodeled and rebranded and a new casino resort opened on the boardwalk in Atlantic City. However, these projects did not generate incremental growth in the market. Rather, they simply shifted existing business from other properties, including Borgata, which is not reflected in the results during the three months ended March 31, 2012, as the opening date of the new property occurred during the three months ended June 30, 2012. Regardless, Borgata continues to be the leader in table games drop and slot handle, reflecting the quality of its amenities, as well as the hospitality and service provided to its customers.

### Three Months Ended March 31, 2013 and 2012

Borgata's net revenues decreased by \$10.5 million, or 6.0%, during the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. Table game drop decreased 8.1% and table game hold decreased 12.8%, compared to the same period in the prior year. The decrease in table game drop at Borgata was favorable compared to the total Atlantic City market, which experienced a 13.9% decrease in table game drop due to lower discretionary spending and increased local and regional competition. During the three months ended March 31, 2013, slot drop decreased 1.6%, while slot win decreased 3.4% compared to the same period in the prior year. The stable slot drop was favorable compared to the total Atlantic City market which experienced a 12.5% decrease in total slot drop for the comparable period in the prior year, which reflects the position Borgata retains as the premiere destination in the Atlantic City market. Borgata continues to be the leader in table games and slot market share and achieved 26.1% of the table game drop market share and 22.8% of the slot handle market share for the three months ended March 31, 2013.



Table of Contents

## Other Costs and Expenses

The following costs and expenses, as presented in our condensed consolidated statements of operations, are further discussed below:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Selling, general and administrative	\$124,905	\$109,717
Maintenance and utilities	39,353	38,763
Depreciation and amortization	70,071	50,014
Corporate expense	15,356	12,871
Preopening expense	2,365	1,660
Asset transaction costs	3,013	45
Other operating items, net	1,566	202

## Three Months Ended March 31, 2013 and 2012

## Selling, general and administrative

Selling, general and administrative expenses, as a percentage of gross revenues, were 14.7% and 14.8%, during the three months ended March 31, 2013 and 2012, respectively. These costs primarily include marketing, technology, compliance and risk, surveillance and security. We continue to focus on disciplined and targeted marketing spend, and our ongoing cost containment efforts. Selling, general and administrative expenses as a percentage of gross revenues remained relatively unchanged as the incremental increase in gross revenues and selling, general and administrative expenses from the Peninsula Gaming acquisition offset each other.

## Maintenance and Utilities

Maintenance and utilities expenses, as a percentage of gross revenues, were 4.6% and 5.2% during the three months ended March 31, 2013 and 2012, respectively. Although maintenance and utilities expense increased slightly compared to the same period in the prior year, this effect was absorbed by an increase in gross revenues.

## Depreciation and Amortization

Depreciation and amortization expenses, as a percentage of gross revenues, was 8.3% and 6.7% during the three months ended March 31, 2013 and 2012, respectively. The increase in depreciation compared to the same period in the prior year is due to the Peninsula Gaming acquisition, and the completion of various projects, including the Borgata room remodel completed during the three months ended June 30, 2012, and various other capital expenditures at IP.

## Corporate Expense

Corporate expense represents unallocated payroll, professional fees, rent and various other administrative expenses that are not directly related to our casino and/or hotel operations, in addition to the corporate portion of share-based compensation expense. The levels of corporate expense represented 1.8% and 1.7% of gross revenues during the three months ended March 31, 2013 and 2012, respectively.

## Preopening Expense

We expense certain costs of start-up activities as incurred. Preopening expenses relate to our efforts to develop gaming activities in other jurisdictions and to other business development activities.

## Asset Transaction Costs

Asset transaction costs are comprised of certain costs incurred related to the activities associated with various acquisition opportunities and other business development activities, as well as, transaction costs incurred to dispose of



assets, including, but not limited to, the sales of Echelon and Dania. During the three months ended March 31, 2012, asset transaction costs primarily related to transaction costs associated with the sale of the Echelon project.

**Other Operating Charges, Net**

Other operating charges, net, generally include direct and non-reimbursable costs associated with natural disasters and severe weather, including hurricane and flood expenses. During the three months ended March 31, 2013 and 2012, these costs were \$1.6 million and \$0.2 million, respectively.

Table of Contents

## Other Expenses

## Interest Expense, net

The following table presents our interest expense, net for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,		
	2013	2012	
	(In thousands)		
Interest Expense, net of interest income			
Boyd Gaming Corporation	\$50,017	\$39,949	
Peninsula Gaming	21,858	—	
Borgata	20,774	20,482	
Variable Interest Entity	2,377	3,393	
Total interest expense, net of interest income	\$95,026	\$63,824	
Average Long-Term Debt Balance			
Boyd Gaming Corporation	\$2,794,317	\$2,556,273	
Peninsula Gaming	\$1,195,835	\$—	
Borgata	\$804,100	\$801,403	
Weighted Average Interest Rates			
Boyd Gaming Corporation	7.2	% 6.3%	
Peninsula Gaming	7.3	% —	%
Borgata	10.3	% 10.2%	

## Three Months Ended March 31, 2013 and 2012

## Summary

Interest expense, net, was \$95.0 million for the three months ended March 31, 2013, as compared to \$63.8 million during the comparable period in the prior year, representing an increase of 49.0%. Interest expense, net, increased compared to the same period in the prior year, primarily due to the acquisition of Peninsula Gaming on November 20, 2012.

## Boyd Gaming Corporation

Interest expense increased \$10.1 million, or 25.2%, during the three months ended March 31, 2013, compared to the same period in the prior year. During the three months ended March 31, 2013, our average long-term debt balance increased due to the issuance of the \$350 million 9.0% Senior Notes on June 8, 2012 compared to the same period in the prior year. As a result, weighted average interest rates increased to 7.2% from 6.3% during the three months ended March 31, 2013, as compared to the same period in the prior year.

## Peninsula Gaming

On November 20, 2012, we completed the Peninsula Acquisition. The Peninsula Acquisition financing included the establishment of an \$875 million credit facility, as well as, the issuance of \$350 million 8.375% Senior Notes. During the three months ended March 31, 2013, we recorded interest expense, net, of \$21.9 million, as the full effect of the new financing was realized.

## Borgata

Interest expense increased 1.4% during the three months ended March 31, 2013, due to slightly higher average long-term debt balances and weighted average interest rates compared to corresponding period in the prior year.

Income Taxes

Three Months Ended March 31, 2013 and 2012

The effective tax rates during the three months ended March 31, 2013 and 2012 were 17.25% and 49.3%, respectively. For the three months ended March 31, 2013, in accordance with GAAP, we have computed our provision for income taxes by applying

52

---

Table of Contents

the actual effective tax rate, under the discrete method, to quarter-to-date income. The discrete method was used to calculate the income tax expense or benefit as the annual effective tax rate was not considered a reliable estimate of year-to-date income tax expense or benefit. Our current rate is impacted by adjustments that are largely independent of our operating results before taxes. The tax benefit for the quarter ended March 31, 2013 was favorably impacted, as a result of an effective settlement in connection with an IRS audit, by the reversal of interest accrued on unrecognized tax benefits. The tax benefit was adversely impacted by a valuation allowance applied to our federal and state income tax net operating losses and certain other deferred tax assets. Additionally, the tax benefit was adversely impacted by an accrual of non-cash tax expense in connection with the tax amortization of indefinite lived intangible assets that was not available to offset existing deferred tax assets. The deferred tax liabilities created by the tax amortization of these intangibles cannot be used to offset corresponding increases in the net operating loss deferred tax assets in determining our valuation allowance. The prior year effective tax rate was impacted by permanent adjustments related to our consolidation of Borgata and LVE. We consolidate Borgata (and previously consolidated LVE prior to the sale of the Echelon site) for financial statement purposes; however, under federal income tax statutes, we are subject to income tax on our 50% interest in Borgata. Additionally, the prior year rate was adversely impacted by certain recurring permanent adjustments that are unaffected by our income or loss from continuing operations.

Adjusted Earnings (Loss) and Adjusted EPS

Three Months Ended March 31, 2013 and 2012

We believe that Adjusted Earnings (Loss) and Adjusted Earnings Per Share ("EPS") are important supplemental measures of operating performance to investors, and management believes that Adjusted Earnings (Loss) and Adjusted EPS are widely used measures of performance in the gaming industry. We use Adjusted Earnings (Loss) and Adjusted EPS in this Quarterly Report on Form 10-Q because we believe they are useful to investors in allowing greater transparency related to significant measures used by management in its financial and operational decision-making. Management believes it is appropriate to adjust net income (loss) attributable to Boyd Gaming Corporation for certain adjustments, which are eliminated from net income (loss) in order to enable investors to isolate the core operating results of the Company.

Adjusted Earnings (Loss) is net income (loss) before preopening expenses, adjustments to property tax accruals, net, change in value of derivative instruments, write-downs and other items, net, gain on early retirements of debt, other non-recurring items and our share of Borgata's other items and other operating charges, net.

Table of Contents

The following tables present our Adjusted Earnings (Loss) and Adjusted Earnings per Share for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Net income (loss) attributable to Boyd Gaming Corporation	\$(7,284	) \$5,852
Pretax adjustments related to Boyd Gaming:		
Preopening expense, excluding impact of LVE	4,298	4,252
Asset transaction costs	2,679	73
Adjustments to property tax accruals, net	—	(597
Other operating charges	1,566	202
Other non-operating income, net	(817	) —
Pretax adjustments related to Borgata:		
Preopening expense	—	132
Valuation adjustments related to consolidation, net	(259	) (19
Asset transaction costs	334	(25
Total adjustments	7,801	4,018
Income tax effect for above adjustments	(31	) (1,410
Impact on noncontrolling interest, net	(38	) (44
Adjusted earnings (loss)	\$448	\$8,416
	Three Months Ended March 31,	
	2013	2012
Basic net income (loss) per common share	\$(0.08	) \$0.07
Pretax adjustments related to Boyd Gaming:		
Preopening expense, excluding impact of LVE	0.05	0.05
Asset transaction costs	0.03	—
Adjustments to property tax accruals, net	—	(0.01
Other operating charges, net	0.02	—
Other non-operating income	(0.01	) —
Pretax adjustments related to Borgata:		
Preopening expenses	—	—
Valuation adjustments related to consolidation, net	—	—
Asset transaction costs	—	—
Total adjustments	0.09	0.04
Income tax effect for above adjustments	—	(0.02
Impact on noncontrolling interest	—	0.01
Adjusted earnings (loss) per share	\$0.01	\$0.10

During the three months ended March 31, 2013 and 2012, the following items were included in the calculation of Adjusted Earnings and Adjusted EPS (as stated in the above table):

Adjustments Related to Boyd Gaming Corporation  
Preopening Expense, Excluding Impact of Consolidation of LVE



## Table of Contents

Preopening expenses are comprised of costs primarily related to opening new business operations and expenditures for the exploration of new business development initiatives.

### Asset Transaction Costs

Asset transaction costs are comprised of certain costs incurred related to the activities associated with various acquisition opportunities and other business development activities, as well as transaction costs incurred to dispose of assets, including, but not limited to, the sales of Echelon and Dania.

### Adjustments to Property Tax Accruals, net

Property tax accruals have been adjusted based on assessments from the relevant taxing authorities and changes in our estimate of past liabilities related to such assessments.

### Other Operating Charges, net

Other operating charges, net, generally include direct and non-reimbursable costs associated with natural disasters and severe weather, including hurricane and flood expenses.

### Other Non-operating Income, net

Other non-operating income, net, primarily consists of the change in fair value of the contingent consideration obligation associated with the Kansas Star merger earnout, and income (loss) associated with equity affiliates held by Evangeline Downs Racetrack and Casino and Kansas Star Casino.

### Adjustments Related to Borgata

#### Preopening Expense

Preopening expenses are comprised of costs primarily related to opening new business operations and expenditures for the exploration of new business development initiatives.

### Valuation Adjustments Related to Consolidation, net

These adjustments represent the aggregate impact of the measurement activity associated with the changes from historical value to fair value of Borgata, upon consolidation, primarily representing depreciation and amortization expense resulting from the recordation of certain tangible and intangible assets.

### Asset Transaction Costs

Asset transaction costs are comprised of certain costs incurred related to the activities associated with various acquisition opportunities and other business development activities, as well as transaction costs incurred to dispose of assets.

## LIQUIDITY AND CAPITAL RESOURCES

### Financial Position

#### Current Maturities of Our Indebtedness

We classified certain non-extending balances due under our Credit Facility as a current maturity, as such amounts come due within the next twelve months.

While we anticipate the remaining availability under our Credit Facility will provide the short term liquidity required to fund our existing debt obligations, management will review other plans to aggressively pursue the repayment of all debt as currently due.

### Acquisition of Peninsula Gaming

On November 20, 2012, we completed the Peninsula Acquisition pursuant to an Agreement and Plan of Merger, under which an indirect wholly owned subsidiary of the Company acquired the assets and assumed the liabilities of Peninsula Gaming. The net purchase price, after adjustment for working capital and other items, was approximately \$1.48 billion. Accordingly, the acquired assets and liabilities of Peninsula Gaming are included in our condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012, and the results of its operations and cash flows are reported on our condensed consolidated statements of operations and cash flows for the three months ended March 31, 2013. The Peninsula Acquisition added five properties to our portfolio: the Kansas Star Casino, Hotel and Event Center in Mulvane, Kansas; Diamond Jo Casino in Dubuque, Iowa; Diamond Jo Casino in Northwood, Iowa; Evangeline Downs Racetrack and Casino in Opelousas, Louisiana; and Amelia Belle Casino in Amelia, Louisiana.

#### Consolidation of Variable Interest Entity

We were previously required to consolidate the financial position and results of operations of LVE as a result of our adoption of the authoritative accounting guidance regarding the consolidation of variable interest entities given that we were the primary



Table of Contents

beneficiary of LVE's potential energy output. In accordance with the authoritative accounting guidance, the consolidation of LVE terminated as the result of our disposition of LVE on March 4, 2013. As of December 31, 2012, we reported LVE's total assets and total liabilities of \$188.8 million and \$233.8 million, respectively, on our condensed consolidated balance sheet.

**Consolidation of Borgata**

At March 31, 2013, we reported Borgata's total assets and liabilities of \$1.40 billion and \$962.8 million, respectively, in our condensed consolidated balance sheet. At December 31, 2012, we reported Borgata's total assets and liabilities of \$1.38 billion and \$934.2 million, respectively, in our condensed consolidated balance sheet.

**Working Capital**

Historically, we have operated with minimal or negative levels of working capital in order to minimize borrowings and related interest costs under our Credit Facility. Our cash balances and working capital deficits at March 31, 2013 and December 31, 2012, were as follows:

	March 31, 2013 (In thousands)	December 31, 2012
<b>Cash balance:</b>		
Boyd Gaming Corporation	\$291,686	\$125,996
Peninsula Gaming	30,235	32,239
Borgata	36,433	34,125
<b>Working capital (deficit):</b>		
Boyd Gaming Corporation	(129,462	) (126,415
Peninsula Gaming	(18,741	) (16,817
Borgata	(18,543	) (16,855

We, Peninsula Gaming and Borgata separately manage our working capital positions, including our levels of cash and indebtedness. Each of our respective bank credit facilities generally provide any necessary funds for our day-to-day operations, interest and tax payments, as well as capital expenditures. On a daily basis, we evaluate our cash position and adjust the balance under our respective bank credit facilities as necessary, by either borrowing or paying down with excess cash. We also plan the timing and the amounts of our capital expenditures. We each believe that our borrowing capacity under our respective bank credit facilities, subject to restrictive covenants, and cash flows from operating activities will be sufficient to meet each of our projected operating and maintenance capital expenditures for at least the next twelve months. The source of funds for the repayment of our respective debt or development projects is derived primarily from cash flows from operations and availability under our respective bank credit facilities, to the extent availability exists after we meet our respective working capital needs, and subject to restrictive covenants.

We, Peninsula Gaming or Borgata could also seek to secure additional working capital, repay our respective current debt maturities, or fund our development projects, in whole or in part, through incremental bank financing and additional debt or equity offerings. If availability does not exist under each of our bank credit facilities, or we are not otherwise able to draw funds on our respective bank credit facilities, additional financing may not be available to us, Peninsula Gaming or Borgata, and if available, may not be on terms favorable to us, Peninsula Gaming or Borgata, as applicable.

**Indebtedness**

As of March 31, 2013, our indebtedness primarily consists of the following: (i) \$1.4 billion outstanding under our \$1.8 billion Boyd Credit Facility (including \$771.9 million of term loans), and \$1.3 billion aggregate principal amount of our senior and senior subordinated notes, which are the obligations of Boyd, (ii) \$843.7 million outstanding under Peninsula Gaming's \$875 million senior secured credit facility (the "Peninsula Credit Facility") (including an \$822.9

million term loan), and \$350 million aggregate principal amount of our senior notes, which are obligations of the Peninsula Gaming subsidiaries, and (iii) \$14.0 million under a \$60 million payment priority secured revolving credit facility, as amended (the "Borgata bank credit facility"), and \$791.5 million aggregate principal amount of senior secured notes, all of which are obligations of Borgata.

Table of Contents

	March 31, 2013			
	Outstanding Principal (In thousands)	Unamortized Discount	Unamortized Origination Fees	Long-Term Debt, Net
<b>Boyd Debt:</b>				
<b>Boyd Gaming Long-Term Debt:</b>				
Bank credit facility	\$1,445,025	\$(4,464)	\$(2,866)	\$1,437,695
9.125% senior notes due 2018	500,000	—	(7,010)	492,990
9.00% senior notes due 2020	350,000	—	—	350,000
6.75% senior subordinated notes due 2014	215,668	—	—	215,668
7.125% senior subordinated notes due 2016	240,750	—	—	240,750
Other	147,800	(29,145)	—	118,655
	2,899,243	(33,609)	(9,876)	2,855,758
<b>Peninsula Gaming Debt:</b>				
Bank credit facility	843,738	—	—	843,738
8.375% senior notes due 2018	350,000	—	—	350,000
Other	19	—	—	19
	1,193,757	—	—	1,193,757
<b>Total Boyd Debt</b>	<b>4,093,000</b>	<b>(33,609)</b>	<b>(9,876)</b>	<b>4,049,515</b>
<b>Borgata Debt:</b>				
Bank credit facility	14,000	—	—	14,000
9.50% senior secured notes due 2015	398,000	(2,328)	(5,467)	390,205
9.875% senior secured notes due 2018	393,500	(2,033)	(7,365)	384,102
	805,500	(4,361)	(12,832)	788,307
Less current maturities	200,759	—	—	200,759
<b>Long-term debt, net</b>	<b>\$4,697,741</b>	<b>\$(37,970)</b>	<b>\$(22,708)</b>	<b>\$4,637,063</b>

Table of Contents

	December 31, 2012			
	Outstanding Principal (In thousands)	Unamortized Discount	Unamortized Origination Fees	Long-Term Debt, Net
<b>Boyd Debt:</b>				
<b>Boyd Gaming Long-Term Debt:</b>				
Bank credit facility	\$1,474,850	\$(5,001)	\$(3,214)	\$1,466,635
9.125% senior notes due 2018	500,000	—	(7,320)	492,680
9.00% senior notes due 2020	350,000	—	—	350,000
6.75% senior subordinated notes due 2014	215,668	—	—	215,668
7.125% senior subordinated notes due 2016	240,750	—	—	240,750
Other	158,141	(32,666)	—	125,475
	2,939,409	(37,667)	(10,534)	2,891,208
<b>Peninsula Gaming Debt:</b>				
Bank credit facility	854,400	—	—	854,400
8.375% senior notes due 2018	350,000	—	—	350,000
Other	494	(3)	—	491
	1,204,894	(3)	—	1,204,891
<b>Total Boyd Debt</b>	<b>4,144,303</b>	<b>(37,670)</b>	<b>(10,534)</b>	<b>4,096,099</b>
<b>Borgata Debt:</b>				
Bank credit facility	20,000	—	—	20,000
9.50% senior secured notes due 2015	398,000	(2,525)	(5,928)	389,547
9.875% senior secured notes due 2018	393,500	(2,103)	(7,620)	383,777
	811,500	(4,628)	(13,548)	793,324
Less current maturities	61,570	—	—	61,570
<b>Long-term debt, net</b>	<b>\$4,894,233</b>	<b>\$(42,298)</b>	<b>\$(24,082)</b>	<b>\$4,827,853</b>

**Boyd Gaming Corporation Debt****Bank Credit Facility**

The blended interest rate for outstanding borrowings under our Credit Facility was 4.2% at both March 31, 2013 and December 31, 2012. At March 31, 2013, approximately \$1.45 billion was outstanding under our Credit Facility, with \$8.5 million allocated to support various letters of credit, leaving remaining contractual availability of approximately \$278.4 million.

**Amounts Outstanding**

The net amounts outstanding under the Credit Facility are comprised of the following:

	March 31, 2013	December 31, 2012
	(In thousands)	
Extended Revolving Facility	\$660,000	\$660,000
Initial Term Loan	443,750	450,000
Incremental Term Loan	328,125	332,500
Swing Loan	5,820	24,135
<b>Total outstanding borrowings under Credit Facility, net</b>	<b>\$1,437,695</b>	<b>\$1,466,635</b>



Table of Contents

## Availability

Presently, our Credit Facility is comprised of the following components and commitments:

	Available Capacity (In thousands)	Present Borrowings	Remaining Availability
Extended Revolving Facility	\$960,000	\$660,000	\$278,398
Initial Term Loan	500,000	443,750	—
Incremental Term Loan	350,000	328,125	—
Total commitments under Credit Facility	\$1,810,000	\$1,431,875	\$278,398

## Guarantees

The Company's obligations under the Credit Facility, subject to certain exceptions, are guaranteed by certain of the Company's subsidiaries and are secured by the capital stock of certain subsidiaries. In addition, subject to certain exceptions, the Company and each of the guarantors granted the administrative agent first priority liens and security interests on substantially all of their real and personal property (other than gaming licenses and subject to certain other exceptions) as additional security for the performance of the secured obligations under the Credit Facility.

## Compliance with Financial Covenants

The Credit Facility contains certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a minimum consolidated interest coverage ratio of 2.00 to 1.00, (ii) establishing a maximum permitted consolidated total leverage ratio (discussed below), (iii) establishing a maximum permitted secured leverage ratio (discussed below), (iv) imposing limitations on the incurrence of indebtedness, (v) imposing limitations on transfers, sales and other dispositions and (vi) imposing restrictions on investments, dividends and certain other payments. Subject to certain exceptions, the Company may be required to repay the amounts outstanding under the Credit Facility in connection with certain asset sales and issuances of certain additional secured indebtedness. We believe that, at March 31, 2013, we were in compliance with the Credit Facility covenants.

## Senior Notes

## 9.125% Senior Notes due December 2018

## Significant Terms

The notes mature on December 1, 2018 and are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. The notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restricted subsidiaries (as defined in the indenture governing the notes) to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. We believe that we were in compliance with these covenants at March 31, 2013.

## Senior Notes

## 9.00% Senior Notes due July 2020

The notes will mature on July 1, 2020 and are fully and unconditionally guaranteed, on a joint and several basis, by certain of our current and future domestic restricted subsidiaries, all of which are 100% owned by us. The notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restrictive subsidiaries (as defined in the indenture governing the notes) to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. We believe that we were in compliance with these covenants at March 31, 2013.

Pursuant to the registration rights agreement entered into with the initial purchasers on June 8, 2012, the date these notes were issued, we agreed that, subject to certain suspension and other rights provided in the Registration Rights Agreement, we would file a registration statement with the SEC with respect to a registered exchange offer to exchange the 2020 notes for new notes with terms substantially identical in all material respects to the 2020 notes, and consummate the exchange offer within 365 days of the issuance of the notes. We filed the registration statement with the SEC on March 22, 2013. The registration statement was declared effective on April 23, 2013 and the exchange offer is in process.

## Table of Contents

### Senior Subordinated Notes

#### 6.75% Senior Subordinated Notes due April 2014

The notes contain certain restrictive covenants regarding, among other things, incurrence of debt, sales of assets, mergers and consolidations, and limitations on restricted payments (as defined in the indenture governing the notes). We believe that we were in compliance with these covenants at March 31, 2013.

On March 7, 2013, we announced that we would redeem \$150 million of the notes at a redemption price of 100.00% plus accrued and unpaid interest to the redemption date, April 6, 2013, subject to the right of holders of record on April 1, 2013 to receive accrued and unpaid interest on the redemption date. The redemption was completed on April 6 and resulted in a write off of unamortized debt fees of \$0.3 million which will be recognized in our second quarter 2013 financial results.

On April 30, 2013, we announced that we would redeem the remaining \$65.7 million notes at a redemption price of 100.00% plus accrued and unpaid interest to the redemption date, May 30, 2013, subject to the right of holders of record on April 1, 2013 to receive accrued and unpaid interest on the redemption date. The redemption is expected to result in a write off of unamortized debt fees of \$0.1 million, which will be recognized in our second quarter 2013 financial results.

### Senior Subordinated Notes

#### 7.125% Senior Subordinated Notes due February 2016

The notes contain certain restrictive covenants regarding, among other things, incurrence of debt, sales of assets, mergers and consolidations, and limitations on restricted payments (as defined in the indenture governing the notes). We believe that we were in compliance with these covenants at March 31, 2013.

### Current Maturities of Our Indebtedness

We classified certain non-extending balances under our Credit Facility as a current maturity, as such amounts come due within the next twelve months. On March 7, 2013, we announced the redemption of \$150 million in aggregate principal amount of 6.75% Notes due 2014, and have reclassified these notes from long-term to current. In March 2012, we reclassified \$10.9 million for a note payable under our Credit Facility that matured on February 28, 2013 from long-term to current.

### Debt Service Requirements

Debt service requirements under our current outstanding senior subordinated notes and senior notes consist of semi-annual interest payments (based upon fixed annual interest rates ranging from 6.75% to 9.125%) and principal repayment of our 6.75% and 7.125% senior subordinated notes due on April 15, 2014 and February 1, 2016, respectively, and principal repayment of our 9.125% senior notes due on December 1, 2018, and our 9.00% senior notes due on July 1, 2020.

### Peninsula Gaming Debt

#### Bank Credit Facility

The blended interest rate for outstanding borrowings under our Peninsula Credit Facility was 5.7% at both March 31, 2013 and at December 31, 2012. At March 31, 2013, approximately \$843.7 million was outstanding under the Peninsula Credit Facility, with \$5.8 million allocated to support various letters of credit, leaving remaining contractual availability of \$23.4 million.

### Guarantees and Collateral

Peninsula Gaming's obligations under the Peninsula Credit Facility, subject to certain exceptions, are guaranteed by Peninsula Gaming's subsidiaries and are secured by the capital stock and equity interests of Peninsula Gaming's subsidiaries. In addition, subject to certain exceptions, Peninsula Gaming and each of the guarantors granted the



collateral agent first priority liens and security interests on substantially all of the real and personal property (other than gaming licenses and subject to certain other exceptions) of Peninsula Gaming and its subsidiaries as additional security for the performance of the obligations under the Peninsula Credit Facility. The obligations under the Revolver rank senior in right of payment to the obligations under the Term Loan.

#### Compliance with Financial and Other Covenants

The Peninsula Credit Facility contains certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a maximum consolidated interest coverage ratio over each 12-month period ending on the last fiscal day of each quarter; (ii) beginning with the fiscal quarter ended March 31, 2013, a minimum consolidated interest coverage ratio of 2.0 to 1.0 as of the end of each calendar quarter; and (iii) a maximum amount of capital expenditures for each fiscal year. We believe that at March 31, 2013, we were in compliance with our financial covenants.

#### Senior Notes

8.375% Senior Notes due February 2018

## Table of Contents

The notes are fully and unconditionally guaranteed, on a joint and several basis, by Peninsula Gaming, LLC's subsidiaries (other than Peninsula Gaming Corp.). The notes contain certain restrictive covenants that, subject to exceptions and qualifications, among other things, limit our ability and the ability of our restrictive subsidiaries (as defined in the indenture governing the notes) to incur additional indebtedness or liens, pay dividends or make distributions or repurchase our capital stock, make certain investments, and sell or merge with other companies. We believe that we were in compliance with these covenants at March 31, 2013.

### Borgata Debt

#### Borgata Bank Credit Facility

The blended interest rate for outstanding borrowings under our Borgata bank credit facility was 4.9% at both March 31, 2013 and December 31, 2012. At March 31, 2013, approximately \$14.0 million was outstanding under the credit facility leaving contractual availability of \$46.0 million.

### Guarantees

The Borgata bank credit facility is guaranteed on a senior secured basis by Marina District Development Company LLC ("MDDC") and any future subsidiaries of MDDC and is secured by a first priority lien on substantially all of Borgata's assets, subject to certain exceptions. The obligations under the Borgata bank credit facility have priority in payment to Borgata's senior secured notes.

Neither Boyd Gaming Corporation, nor its subsidiaries are guarantors of the Borgata bank credit facility, as amended.

### Compliance with Financial and Other Covenants

The Borgata bank credit facility, as amended, contains certain financial and other covenants, including, without limitation, (i) establishing a minimum consolidated EBITDA (as defined in the Borgata bank credit facility) of \$125 million over each trailing twelve-month period ending on the last day of each calendar quarter; (ii) imposing limitations on Marina District Finance Company Inc.'s ("MDFC") ability to incur additional debt; and (iii) imposing restrictions on Borgata's 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 MDFC was in compliance with the amended Borgata bank credit facility covenants at March 31, 2013.

### Borgata Senior Secured Notes

#### 9.5% Senior Secured Notes Due 2015

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. MDFC believes that it was in compliance with these covenants at March 31, 2013.

### Borgata Senior Secured Notes

#### 9.875% Senior Secured Notes Due 2018

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. MDFC believes that it was in compliance with these covenants at March 31, 2013.

Table of Contents

## Cash Flows Summary

Three Months ended March 31, 2013 and 2012

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Net cash provided by operating activities	\$88,118	\$77,488
Cash flows from investing activities:		
Capital expenditures	(22,581 )	(32,796 )
Proceeds from sale of Echelon, net	343,750	—
Cash paid for exercise of LVE option	(187,000 )	—
Other investing activities	(103 )	28
Net cash provided by (used in) investing activities	134,066	(32,768 )
Cash flows from financing activities:		
Net payments under bank credit facility	(29,825 )	(49,625 )
Net payments under the Peninsula bank credit facility	(10,663 )	—
Net payments under Borgata bank credit facility	(6,000 )	(17,700 )
Debt financing costs, net	694	(44 )
Proceeds from issuance of non-recourse debt	—	919
Payments on notes payable	(10,814 )	—
Payments on loans to variable interest entity's members	—	(250 )
Other financing activities	(50 )	(62 )
Net cash used in financing activities	(56,658 )	(66,762 )
Increase in cash and cash equivalents	\$165,526	\$(22,042 )

## Cash Flows from Operating Activities

During the three months ended March 31, 2013, we generated net operating cash flow of \$88.1 million. Operating cash flows increased during the three months ended March 31, 2013, as compared to the same period of the prior year, due to an increase in depreciation expense and accounts payable and accrued liabilities, partially offset by a decrease in other long-term tax liabilities.

Borgata has significant uses for its cash flows, including maintenance capital expenditures, interest payments, state income taxes and the repayment of debt. Borgata's cash flows are primarily used for its business needs and are not generally available, except to the extent distributions are paid to us, to service our indebtedness. As discussed above, Borgata's bank credit facility, as amended, and senior secured notes contain certain covenants. Borgata's bank credit facility, as amended, allows for certain limited distributions to be made to its partners. In the event that Borgata fails to comply with its covenants, it may be prevented from making any distributions to us during such period of noncompliance.

## Cash Flows from Investing Activities

Our industry is capital intensive and we use cash flows for investments in maintenance capital expenditures, acquisitions and future development or business opportunities.

## Capital Expenditures

Cash paid for capital expenditures on major projects for the three months ended March 31, 2013 were \$22.6 million, which included \$19.4 million related to room remodel projects and various maintenance capital expenditures of our wholly owned properties and \$2.9 million of Borgata room remodel and various maintenance and capital expenditures. Cash paid for capital expenditures on major projects for the three months ended March 31, 2012 were \$32.8 million, which included \$17.5 million related to Borgata's room renovation and refurbishment associated with the suite remodel and \$11.8 million of various maintenance capital expenditures among our wholly owned properties.

Sale of Echelon and Fulfillment of Obligations to LVE

On March 4, 2013, we sold the Echelon site for \$350 million. Net of direct transaction costs of \$6.3 million and cash to LVE in the amount of \$187 million, we realized net proceeds of approximately \$157 million.

## Table of Contents

### Cash Flows from Financing Activities

We rely upon our financing cash flows to provide funding for investment opportunities, repayments of obligations and ongoing operations.

### Borrowing and Payments under Credit Facility

During the three months ended March 30, 2013, net amounts of \$29.8 million, \$10.7 million and \$6.0 million were paid under Boyd Gaming's, Peninsula Gaming's and Borgata's respective credit facilities. During the three months ended March 31, 2012, net amounts of \$49.6 million and \$17.7 million, respectively, were paid under Boyd Gaming's and Borgata's credit facilities. The source of funds for the repayment of these credit facilities is derived primarily from cash flows from operations. We actively manage our cash position for purposes of managing our outstanding credit facility borrowings.

### Payment of Note Payable

During the three months ended March 31, 2013, we paid a note that matured in February 2013 for \$10.8 million.

### Share Repurchase Program

Subject to applicable corporate securities laws, repurchases under our stock repurchase program may be made at such times and in such amounts as we deem appropriate. We are subject to certain limitations regarding the repurchase of common stock, such as restricted payment limitations related to our outstanding notes and our bank credit facility. Purchases under our stock repurchase program can be discontinued at any time that we feel additional purchases are not warranted. We intend to fund the repurchases under the stock repurchase program with existing cash resources and availability under our bank credit facility. In July 2008, our Board of Directors authorized an amendment to our existing share repurchase program to increase the amount of common stock available to be repurchased to \$100 million. We are not obligated to purchase any shares under our stock repurchase program. During the three months ended March 31, 2013 and 2012, we did not repurchase any shares of our common stock. We are currently authorized to repurchase up to an additional \$92.1 million in shares of our common stock under the share repurchase program.

We have in the past, and may in the future, acquire our debt or equity securities, through open market purchases, privately negotiated transactions, tender offers, exchange offers, redemptions or otherwise, upon such terms and at such prices as we may determine.

### Other Items Affecting Liquidity

There have been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital. Despite these disruptions, we anticipate the ability to fund our capital requirements using cash flows from operations and availability under our Credit Facility, to the extent availability exists after we meet our working capital needs for the next twelve months. Any additional financing that is needed may not be available to us or, if available, may not be on terms favorable to us. The outcome of the following specific matters, including our commitments and contingencies, may also affect our liquidity.

### Commitments

There have been no material changes to our commitments described under Note 11, Commitments and Contingencies, in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 18, 2013.

### Contingencies

### Copeland

Alvin C. Copeland, the sole shareholder (deceased) of an unsuccessful applicant for a riverboat license at the location of our Treasure Chest Casino ("Treasure Chest"), has 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 Treasure Chest. In November 1993, Copeland objected to the relocation of Treasure Chest 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 unsuccessfully 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, 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 Louisiana 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,

## Table of Contents

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 yet been rescheduled. Mr. Copeland has since passed away and his son, the executor of his estate, has petitioned the court to be substituted as plaintiff in the case. 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, Robert J. Guidry, the co-defendant, 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, which may result in the case being remanded to state court. The U.S. District Court heard the motions on March 16, 2011. A ruling has not yet been issued. On April 1, 2011, the U.S. Attorney's Office moved for summary judgment, maintaining its jurisdictional argument as well as seeking substantive relief. On September 2, 2011, the judge issued an Order stating that the case should be remanded to state district court but allowed for additional filings by September 13, 2011. A Remand Order was issued on September 15, 2011, sending the case back to the 19th Judicial District Court, East Baton Rouge Parish, State of Louisiana. Guidry filed a motion for partial summary judgment on November 14, 2011 to limit the damages in the case. Treasure Chest joined in the motion. The hearing on the Motion for Partial Summary Judgment was held on September 10, 2012. On October 3, 2012, Judge Clark granted the motion which effectively struck Copeland's demands for lost profits, the value of the Treasure Chest license and the value of Treasure Chest's success. On October 26, 2012, Copeland filed a supervisory writ application with the First Circuit Court of Appeal asking that the partial summary judgment be reversed. Treasure Chest and Guidry opposed the writ. On February 13, 2013, the writ was denied leaving intact the partial summary judgment. Discovery is proceeding. 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 Treasure Chest's business, financial condition and results of operations.

### Legal Matters

We are also parties to various legal proceedings arising in the ordinary course of business. We believe that, except for the Copeland matter discussed above, all pending claims, if adversely decided, would not have a material adverse effect on our business, financial position or results of operations.

### Other Opportunities

We regularly investigate and pursue additional expansion opportunities in markets where casino gaming is currently permitted. We also pursue expansion opportunities in jurisdictions where casino gaming is not currently permitted in order to be prepared to develop projects upon approval of casino gaming. Such expansions will be affected and determined by several key factors, which may include the following:

- the outcome of gaming license selection processes;
- the approval of gaming in jurisdictions where we have been active but where casino gaming is not currently permitted;
- identification of additional suitable investment opportunities in current gaming jurisdictions; and
- availability of acceptable financing.

Additional projects may require us to make substantial investments or may cause us to incur substantial costs related to the investigation and pursuit of such opportunities, which investments and costs we may fund through cash flow from operations or availability under our Credit Facility. To the extent such sources of funds are not sufficient, we

may also seek to raise such additional funds through public or private equity or debt financings or from other sources. No assurance can be given that additional financing will be available or that, if available, such financing will be obtainable on terms favorable to us. Moreover, we can provide no assurances that any expansion opportunity will result in a completed transaction.

#### Off Balance Sheet Arrangements

There have been no material changes to our off balance sheet arrangements as defined in Item 303(a)(4)(ii) and described under Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 18, 2013.

#### Critical Accounting Policies

A description of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2012, as originally filed with the SEC on March 18, 2013.



Table of Contents

Important Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such statements contain words such as “may,” “will,” “might,” “expect,” “believe,” “anticipate,” “outlook,” “could,” “would,” “estimate,” “continue,” “pursue,” “target,” “project,” “intend,” “plan,” “seek,” “estimate,” “should” and “continue,” or the negative thereof or comparable terminology, and may include statements regarding:

- the factors that contribute to our ongoing success and our ability to be successful in the future;
- our business model, areas of focus and strategy for realizing improved results when normalized business volumes return;
- competition, including expansion of gaming into additional markets, the impact of competition on our operations, our ability to respond to such competition, and our expectations regarding continued competition in the markets in which we compete;
- our estimated effective income tax rates; estimated tax benefits; and merits of our tax positions;
- the general effect, and expectation, of the national and global economy on our business, as well as the economies where each of our properties are located;
- our belief as to the resiliency of certain of the local economies where certain of our properties are located;
- our expenses;
  - indebtedness, including Boyd Gaming's and Borgata's ability to refinance or pay amounts outstanding under our respective bank credit facilities and notes when they become due and our compliance with related covenants, and our expectation that we and Borgata will need to refinance all or a portion of our respective indebtedness at or before maturity;
- our expectations with respect to Borgata, including our responsibility and control over day-to-day operations and the managerial resources we expect to devote to effectuate the sale of the MGM Interest;
- our statements with respect to our B Connected loyalty program, including its ability to drive profitable business to our properties;
- our expectation regarding the trends that will affect the gaming industry over the next few years and the impact of these trends on merger and acquisition activity in general;
- our belief that consumer confidence will strengthen as the job market recovers and expands;
- our expectations with respect to the valuation of Borgata's tangible and intangible assets;
- the type of covenants that will be included in any future debt instruments;
- our expectations with respect to continued disruptions in the global capital markets, the effect of such disruptions on consumer confidence and reduced levels of consumer spending and the impact of these trends on our financial results;
- our ability to meet our projected operating and maintenance capital expenditures and the costs associated with our expansion, renovations and development of new projects;
- our ability to pay dividends or to pay any specific rate of dividends, and our expectations with respect to the receipt of dividends from Borgata;
- our commitment to finding opportunities to strengthen our balance sheet and to operate more efficiently;
  - our intention to pursue acquisition opportunities that are a good fit for our business, deliver a solid return for shareholders, and are available at the right price;
- our intention to fund purchases made under our share repurchase program, if any, with existing cash resources and availability under our Second Amended and Restated Credit Agreement (as amended, the “Credit Facility”);
- our assumptions and expectations regarding our critical accounting estimates;
- Adjusted EBITDA, Adjusted Earnings (Loss) and Adjusted Earnings Per Share and their usefulness as measures of operating performance or valuation;
- our expectations for capital improvement projects with respect to IP and Peninsula;
- the impact of new accounting pronouncements on our consolidated financial statements;
- that our Credit Facility, the Borgata bank credit facility, the Peninsula Credit Facility and our respective cash flows from operating activities will be sufficient to meet our respective projected operating and maintenance capital

expenditures for the next twelve months;

• our ability to fund any expansion projects using cash flows from operations and availability under the Credit Facility;

• our market risk exposure and efforts to minimize risk;

expansion, development, investment and renovation plans, including the scope of such plans, expected costs,

financing (including sources thereof and our expectation that long-term debt will substantially increase in connection with such projects), timing and the ability to achieve market acceptance;

• our belief that, except for the Copeland matter discussed herein, all pending claims, if adversely decided, will not have a material adverse effect on our business, financial position or results of operations;

Table of Contents

that margin improvements will remain a driver of profit growth for us going-forward;

our belief that the risks to our business associated with the United States Coast Guard, ("USCG") inspection should not change by reason of inspection by American Bureau of Shipping Consulting, ("ABSC").

development opportunities in existing or new jurisdictions and our ability to successfully take advantage of such opportunities;

regulations, including anticipated taxes, tax credits or tax refunds expected, and the ability to receive and maintain necessary approvals for our projects;

our expectation that Congress legalizes online gaming in the United States;

our asset impairment analyses and our intangible asset and goodwill impairment tests;

the resolution of our pending litigation, including the litigation involving Treasure Chest casino;

the likelihood of interruptions to our rights in the land we lease under long-term leases for certain of our hotel and casinos;

the outcome of various tax audits and assessments, including our appeals thereof, timing of resolution of such audits, our estimates as to the amount of taxes that will ultimately be owed and the impact of these audits on our condensed consolidated financial statements;

the impact of our Nevada use tax refund claims;

our overall outlook, including all statements under the heading Overall Outlook in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations;

our ability to receive insurance reimbursement and our estimates of self-insurance accruals and future liability;

that operating results for previous periods are not necessarily indicative of future performance;

that estimates and assumptions made in the preparation of financial statements in conformity with U.S. GAAP may differ from actual results;

our expectations regarding our cost containment efforts;

the benefits of the Peninsula Acquisition, the effect of the Peninsula Acquisition on Boyd Gaming's future financial results and profile, the impact for customers and employees, future capital expenditures, expenses, revenues, earnings, economic performance, financial condition, losses and future prospects;

the impact of the financing we entered into in connection with the Peninsula Acquisition;

the anticipated benefits of geographical diversity resulting from the Peninsula Acquisition;

the future results of Peninsula Gaming's gaming properties, including without limitation, Kansas Star;

our belief that recently issued accounting pronouncements discussed in our Annual Report on Form 10-K will not have a material impact on our financial statements;

our estimates as to the effect of any changes in our Consolidated EBITDA on our ability to remain in compliance with certain Credit Facility covenants;

the anticipated closing of the sale of Dania Jai-Alai to Dania Entertainment pursuant to the New Dania Agreement;

the anticipated new development project with Sunrise Sports Entertainment, and the passage of enabling legislation;

the anticipated new development project with Wilton Rancheria, and the passage of enabling legislation;

expectations, plans, beliefs, hopes or intentions regarding the future, and:

assumptions underlying any of the foregoing statements.

Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include:

- The effects of intense competition that exists in the gaming industry.
- The economic downturn and its effect on consumer spending.

The fact that our expansion, development and renovation projects (including enhancements to improve property performance) are subject to many risks inherent in expansion, development or construction of a new or existing project, including:

- design, construction, regulatory, environmental and operating problems and lack of demand for our projects;
- delays and significant cost increases, shortages of materials, shortages of skilled labor or work stoppages;
-

poor performance or nonperformance of any of our partners or other third parties upon whom we are relying in connection with any of our projects;  
construction scheduling, engineering, environmental, permitting, construction or geological problems, weather interference, floods, fires or other casualty losses;  
failure by us, our partners, or Borgata to obtain financing on acceptable terms, or at all; and  
failure to obtain necessary government or other approvals on time, or at all.  
The risk that USCG may not continue to allow in-place underwater inspections of our riverboats.

Table of Contents

• The risk that any of our projects may not be completed, if at all, on time or within established budgets, or that any project will result in increased earnings to us.

• The risk that significant delays, cost overruns, or failures of any of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

• The risk that our projects may not help us compete with new or increased competition in our markets.

• The risk that new gaming licenses or jurisdictions become available (or offer different gaming regulations or taxes) that results in increased competition to us.

• The risk associated with owning real property, including environmental regulation and uncertainties with respect to environmental expenditures and liabilities;

• The risk associated with challenges to legalized gaming in existing or current markets;

• The risk that the actual fair value for assets acquired and liabilities assumed from any of our acquisitions differ materially from our preliminary estimates.

• The risk that negative industry or economic trends, including the market price of our common stock trading below its book value, reduced estimates of future cash flows, disruptions to our business, slower growth rates or lack of growth in our business, may result in significant write-downs or impairments in future periods.

• The risks associated with growth and acquisitions, including our ability to identify, acquire, develop or profitably manage additional companies or operations or successfully integrate such companies or operations into our existing operations without substantial costs, delays or other problems.

• The risk that we may not receive gaming or other necessary licenses for new projects or that regulatory authorities may revoke, suspend, condition or limit our gaming or other licenses, impose substantial fines and take other adverse actions against any of our casino operations.

• Our inability to select the new joint venture partner for Borgata and the possibility that a new operating agreement will be entered into with the new venture partner, which could result in changes to Borgata's ongoing operations.

• The risk that we may be unable to finance our expansion, development, investment and renovation projects, including cost overruns on any particular project, as well as other capital expenditures through cash flow, borrowings under our Credit Facility or the Borgata's Credit Facility, as amended, and additional financings, which could jeopardize our expansion, development, investment and renovation efforts.

• The risk that we or Borgata may be unable to refinance our respective outstanding indebtedness as it comes due, or that if we or Borgata do refinance, the terms are not favorable to us or them.

• Risks associated with our ability to comply with the Total Leverage, Secured Leverage and Interest Coverage ratios as defined in our Credit Facility, and the risks associated with Borgata's ability to comply with the minimum consolidated EBITDA and minimum liquidity covenants in its Borgata bank credit facility;

• The risk that we ultimately may not be successful in dismissing the action filed against Treasure Chest and may lose our ability to operate that property, which result could adversely affect our business, financial condition and results of operations.

• The effects of the extensive governmental gaming regulation and taxation policies that we are subject to, as well as any changes in laws and regulations, including increased taxes, which could harm our business.

• The effects of federal, state and local laws affecting our business such as the regulation of smoking, the regulation of directors, officers, key employees and partners and regulations affecting business in general.

• The effects of extreme weather conditions or natural disasters on our facilities and the geographic areas from which we draw our customers, and our ability to recover insurance proceeds (if any).

• The risks relating to mechanical failure and regulatory compliance at any of our facilities.

• The risk that the instability in the financial condition of our lenders could have a negative impact on our Credit Facility and the Borgata bank credit facility, as amended.

• The effects of events adversely impacting the economy or the regions from which we draw a significant percentage of our customers, including the effects of the current economic recession, war, terrorist or similar activity or disasters in, at, or around our properties.

• The effects of energy price increases on our cost of operations and our revenues.

•

Financial community and rating agency perceptions of us, and the effect of economic, credit and capital market conditions on the economy and the gaming and hotel industry.

- The effect of the expansion of legalized gaming in the mid-Atlantic region.
- Borgata's expected liabilities under the multiemployer pensions in which it operates.

Additional factors that could cause actual results to differ are discussed in Part II. Item 1A. Risk Factors of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and in other current and periodic reports filed from time to time with the SEC. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of March 31, 2013, there were no material changes to the information previously reported under Item 7A. in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 18, 2013.

Item 4. Controls and Procedures

As of the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on the evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II. Other Information

Item 1. Legal Proceedings

Copeland

Alvin C. Copeland, the sole shareholder (deceased) of an unsuccessful applicant for a riverboat license at the location of our Treasure Chest Casino (“Treasure Chest”), has 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 Treasure Chest. In November 1993, Copeland objected to the relocation of Treasure Chest 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 unsuccessfully 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, 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 Louisiana 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 yet been rescheduled. Mr. Copeland has since passed away and his son, the executor of his estate, has petitioned the court to be substituted as plaintiff in the case. 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, Robert J. Guidry, the co-defendant, 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, which may result in the case being remanded to state court. The U.S. District Court heard the motions on March 16, 2011. A ruling has not yet been issued. On April 1, 2011, the U.S. Attorney's Office moved for summary judgment, maintaining its jurisdictional argument as well as seeking substantive relief. On September 2, 2011, the judge issued an Order stating that the case should be remanded to state district court but allowed for additional filings by September 13, 2011. A Remand Order was issued on September 15, 2011, sending the case back to the 19th Judicial District Court, East Baton Rouge Parish, State of Louisiana. Guidry filed a motion for partial summary judgment on November 14, 2011 to limit the damages in the case. Treasure Chest joined in the motion. The hearing on the Motion for Partial Summary Judgment was held on September 10, 2012. On October 3, 2012, Judge Clark granted the motion which effectively struck Copeland's demands for lost profits, the value of the Treasure Chest license and the value of Treasure Chest's success. On October 26, 2012, Copeland filed a supervisory writ application with the First Circuit Court of Appeal asking that the partial summary judgment be reversed. Treasure Chest and Guidry opposed the writ. On February 13, 2013, the writ was denied leaving intact the partial summary judgment. Discovery is proceeding. 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 Treasure Chest's business, financial condition and results of operations.

We are also parties to various legal proceedings arising in the ordinary course of business. We believe that, except for the Copeland matter discussed above, all pending claims, if adversely decided, would not have a material adverse effect on our business, financial position or results of operations.

#### Item 1A. Risk Factors

We have revised the risk factors that relate to our business as set forth below. These risks include any material changes to and supersede the risks previously disclosed in Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012. We encourage investors to review the risks and uncertainties relating to our business disclosed in that Annual Report on Form 10-K, as well as those contained in Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Important Information Regarding Forward-Looking Statements, above.

## Table of Contents

If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities, including our common stock, senior notes and senior subordinated notes, could decline significantly, and investors could lose all or part of their investment.

### Risks Related to our Business

Our business is particularly sensitive to reductions in discretionary consumer spending as a result of downturns in the economy.

Consumer demand for entertainment and other amenities at casino hotel properties, such as ours, are particularly sensitive to downturns in the economy and the corresponding impact on discretionary spending on leisure activities. Changes in discretionary consumer spending or consumer preferences brought about by factors such as perceived or actual general economic conditions, effects of the current decline in consumer confidence in the economy, including the current housing, employment and credit crisis, the impact of high energy and food costs, the increased cost of travel, the potential for continued bank failures, decreased disposable consumer income and wealth, or fears of war and future acts of terrorism could further reduce customer demand for the amenities that we offer, thus imposing practical limits on pricing and negatively impacting our results of operations and financial condition.

For example, we have recently experienced one of the toughest economic periods in Las Vegas Locals history. The current housing crisis and economic slowdown in the United States has resulted in a significant decline in the amount of tourism and spending in Las Vegas. Similarly, weak economic conditions have also adversely affected tourism and spending in Atlantic City, where Borgata is located. Since our business model relies on consumer expenditures on entertainment, luxury and other discretionary items, continuation or deepening of the economic downturn will further adversely affect our results of operations and financial condition.

Intense competition exists in the gaming industry, and we expect competition to continue to intensify.

The gaming industry is highly competitive for both customers and employees, including those at the management level. We compete with numerous casinos and hotel casinos of varying quality and size in market areas where our properties are located. We also compete with other non-gaming resorts and vacation destinations, and with various other casino and other entertainment businesses, and could compete with any new forms of gaming that may be legalized in the future. The casino entertainment business is characterized by competitors that vary considerably in their size, quality of facilities, number of operations, brand identities, marketing and growth strategies, financial strength and capabilities, level of amenities, management talent and geographic diversity. In most markets, we compete directly with other casino facilities operating in the immediate and surrounding market areas. In some markets, we face competition from nearby markets in addition to direct competition within our market areas.

For example, the Kansas Star is located approximately 33 miles north of the Kansas/Oklahoma border and faces competition from established gaming facilities in Kansas and Oklahoma, including First Council Casino, Native Lights Casino, and Kaw Southwind Casino, which are located in Newkirk Oklahoma approximately 60 miles south of the Kansas Star, in addition to potential expansion of gaming facilities in Oklahoma. The Kansas Star may face additional competition in the Wichita, Kansas metropolitan area. The Wyandotte Nation of Oklahoma has filed an application with the U.S. Department of Interior to have certain land located in Park City, Kansas (in the Wichita metro area) taken into trust by the U.S. Government and to permit gaming. If successful, the Wyandotte Nation would be permitted to open a Class II gaming facility, and upon successful negotiation of a compact with the State of Kansas would be permitted to open a Class III gaming facility. In July 2011, the Wyandotte Nation brought suit against the Secretary of the U.S. Department of Interior to compel the Secretary to take the Park City land into trust. This litigation is ongoing.

In recent years, with fewer new markets opening for development, competition in existing markets has intensified. We have invested in expanding existing facilities, developing new facilities, and acquiring established facilities in existing markets. In addition, our competitors have also invested in expanding their existing facilities and developing new facilities. This expansion of existing casino entertainment properties, the increase in the number of properties and the

aggressive marketing strategies of many of our competitors have increased competition in many markets in which we compete, and this intense competition can be expected to continue. For example, on May 25, 2012, a new property was opened in Atlantic City which will compete with Borgata for gaming customers. In addition, competition may intensify if our competitors commit additional resources to aggressive pricing and promotional activities in order to attract customers.

If our competitors operate more successfully than we do, if they attract customers away from us as a result of aggressive pricing and promotion, if they are more successful than us in attracting and retaining employees, if their properties are enhanced or expanded, if they operate in jurisdictions that give them operating advantages due to differences or changes in gaming regulations or taxes, or if additional hotels and casinos are established in and around the locations in which we conduct business, we may lose market share or the ability to attract or retain employees. In particular, the expansion of casino gaming in or near any geographic area from which we attract or expect to attract a significant number of our customers could have a significant adverse effect on our business, financial condition and results of operations.

Table of Contents

Also, our business may be adversely impacted by the additional gaming and room capacity in states which may be competitive in the other markets where we operate or intend to operate. Several states are also considering enabling the development and operation of casinos or casino-like operations in their jurisdictions.

For example, the expansion of casino gaming in or near the mid-Atlantic region from which Borgata attracts and expects to attract most of its customers has had an adverse effect on its business, results of operations and financial condition. In January 2010, table game legislation was signed into Pennsylvania law which allows up to 250 table games at each of the twelve largest authorized casinos and up to 50 table games at each of the remaining two smaller authorized casinos. Table games became operational at the existing casinos in the Philadelphia region in mid-July 2010. In addition, other states near New Jersey, including New York and Delaware, either have or are currently contemplating gaming legislation. In January 2010, Delaware legalized table games, which became operational in June 2010 at all three Delaware casinos. Convenience may be a more important factor than amenities for some customers, especially mid-week and repeat customers. These customers may prefer the convenience of a closer drive to a nearby casino rather than dealing with a longer drive to enjoy the amenities that Borgata has to offer. Expansion of gaming facilities in Pennsylvania and other nearby states therefore has resulted in fewer customer visits to Borgata, which has adversely impacted Borgata's business, results of operations and financial condition.

In addition, we compete with legalized gaming from casinos located on Native American tribal lands. Expansion of Native American gaming in areas located near our properties, or in areas in or near those from which we draw our customers, could have an adverse effect on our operating results. For example, increased competition from federally recognized Native American tribes near Blue Chip and Sam's Town Shreveport has had a negative impact on our results. Native American gaming facilities typically have a significant operating advantage over our properties due to lower gaming taxes, allowing those facilities to market more aggressively and to expand or update their facilities at an accelerated rate. Although we have expanded our facility at Blue Chip in an effort to be more competitive in this market, competing Native American properties could continue to have an adverse impact on the operations of both Blue Chip and Sam's Town Shreveport.

We also compete to some extent with other forms of gaming on both a local and national level, including state-sponsored lotteries, charitable gaming, on-and off-track wagering, Internet gaming, and other forms of entertainment, including motion pictures, sporting events and other recreational activities. It is possible that these secondary competitors could reduce the number of visitors to our facilities or the amount they are willing to wager, which could have a material adverse effect on our ability to generate revenue or maintain our profitability and cash flows.

Increased competition may require us to make substantial capital expenditures to maintain and enhance the competitive positions of our properties, including updating slot machines to reflect changing technology, refurbishing public service areas periodically, replacing obsolete equipment on an ongoing basis and making other expenditures to increase the attractiveness and add to the appeal of our facilities. Because we are highly leveraged, after satisfying our obligations under our outstanding indebtedness, there can be no assurance that we will have sufficient funds to undertake these expenditures or that we will be able to obtain sufficient financing to fund such expenditures. If we are unable to make such expenditures, our competitive position could be materially adversely affected.

The global financial crisis and decline in consumer spending may have an effect on our business and financial condition in ways that we currently cannot accurately predict.

The significant economic distress affecting financial institutions has had, and may continue to have, far-reaching adverse consequences across many industries, including the gaming industry. Volatility in the financial markets and the weakened global economy, together with the recent downgrade of the United States credit rating and ongoing European debt crisis, has contributed to the current uncertain economic climate. The ongoing credit and liquidity crisis has greatly restricted the availability of capital and has caused the cost of capital (if available) to be much higher than it has traditionally been. Therefore, we have no assurance that we will have further access to credit or capital markets at desirable times or at rates that we would consider acceptable, and the lack of such funding could have a material adverse effect on our business, results of operations and financial condition, including our ability to refinance our or Borgata's indebtedness, our flexibility to react to changing economic and business conditions and our ability or

willingness to fund new development projects.

We are not able to predict the duration or severity of economic downturns or the resulting impact on the solvency or liquidity of our lenders. If a large percentage of our lenders were to file for bankruptcy or otherwise default on their obligations to us, we may not have the liquidity under our Credit Facility to fund our current projects. There is no certainty that our lenders will continue to remain solvent or fund their respective obligations under our Credit Facility. If we were otherwise required to renegotiate or replace our Credit Facility, there is no assurance that we would be able to secure terms that are as favorable to us, if at all.

71

---

## Table of Contents

We may incur impairments to goodwill, indefinite-lived intangible assets, or long-lived assets.

In accordance with the authoritative accounting guidance for goodwill and other intangible assets, we test our goodwill and indefinite-lived intangible assets for impairment annually or if a triggering event occurs. During the fourth quarter of 2012, we changed the date of our annual goodwill and indefinite-lived intangible assets impairment test dates to October 1. Prior to the fourth quarter of 2012, we performed annual impairment tests on our goodwill on April 1 and October 1. The change in the impairment test dates for all reporting units to October 1 did not delay, accelerate or avoid an impairment charge, as the January 1 and April 1 tests were performed on their respective test dates during 2012, and did not result in any impairment. Management believes that the new impairment test date is preferable because it is more closely aligned with our annual financial planning process. These financial plans are a key component utilized in the annual impairment testing process. The change in the impairment test dates constitutes a change in accounting principle under ASC 250, "Accounting for Changes and Error Corrections," and had no impact on our consolidated balance sheet, statement of operations or cash flows. We determined it was impracticable to objectively determine projected cash flows and related valuation estimates that would have been used as of each October 1 for periods prior to October 1, 2012 without the use of hindsight. As such, we have prospectively applied the change in annual goodwill and indefinite-lived impairment testing date from October 1, 2012.

### Echelon

On August 1, 2008, we announced the delay of our multibillion dollar Echelon development project on the Las Vegas Strip. At that time, we did not anticipate the long-term effects of the current economic downturn, evidenced by lower occupancy rates, declining room rates and reduced consumer spending across the country, but particularly in the Las Vegas geographical area, nor did we predict the incremental amount of additional supply into the market.

In December 2012, we reconsidered our commitment to complete the Echelon project and concluded that we would not resume development. Based on the exploration of the viability of alternatives for the project, in the three months ended December 31, 2012, we recorded a non-cash impairment charge of approximately \$993.9 million related to the Echelon development and \$39.4 million related to various parcels of undeveloped land based on the difference between the book value of the assets and the estimated realizable value of the assets. On March 4, 2013, we sold the Echelon site and related improvements on the site and received net proceeds of \$157.0 million.

### Sam's Town Shreveport

During the year ended December 31, 2012, we also recorded a non-cash impairment charge of \$17.5 million to the Sam's Town Shreveport gaming license in connection with the annual impairment test. During the year ended December 31, 2012, this property's operating results were less than expected due to weaker than anticipated discretionary consumer spending and increased competition.

### Borgata Trademark

During the three months ended March 31, 2011, we performed an interim impairment test on the trademark we recorded in connection with the valuation of Borgata due to our consideration of a change in facts and circumstances surrounding an adverse change in the business climate in the Atlantic City region. As a result, we recorded a \$5.0 million impairment to the trademark. The impairment test was performed due to our consideration of certain facts and circumstances surrounding an adverse change in the business climate in Atlantic City. We believe our actual results have been adversely impacted by increased regional competition, and that in addition, Borgata's projected future results could be further negatively impacted by a new property that formally opened in Atlantic City, on May 25, 2012. We also believe the refinancing of Borgata's debt and recapitalization of its member equity contributed to the results of this impairment test.

### Dania

During the year ended December 31, 2009, in conjunction with an amendment to the Original Dania Agreement to settle the contingent payment prior to the satisfaction of the legal conditions, we recorded the remaining \$28.4 million

of the \$75 million contingent liability as an additional cost of the acquisition (by increasing goodwill). We tested the goodwill for recoverability, which resulted in a non-cash impairment charge of \$28.4 million during the year ended December 31, 2009.

If our estimates of projected cash flows related to our assets are not achieved, we may be subject to a future impairment charge, which could have a material adverse impact on our consolidated financial statements.

Our partner in the Holding Company, the limited liability company that owns and operates Borgata Hotel Casino and Spa in Atlantic City, New Jersey, has divested its 50% interest and we do not have the ability to select the new partner.

We own a 50% controlling interest in the limited liability company that operates Borgata. MGM currently beneficially owns the other 50% interest. As a result of the New Jersey Department of Gaming Enforcement's (the "NJDE") investigation of MGM's relationship with its joint venture partner in Macau, MGM entered into a settlement agreement with the NJDE and the New Jersey Casino Control Commission (the "NJCCC") under which MGM placed its 50% ownership interest in Borgata (the "MGM

Table of Contents

Interest") into a divestiture trust (the "Divestiture Trust"), which was established for the purpose of selling the MGM Interest to a third party. On February 20, 2013, MGM announced that it had entered into an amendment with the NJDGE, effective February 13, 2013, pursuant to which MGM was allowed to reapply to the New Jersey Casino Control Commission for licensure in New Jersey with the deadline to sell the MGM Interest deferred pending the outcome of the licensure process.

We are the managing member of the limited liability company that operates Borgata, and have been, and will continue to be responsible for the day-to-day operations of Borgata, including the operations and improvement of the facility and business. Additionally, we hold a right of first refusal on any sale of the MGM Interest in Borgata. However, if MGM's efforts to be relicensed in New Jersey fail and they are forced to sell the MGM Interest, we believe we will need to expend managerial resources to effectuate the eventual sale of the MGM Interest from the Divestiture Trust to a new partner, regardless of whether we exercise our right of first refusal. Other than exercising our right of first refusal, we generally do not have the ability to affect the selection of the potential new partner at Borgata.

While we believe we will retain direct control of the operations of Borgata, based on our current operating agreement, a new partner may want to negotiate greater rights or different terms. If we agree to consider changes to the operating agreement, these negotiations may decrease our ability to directly control the facility and effectively manage our financial risk. Any new partner could have economic or business interests or goals that are inconsistent with our economic or business interests or goals. The ongoing operation of the facility could change if we agree to negotiate agreements with a new partner that contain terms that differ from our existing operating agreement.

In addition, the Borgata bank credit facility, as amended, matures in August 2014. At the time of maturity, if Borgata is unable to refinance its bank credit facility on favorable terms, additional credit support and/or capital contributions in the form of equity may be necessary to fund the ongoing operations of Borgata. This additional credit and/or equity may need to be contributed by us or a new partner, if any, or from both. If we are unable to obtain adequate financing in a timely manner, or at all, we may be unable to meet the operating cash flow needs of Borgata, and our investment would be at risk. Moreover, if any new partner does not have the financial resources to meet its share of the obligations, or subsequently declares bankruptcy, we could be required to fund more than our 50% share.

We face risks associated with growth and acquisitions.

As part of our business strategy, we regularly evaluate opportunities for growth through development of gaming operations in existing or new markets, through acquiring other gaming entertainment facilities or through redeveloping our existing gaming facilities. For example, in November 2012, we completed the Peninsula Acquisition, and in October 2011, we completed the acquisition of IP. In January 2009, we completed the hotel construction project at Blue Chip. We may also pursue expansion opportunities, including joint ventures, in jurisdictions where casino gaming is not currently permitted in order to be prepared to develop projects upon approval of casino gaming. The expansion of our operations, whether through acquisitions, development or internal growth, could divert management's attention and could also cause us to incur substantial costs, including legal, professional and consulting fees. There can be no assurance that we will be able to identify, acquire, develop or profitably manage additional companies or operations or successfully integrate such companies or operations into our existing operations without substantial costs, delays or other problems. Additionally, there can be no assurance that we will receive gaming or other necessary licenses or approvals for our new projects or that gaming will be approved in jurisdictions where it is not currently approved.

Ballot measures or other voter-approved initiatives to allow gaming in jurisdictions where gaming, or certain types of gaming (such as slots), was not previously permitted could be challenged, and, if such challenges are successful, these ballot measures or initiatives could be invalidated. Furthermore, there can be no assurance that there will not be similar or other challenges to legalized gaming in existing or current markets in which we may operate or have development plans, and successful challenges to legalized gaming could require us to abandon or substantially curtail our operations or development plans in those locations, which could have a material adverse effect on our financial condition and results of operations.

There can be no assurance that we will not face similar challenges and difficulties with respect to new development projects or expansion efforts that we may undertake, which could result in significant sunk costs that we may not be



able to fully recoup or that otherwise have a material adverse effect on our financial condition and results of operations.

Our expansion and development opportunities, including the development costs associated with the Kansas Star facility, may face significant risks inherent in construction projects.

We regularly evaluate expansion, development, investment and renovation opportunities. For example, we are undergoing further development of the Kansas Star facility, which entails significant risks.

## Table of Contents

This project and any other development projects we may undertake will be subject to many other risks inherent in the expansion or renovation of an existing enterprise or construction of a new enterprise, including unanticipated design, construction, regulatory, environmental and operating problems and lack of demand for our projects. Our current and future projects could also experience:

- changes to plans and specifications (including changes for the Kansas Star construction facility, some of which may require the approval of the Kansas Lottery Commission);
- delays and significant cost increases;
- shortages of materials;
- shortages of skilled labor or work stoppages for contractors and subcontractors;
- labor disputes or work stoppages;
- disputes with and defaults by contractors and subcontractors;
- health and safety incidents and site accidents;
- engineering problems, including defective plans and specifications;
- poor performance or nonperformance by any of our joint venture partners or other third parties on whom we place reliance;
- changes in laws and regulations, or in the interpretation and enforcement of laws and regulations, applicable to gaming facilities, real estate development or construction projects, including by the Kansas Racing and Gaming Commission;
- unforeseen construction scheduling, engineering, environmental, permitting, construction or geological problems;
- environmental issues, including the discovery of unknown environmental contamination;
- weather interference, floods, fires or other casualty losses;
- other unanticipated circumstances or cost increases; and
- failure to obtain necessary licenses, permits, entitlements or other governmental approvals.

The occurrence of any of these development and construction risks could increase the total costs of our construction projects, including the Kansas Star facility, or delay or prevent the construction or opening or otherwise affect the design and features of our construction projects, such as the Kansas Star facility, which could materially adversely affect our plan of operations, financial condition and ability to satisfy our debt obligations.

We have entered into a fixed-price, or guaranteed maximum price, contract with a construction manager for the construction of the first phase of the Kansas Star facility, however there is no guarantee we will be able to do so with respect to construction of the final phase of the development. As a result, we may be required to rely heavily on our in-house development and construction team to manage construction costs and coordinate the work of the various trade contractors. The lack of any fixed-price contract with a construction manager or general contractor for construction of the final phase would put more of the risk of cost-overruns on us. If we are unable to manage costs or we are unable to raise additional capital required to complete the Kansas Star facility, we may not be able to complete the project, which may have an adverse impact on our business and prospects for growth.

In addition, actual costs and construction periods for any of our projects can differ significantly from initial expectations. Our initial project costs and construction periods are based upon budgets, conceptual design documents and construction schedule estimates prepared at inception of the project in consultation with architects and contractors. Many of these costs can increase over time as the project is built to completion. We can provide no assurance that any project will be completed on time, if at all, or within established budgets, or that any project will result in increased earnings to us. Significant delays, cost overruns, or failures of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

The failure to obtain necessary government approvals in a timely manner, or at all, can adversely impact our various expansion, development, investment and renovation projects.

Certain permits, licenses and approvals necessary for some of our current or anticipated projects have not yet been obtained. The scope of the approvals required for expansion, development, investment or renovation projects can be extensive and may include gaming approvals, state and local land-use permits and building and zoning permits. Unexpected changes or concessions required by local, state or federal regulatory authorities could involve significant additional costs and delay the scheduled openings of the facilities. We may not obtain the necessary permits, licenses and approvals within the anticipated time frames, or at all.

In addition, although we design our projects to minimize disruption of our existing business operations, expansion and renovation projects require, from time to time, all or portions of affected existing operations to be closed or disrupted. Any significant disruption in operations of a property could have a significant adverse effect on our business, financial condition and results of operations.

The development costs of the Kansas Star facility are estimates only, and actual development costs may be higher than expected.

We have developed our budgets based on our plans, which are subject to change. We expect the total development cost of the

## Table of Contents

Kansas Star facility to be approximately \$329 million, including the privilege fee, construction costs, land acquisition costs, development costs relating to a hotel which is being developed by a third party, costs of furniture, fixtures and equipment, pre-opening expenses, initial cage cash, and other development costs. While we believe that the overall budget for the development costs for the Kansas Star facility is reasonable, these development costs are only estimates and the actual development costs may be significantly higher than expected. Unforeseen or unexpected difficulties or delays during construction may also adversely impact the Kansas Star facility's budget. Our inability to pay development costs as they are incurred will negatively affect our ability to complete the Kansas Star facility on time.

Our Lottery Gaming Facility Management Contract with the State of Kansas contractually obligates us to open certain phases of our project by certain specified dates. For example, with certain exceptions, our permanent gaming facility must be completed by January 14, 2013, and our entire construction project (as set forth in the Management Contract) must be completed no later than January 14, 2015. If we fail to meet these future completion dates, we would be in breach of the Management Contract. If we breach our Management Contract, the State of Kansas has certain remedies, up to and including cancellation of our contract, which if it occurred, would cause a material adverse impact with respect to our business, results of operations, cash flows and financial condition.

If we are unable to finance our expansion, development, investment and renovation projects, as well as other capital expenditures, through cash flow from operations, borrowings under our Credit Facility and additional financings, our expansion, development, investment and renovation efforts will be jeopardized.

We intend to finance our current and future expansion, development, investment and renovation projects, as well as our other capital expenditures, primarily with cash flow from operations, borrowings under our Credit Facility, and equity or debt financings. If we are unable to finance our current or future expansion, development, investment and renovation projects, or our other capital expenditures, we will have to adopt one or more alternatives, such as reducing, delaying or abandoning planned expansion, development, investment and renovation projects as well as other capital expenditures, selling assets, restructuring debt, forgoing any future distribution of dividends, obtaining additional equity financing or joint venture partners, or modifying our Credit Facility. These sources of funds may not be sufficient to finance our expansion, development, investment and renovation projects, and other financing may not be available on acceptable terms, in a timely manner, or at all. In addition, our existing indebtedness contains certain restrictions on our ability to incur additional indebtedness.

In the past few years there have been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital. We anticipate that these disruptions may continue for the foreseeable future. We anticipate that funding for any of our expansion projects would come from cash flows from operations and availability under our Credit Facility (to the extent that availability exists under our Credit Facility, as applicable, after we meet our working capital needs).

If availability under our Credit Facility does not exist or we are otherwise unable to make sufficient borrowings thereunder, any additional financing that is needed may not be available to us or, if available, may not be on terms favorable to us. As a result, if we are unable to obtain adequate project financing in a timely manner, or at all, we may be forced to sell assets in order to raise capital for projects, limit the scope of, or defer such projects, or cancel the projects altogether. In the event that capital markets do not improve and we are unable to access capital with more favorable terms, additional equity and/or credit support may be necessary to obtain construction financing for the remaining cost of the project.

## Risks Related to the Regulation of our Industry

We are subject to extensive governmental regulation, as well as federal, state and local laws affecting business in general, which may harm our business.

The ownership, management and operation of our gaming facilities are subject to extensive laws, regulations and ordinances which are administered by the Nevada Gaming Commission and Gaming Control Board, Mississippi Gaming Commission, Indiana Gaming Commission, Illinois Gaming Board, New Jersey Casino Control Commission, Iowa Racing and Gaming Commission, the Kansas Lottery Commission, the Kansas Racing and Gaming

Commission, the Louisiana State Gaming Control Board, the Louisiana State Racing Commission and various other federal, state and local government entities and agencies. We are subject to regulations that apply specifically to the gaming industry and horse racetracks and casinos, in addition to regulations applicable to businesses generally. A more detailed description of the governmental gaming regulations to which we are subject has been filed as Exhibit 99.3 to the Registration Statement on Form S-4 (File No. 333- 187468), which was declared effective on April 23, 2013. 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 are 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 our company.

## Table of Contents

To date, we have obtained all governmental licenses, findings of suitability, registrations, permits and approvals necessary for the operation of our properties. However, we can give no assurance that any additional licenses, permits and approvals that may be required will be given or that existing ones will be renewed or will not be revoked. Renewal is subject to, among other things, continued satisfaction of suitability requirements. Any failure to renew or maintain our licenses or to receive new licenses when necessary would have a material adverse effect on us.

### Gambling

Legislative or administrative changes in applicable legal requirements, including legislation to prohibit casino gaming, have been proposed in the past. For example, in 1996, the State of Louisiana adopted a statute in connection with which votes were held locally where gaming operations were conducted and which, had the continuation of gaming been rejected by the voters, might have resulted in the termination of operations at the end of their current license terms. During the 1996 local gaming referendums, Lafayette Parish voted to disallow gaming in the Parish, whereas St. Landry Parish, the site of our racino, voted in favor of gaming. All parishes where riverboat gaming operations are currently conducted voted to continue riverboat gaming, but there can be no guarantee that similar referenda might not produce unfavorable results in the future. Proposals to amend or supplement the Louisiana Riverboat Economic Development and Gaming Control Act and the Pari-Mutuel Act also are frequently introduced in the Louisiana State legislature. In the 2001 session, a representative from Orleans Parish introduced a proposal to repeal the authority of horse racetracks in Calasieu Parish (the site of Delta Downs) and St. Landry Parish (the site of our racino) to conduct slot machine gaming at such horse racetracks and to repeal the special taxing districts created for such purposes. If adopted, this proposal would have effectively prohibited us from operating the casino portion of our racino. In addition, the Louisiana legislature, from time to time, considers proposals to repeal the Pari-Mutuel Act.

The legislation permitting gaming in Iowa authorizes the granting of licenses to “qualified sponsoring organizations.” Such “qualified sponsoring organizations” may operate the gambling structure itself, subject to satisfying necessary licensing requirements, or it may enter into an agreement with an operator to operate gambling on its behalf. An operator must be approved and licensed by the Iowa Racing and Gaming Commission. The DRA, a not-for-profit corporation organized for the purpose of operating a pari-mutuel greyhound racing facility in Dubuque, Iowa, first received a riverboat gaming license in 1990 and, pursuant to the Amended DRA Operating Agreement, has served as the “qualified sponsoring organization” of the Diamond Jo since March 18, 1993. The term of the Amended DRA Operating Agreement expires on December 31, 2018. The WCDA, pursuant to the WCDA Operating Agreement, serves as the “qualified sponsoring organization” of Diamond Jo Worth. The term of the WCDA Operating Agreement expires on March 31, 2015, and is subject to automatic three-year renewal periods. If the Amended DRA Operating Agreement or WCDA Operating Agreement were to terminate, or if the DRA or WCDA were to otherwise discontinue acting as our “qualified sponsoring organization” with respect to our operation of the Diamond Jo or Diamond Jo Worth, respectively, and we were unable to obtain approval from the Iowa Racing and Gaming Commission to partner with an alternative “qualified sponsoring organization” as required by our gaming license, we would no longer be able to continue our Diamond Jo or Diamond Jo Worth operations, which would materially and adversely affect our business, results of operations and cash flows.

### Regulation of smoking

Each of New Jersey and Illinois has adopted laws that significantly restrict, or otherwise ban, smoking at our properties in those jurisdictions. The New Jersey and Illinois laws that restrict smoking at casinos, and similar legislation in other jurisdictions in which we operate, could materially impact the results of operations of our properties in those jurisdictions.

On April 15, 2007, an ordinance in Atlantic City became effective which extended smoking restrictions under the New Jersey Smoke-Free Air Act. This ordinance mandated that casinos restrict smoking to designated areas of up to 25% of the casino floor. During April 2008, Atlantic City's City Council unanimously approved an amendment to the ordinance, banning smoking entirely on all casino gaming floors and casino simulcasting areas, but allowing smoking in separately exhausted, non-gaming, smoking lounges. The amendment to the ordinance became effective on October 15, 2008, however, on October 27, 2008, Atlantic City's City Council voted to postpone the full smoking ban for at

least one year due to, among other things, the weakened economy and increased competition in adjoining states. The postponement of the full smoking ban became effective on November 16, 2008. In December 2009, Atlantic City's City Council announced that it would not consider a full smoking ban in casinos pending further review.

Additionally, on July 1, 2012, a state statute in Indiana will become effective that imposes a state wide smoking ban in specified businesses, buildings, public places and other articulated locations. The statute specifically exempts riverboat casinos, and all other gaming facilities in Indiana, from the smoking ban. However, the statute allows local government to enact a more restrictive smoking ban than the state statute and also leaves in place any more restrictive local legislation that exists as of the effective date of the statute. To date, neither Michigan City nor LaPorte County, where Blue Chip is located, have enacted any ordinance or other law which would impose a smoking ban on Blue Chip.

## Table of Contents

### Regulation of directors, officers, key employees and partners

Our directors, officers, key employees and joint venture partners must meet approval standards of certain state regulatory authorities. If state regulatory authorities were to find a person occupying any such position or a joint venture partner unsuitable, we would be required to sever our relationship with that person or the joint venture partner may be required to dispose of their interest. State regulatory agencies may conduct investigations into the conduct or associations of our directors, officers, key employees or joint venture partners to ensure compliance with applicable standards.

Certain public and private issuances of securities and other transactions that we are party to also require the approval of some state regulatory authorities.

### Live racing regulations

Louisiana gaming regulations and our gaming license for the Evangeline Downs require that we, among other things, conduct a minimum of 80 live racing days in a consecutive 20-week period each year of live horse race meetings at the horse racetrack. Live racing days typically vary in number from year to year and are based on a number of factors, many of which are beyond our control, including the number of suitable race horses and the occurrence of severe weather. If we fail to have the minimum number of racing days, our gaming license with respect to the racino may be canceled, and the casino will be required to cease operations. Any cessation of our operation would have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

### Regulations affecting businesses in general

In addition to gaming regulations, we are also subject to various federal, state and local laws and regulations affecting businesses in general. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, smoking, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. For example, Nevada recently enacted legislation that eliminated, in most instances, and, for certain pre-existing development projects, reduced, property tax breaks and retroactively eliminated certain sales tax exemptions offered as incentives to companies developing projects that meet certain environmental "green" standards. As a result, we, along with other companies developing projects that meet such standards, may not realize the full tax benefits that were originally anticipated.

We are subject to extensive taxation policies, which may harm our business.

The federal government has, from time to time, considered a federal tax on casino revenues and may consider such a tax in the future. If such an increase were to be enacted, our ability to incur additional indebtedness in the future to finance casino development projects could be materially and adversely affected. 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. For example, in June 2006, the Illinois legislature passed certain amendments to the Riverboat Gambling Act, which affected the tax rate at Par-A-Dice. The legislation, which imposes an incremental 5% tax on adjusted gross gaming revenues, was retroactive to July 1, 2005. As a result of this legislation, we were required to pay additional taxes, resulting in a \$6.7 million tax assessment in June 2006.

We are subject to significant taxes and fees relating to our gaming operations, which are subject to increase at any time. Currently, in Iowa, we are taxed at an effective rate of approximately 21% of our adjusted gross receipts by the State of Iowa, we pay the city of Dubuque a fee equal to \$500,000 per year and we pay a fee equal to 4.5% and 5.76% of adjusted gross receipts to the DRA and WCDA, respectively. In addition, all Iowa gaming licensees share equally in costs of the Iowa Racing and Gaming Commission and related entities to administer gaming in Iowa, which is currently approximately \$0.9 million per year per facility. Currently, at Evangeline Downs, we are taxed at an effective rate of approximately 36.5% of our adjusted gross slot revenue and pay to the Louisiana State Racing Commission a fee of \$0.25 for each patron who enters the racino on live race days from the hours of 6:00 pm to midnight, enters the racino during non-racing season from the hours of noon to midnight Thursday through Monday, or enters any one of our OTBs. Our Amelia Belle riverboat casino in Louisiana pays an annual state gaming tax rate of



21.5% of adjusted gross receipts. Additionally, ABC has an agreement with the Parish of St. Mary to permit the berthing of the riverboat casino in Amelia, Louisiana. That agreement provides for percentage fees based on the level of net gaming revenue as follows: the first \$60 million, 2.5%; \$60 to \$96 million, 3.5%; and greater than \$96 million, 5.0%. The annual minimum fee due under the agreement is \$1.5 million. The Kansas Star, pursuant to its Management Contract with the State of Kansas pays total taxes of between 27% and 31% of gross gaming revenue, based on achievement of the following revenue levels: 27% on gross gaming revenue up to \$180 million, 29% on amounts from \$180 million to \$220 million, and 31% on amounts above \$220 million in gross gaming revenue. KSC is also contractually obligated to pay its proportionate share of certain expenses incurred by the Kansas Lottery Commission and the Kansas Racing and Gaming Commission, which are estimated to be approximately \$3.9 million on an annual basis.

Table of Contents

## Nevada Use Tax Refund Claims

On March 27, 2008, the Nevada Supreme Court issued a decision in Sparks Nugget, Inc. vs. The State of Nevada Department of Taxation (the "Department"), holding that food purchased for subsequent use in the provision of complimentary and/or employee meals was exempt from use tax. As a result of this decision, refund claims were filed for use taxes paid, over the period November 2000 through May 2008, on food purchased for subsequent use in complimentary and employee meals at our Nevada casino properties. We estimate the refund to be in the range of \$17.9 million to \$21.4 million, including interest. In 2009, the Department audited and denied our refund claim while simultaneously issuing a \$12.3 million sales tax deficiency assessment, plus interest of \$7.5 million. We appealed both the denial of the refund claim as well as the deficiency assessment in a hearing before the Nevada Administrative Law Judge ("ALJ") in September 2010. In April 2011, the judge issued a split decision, granting a refund on employee meals and applying a sales tax measure on complimentary meals; however, the ruling barred retroactive application of the sales tax measure to all years in the refund claim period, effectively overturning the Department's 2009 deficiency assessment. Both we and the Department appealed the decision to the Nevada State Tax Commission (the "Commission"). On August 8, 2011, the Commission remanded the case back for a second administrative hearing, which was held on September 26, 2011, to allow for the introduction of additional supporting documentation. The ALJ issued a decision on November 8, 2011, reversing her position on the employee meal refund claim while also affirming the denial of the complimentary meal refund, as well as the denial of a retroactive application of the sales tax measure to both employee and complimentary meals. The ALJ's decision was affirmed in a Commission hearing on January 23, 2012. On February 15, 2012 we filed a petition for judicial review in Clark County District Court. We received a split decision at our District Court hearing on October 17, 2012. The District Court Judge (the "Judge") affirmed the ALJ decision that sales tax was applicable to complimentary meals and reversed the decision on employee meals, concluding that such meals were exempt from sales tax. The Department has asserted that, although the statute of limitations prohibits their ability to collect incremental sales tax on complimentary meals, the statutes provide for an offset of the incremental sales tax against refunds due on employee meals. As such, the Department believes that it is not required to pay the employee meal refunds. The Judge did not issue a decision with respect to the refund claim offset. We are appealing the decision on complimentary meals to the Nevada State Supreme Court and the Department has appealed the decision on employee meals. The State Supreme Court has suspended our briefing schedule, pending a decision to either accept the appeal or remand the case back to District Court for a remedy on the offset issue. Due to the uncertainty surrounding the ultimate resolution of our appeal to the State Supreme Court, we will not record any gain until a final, non-appealable decision has been rendered.

On February 14, 2012, the Department issued a policy directive, requesting that affected taxpayers begin collecting and remitting sales tax on complimentary and employee meals. In late March 2012, we petitioned the Commission, along with other affected parties, to repeal or suspend the policy directives subject to promulgation in accordance with the appropriate statutory requirements. The Department responded by issuing a draft regulation and the Commission approved the draft regulation on June 25, 2012; however, as required under Nevada Revised Statutes, such regulation must be approved by a legislative commission before its enactment. The legislative commission has not yet taken any action with respect to the regulation and it is uncertain when such action will occur. The Department revised its policy directive on July 6, 2012, providing for a deferral on the remittance of the purported tax due until the occurrence of a defined future event, as well as the removal of the imposition of all penalties and interest on such tax. Although the Department is deferring remittance of the tax, it believes the liability for sales tax begins to accrue as of February 15, 2012. We have not collected, remitted or accrued a liability for sales tax on complimentary and employee meals at our Nevada casino properties, for periods subsequent to February 15, 2012, as we do not believe it is probable, based on procedural issues with the enforcement of the proposed regulation and the technical merits of the Department's arguments, that we owe this tax. Although not probable, it is reasonably possible that the opinion of the court may differ from our interpretation of the procedural and legal issues noted above. In the event we were to receive an adverse decision on the issues deemed to be reasonably possible, we estimate that the resulting tax assessment on complimentary meals could range between \$0.8 million and \$3.5 million, as of March 31, 2013.

## Blue Chip Property Taxes

Blue Chip received a property tax assessment for its 2010 tax year in January 2013 but has not received valuation notices or final tax rates for the years 2011 through 2013. The 2010 tax assessment increased the taxable property value approximately 46% over the settlement valuation agreed to in Blue Chip's 2009 appeal. We have made the minimum required payment against provisional bills received for the tax years 2010 through 2013, all of which were based on our 2006 appeal valuation. We have appealed the 2010 tax assessment and believe the assessments for the period from January 1, 2010 through March 31, 2013 could result in a total property tax obligation, net of previous payments, ranging between \$4.5 million and \$15.5 million. We have accrued, net of the payment of the minimum requirements discussed above, approximately \$15.5 million for this property tax liability as of March 31, 2013, based on what we believe to be the most likely outcome within our range, once all valuations have been received and all tax rates have been finalized; however, we can provide no assurances that the estimated amount accrued will approximate the actual amount assessed. The final tax assessment notices for the period January 1, 2011 through March 31, 2013, which have not been received as of March 31, 2013, could result in further adjustment to our estimated property tax liability at Blue Chip.

## Table of Contents

### New Jersey Income Taxes

Atlantic City casinos, including Borgata, currently pay a 9.25% effective tax rate on gross gaming revenues. We also pay property taxes, sales and use taxes, payroll taxes, franchise taxes, room taxes, parking fees, various license fees, investigative fees and our proportionate share of regulatory costs. Our profitability depends on generating enough revenues to pay gaming taxes and other largely variable expenses, such as payroll and marketing, as well as largely fixed expenses, such as property taxes and interest expense. Borgata is treated as a partnership for federal income tax purposes and therefore federal income taxes are the responsibility of its members. Casino partnerships in New Jersey, however, are subject to state income taxes under the Casino Control Act. Therefore, Borgata is required to record New Jersey state income taxes. We cannot assure you that the State of New Jersey will not enact legislation that increases gaming tax rates.

### Increase in Taxation

If there is any material increase in state and local taxes and fees, our business, financial condition and results of operations could be adversely affected.

We own real property and are subject to extensive environmental regulation, which creates uncertainty regarding future environmental expenditures and liabilities, and could affect our ability to develop, sell or rent our property or to borrow money where such property is required to be used as collateral.

We are subject to various federal, state and local environmental laws, ordinances and regulations, including those governing discharges to air and water, the generation, handling, management and disposal of petroleum products or hazardous substances or wastes, and the health and safety of our employees. Permits may be required for our operations and these permits are subject to renewal, modification and, in some cases, revocation. In addition, under environmental laws, ordinances or regulations, a current or previous owner or operator of property may be liable for the costs of investigation and removal or remediation of some kinds of hazardous substances or petroleum products on, under, or in its property, without regard to whether the owner or operator knew of, or caused, the presence of the contaminants, and regardless of whether the practices that resulted in the contamination were legal at the time they occurred. Additionally, as an owner or operator, we could also be held responsible to a governmental entity or third parties for property damage, personal injury and investigation and cleanup costs incurred by them in connection with any contamination. The liability under those laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of the responsibility. The costs of investigation, remediation or removal of those substances may be substantial, and the presence of those substances, or the failure to remediate a property properly, may impair our ability to use our property.

In addition, as part of our business in Worth County, Iowa, we operate a gas station, which includes a number of underground storage tanks containing petroleum products. The presence of, or failure to remediate properly, the substances may adversely affect the ability to sell or rent the property or to borrow funds using the property as collateral. Additionally, the owner of a site may be subject to claims by third parties based on damages and costs resulting from environmental contamination emanating from a site.

We have reviewed environmental assessments, in some cases including soil and groundwater testing, relating to our currently owned and leased properties in Dubuque, Iowa, and other properties we may lease from the City of Dubuque or other parties. As a result, we have become aware that there is contamination present on some of these properties apparently due to past industrial activities. Additionally, the location of the Kansas Star is the site of several non-operational oil wells, the remediation of which has been addressed in connection with the construction of the development project. With respect to parcels we currently own or lease, we believe, based on the types and amount of contamination identified, the anticipated uses of the properties and the potential that the contamination, in some cases, may have migrated onto our properties from nearby properties, that any cost to clean up these properties will not result in a material adverse effect on our earnings and cash flows. We have also reviewed environmental assessments and are not aware of any environmental liabilities related to our properties at Evangeline Downs, Diamond Jo Worth and Amelia Belle Casino.

We do not anticipate any material adverse effect on our earnings, cash flows or competitive position relating to existing environmental matters, but it is possible that future developments could lead to material costs of environmental compliance for us and that these costs could have a material adverse effect on our business and financial condition, operating results and cash flows.

Borgata is a participant in a multiemployer pension plan, and the plan has been certified in critical status by the fund's actuary.

In connection with Borgata's collective bargaining agreement with the culinary and hotel workers union, Local 54/UNITE HERE, it participates in the UNITE HERE National Retirement Fund pension plan (the "Fund"). On March 31, 2010, as a result of the extraordinary decline in the financial markets and downturn in the economy, the Fund was certified in critical status by the Fund's actuary under the federal multiemployer plan funding laws pursuant to the Pension Protection Act of 2006 (the "PPA"). In connection with the certification, the Fund's board of trustees has adopted a rehabilitation plan effective on April 1, 2010 (the "Rehabilitation Plan") with the goal of enabling the Fund to emerge from critical status by January 1, 2023. The Rehabilitation

## Table of Contents

Plan provides for certain increases in employer contributions and, in some cases, a reduction in participant benefits. On May 28, 2010, Borgata agreed upon a schedule with Local 54/UNITE HERE pursuant to which it began making increased monthly contributions to the Fund effective October 1, 2011.

A renewed economic decline could have a significant adverse effect on the financial condition of the Fund, which may require Borgata to make contributions in addition to those already contemplated. Any such increases in required contributions could adversely affect Borgata's results of operations.

Additionally, in connection with Borgata's collective bargaining agreements with the Local 68 Engineers Union Pension Plan and the NJ Carpenters Pension Fund, it participates in other multiemployer pension plans that have been certified in critical status under the federal multiemployer plan funding laws pursuant to the PPA. The boards of trustees of these plans have adopted rehabilitation plans and Borgata is currently in discussions with the boards regarding its level of participation in the rehabilitation plans. The impact of the rehabilitation plans is not expected to have a material adverse effect on Borgata's financial condition, results of operations or cash flows.

Under applicable federal law, any employer contributing to a multiemployer pension plan that completely ceases participating in the plan while it is underfunded is subject to payment of such employer's assessed share of the aggregate unfunded vested benefits of the plan. In certain circumstances, an employer can also be assessed withdrawal liability for a partial withdrawal from a multiemployer pension plan. The exact amount of potential exposure could be higher or lower than the estimate, depending on, among other things, the nature and timing of any triggering events and the funded status of the Fund, or other funds to which it contributes, at that time.

## Risks Related to our Properties

We own facilities that are located in areas that experience extreme weather conditions. Extreme weather conditions may interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected areas.

For example, due to flooding of the Mississippi River, the Mississippi Gaming Commission ordered the nine casinos located in Tunica, Mississippi to close indefinitely to ensure the safety of visitors and employees. Accordingly, effective May 1, 2011, we closed Sam's Town Hotel and Gambling Hall in Tunica. We were able to reopen on May 28, 2011; however, Sam's Town Hotel and Gambling Hall suffered minor damage, and have reached a settlement with our insurer. In addition, the Amelia Belle was negatively impacted by the opening of the Morganza Spillway, due to imminent threat of severe flooding.

In addition, certain of our properties have been forced to close due to hurricanes. In August 2008, Treasure Chest was closed for eight days including Labor Day weekend due to Hurricane Gustav. In September 2008, Treasure Chest was closed for two days as a result of Hurricane Ike and in 2005 the property was closed for 44 days as a result of Hurricane Katrina. Delta Downs was closed for six days in August 2008 due to Hurricane Gustav and seven days in September 2008 due to Hurricane Ike. Hurricane Gustav forced the closure of Evangeline Downs for five days in 2008 and Amelia Belle was closed from August 2005 to May 2007 due to Hurricane Katrina. In 2005, Delta Downs suffered significant property damage as a result of Hurricane Rita and closed for 42 days. In September 2011, Borgata was closed for three days due to Hurricane Irene. In October and November 2012, Borgata was closed for four days due to Hurricane Sandy.

Moreover, Blue Chip, Par-A-Dice, Sam's Town Tunica, Sam's Town Tunica, Sam's Town Shreveport, Treasure Chest and Borgata are each located in an area that has been identified by the director of the Federal Emergency Management Agency ("FEMA") as a special flood hazard area, which, according to the FEMA statistics, has a 1% chance of a flood equal to or exceeding the base flood elevation (a 100-year flood) in any given year.

In addition to the risk of flooding and hurricanes, snowstorms and other adverse weather conditions may interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected area. For example, during January and February 2011, much of the country was impacted by some of the worst winter weather in decades, particularly in the Midwest. Although our properties at Blue Chip and Par-A-Dice were not closed as a result, these storms made it very difficult for our customers to visit, and we believe such winter weather had a material and adverse impact on the results of our operations during such time. Additionally, February 2010 was the snowiest month ever recorded in Atlantic City, which generally kept would-be gamblers from traveling to Borgata, contributing to a drop in Borgata's monthly revenues from January to February. The 2010 winter season was the worst on record, and travel throughout the entire Northeast was extremely difficult. The residual impact from these record winter storms resulted in day trip visitations to Atlantic City that were reduced or delayed as regional school calendars were extended in order to make up for prior school closures. Additionally, extreme heat and low precipitation levels in the latter half of the first six months of 2010, particularly in the month of June, had an adverse impact on visitation and spending

Table of Contents

at Borgata's property. If there is a prolonged disruption at Borgata or any of our other properties due to natural disasters, terrorist attacks or other catastrophic events, our results of operations and financial condition could be materially adversely affected.

To maintain our gaming license for our Evangeline Downs racino, we must conduct a minimum of 80 live racing days in a consecutive 20-week period each year of live horse race meetings at the racetrack, and poor weather conditions may make it difficult for us to comply with this requirement.

While we maintain insurance coverage that may cover certain of the costs and loss of revenue that we incur as a result of some extreme weather conditions, our coverage is subject to deductibles and limits on maximum benefits. There can be no assurance that we will be able to fully collect, if at all, on any claims resulting from extreme weather conditions. If any of our properties are damaged or if their operations are disrupted as a result of extreme weather in the future, or if extreme weather adversely impacts general economic or other conditions in the areas in which our properties are located or from which they draw their patrons, our business, financial condition and results of operations could be materially adversely affected.

If we are not ultimately successful in dismissing the action filed against Treasure Chest Casino, we may potentially lose our ability to operate the Treasure Chest Casino property and our business, financial condition and results of operations could be materially adversely affected.

Alvin C. Copeland, the sole shareholder (deceased) of an unsuccessful applicant for a riverboat license at the location of our Treasure Chest Casino ("Treasure Chest"), has 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 Treasure Chest. In November 1993, Copeland objected to the relocation of Treasure Chest 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 unsuccessfully 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, 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 Louisiana 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 yet been rescheduled.

Mr. Copeland has since passed away and his son, the executor of his estate, has petitioned the court to be substituted as plaintiff in the case. 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, Robert J. Guidry, the co-defendant, 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, which may result in



the case being remanded to state court. The U.S. District Court heard the motions on March 16, 2011. A ruling has not yet been issued. On April 1, 2011, the U.S. Attorney's Office moved for summary judgment, maintaining its jurisdictional argument as well as seeking substantive relief. On September 2, 2011, the judge issued an Order stating that the case should be remanded to state district court but allowed for additional filings by September 13, 2011. A Remand Order was issued on September 15, 2011, sending the case back to the 19th Judicial District Court, East Baton Rouge Parish, State of Louisiana. Guidry filed a motion for partial summary judgment on November 14, 2011 to limit the damages in the case. Treasure Chest joined in the motion. The hearing on the Motion for Partial Summary Judgment was held on September 10, 2012. On October 3, 2012, Judge Clark granted the motion which effectively struck Copeland's demands for lost profits, the value of the Treasure Chest license and the value of Treasure Chest's success. On October 26, 2012, Copeland filed a supervisory writ application with the First Circuit Court of Appeal asking that the partial summary judgment be reversed. Treasure Chest and Guidry opposed the writ. On February 13, 2013, the writ was denied leaving intact the partial summary judgment. Discovery is proceeding. 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 Treasure Chest's business, financial condition and results of operations.

Table of Contents

Our insurance coverage may not be adequate to cover all possible losses that our properties could suffer. In addition, our insurance costs may increase and we may not be able to obtain similar insurance coverage in the future.

Although we have “all risk” property insurance coverage for our operating properties, which covers damage caused by a casualty loss (such as fire, natural disasters, acts of war, or terrorism), each policy has certain exclusions. In addition, our property insurance coverage is in an amount that may be significantly less than the expected replacement cost of rebuilding the facilities if there was a total loss. Our level of insurance coverage also may not be adequate to cover all losses in the event of a major casualty. In addition, certain casualty events, such as labor strikes, nuclear events, acts of war, loss of income due to cancellation of room reservations or conventions due to fear of terrorism, deterioration or corrosion, insect or animal damage and pollution, may not be covered at all under our policies. Therefore, certain acts could expose us to substantial uninsured losses.

We also have “builder's risk” insurance coverage for our development and expansion projects. Builder's risk insurance provides coverage for projects during their construction for damage caused by a casualty loss. In general, our builder's risk coverage is subject to the same exclusions, risks and deficiencies as those described above for our all-risk property coverage. Our level of builder's risk insurance coverage may not be adequate to cover all losses in the event of a major casualty.

Blue Chip, Par-A-Dice, Sam's Town Tunica, Sam's Town Shreveport, Treasure Chest and Borgata are each located in an area that has been identified by the director of the FEMA as a special flood hazard area. According to the FEMA statistics, a special flood hazard area has a 1% chance of a flood equal to or exceeding the base flood elevation (a 100-year flood) in any given year. Over a 30-year period, the risk of a 100-year flood in a special flood hazard area is 26%. Our level of flood insurance coverage may not be adequate to cover all losses in the event of a major flood. Due to flooding of the Mississippi River, Sam's Town Hotel and Gambling Hall was closed from May 1, 2011 until May 28, 2011. Sam's Town Hotel and Gambling Hall was damaged, and while we carry business interruption insurance and general liability insurance, we have not settled on our claims, and this insurance may not be adequate to cover all losses in any such event.

We renew our insurance policies (other than our builder's risk insurance) on an annual basis. The cost of coverage may become so high that we may need to further reduce our policy limits or agree to certain exclusions from our coverage.

Our debt instruments and other material agreements require us to meet certain standards related to insurance coverage. Failure to satisfy these requirements could result in an event of default under these debt instruments or material agreements.

We draw a significant percentage of our customers from certain geographic regions. Events adversely impacting the economy or these regions, including public health outbreaks and man-made or natural disasters, may adversely impact our business.

The California, Fremont and Main Street Station draw a substantial portion of their customers from the Hawaiian market. Decreases in discretionary consumer spending, as well as an increase in fuel costs or transportation prices, a decrease in airplane seat availability, or a deterioration of relations with tour and travel agents, particularly as they affect travel between the Hawaiian market and our facilities, could adversely affect our business, financial condition and results of operations.

Our Las Vegas properties also draw a substantial number of customers from certain other specific geographic areas, including the Southern California, Arizona and Las Vegas local markets. Native American casinos in California and other parts of the United States have diverted some potential visitors away from Nevada, which has had and could continue to have a negative effect on Nevada gaming markets. In addition, due to our significant concentration of properties in Nevada, any man-made or natural disasters in or around Nevada, or the areas from which we draw customers to our Las Vegas properties, could have a significant adverse effect on our business, financial condition and results of operations. Each of our properties located outside of Nevada depends primarily on visitors from their respective surrounding regions and are subject to comparable risk.

Additionally, the expansion of casino gaming in or near the mid-Atlantic region from which Borgata attracts and expects to attract most of its customers could have a significant adverse effect on its business, results of operations

and financial condition. In 2010, Pennsylvania passed legislation allowing table games at certain casinos in the state, and other states near New Jersey, including New York, Delaware, Connecticut, and Maryland have or are currently contemplating gaming legislation. The expansion of gaming facilities in nearby states will further increase competition and may adversely impact our business, financial condition and results of operations.

Borgata also competes with Native American tribes in the Northeast and Mid-Atlantic region. Expansion of Native American gaming could have an adverse effect on Borgata's business, results of operations and financial condition, as Native American gaming facilities typically have a significant operating advantage over Borgata due to lower gaming taxes, allowing those facilities to market more aggressively and to expand or update their facilities at an accelerated rate.

## Table of Contents

The strength and profitability of our business depends on consumer demand for hotel casino resorts in general and for the type of amenities our properties offer. Changes in consumer preferences or discretionary consumer spending could harm our business. The terrorist attacks of September 11, 2001, other terrorist activities in the United States and elsewhere, military conflicts in Iraq, Afghanistan and in the Middle East, outbreaks of infectious disease and pandemics, adverse weather conditions and natural disasters, among other things, have had negative impacts on travel and leisure expenditures. In addition, other factors affecting travel and discretionary consumer spending, including general economic conditions, disposable consumer income, fears of further economic decline and reduced consumer confidence in the economy, may negatively impact our business. We cannot predict the extent to which similar events and conditions may continue to affect us in the future. An extended period of reduced discretionary spending and/or disruptions or declines in tourism could significantly harm our operations.

Furthermore, our facilities are subject to the risk that operations could be halted for a temporary or extended period of time, as a result of casualty, flooding, forces of nature, adverse weather conditions, mechanical failure, or extended or extraordinary maintenance, among other causes. If there is a prolonged disruption at any of our properties due to natural disasters, terrorist attacks or other catastrophic events, our results of operations and financial condition could be materially adversely affected.

The outbreak of public health threats at any of our properties or in the areas in which they are located, or the perception that such threats exist, including pandemic health threats, such as the avian influenza virus, SARS, or the H1N1 flu, among others, could have a significant adverse effect on our business, financial condition and results of operations. Likewise, adverse economic conditions that affect the national or regional economies in which we operate, whether resulting from war, terrorist activities or other geopolitical conflict, weather, general or localized economic downturns or related events or other factors, could have a significant adverse effect on our business, financial condition and results of operations.

In addition, to the extent that the airline industry is negatively impacted due to the effects of the economic recession and continued economic downturn, outbreak of war, public health threats, terrorist or similar activity, increased security restrictions or the public's general reluctance to travel by air, our business, financial condition and results of operations could be adversely affected.

Energy price increases may adversely affect our cost of operations and our revenues.

Our casino properties use significant amounts of electricity, natural gas and other forms of energy. In addition, our Hawaiian air charter operation uses a significant amount of jet fuel. While no shortages of energy or fuel have been experienced to date, substantial increases in energy and fuel prices, including jet fuel prices, in the United States have, and may continue to, negatively affect our results of operations. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases, of which the impact could be material. In addition, energy and gasoline price increases could result in a decline of disposable income of potential customers, an increase in the cost of travel and a corresponding decrease in visitation and spending at our properties, which could have a significant adverse effect on our business, financial condition and results of operations.

Borgata has an executory contract with a wholly owned subsidiary of a local utility company with terms that extend to June 2028, 20 years from the opening of The Water Club. The utility company provides Borgata 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 were estimated at approximately \$11.6 million per annum at December 31, 2012. Borgata is also obligated to purchase a certain portion of its 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 Borgata's tariff class.

Our facilities, including our riverboats and dockside facilities, are subject to risks relating to mechanical failure and regulatory compliance.

Generally, all of our facilities are subject to the risk that operations could be halted for a temporary or extended period of time, as the result of casualty, forces of nature, mechanical failure, or extended or extraordinary maintenance,

among other causes. In addition, our gaming operations, including those conducted on riverboats or at dockside facilities could be damaged or halted due to extreme weather conditions.

We currently conduct our Treasure Chest, Par-A-Dice, Blue Chip, Sam's Town Shreveport and Amelia Belle gaming operations on riverboats. Each of our riverboats must comply with United States Coast Guard ("USCG") requirements as to boat design, on-board facilities, equipment, personnel and safety. Each riverboat must hold a Certificate of Inspection for stabilization and flotation, and may also be subject to local zoning codes. The USCG requirements establish design standards, set limits on the operation of the vessels and require individual licensing of all personnel involved with the operation of the vessels. Loss of a vessel's Certificate of Inspection would preclude its use as a casino.

USCG regulations require a hull inspection for all riverboats at five-year intervals. Under certain circumstances, alternative hull inspections may be approved. The USCG may require that such hull inspections be conducted at a dry-docking facility, and if so

## Table of Contents

required, the cost of travel to and from such docking facility, as well as the time required for inspections of the affected riverboats, could be significant. To date, the USCG has allowed in-place underwater inspections of our riverboats twice every five years on alternate two and three year schedules. The USCG may not continue to allow these types of inspections in the future. The loss of a dockside casino or riverboat casino from service for any period of time could adversely affect our business, financial condition and results of operations.

Indiana and Louisiana have adopted alternate inspection standards for riverboats in those states. The standards require inspection by the American Bureau Shipping Consulting ("ABSC"). ABSC inspection for our riverboats at Blue Chip, Treasure Chest and Sam's Town Shreveport commenced during 2010. The Par-A-Dice riverboat will remain inspected by the USCG for the foreseeable future. ABSC imposes essentially the same design, personnel, safety, and hull inspection standards as the USCG. Therefore, the risks to our business associated with USCG inspection should not change by reason of inspection by ABSC. Failure of a vessel to meet the applicable USCG or ABSC standards would preclude its use as a casino.

USCG regulations also require us to prepare and follow certain security programs. In 2004, we implemented the American Gaming Association's Alternative Security Program at our riverboat casinos and dockside facilities. The American Gaming Association's Alternative Security Program is specifically designed to address maritime security requirements at riverboat casinos and their respective dockside facilities. Only portions of those regulations will apply to our riverboats inspected by ABSC. Changes to these regulations could adversely affect our business, financial condition and results of operations.

Some of our hotels and casinos are located on leased property. If we default on one or more leases, the applicable lessors could terminate the affected leases and we could lose possession of the affected hotel and/or casino.

We lease certain parcels of land on which The Orleans, Suncoast, Treasure Chest, Sam's Town Shreveport, IP and Borgata's hotel and gaming facility are located. In addition, we lease other parcels of land on which portions of the California and the Fremont are located. As a ground lessee, we have the right to use the leased land; however, we do not retain fee ownership in the underlying land. Accordingly, with respect to the leased land, we will have no interest in the land or improvements thereon at the expiration of the ground leases. Moreover, since we do not completely control the land underlying the property, a landowner could take certain actions to disrupt our rights in the land leased under the long term leases. While such interruption is unlikely, such events are beyond our control. If the entity owning any leased land chose to disrupt our use either permanently or for a significant period of time, then the value of our assets could be impaired and our business and operations could be adversely affected. If we were to default on any one or more of these leases, the applicable lessors could terminate the affected leases and we could lose possession of the affected land and any improvements on the land, including the hotels and casinos. This would have a significant adverse effect on our business, financial condition and results of operations as we would then be unable to operate all or portions of the affected facilities.

### Risks Related to our Indebtedness

We have a significant amount of indebtedness.

If we pursue, or continue to pursue, any expansion, development, investment or renovation projects, we expect that our long-term debt will substantially increase in connection with related capital expenditures. This indebtedness could have important consequences, including:

- difficulty in satisfying our obligations under our current indebtedness;
- increasing our vulnerability to general adverse economic and industry conditions; requiring us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, which would reduce the availability of our cash flows to fund working capital, capital expenditures, expansion efforts and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a disadvantage compared to our competitors that have less debt; and
-

limiting, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds.

Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could have a significant adverse effect on our business, results of operations and financial condition.

Our debt instruments contain, and any future debt instruments likely will contain, a number of restrictive covenants that impose significant operating and financial restrictions on us, including restrictions on our ability to, among other things:

- incur additional debt, including providing guarantees or credit support;

Table of Contents

- incur liens securing indebtedness or other obligations;
- make certain investments;
- dispose of assets;
- make certain acquisitions;
- pay dividends or make distributions and make other restricted payments;
- enter into sale and leaseback transactions;
- engage in any new businesses; and
- enter into transactions with our stockholders and our affiliates.

In addition to our debt instruments, our indirect wholly owned subsidiaries, MDFC and Peninsula Gaming, each have a significant amount of indebtedness which contain restrictive covenants that impose significant operating and financial restrictions on each company, including limitations on dividends, distributions and certain other restricted payments, which could have a significant adverse effect on our business, results of operations and financial condition.

Boyd Gaming Credit Facility

Interest on \$450 million of term loans under our Credit Facility amortizes in an annual amount equal to 5% of the original principal amount thereof, commencing March 31, 2011, payable on a quarterly basis. The interest rate per annum applicable to such term loans are based upon, at the option of the Company, LIBOR or the “base rate,” plus an applicable margin in either case. The applicable margin is a percentage per annum determined in accordance with a specified pricing grid based on the total leverage ratio. Interest on \$332.5 million of term loans under our Credit Facility amortizes in an annual amount equal to 5% of the original principal amount thereof, commencing in March 2012 and payable on a quarterly basis. At any time and to the extent that such term loan is a Eurodollar Rate Loan, the term loan will bear interest on the outstanding principal amount thereof for each quarterly interest period at a rate per annum equal to the “effective Eurodollar Rate” for such period plus 4.75%, and at any time and to the extent that such term loan bears interest at the base rate, the outstanding principal amount thereof at a rate per annum equal to the base rate for such Interest period plus 3.75%. The applicable margin on the outstanding balance on the revolver portion of our Credit Facility ranges from 2.50% to 3.50% (if using LIBOR), and from 1.50% to 2.50% (if using the base rate). The applicable margin on the outstanding balance of the loans and commitments of the non-extending lenders continues to range from 0.625% to 1.625% (if using LIBOR), and from 0.00% to 0.375% (if using the base rate). A fee of a percentage per annum (which ranges from 0.250% to 0.500%) determined by the level of the total leverage ratio is payable on the unused portions of the Credit Facility. The “base rate” under the Credit Facility is the highest of (x) Bank of America's publicly-announced prime rate, (y) the federal funds rate plus 0.50%, or (z) the Eurodollar rate for a one month period plus 1.00%.

The blended interest rate for outstanding borrowings under our Credit Facility was 4.2% and 4.2% at December 31, 2012 and 2011, respectively. The Company's obligations under the Credit Facility, subject to certain exceptions, are guaranteed by certain of the Company's subsidiaries and are secured by the capital stock of certain subsidiaries. In addition, subject to certain exceptions, the Company and each of the guarantors granted the administrative agent first priority liens and security interests on substantially all of their real and personal property (other than gaming licenses and subject to certain other exceptions) as additional security for the performance of the secured obligations under the Credit Facility.

The Credit Facility contains certain financial and other covenants, including, without limitation, various covenants that:

- require the maintenance of a minimum consolidated interest coverage ratio;
- establish a maximum permitted consolidated total leverage ratio;
- establish a maximum permitted secured leverage ratio;
- impose limitations on the incurrence of indebtedness;
- impose limitations on transfers, sales and other dispositions; and



- impose restrictions on investments, dividends and certain other payments.

Subject to certain exceptions, we may be required to repay the amounts outstanding under the Credit Facility in connection with certain asset sales and issuances of certain additional secured indebtedness.

Our Credit Facility requires us to maintain a minimum Interest Coverage Ratio, a Total Leverage Ratio and a Secured Leverage Ratio (each as defined in the Credit Facility) that adjust over the life of our Credit Facility. We believe that we were in compliance with the Credit Facility covenants, including the minimum Interest Coverage Ratio, the maximum permitted Total Leverage Ratio and the maximum permitted Secured Leverage Ratio.

However, in the event that we project that our future performance may result in our not being in compliance with these covenants, we could implement certain actions in an effort to minimize the possibility of a breach of the maximum permitted Total Leverage Ratio, the maximum permitted Secured Leverage Ratio and the minimum Interest Coverage Ratio covenants. These actions may

Table of Contents

include, among others, reducing payroll, benefits and certain other operating costs, deferring or eliminating certain maintenance, expansion or other capital expenditures, reducing our outstanding indebtedness through repurchases or redemption, and/or increasing cash by selling assets or issuing equity.

Peninsula Gaming Credit Facility

In connection with the Peninsula Acquisition and Peninsula Gaming (as successor to Boyd Acquisition Sub, LLC, an indirect wholly owned subsidiary of Boyd ("Merger Sub")) entered into a Credit Agreement (the "Peninsula Credit Agreement") dated as of November 14, 2012, with the lenders party thereto and Bank of America, N.A., as administrative agent, collateral agent, swing line lender, and L/C issuer. The Credit Agreement provides for the \$875.0 million Peninsula Credit Facility, which consists of (a) a term loan facility of \$825.0 million and (b) a revolving credit facility of \$50.0 million. The maturity date for obligations under the Peninsula Credit Facility is November 17, 2017.

The interest rate on the outstanding balance of the term loan is based upon, at Peninsula's option either: (i) the Eurodollar rate plus 4.50%, or (ii) the base rate plus 3.50%. The interest rate on the outstanding balance from time to time of the revolving loans is based upon, at the Peninsula's option either: (i) the Eurodollar rate plus 4.00%, or (ii) the base rate plus 3.00%. The base rate under the Peninsula Credit Facility is the highest of (x) Bank of America's publicly-announced prime rate, (y) the federal funds rate plus 0.50%, or (z) the Eurodollar rate for a one-month period plus 1.00%. The Peninsula Credit Facility also establishes, with respect to outstanding balances under the Term Loan, a minimum Eurodollar rate for any interest period of 1.25%. In addition, Peninsula Gaming will incur a commitment fee on the unused portion of the Peninsula Credit Facility at a per annum rate of 0.50%.

Peninsula Gaming's obligations under the Peninsula Credit Facility, subject to certain exceptions, are guaranteed by Peninsula Gaming's subsidiaries and are secured by the capital stock and equity interests of Peninsula Gaming's subsidiaries. In addition, subject to certain exceptions, Peninsula Gaming and each of the guarantors granted the collateral agent first priority liens and security interests on substantially all of the real and personal property (other than gaming licenses and subject to certain other exceptions) of Peninsula Gaming and its subsidiaries as additional security for the performance of the obligations under the Peninsula Credit Facility. The obligations under the revolver rank second in right of payment to the obligations under the term loan. The Peninsula Credit Facility contains customary affirmative and negative covenants (and are subject to customary exceptions). Peninsula Gaming is required to maintain (i) beginning with the fiscal quarter ended March 31, 2013, a maximum consolidated leverage ratio over each twelve month period ending on the last day of each fiscal quarter (discussed below), (ii) beginning with the fiscal quarter ended March 31, 2013, a minimum consolidated interest coverage ratio of 2.00 to 1.00 as of the end of each calendar quarter, and (iii) a maximum amount of capital expenditures for each fiscal year.

The minimum consolidated Interest Coverage Ratio is calculated as (a) twelve-month trailing Consolidated EBITDA, to (b) consolidated interest expense.

The maximum permitted consolidated Leverage Ratio is calculated as Consolidated Fund Indebtedness less Excess Cash to twelve-month trailing Consolidated EBITDA.

Capital Expenditures should not be made by Peninsula Gaming or any of its Restricted Subsidiaries (excluding (i) capital expenditures which adds to or improves any existing property and (ii) capital expenditures made prior to the first anniversary of the Funding Date relating to integration and/or transition of business systems) in an aggregate amount in excess of \$20.0 million in any fiscal year; provided that no default has occurred and is continuing or would result from such expenditure, any portion of such maximum amount, if not expended in the fiscal year for which it is permitted, may be carried over for expenditure in the next following fiscal year.

While we are not guarantors of the Peninsula Credit Facility, the Peninsula Credit Agreement contains other financial and other covenants that could affect Peninsula Gaming's ability to pay dividends to us, including, without limitation,

various covenants that:

- impose limitations on the incurrence of indebtedness;
- impose limitations on transfers, sales and other dispositions; and
- impose restrictions on investments, dividends and certain other payments.

#### Borgata Bank Credit Facility

Borgata has significant indebtedness, including the Borgata bank credit facility, which could affect its ability to pay dividends to us. While we received a one-time distribution from Borgata of approximately \$135.4 million in August 2010 in connection with Borgata's financing, any future distribution from Borgata (other than distributions to satisfy tax liabilities relating to income of Borgata) will be subject to the limitations on dividends, distributions and certain other restricted payments under Borgata's bank credit facility and the indenture governing Borgata's senior secured notes.

Table of Contents

On December 27, 2012, MDFC entered into a Second Borgata Credit Facility Amendment that (i) decreases the minimum Consolidated EBITDA (as defined therein) to \$110.0 million for fiscal quarters ending December 31, 2012 and thereafter, (ii) modifies the definition of Consolidated EBITDA to exclude certain losses, charges, and expenses, (iii) adjusts the calculation of Consolidated EBITDA such that for the fiscal quarter ending December 31, 2012 through the fiscal quarter ending September 30, 2013, Consolidated EBITDA will be computed by including the four fiscal quarters with the highest Consolidated EBITDA out of the most recently ended five fiscal quarters, (iv) reduces the Aggregate Commitments (as defined therein) to \$60.0 million, (v) modifies the Use of Proceeds covenant to provide that the proceeds of revolving loans can only be used to repurchase or redeem MDFC's senior secured notes if, after giving effect thereto, the aggregate amount of outstanding loans and letters of credit under the Borgata bank credit facility does not exceed \$50.0 million, and (vi) adds a covenant prohibiting MDFC and MDDC from repurchasing or redeeming MDFC's senior secured notes at any time unless Consolidated EBITDA was at least \$125.0 million for the most recently ended period of four consecutive fiscal quarters prior thereto.

As amended, the Borgata bank credit facility provides for a \$60 million senior secured revolving credit facility and matures in August 2014. The Borgata 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 of Borgata's assets, subject to certain exceptions. The obligations under the Borgata bank credit facility have priority in payment to Borgata's senior secured notes. Neither we, nor our subsidiaries, are guarantors of the Borgata bank credit facility, as amended.

Outstanding borrowings under the Borgata bank credit facility, as amended, accrue interest at a selected rate based upon either: (i) 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 clause (i) and (ii) an applicable margin as provided in the Borgata bank credit facility. In addition, a commitment fee is incurred on the unused portion of the Borgata bank credit facility ranging from 0.50% per annum to 1.00% per annum.

The Borgata bank credit facility, as amended, contains certain financial and other covenants, including, without limitation, (i) establishing a minimum consolidated EBITDA (as defined in the Borgata bank credit facility) of \$110 million over each trailing twelve-month period ending on the last day of each calendar quarter; (ii) imposing limitations on MDFC's ability to incur additional debt; and (iii) imposing restrictions on Borgata's 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.

In addition, Borgata's bank credit facility contains customary affirmative and negative covenants, including covenants that limit Borgata's ability to:

- incur additional debt;
- pay dividends and make other distributions;
- create liens;
- enter into transactions with affiliates;
- merge or consolidate; and
- engage in unrelated business activities.

The increase in our consolidated leverage and debt service obligations as a result of the Peninsula Acquisition, may adversely affect our consolidated financial condition, results of operations and earnings per share.

As a result of the Peninsula Acquisition, we now have a greater amount of debt on a consolidated basis than we have maintained in the past. Our maintenance of higher levels of indebtedness could have adverse consequences including impairing our ability to obtain additional financing in the future.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. Furthermore, our operations may not generate sufficient

cash flows to enable us to meet our expenses and service our debt. As a result, we may need to enter into new financing arrangements to obtain the necessary funds. If we determine that it is necessary to seek additional funding for any reason, we may not be able to obtain such funding or, if funding is available, obtain it on acceptable terms. If we fail to make a payment on our debt, we could be in default on such debt, and this default could cause us to be in default on our other outstanding indebtedness.

The terms of the Peninsula Gaming indebtedness limits the payment of dividends (other than tax distributions), distributions and management fees from Peninsula Gaming to Boyd Acquisition II, LLC ("HoldCo"). The promissory note that HoldCo entered into upon the closing of the Peninsula Acquisition (the "HoldCo Note"), which we entered into upon the closing of the Peninsula Acquisition, imposes limitations on HoldCo and on Peninsula Gaming and Peninsula Gaming's subsidiaries with respect to (i) incurrence of indebtedness, (ii) liens, (iii) consolidations and mergers, (iv) sales and other dispositions of assets and (v) restricted

Table of Contents

payments, including investments. Subject to certain exceptions, we may be required to repay the amounts outstanding under the HoldCo Note in connection with certain assets sales by Peninsula Gaming or upon a change of control.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures and expansion efforts will depend upon our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

It is unlikely that our business will generate sufficient cash flows from operations, or that future borrowings will be available to us under our Credit Facility in amounts sufficient to enable us to pay our indebtedness, as such indebtedness matures and to fund our other liquidity needs. We believe that we will need to refinance all or a portion of our indebtedness, at or before maturity, and cannot provide assurances that we will be able to refinance any of our indebtedness, including our Credit Facility, on commercially reasonable terms, or at all. We may have to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets, restructuring debt, or obtaining additional equity or debt financing or joint venture partners. These financing strategies may not be affected on satisfactory terms, if at all. In addition, certain states' laws contain restrictions on the ability of companies engaged in the gaming business to undertake certain financing transactions. Some restrictions may prevent us from obtaining necessary capital.

We and our subsidiaries may still be able to incur substantially more debt, which could further exacerbate the risks described above.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of the indenture governing our senior and senior subordinated notes will not fully prohibit us or our subsidiaries from doing so. Borrowings under the credit facilities of Boyd, Borgata and Peninsula would be effectively senior to our senior and senior subordinated notes and the guarantees of our subsidiary guarantors to the extent of the value of the collateral securing such borrowings. If new debt is added to our, or our subsidiaries', current debt levels, the related risks that we or they now face could intensify.

Borgata may be unable to refinance its indebtedness.

Borgata's ability to refinance its indebtedness will depend on its ability to generate future cash flow and Borgata is entirely dependent on its operations, including the Water Club, for all of its cash flow. Its ability to generate cash in the future, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control.

It is unlikely that Borgata's business will generate sufficient cash flows from operations in amounts sufficient to enable it to pay the principal on its indebtedness at maturity and to fund its other liquidity needs. We believe Borgata will need to refinance all or a portion of its indebtedness before maturity, and we cannot provide assurances that it will be able to repay or refinance its indebtedness on commercially reasonable terms, or at all. Borgata may have to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets, restructuring debt, or obtaining additional equity or debt financing or joint venture partners. These financing strategies may not be affected on satisfactory terms, if at all. In addition, New Jersey laws and regulations contain restrictions on the ability of companies engaged in the gaming business to undertake certain financing transactions. Such restrictions may prevent Borgata from obtaining necessary capital.

If we are unable to finance our expansion, development, investment and renovation projects, as well as other capital expenditures, through cash flow, borrowings under the credit facility and additional financings, our expansion, development, investment and renovation efforts will be jeopardized.

We intend to finance our current and future expansion, development, investment and renovation projects, as well as our other capital expenditures, primarily with cash flow from operations, borrowings under the Credit Facility, and equity or debt financings. If we are unable to finance our current or future expansion, development, investment and

renovation projects, or our other capital expenditures, we will have to adopt one or more alternatives, such as reducing, delaying or abandoning planned expansion, development, investment and renovation projects as well as other capital expenditures, selling assets, restructuring debt, reducing the amount or suspending or discontinuing the distribution of dividends, obtaining additional equity financing or joint venture partners, or modifying the Credit Facility. These sources of funds may not be sufficient to finance our expansion, development, investment and renovation projects, and other financing may not be available on acceptable terms, in a timely manner, or at all. In addition, our existing indebtedness contains certain restrictions on our ability to incur additional indebtedness. Recently, there have been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital. We anticipate that these disruptions may continue for the foreseeable future. We anticipate that we will be able to fund any expansion projects using cash flows from operations and availability under the Credit Facility (to the extent that availability exists after we meet our working capital needs).

## Table of Contents

If availability under the Credit Facility does not exist or we are otherwise unable to make sufficient borrowings thereunder, any additional financing that is needed may not be available to us or, if available, may not be on terms favorable to us. As a result, if we are unable to obtain adequate project financing in a timely manner, or at all, we may be forced to sell assets in order to raise capital for projects, limit the scope of, or defer such projects, or cancel the projects altogether. In the event that capital markets do not improve and we are unable to access capital with more favorable terms, additional equity and/or credit support may be necessary to obtain construction financing for the remaining cost of the project.

### Risks Related to the Peninsula Acquisition

We may face integration difficulties and may be unable to integrate Peninsula Gaming's business into Boyd Gaming's business successfully or realize the anticipated benefits of the Peninsula Acquisition.

The merger involved the combination of two companies that previously operated as independent companies. Peninsula Gaming is now an indirect wholly owned subsidiary of Boyd Gaming. We will be required to devote significant management attention and resources to integrating the two companies business practices and operations. Potential difficulties we may encounter as part of the integration process include the following:

- the inability to successfully combine our two businesses in a manner that permits the us to achieve the full revenue and other benefits anticipated to result from the Peninsula Acquisition;
- complexities associated with managing the combined businesses, including difficulty addressing possible differences in corporate cultures and management philosophies and the challenge of integrating complex systems, technology, networks and other assets of each of the companies in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies; and
- potential unknown liabilities and unforeseen increased expenses associated with the Peninsula Acquisition.

In addition, it is possible that the integration process could result in:

- diversion of the attention of each company's management; and
- the disruption of, or the loss of momentum in, each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies,

any of which could adversely affect our ability to maintain relationships with customers, suppliers, employees and other constituencies or our ability to achieve the anticipated benefits of the Peninsula Acquisition, or could reduce our earnings or otherwise adversely affect our business and financial results.

Our future results may differ materially from the unaudited pro forma financial statements that we have previously disclosed.

The pro forma financial statements that we have previously disclosed are presented for illustrative purposes only, are based on various adjustments, assumptions and preliminary estimates and may not be an indication of our financial condition or results of operations following the Peninsula Acquisition for several reasons. Our actual financial condition and results of operations following the Peninsula Acquisition may not be consistent with, or evident from, these pro forma financial statements. In addition, the assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect our financial condition or results of operations following the Peninsula Acquisition. Any potential decline in our financial condition or results of operations may cause significant variations to our stock price.

Our future results could suffer if we cannot effectively manage our expanded operations following the Peninsula Acquisition.

Following the Peninsula Acquisition, the size of the combined businesses is significantly larger than the previous size of either Boyd Gaming's or Peninsula Gaming's business. Our future success depends, in part, upon our ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no



assurances that we will be successful or that we will realize any operating efficiencies, cost savings, revenue enhancements or other benefits currently anticipated from the Peninsula Acquisition.

We expect to further incur substantial expenses related to the Peninsula Acquisition and the integration of our businesses.

We have already incurred and expect to incur further substantial expenses in connection with the Peninsula Acquisition and the integration of our businesses. There are a large number of processes, policies, procedures, operations, technologies and systems that must be integrated, including purchasing, accounting and finance, sales, payroll, pricing, marketing and benefits. While we have assumed that a certain level of expenses will be incurred, there are many factors beyond our control that could affect the total amount or the timing of the integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These integration expenses likely will result in us taking significant charges against earnings, and the amount and timing of such charges are uncertain at present.

## Table of Contents

The increase in our consolidated leverage and debt service obligations as a result of the Peninsula Acquisition may adversely affect our consolidated financial condition, results of operations and earnings per share

As a result of the Peninsula Acquisition, we have a greater amount of debt on a consolidated basis than we had maintained in the past. Our maintenance of higher levels of indebtedness could have adverse consequences including impairing our ability to obtain additional financing in the future.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. Furthermore, our operations may not generate sufficient cash flows to enable us to meet our expenses and service our debt. As a result, we may need to enter into new financing arrangements to obtain the necessary funds. If we determine that it is necessary to seek additional funding for any reason, we may not be able to obtain such funding or, if funding is available, obtain it on acceptable terms. If we fail to make a payment on our debt, we could be in default on such debt, and this default could cause us to be in default on our other outstanding indebtedness.

The terms of the Peninsula Gaming indebtedness limit payment of dividends (other than tax distributions), distributions and management fees from Peninsula Gaming to HoldCo. The HoldCo Note imposes limitations on HoldCo and on Peninsula Gaming and Peninsula Gaming's subsidiaries with respect to (i) incurrence of indebtedness, (ii) liens, (iii) consolidations and mergers, (iv) sales and other dispositions of assets and (v) restricted payments, including investments. Subject to certain exceptions, we may be required to repay the amounts outstanding under the HoldCo Note in connection with certain assets sales by Peninsula Gaming or upon a change of control.

### Risks Related to our Equity Ownership

Our common stock price may fluctuate substantially, and a shareholder's investment could decline in value.

The market price of our common stock may fluctuate substantially due to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- announcements of significant acquisitions or other agreements by us or by our competitors;
- our sale of common stock or other securities in the future;
- trading volume of our common stock;
- conditions and trends in the gaming and destination entertainment industries;
- changes in the estimation of the future size and growth of our markets; and
- general economic conditions, including, without limitation, changes in the cost of fuel and air travel.

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to companies' operating performance. Broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, shareholder derivative lawsuits and/or securities class action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources.

Certain of our stockholders own large interests in our capital stock and may significantly influence our affairs. William S. Boyd, our Executive Chairman of the Board of Directors, together with his immediate family, beneficially owned approximately 37% of the Company's outstanding shares of common stock as of December 31, 2012. As such, the Boyd family has the ability to significantly influence our affairs, including the election of members of our Board of Directors and, except as otherwise provided by law, approving or disapproving other matters submitted to a vote of our stockholders, including a merger, consolidation, or sale of assets.

Table of Contents

## Item 6. Exhibits

## Exhibits

Exhibit No.	Document of Exhibit	Method of Filing
2.1	Membership Interest Purchase and Sale Agreement and Joint Escrow Instructions, dated as of March 1, 2013, by and between Echelon Resorts, LLC, Coast Hotels and Casinos, Inc., Genting Assets, Inc. and Genting Berhad.	Incorporated by reference from the Company's Current Report on Form 8-K dated March 7, 2013.
2.2	Asset Purchase Agreement, dated as of March 1, 2013, by and among LVE Energy Partners, LLC, Boyd Gaming Corporation and Echelon Resorts, LLC.	Incorporated by reference from the Company's Current Report on Form 8-K dated March 7, 2013.
2.3	Asset Purchase Agreement, dated as of February 22, 2013, by and among Dania Entertainment Center, LLC, The Aragon Group and Summersport Enterprises, LLC.	Filed electronically herewith
3.1	Amended and Restated Bylaws	Incorporated by reference from the Company's Current Report on Form 8-K dated March 27, 2013.
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).	Filed electronically herewith
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).	Filed electronically herewith
32.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.	Filed electronically herewith
32.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.	Filed electronically herewith
101	The following materials from Boyd Gaming Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012, (ii) Condensed Consolidated Statements of Operations for the three months ended March	Filed electronically herewith

31, 2013 and 2012, (iii) Condensed Consolidated Statement of Changes in Stockholders' Equity for the three months ended March 31, 2013, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012, and (vi) Notes to Condensed Consolidated Financial Statements.\*

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 10, 2013.

BOYD GAMING CORPORATION

By: /S/ ANTHONY D. MCDUFFIE  
Anthony D. McDuffie  
Vice President and Chief Accounting Officer

Table of Contents

## EXHIBIT LIST

Exhibit No.	Document of Exhibit	Method of Filing
2.1	Membership Interest Purchase and Sale Agreement and Joint Escrow Instructions, dated as of March 1, 2013, by and between Echelon Resorts, LLC, Coast Hotels and Casinos, Inc., Genting Assets, Inc. and Genting Berhad.	Incorporated by reference from the Company's Current Report on Form 8-K dated March 7, 2013.
2.2	Asset Purchase Agreement, dated as of March 1, 2013, by and among LVE Energy Partners, LLC, Boyd Gaming Corporation and Echelon Resorts, LLC.	Incorporated by reference from the Company's Current Report on Form 8-K dated March 7, 2013.
2.3	Asset Purchase Agreement, dated as of February 22, 2013, by and among Dania Entertainment Center, LLC, The Aragon Group and Summersport Enterprises, LLC.	Filed electronically herewith
3.1	Amended and Restated Bylaws	Incorporated by reference from the Company's Current Report on Form 8-K dated March 27, 2013.
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).	Filed electronically herewith
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).	Filed electronically herewith
32.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.	Filed electronically herewith
32.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.	Filed electronically herewith
101	The following materials from Boyd Gaming Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012, (ii) Condensed Consolidated Statements of Operations for the three months ended March	Filed electronically herewith

31, 2013 and 2012, (iii) Condensed Consolidated Statement of Changes in Stockholders' Equity for the three months ended March 31, 2013, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012, and (vi) Notes to Condensed Consolidated Financial Statements.\*

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.