CHEMED CORP
Form 10-Q
July 30, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

x Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2014

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-8351

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

Delaware (State or other jurisdiction of incorporation or organization)	31-0791746 (IRS Employer Identification No.)
255 E. Fifth Street, Suite 2600, Cincinnati, Ohio (Address of principal executive offices)	45202 (Zip code)

(513) 762-6500
(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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	o

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

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

Class	Amount	Date
Capital Stock $1 Par Value	17,287,284 Shares	June 30, 2014

CHEMED CORPORATION AND
SUBSIDIARY COMPANIES

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED BALANCE SHEET
(in thousands, except share and per share data)

		June 30, 2014		December 31, 2013
ASSETS				
Current assets				
Cash and cash equivalents	$	27,913	$	84,418
Accounts receivable less allowances of $13,997 (2013 - $12,590)		92,152		91,770
Inventories		6,856		6,703
Current deferred income taxes		13,459		20,257
Prepaid income taxes		4,001		3,690
Prepaid expenses		21,119		17,818
Total current assets		165,500		224,656
Investments of deferred compensation plans		47,314		42,465
Properties and equipment, at cost, less accumulated depreciation of $188,462 (2013 - $180,550)		97,206		92,955
Identifiable intangible assets less accumulated amortization of $32,513 (2013 - $32,055)		56,288		56,556
Goodwill		466,867		466,871
Other assets		8,420		10,198
Total Assets	$	841,595	$	893,701
LIABILITIES				
Current liabilities				
Accounts payable	$	35,013	$	41,758
Current portion of long-term debt		5,000		183,564
Income taxes		6,029		111
Accrued insurance		40,164		41,859
Accrued compensation		42,527		48,323
Accrued legal		7,429		23,210
Other current liabilities		20,511		25,161
Total current liabilities		156,673		363,986
Deferred income taxes		27,270		27,301
Long-term debt		155,000		-
Deferred compensation liabilities		46,917		42,348
Other liabilities		11,251		11,176
Total Liabilities		397,111		444,811
Commitments and contingencies				
STOCKHOLDERS' EQUITY				
Capital stock - authorized 80,000,000 shares $1 par; issued 32,980,045 shares (2013 - 32,245,226 shares)		32,980		32,245

Paid-in capital		511,794		481,011
Retained earnings		724,295		686,114
Treasury stock - 15,791,322 shares (2013 - 14,660,427)		(826,802)		(752,634)
Deferred compensation payable in Company stock		2,217		2,154
Total Stockholders' Equity		444,484		448,890
Total Liabilities and Stockholders' Equity	$	841,595	$	893,701

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENT OF INCOME
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Service revenues and sales	$360,182	$357,198	$718,482	$723,839
Cost of services provided and goods sold (excluding depreciation)	257,007	255,359	514,826	519,666
Selling, general and administrative expenses	53,649	53,107	109,320	108,667
Depreciation	7,272	6,899	14,421	13,694
Amortization	735	1,181	1,744	2,308
Other operating expenses	-	14,760	-	14,760
Total costs and expenses	318,663	331,306	640,311	659,095
Income from operations	41,519	25,892	78,171	64,744
Interest expense	(2,429)	(3,697)	(6,244)	(7,791)
Other income - net	756	1,696	1,572	3,402
Income before income taxes	39,846	23,891	73,499	60,355
Income taxes	(15,483)	(9,283)	(28,562)	(23,469)
Net income	$24,363	$14,608	$44,937	$36,886
Earnings Per Share				
Net income	$1.41	$0.79	$2.59	$1.99
Average number of shares outstanding	17,236	18,606	17,374	18,564
Diluted Earnings Per Share				
Net income	$1.36	$0.77	$2.48	$1.94
Average number of shares outstanding	17,880	18,966	18,097	18,980
Cash Dividends Per Share	$0.20	$0.18	$0.40	$0.36

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash Flows from Operating Activities		
Net income	$ 44,937	$ 36,886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,165	16,002
Deferred income taxes	6,180	(5,375)
Provision for uncollectible accounts receivable	6,449	5,432
Amortization of discount on convertible notes	3,392	4,264
Stock option expense	2,453	3,103
Amortization of debt issuance costs	564	1,097
Noncash long-term incentive compensation	986	1,106
Changes in operating assets and liabilities, excluding amounts acquired in business combinations:		
Decrease/(increase) in accounts receivable	(6,782)	11,745
Decrease/(increase) in inventories	(153)	902
Increase in prepaid expenses	(3,301)	(2,017)
Increase/(decrease) in accounts payable and other current liabilities	(33,584)	14,721
Increase/(decrease) in income taxes	7,224	(409)
Increase in other assets	(2,748)	(4,914)
Increase in other liabilities	4,644	4,401
Excess tax benefit on share-based compensation	(1,866)	(2,478)
Other sources	553	200
Net cash provided by operating activities	45,113	84,666
Cash Flows from Investing Activities		
Capital expenditures	(19,454)	(12,200)
Business combinations, net of cash acquired	(250)	(1,501)
Other sources	192	101
Net cash used by investing activities	(19,512)	(13,600)
Cash Flows from Financing Activities		
Repayment of convertible notes	(186,956)	-
Proceeds from issuance of term loan	100,000	-
Proceeds from revolving line of credit	245,500	-
Payments on revolving line of credit	(185,500)	-
Purchases of treasury stock	(58,493)	(18,448)
Dividends paid	(6,757)	(6,775)
Capital stock surrendered to pay taxes on stock-based compensation	(3,543)	(4,269)
Retirement of warrants	(2,645)	-
Proceeds from exercise of stock options	16,092	12,558
Excess tax benefit on share-based compensation	1,866	2,478

Decrease in cash overdrafts payable		(479)		(11,608)
Debt issuance costs		(939)		(1,104)
Other uses		(252)		(382)
Net cash used by financing activities		(82,106)		(27,550)
Increase/(Decrease) in Cash and Cash Equivalents		(56,505)		43,516
Cash and cash equivalents at beginning of year		84,418		69,531
Cash and cash equivalents at end of period	$	27,913	$	113,047

See accompanying notes to unaudited consolidated financial statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

As used herein, the terms "We," "Company" and "Chemed" refer to Chemed Corporation or Chemed Corporation and its consolidated subsidiaries.

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The December 31, 2013 balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP. However, in our opinion, the financial statements presented herein contain all adjustments, consisting only of normal recurring adjustments, necessary to state fairly our financial position, results of operations and cash flows. These financial statements are prepared on the same basis as and should be read in conjunction with the audited Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013.

2. Revenue Recognition

Both the VITAS segment and the Roto-Rooter segment recognize service revenues and sales when the earnings process has been completed. Generally, this occurs when services are provided or products are delivered. VITAS recognizes revenue at the estimated realizable amount due from third-party payers. Medicare payments are subject to certain limitations, as described below.

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether they are likely to exceed the annual per-beneficiary Medicare cap ("Medicare cap"). Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective action to influence the patient mix or to increase patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate the amount of revenue recognized during the period that will require repayment to the Federal government under the Medicare cap and record the amount as a reduction to patient revenue.

During the three and six month periods ended June 30, 2014, we reversed Medicare cap liability for amounts recorded in the fourth of 2013 for two programs' projected 2014 measurement period liability. We reversed these amounts as improving admissions trends in these programs indicate that the liability had been eliminated for one program and partially eliminated for the other program. During the second quarter of 2014 this reversal was partially offset by a $406,000 Medicare cap liability for one program's projected 2014 measurement period liability.

During the second quarter of 2014, we received notice from a third party intermediary for amounts accrued related to the 2013 measurement period. As a result we repaid $3.4 million.

Shown below is the Medicare cap liability activity for the fiscal periods ended (in thousands):

	June 30,	
	2014	2013
Beginning balance January 1,	$8,260	$1,261
2014 measurement period	(704)	-
2013 measurement period	-	(18)

Payments	(3,439)	-
Ending balance June 30,	$4,117	$1,243

Vitas provides charity care, in certain circumstances, to patients without charge when management of the hospice program determines, at the time services are performed, that the patient does not have the financial wherewithal to make payment. There is no revenue or associated accounts receivable in the accompanying consolidated financial statements related to charity care. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by total cost of care. The cost of charity care is as follows (in thousands):

Three months ended June 30,		Six months ended June 30,	
2014	2013	2014	2013
$ 1,931	$ 1,955	$ 3,630	$ 3,884

3. Segments

Service revenues and sales and after-tax earnings by business segment are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Service Revenues and Sales				
VITAS	$ 264,026	$ 263,568	$ 524,438	$ 534,895
Roto-Rooter	96,156	93,630	194,044	188,944
Total	$ 360,182	$ 357,198	$ 718,482	$ 723,839
After-tax Earnings				
VITAS	$ 20,892	$ 20,485	$ 39,051	$ 40,628
Roto-Rooter	10,719	1,414	20,751	11,038
Total	31,611	21,899	59,802	51,666
Corporate	(7,248)	(7,291)	(14,865)	(14,780)
Net income	$ 24,363	$ 14,608	$ 44,937	$ 36,886

We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as "Corporate".

4. Earnings per Share

Earnings per share ("EPS") are computed using the weighted average number of shares of capital stock outstanding. Earnings and diluted earnings per share are computed as follows (in thousands, except per share data):

	Net Income		
For the Three Months Ended June 30,	Income	Shares	Earnings per Share
2014			
Earnings	$ 24,363	17,236	$ 1.41
Dilutive stock options	-	376	
Nonvested stock awards	-	147	
Conversion of Notes	-	121	
Diluted earnings	$ 24,363	17,880	$ 1.36
2013			
Earnings	$ 14,608	18,606	$ 0.79
Dilutive stock options	-	267	
Nonvested stock awards	-	93	
Diluted earnings	$ 14,608	18,966	$ 0.77

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For the Six Months Ended June 30,	Income	Net Income Shares	Earnings per Share
2014			
Earnings	$ 44,937	17,374	$ 2.59
Dilutive stock options	-	374	
Nonvested stock awards	-	147	
Conversion of Notes	-	202	
Diluted earnings	$ 44,937	18,097	$ 2.48
2013			
Earnings	$ 36,886	18,564	$ 1.99
Dilutive stock options	-	316	
Nonvested stock awards	-	100	
Diluted earnings	$ 36,886	18,980	$ 1.94

For the three and six-month periods ended June 30, 2014, no stock options were excluded from the computation of diluted earnings per share because they would have been anti-dilutive. For the three and six-month periods ended June 30, 2013, 31,000 stock options were excluded from the computation of diluted earnings per share.

Diluted earnings per share was impacted by the issuance of 249,000 shares of capital stock under the conversion feature of our 1.875% Senior Convertible Notes (the "Notes") on May 15, 2014. Assuming these shares were issued April 1, 2014 increases average diluted shares outstanding for the second quarter of 2014 by 121,000 shares. Similarly, the dilutive impact of this conversion feature for the first six months of 2014 was 202,000 shares.

5. Long-Term Debt

On May 15, 2014, we retired our Senior Convertible Notes (the "Notes") outstanding. We paid the $187.0 million of principal outstanding using a combination of cash on-hand and our existing revolving credit facility. In addition, we issued 249,000 Chemed shares in conjunction with the conversion feature of the Notes. At the time we issued the Notes, we also entered into a purchased call transaction to offset any potential economic dilution resulting from the conversion feature in the Notes. As a result, we received 266,000 Chemed shares from the exercise of the purchased call transaction. The issuance of shares under the conversion feature of the Notes, as well as the receipt of shares from the purchased call transaction were recorded as adjustments to paid in capital during the quarter ended June 30, 2014.

At the time we issued the Notes, we also sold warrants for the right to purchase approximately 2,477,000 Chemed shares in the future. During the quarter ended June 30, 2014, we settled these warrants with one counterparty representing half of the total warrants issued for $2.6 million. The amount paid was recorded as an adjustment to paid in capital. The remaining half of the sold warrants remain outstanding and mature ratably from August 15 through December 15, 2014. If our average stock price per share exceeds $102.20, these warrants will be dilutive on our outstanding share count.

On June 30, 2014, we replaced our existing credit agreement with the Third Amended and Restated Credit Agreement ("2014 Credit Agreement"). Terms of the 2014 Credit Agreement consist of a five-year, $350 million revolving credit facility and a $100 million term loan. The 2014 Credit Agreement currently has a floating interest rate that is currently LIBOR plus 125 basis points.

The debt outstanding consists of the following:

Revolver	$60,000,000
Term loan	100,000,000
Total	160,000,000
Current portion of term loan	(5,000,000)
Long-term debt	$155,000,000

Scheduled principal payments of the term loan are as follows:

2014	$2,500,000
2015	6,250,000
2016	7,500,000
2017	8,750,000
2018	10,000,000
2019	65,000,000
	$100,000,000

Debt issuance costs associated with the existing credit agreement were not written-off as the lenders and their relative percentage participation in the facility did not change. With respect to the 2014 Credit Agreement, deferred financing costs were $0.9 million. The 2014 Credit Agreement contains the following quarterly financial covenants:

Description	Requirement
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00
Fixed Charge Coverage Ratio (Consolidated Free Cash Flow/Consolidated Fixed Charges)	> 1.50 to 1.00
Annual Operating Lease Commitment	< $50.0 million

We are in compliance with all debt covenants as of June 30, 2014. We have issued $36.9 million in standby letters of credit as of June 30, 2014 for insurance purposes. Issued letters of credit reduce our available credit under the 2014 Credit Agreement. As of June 30, 2014, we have approximately $253.1 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility.

6. Other Income – Net

Other income -- net comprises the following (in thousands):

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Market value gains on assets held in deferred compensation trust	$ 650	$ 1,063	$ 1,812	$ 2,535
Loss on disposal of property and equipment	(48)	(1)	(326)	(79)
Interest income - net	58	670	8	973
Other - net	96	(36)	78	(27)
Total other income - net	$ 756	$ 1,696	$ 1,572	$ 3,402

7. Stock-Based Compensation Plans

On February 21, 2014, the Compensation/Incentive Committee of the Board of Directors ("CIC") granted 10,340 Performance Stock Units ("PSUs") contingent upon the achievement of certain total shareholders return ("TSR") targets as compared to the TSR of a group of peer companies for the three-year period ending December 31, 2016, the date at which such awards may vest. The cumulative compensation cost of the TSR-based PSUs award to be recorded over the three year service period is $1.2 million.

On February 21, 2014, the CIC also granted 14,061 PSUs contingent upon the achievement of certain earnings per share ("EPS") targets for the three-year period ending December 31, 2016. At the end of each reporting period, the Company estimates the number of shares that it believes will ultimately be earned and records that expense over the service period of the award. We currently estimate the cumulative compensation cost of the EPS-based PSUs to be recorded over the three year service period is $1.2 million.

8. Independent Contractor Operations

The Roto-Rooter segment sublicenses with 68 independent contractors to operate certain plumbing repair and drain cleaning businesses in lesser-populated areas of the United States and Canada. We had notes receivable from our independent contractors as of June 30, 2014 totaling $1.5 million (December 31, 2013 - $1.5 million). In most cases these loans are fully or partially secured by equipment owned by the contractor. The interest rates on the loans range from 0% to 8% per annum and the remaining terms of the loans range from 2 months to 5 years at June 30, 2014. We recorded the following from our independent contractors (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenues	$ 9,190	$ 8,154	$ 18,213	$ 16,364
Pretax profits	5,235	4,513	10,395	8,771

9. Retirement Plans

All of the Company's plans that provide retirement and similar benefits are defined contribution plans. These expenses include the impact of market gains and losses on assets held in deferred compensation plans. Expenses for the Company's pension and profit-sharing plans, excess benefit plans and other similar plans are as follows (in thousands):

Three months ended June 30,		Six months ended June 30,	
2014	2013	2014	2013
$ 3,324	$ 3,402	$ 7,222	$ 7,698

10. Legal and Regulatory Matters

The VITAS segment of the Company's business operates in a heavily-regulated industry. As a result, the Company is subjected to inquiries and investigations by various government agencies, as well as to lawsuits, including qui tam actions. The following sections describe the various ongoing material lawsuits and investigations of which the Company is currently aware. It is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or estimable.

Regulatory Matters and Litigation

On January 12, 2012, a putative class action lawsuit was filed in the U.S. District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O'Toole, In re Chemed Corp. Securities Litigation, Civil Action No. 1:12-cv-28 (S.D. Ohio). On June 18, 2012, an amended complaint was filed alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams, and O'Toole. The suit's allegations concerned the VITAS hospice segment of the Company's business. Plaintiffs sought, on behalf of a putative class of purchasers of Chemed Capital Stock, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from Defendants' alleged failure to disclose an alleged fraudulent scheme at VITAS to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants filed motions to dismiss the amended complaint on August 17, 2012, which were pending when the parties reached an agreement to settle the action. On June 7, 2013, following the filing of U.S. v. VITAS, discussed below, Plaintiffs filed a motion for leave to file a second amended complaint. Defendants opposed this motion. On September 16, 2013, Plaintiffs executed a Settlement Term Sheet with Defendants, reaching an agreement in principle to settle this case subject to Court approval. On February 6, 2014, Plaintiffs, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010 and May 2, 2013, inclusive, executed a stipulation of settlement with defendants, agreeing to settle this case in full and with prejudice, and to

provide Defendants with full releases of all claims that are or could have been asserted by Plaintiffs in exchange for payment of $6.0 million by our insurer into a settlement fund for the benefit of the putative settlement class ("Settlement"). The Settlement has been recorded as accrued legal and offsetting prepaid expenses in the accompanying Consolidated Balance Sheet. This Settlement received preliminary Court approval on March 27, 2014 and was approved on July 15, 2014, resulting in the dismissal of the case. Defendants agreed to enter into this Settlement in order to eliminate the burden, expense and distraction of further litigation.

In June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas, United States, et al. ex rel. Urick v. VITAS HME Solutions, Inc. et al., 5:08-cv-0663 ("Urick"). The U.S. Attorney filed a notice in May 2012 stating that it had decided not to intervene in the case at that time but indicating that it continues to investigate the allegations. In June 2012, the complaint was unsealed. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid Fraud Prevention Act based on allegations of a conspiracy to submit to Medicare and Medicaid false claims involving hospice services for ineligible patients, unnecessary medical supplies, failing to satisfy certain prerequisites for payment, and altering patient records, including backdating patient revocations. The suit was brought by Barbara Urick, a registered nurse in VITAS's San Antonio program, against VITAS, certain of its affiliates, and several former VITAS employees, including physicians Justo Cisneros and Antonio Cavasos and nurses Sally Schwenk, Diane Anest, and Edith Reed. In September 2012 and July 2013, the plaintiff dismissed all claims against the individual defendants. The complaint was served on the VITAS entities on April 12, 2013.

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Northern District of Illinois, United States, et al. ex rel. Spottiswood v. Chemed Corp., 1:07-cv-4566 ("Spottiswood"). In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. Plaintiff filed an amended complaint in November 2012. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint was served on the defendants on April 12, 2013. On May 29 and June 4, 2013, respectively, the Court granted the government's motion to partially intervene in Spottiswood and in Urick on the allegations that VITAS submitted or caused to be submitted false or fraudulent claims for continuous care and routine home care on behalf of certain ineligible Medicare beneficiaries. The Court also transferred them to the U.S. District Court for the Western District of Missouri under docket Nos. 4:13-cv-505 and 4:13-cv-563, respectively.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, United States v. VITAS Hospice Services, LLC, et al., No. 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. On August 1, 2013, the government filed its First Amended Complaint in the 2013 Action. The First Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. The defendants filed a motion to dismiss on September 24, 2013.

On May 6, 2013, the U.S. District Court for the Western District of Missouri, at the request of the government, unsealed a qui tam complaint against VITAS and VITAS Healthcare Corporation of California, United States ex rel. Charles Gonzales v. VITAS Healthcare Corporation, et al., CV 12-0761-R ("Gonzales"). The case was transferred from the Central District of California to the Western District of Missouri under docket No. 4:13-cv-344. The government partially intervened in Gonzales. The Gonzales complaint alleges that VITAS' Los Angeles program falsely certified and recertified patients as eligible for the Medicare Hospice Benefit. It alleges violations of the False Claims Act and seeks treble damages, civil penalties, recovery of costs, attorneys' fees and expenses, and pre- and post-judgment

interest.

On September 25, 2013, the Court granted a joint motion by the government, the relators, and VITAS to consolidate the Spottiswood, Urick, and Gonzales complaints with the 2013 Action. As a result, the First Amended Complaint will govern the consolidated federal claims brought by the United States and the relators for all purposes. The relators and VITAS have stipulated that certain non-intervened claims will not be pursued by the relators. The Spottiswood relator filed an action under the Illinois False Claims Act, The State of Illinois ex rel. Laura Spottiswood v. Chemed Corporation, et al., No. 14 L 2786 in the Circuit Court of Cook County, Illinois on March 6, 2014. The Court granted the parties' joint motion to place this case on its stay calendar, pending resolution of the 2013 Action.

VITAS has also received document subpoenas in related state matters. In February 2010, VITAS received a civil investigative demand ("CID") from the Texas Attorney General seeking documents from January 1, 2002 through the date of the CID, and interrogatory responses in connection with an investigation of possible fraudulent submission of Medicaid claims for non-qualifying patients and fraudulent shifting of costs from VITAS to the State of Texas and the United States. The CID requested similar information sought by prior Department of Justice subpoenas, including policy and procedure manuals and information concerning Medicare and Medicaid billing, patient statistics and sales and marketing practices, together with information concerning record-keeping and retention practices, and medical records concerning 117 patients. In September 2010, VITAS received a second CID from the Texas Attorney General seeking additional documents concerning business plans and results, revocation forms for certain patients, and electronic documents of 10 current and former employees. In July 2012, VITAS received an investigative subpoena from the Florida Attorney General seeking documents previously produced in the course of prior government investigations as well as, for the period January 1, 2007 through the date of production, billing records and procedures; information concerning business results, plans, and strategies; documents concerning patient eligibility for hospice care; and certain information concerning employees and their compensation.

The net costs incurred related to U.S. v. Vitas and related regulatory matters were $410,000 and $1.0 million for the three months ended June 30, 2014 and 2013, respectively. For the six months ended June 30, 2014 and 2013, the net costs were $1.2 million and $2.0 million respectively.

In November 2013, two shareholder derivative lawsuits were filed against the Company's current and former directors, as well as certain of its officers, both of which are covered by the Company's commercial insurance. On November 6, 2013, KBC Asset Management NV filed suit in the United States District Court for the District of Delaware, KBC Asset Management NV, derivatively on behalf of Chemed Corp. v. McNamara, et al., No. 13 Civ. 1854 (LPS) (D. Del.). It sued Kevin McNamara, Joel Gemunder, Patrick Grace, Thomas Hutton, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, Arthur Tucker, Jr., George Walsh III, Frank Wood, Timothy O'Toole, David Williams and Ernest Mrozek, together with the Company as nominal defendant. Plaintiff alleges that since at least 2004, Chemed, through VITAS, has submitted or caused the submission of false claims to Medicare. The suit alleges a claim for breach of fiduciary duty against the individual defendants, and seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On November 14, 2013, Mildred A. North filed suit in the United States District Court for the Southern District of Ohio, North, derivatively on behalf of Chemed Corp. v. Kevin McNamara, el al., No. 13 Civ. 833 (MDB) (S.D. Ohio). She sued Kevin McNamara, David Williams, Timothy O'Toole, Joel Gemunder, Patrick Grace, Walter Krebs, Andrea Lindell, Thomas Rice, Donald Saunders, George Walsh III, Frank Wood and Thomas Hutton, together with the Company as nominal defendant. Plaintiff alleges that, between February 2010 and the present, the individual defendants breached their fiduciary duties as officers and directors of Chemed by, among other things, (a) allegedly causing VITAS to submit improper and ineligible claims to Medicare and Medicaid; and (b) allegedly misrepresenting the state of Chemed's internal controls. The suit alleges claims for breach of fiduciary duty, abuse of control and gross mismanagement against the individual defendants. The complaint also alleges unjust enrichment and insider trading against Messrs. McNamara, Williams and O'Toole. Plaintiff seeks (a) a declaration that the individual defendants breached their fiduciary duties to the Company; (b) an order requiring those defendants to pay compensatory damages, restitution and exemplary damages, in unspecified amounts, to the Company; (c) an order directing the Company to implement new policies and procedures; and (d) costs and disbursements incurred in bringing the action, including attorneys' fees.

On December 20, 2013, Plaintiff in the North action filed a motion before the Judicial Panel on Multidistrict Litigation seeking centralized treatment of her action and the KBC action in the U.S. District Court for the Southern District of Ohio. Defendants in both cases, as well as Plaintiff KBC, opposed that motion, consistent with Chemed's By-law 8.07, which requires all derivative suits brought in Chemed's name to proceed in federal or state court in Delaware. The MDL Panel denied the motion on April 2, 2014. On January 29, 2014 Defendants filed motions to transfer North to Delaware under 28 U.S.C § 1404 and to stay the case until after resolution of that motion and the MDL motion. Defendants have moved to dismiss the KBC complaint for failure to plead demand futility and for failure to state a claim.

The Company intends to defend vigorously against the allegations in each of the above lawsuits. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies and opposing parties can adversely affect us through defense costs, potential payments, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

11. Concentration of Risk

VITAS has pharmacy services agreements ("Agreements") with Omnicare, Inc. and its subsidiaries ("OCR") whereby OCR provides specified pharmacy services for VITAS and its hospice patients in geographical areas served by both VITAS and OCR. The Agreements renew automatically for three-year terms. Either party may cancel the Agreements at the end of any term by giving 30 days prior written notice. VITAS made purchases from OCR of $8.8 million and $9.9 million for the three months ended June 30, 2014 and 2013, respectively. VITAS made purchases from OCR of $17.7 million and $19.5 million for the six months ended June 30, 2014 and 2013, respectively. For the three and six month periods ending June 30, 2014 and 2013, respectively, purchases from this vendor represent approximately 90% of all pharmacy services used by VITAS.

12. Cash Overdrafts and Cash Equivalents

Included in accounts payable at June 30, 2014 is cash overdrafts payable of $327,000 (December 31, 2013 - $806,000).

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. We had $59,000 in cash equivalents as of June 30, 2014. There was $23.1 million in cash equivalents as of December 31, 2013. The weighted average rate of return for our cash equivalents was 0.15% for June 30, 2014 and 0.08% for December 31, 2013.

13. Financial Instruments

FASB's authoritative guidance on fair value measurements defines a hierarchy which prioritizes the inputs in fair value measurements. Level 1 measurements are measurements using quoted prices in active markets for identical assets or liabilities. Level 2 measurements use significant other observable inputs. Level 3 measurements are measurements using significant unobservable inputs which require a company to develop its own assumptions. In recording the fair value of assets and liabilities, companies must use the most reliable measurement available.

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of June 30, 2014 (in thousands):

		Fair Value Measure		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	$ 47,314	$ 47,314	$ -	$ -
Long-term debt	160,000	-	160,000	-

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2013 (in thousands):

		Fair Value Measure		
	Carrying Value	Quoted Prices in Active Markets for	Significant Other	Significant Unobservable

		Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Mutual fund investments of deferred compensation plans held in trust	$ 42,465	$ 42,465	$ -	$ -
Long-term debt	183,564	193,032	-	-

For cash and cash equivalents, accounts receivable and accounts payable, the carrying amount is a reasonable estimate of fair value because of the liquidity and short-term nature of these instruments.

14. Capital Stock Repurchase Plan Transactions

We repurchased the following capital stock for the three and six-months ended June 30, 2014 and 2013:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Shares repurchased	300,000	280,701	682,934	280,701
Weighted average price per share	$ 85.04	$ 65.72	$ 85.65	$ 65.72

In February 2014, the Board of Directors authorized an additional $100 million for stock repurchase under Chemed's existing share repurchase program. We currently have $63.3 million of authorization remaining under this share repurchase plan.

15. Recent Accounting Statements

In May 2014, the FASB issued Accounting Standards Update "ASU No. 2014-09 – Revenue from Contracts with Customers" which provides additional guidance to clarify the principles for recognizing revenue. The standard will also be used to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide more useful information to users through improved disclosure requirements, and simplify the preparation of financial statements. The guidance is effective for fiscal years beginning after December 15, 2016. We are currently evaluating the impact of this ASU on our existing revenue recognition policies and disclosures.

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

Executive Summary

We operate through our two wholly-owned subsidiaries, VITAS Healthcare Corporation and Roto-Rooter Group, Inc. VITAS focuses on hospice care that helps make terminally ill patients' final days as comfortable as possible. Through its teams of doctors, nurses, home health aides, social workers, clergy and volunteers, VITAS provides direct medical services to patients, as well as spiritual and emotional counseling to both patients and their families. Roto-Rooter's services are focused on providing plumbing and drain cleaning services to both residential and commercial customers. Through its network of company-owned branches, independent contractors and franchisees, Roto-Rooter offers plumbing and drain cleaning service to over 90% of the U.S. population.

The following is a summary of the key operating results (in thousands except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Service revenues and sales	$ 360,182	$ 357,198	$ 718,482	$ 723,839
Net income	$ 24,363	$ 14,608	$ 44,937	$ 36,886
Diluted EPS	$ 1.36	$ 0.77	$ 2.48	$ 1.94
Adjusted net income	$ 26,580	$ 27,232	$ 50,293	$ 53,372
Adjusted diluted EPS	$ 1.50	$ 1.44	$ 2.81	$ 2.81
Adjusted EBITDA	$ 52,213	$ 52,943	$ 99,885	$ 104,239
Adjusted EBITDA as a % of revenue	14.5 %	14.8 %	13.9 %	14.4 %

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization ("EBITDA") and Adjusted EBITDA are not measures derived in accordance with GAAP. We use Adjusted Diluted EPS as a measure of earnings for our long-term incentive plan awards. We provide non-GAAP measures to help readers evaluate our operating results, compare our operating performance with that of similar companies that have different capital structures and help evaluate our ability to meet future debt service, capital expenditure and working capital requirements. Our non-GAAP measures should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. A reconciliation of our non-GAAP measures are presented on pages 27-29.

For the three months ended June 30, 2014, the increase in consolidated service revenues and sales was driven by a 2.7% increase at Roto-Rooter and a 0.2% increase at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in a combination of price and service/geographical mix shift offset by a decrease in job count. The remaining difference relates to increases in contractor revenue and increases in non-plumbing and non sewer and drain cleaning related revenues. The increase in service revenues at VITAS was a result of Medicare reimbursement rates increasing 1.4%, offset by a 1.0% decrease in average daily census. Consolidated net income increased 66.8% mainly as a result of a lawsuit settlement in 2013 at Roto-Rooter that did not repeat in 2014. Diluted EPS increased 76.6% as a result of the increase in net income as well as a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue decreased 0.3%. See page 30 for additional VITAS operating metrics.

For the six months ended June 30, 2014, the decrease in consolidated service revenues and sales was driven by a 2.7% increase at Roto-Rooter and a 2.0% decrease at VITAS. The increase in service revenues at Roto-Rooter was driven by an increase in a combination of price, and service/geographical mix shift offset by a decrease in job count. The remaining difference relates to increases in contractor revenue and increases in non-plumbing and non sewer and drain cleaning related revenues. The decrease in service revenues at VITAS was a result of Medicare reimbursement rates increasing 1.4%, offset by a 2.0% decrease as a result of sequestration, decreased ADC of 0.9%, and geographical and level of care mix shift. Consolidated net income increased 21.8% mainly as a result of a lawsuit settlement in 2013 at

Roto-Rooter that did not repeat in 2014 offset by lower revenue at VITAS. Diluted EPS increased 27.8% as a result of the increase in net income as well as a lower number of shares outstanding. Adjusted EBITDA as a percent of revenue decreased 0.5%. See page 30 for additional VITAS operating metrics.

On April 1, 2013, Medicare reduced hospice reimbursement rates 2.0%. Effective October 1, 2013, Medicare increased the average hospice rate approximately 1.4% This effectively reduced Medicare hospice reimbursement 0.6% through the first quarter of 2014. VITAS expects its full-year 2014 revenue growth, prior to Medicare cap, to be in the range of 1.0% to 2.0%. Admissions in 2014 are estimated to increase 2.0%. Adjusted EBITDA margin, prior to Medicare cap, is estimated to be 14.5% to 15.0%. Medicare cap is estimated to be $3.7 million in 2014. Roto-Rooter expects full-year 2014 revenue growth of 3.0% to 4.0%. The revenue estimate is a result of increased job pricing of approximately 2.0%. Adjusted EBITDA margin for 2014 is estimated in the range of 19.5% to 20.0%. We anticipate that our operating income and cash flows will be sufficient to operate our businesses and meet any commitments for the foreseeable future.

Financial Condition

Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2013 to June 30, 2014 include the following:

- A $56.5 million decrease in cash due to purchases of treasury stock and a net payment of our long-term debt.
- A $6.8 million decrease in current deferred income taxes mainly related to the payment of litigation settlements.
- A $6.7 million decrease in accounts payable due to timing of payments.
- A $23.6 million decrease in current portion and long-term debt as a result of the payment of outstanding debt using cash on-hand.
- A $5.9 million increase in income taxes as a result of the timing of tax payments.
- A $5.8 million decrease in accrued compensation related to the payment of incentive compensation in the first quarter.
- A $15.8 million decrease in accrued legal due to the payment of litigation settlements.

Net cash provided by operating activities decreased $39.6 million primarily as a result of the decrease in accounts payable and other current liabilities. Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

We have issued $36.9 million in standby letters of credit as of June 30, 2014, for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of June 30, 2014, we have approximately $253.1 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

Commitments and Contingencies

Collectively, the terms of our credit agreements require us to meet various financial covenants, to be tested quarterly. We are in compliance with all financial and other debt covenants as of June 30, 2014 and anticipate remaining in compliance throughout 2014.

The VITAS segment of the Company's business operates in a heavily-regulated industry. As a result, the Company is subjected to inquiries and investigations by various government agencies, as well as to lawsuits, including qui tam actions. The following sections describe the various ongoing material lawsuits and investigations of which the Company is currently aware. It is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or estimable.

On January 12, 2012, a putative class action lawsuit was filed in the U.S. District Court for the Southern District of Ohio against the Company, Kevin McNamara, David Williams, and Timothy O'Toole, In re Chemed Corp. Securities Litigation, Civil Action No. 1:12-cv-28 (S.D. Ohio). On June 18, 2012, an amended complaint was filed alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 against all Defendants, and violation of Section 20(a) of the Securities Exchange Act of 1934 against Messrs. McNamara, Williams, and O'Toole. The suit's allegations concerned the VITAS hospice segment of the Company's business. Plaintiffs sought, on behalf of a putative class of purchasers of Chemed Capital Stock, compensatory damages in an unspecified amount and attorneys' fees and expenses, arising from Defendants' alleged failure to disclose an alleged fraudulent scheme at VITAS to enroll ineligible hospice patients and to fraudulently obtain payments from the federal government. Defendants filed motions to dismiss the amended complaint on August 17, 2012, which were pending when the parties reached an agreement to settle the action. On June 7, 2013, following the filing of U.S. v. VITAS, discussed below, Plaintiffs filed a motion for leave to file a second amended complaint. Defendants opposed this motion. On September 16, 2013, Plaintiffs executed a Settlement Term Sheet with Defendants, reaching an

agreement in principle to settle this case subject to Court approval. On February 6, 2014, Plaintiffs, on behalf of a putative class of purchasers of Chemed Capital Stock between February 15, 2010 and May 2, 2013, inclusive, executed a stipulation of settlement with defendants, agreeing to settle this case in full and with prejudice, and to provide Defendants with full releases of all claims that are or could have been asserted by Plaintiffs in exchange for payment of $6.0 million by our insurer into a settlement fund for the benefit of the putative settlement class ("Settlement"). The Settlement has been recorded as accrued legal and offsetting prepaid expenses in the accompanying Consolidated Balance Sheet. This Settlement received preliminary Court approval on March 27, 2014 and was approved on July 15, 2014, resulting in dismissal of the case. Defendants agreed to enter into this Settlement in order to eliminate the burden, expense and distraction of further litigation.

In June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Western District of Texas, United States, et al. ex rel. Urick v. VITAS HME Solutions, Inc. et al., 5:08-cv-0663 ("Urick"). The U.S. Attorney filed a notice in May 2012 stating that it had decided not to intervene in the case at that time but indicating that it continues to investigate the allegations. In June 2012, the complaint was unsealed. The complaint asserts violations of the federal False Claims Act and the Texas Medicaid Fraud Prevention Act based on allegations of a conspiracy to submit to Medicare and Medicaid false claims involving hospice services for ineligible patients, unnecessary medical supplies, failing to satisfy certain prerequisites for payment, and altering patient records, including backdating patient revocations. The suit was brought by Barbara Urick, a registered nurse in VITAS's San Antonio program, against VITAS, certain of its affiliates, and several former VITAS employees, including physicians Justo Cisneros and Antonio Cavasos and nurses Sally Schwenk, Diane Anest, and Edith Reed. In September 2012 and July 2013, the plaintiff dismissed all claims against the individual defendants. The complaint was served on the VITAS entities on April 12, 2013.

Also in June 2011, the U.S. Attorney provided the Company with a partially unsealed qui tam complaint filed under seal in the U.S. District Court for the Northern District of Illinois, United States, et al. ex rel. Spottiswood v. Chemed Corp., 1:07-cv-4566 ("Spottiswood"). In April 2012, the complaint was unsealed. The U.S. Attorney and Attorney General for the State of Illinois filed notices in April and May 2012, respectively, stating that they had decided not to intervene in the case at that time but indicating that they continue to investigate the allegations. Plaintiff filed an amended complaint in November 2012. The complaint asserts violations of the federal False Claims Act and the Illinois Whistleblower Reward and Protection Act based on allegations that VITAS fraudulently billed Medicare and Medicaid for providing unwarranted continuous care services. The suit was brought by Laura Spottiswood, a former part-time pool registered nurse at VITAS, against Chemed, VITAS, and a VITAS affiliate. The complaint was served on the defendants on April 12, 2013. On May 29 and June 4, 2013, respectively, the Court granted the government's motion to partially intervene in Spottiswood and in Urick on the allegations that VITAS submitted or caused to be submitted false or fraudulent claims for continuous care and routine home care on behalf of certain ineligible Medicare beneficiaries. The Court also transferred them to the U.S. District Court for the Western District of Missouri under docket Nos. 4:13-cv-505 and 4:13-cv-563, respectively.

On May 2, 2013, the government filed a False Claims Act complaint against the Company and certain of its hospice-related subsidiaries in the U.S. District Court for the Western District of Missouri, United States v. VITAS Hospice Services, LLC, et al., No. 4:13-cv-00449-BCW (the "2013 Action"). Prior to that date, the Company received various subpoenas from the U.S. Department of Justice and OIG that have been previously disclosed. The 2013 Action alleges that, since at least 2002, VITAS, and since 2004, the Company, submitted or caused the submission of false claims to the Medicare program by (a) billing Medicare for continuous home care services when the patients were not eligible, the services were not provided, or the medical care was inappropriate, and (b) billing Medicare for patients who were not eligible for the Medicare hospice benefit because they did not have a life expectancy of six months or less if their illnesses ran their normal course. This complaint seeks treble damages, statutory penalties, and the costs of the action, plus interest. On August 1, 2013, the government filed its First Amended Complaint in the 2013 Action. The First Amended Complaint changed and supplemented some of the allegations, but did not otherwise expand the causes of action or the nature of the relief sought against VITAS. The defendants filed a motion to dismiss on September 24, 2013.

On May 6, 2013, the U.S. District Court for the Western District of Missouri, at the request of the government, unsealed a qui tam complaint against VITAS and VITAS Healthcare Corporation of California, United States ex rel. Charles Gonzales v. VITAS Healthcare Corporation, et al., CV 12-0761-R ("Gonzales"). The case was transferred from the Central District of California to the Western District of Missouri under docket No. 4:13-cv-344. The government partially intervened in Gonzales. The Gonzales complaint alleges that VITAS' Los Angeles program falsely certified and recertified patients as eligible for the Medicare Hospice Benefit. It alleges violations of the False Claims Act and seeks treble damages, civil penalties, recovery of costs, attorneys' fees and expenses, and pre- and post-judgment

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The Company intends to defend vigorously against the allegations in each of the above lawsuits. Regardless of the outcome of any of the preceding matters, responding to the subpoenas and dealing with the various regulatory agencies and opposing parties can adversely affect us through defense costs, potential payments, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

Results of Operations

Three months ended June 30, 2014 versus 2013 - Consolidated Results

Our service revenues and sales for the second quarter of 2014 increased 0.8% versus services and sales revenues for the second quarter of 2013. Of this increase, $458,000 was attributable to VITAS and a $2.5 million increase at Roto-Rooter. The following chart shows the components of those changes (in thousands):

	Increase/(Decrease)		
	Amount		Percent
VITAS			
Routine homecare	$	145	0.1
Continuous care		(542)	(1.4)
General inpatient		143	0.6
Medicare cap		712	83.3
Roto-Rooter			
Plumbing		49	0.1
Drain cleaning		(1,061)	(2.9)
Contractor operations		1,035	12.7
Other		2,503	41.5
Total	$	2,984	0.8

The increase in VITAS' revenues for the second quarter of 2014 versus the second quarter of 2013 was a combination of Medicare reimbursement rates increasing approximately 1.4%, offset by a 1.0% decline in ADC. In the second quarter of 2014, VITAS recorded a net revenue reduction of $143,000 related to partially eliminating the Medicare cap billing limitation recorded in the fourth quarter of 2013 for one program offset by the recording of Medicare Cap liability for one program's 2014 Medicare cap billing limitation. The ADC decrease was driven by a 0.9% decrease in routine homecare, a decrease of 2.6% in continuous care and a decrease of 0.2% in general inpatient. Over 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the second quarter of 2014 versus 2013 is attributable to a 2.1% decrease in job count, offset by a 2.2% increase in a combination of price and service/geographical mix shift. Drain cleaning revenues for the second quarter of 2014 versus 2013 reflect a 7.3% decrease in the number of jobs performed, offset by a 4.4% increase in a combination of price and service/geographical mix shift. Contractor operations revenue increased 12.7% for the second quarter of 2014. Other Roto-Rooter revenue increased 41.5% as a result of increases in other lines of business including franchise fees, product sales and other non plumbing service revenues.

The consolidated gross margin was 28.6% in the second quarter of 2014 as compared with 28.5% in the second quarter of 2013. On a segment basis, VITAS' gross margin was 22.0% in the second quarter of 2014 and 21.9% in the second quarter of 2013. The Roto-Rooter segment's gross margin was 46.8% for the second quarter of 2014 as compared with 47.1% for the second quarter of 2013.

Selling, general and administrative expenses ("SG&A") comprise (in thousands):

	Three months ended June 30,			
		2014		2013
SG&A expenses before the impact of market gains of deferred compensation plans, long-term incentive compensation, and OIG investigation expenses	$	51,976	$	50,554
Long-term incentive compensation		613		494
Expenses related to OIG investigation		410		996
Impact of market value gains on liabilities held in deferred compensation				

trusts		650		1,063
Total SG&A expenses	$	53,649	$	53,107

SG&A expenses before long-term incentive compensation, expenses related to OIG investigation and the impact of market gains of deferred compensation plans for the second quarter of 2014 were up 2.8% when compared to the second quarter of 2013 mainly as a result of normal salary increases.

Other operating expenses decreased $14.8 million in the second quarter of 2014 when compared to the second quarter of 2013 as a result of a lawsuit settlement at Roto-Rooter in 2013 that did not repeat in 2014.

Other income - net comprise (in thousands):

	Three months ended June 30, 2014	2013
Market value gains on assets held in deferred compensation trusts	$ 650	$ 1,063
Loss on disposal of property and equipment	(48)	(1)
Interest income - net	58	670
Other	96	(36)
Total other income - net	$ 756	$ 1,696

Our effective income tax rate was 38.9% in the second quarter of 2014 which is flat when compared to the second quarter of 2013.

Net income for both periods included the following after-tax items/adjustments that reduced or increased after-tax earnings (in thousands):

	Three months ended June 30, 2014	2013
VITAS		
Expenses related to OIG investigation	$ (254)	$ (618)
Acquisition expenses	-	(12)
Roto-Rooter		
Litigation settlement	-	(8,967)
Expenses related to litigation settlements	(20)	(344)
Acquisition expenses	-	(1)
Corporate		
Noncash impact of change in accounting for convertible debt	(714)	(1,348)
Stock option expense	(722)	(1,020)
Long-term incentive compensation	(388)	(313)
Expenses related to securities litigation	(119)	(1)
Total	$ (2,217)	$ (12,624)

Three months ended June 30, 2014 versus 2013 - Segment Results

The change in after-tax earnings for the second quarter of 2014 versus the second quarter of 2013 is due to (in thousands):

	Increase/(Decrease) Amount	Percent
VITAS	$ 407	2.0
Roto-Rooter	9,305	658.1
Corporate	43	0.6
	$ 9,755	66.8

Results of Operations

Six months ended June 30, 2014 versus 2013 - Consolidated Results

Our service revenues and sales for the first six months of 2014 decreased 0.7% versus services and sales revenues for the first six months of 2013. Of this decrease, $10.5 million was attributable to VITAS offset by a $5.1 million increase at Roto-Rooter. The following chart shows the components of those changes (in thousands):

	Increase/(Decrease)	
	Amount	Percent
VITAS		
Routine homecare	$ (1,119)	(0.3)
Continuous care	(7,692)	(9.2)
General inpatient	(2,332)	(4.3)
Medicare cap	686	3,811.1
Roto-Rooter		
Plumbing	2,691	3.1
Drain cleaning	(2,428)	(3.3)
Contractor operations	1,849	11.3
Other	2,988	24.0
Total	$ (5,357)	(0.7)

The decrease in VITAS' revenues for the first six months of 2014 versus the first six months of 2013 was a combination of Medicare reimbursement rates increasing approximately 1.4%, offset by a 2.0% decline due to sequestration (which was effective May 1, 2013), an ADC decrease of 0.9%, and geographical and level of care mix shift. In the first six months of 2014, VITAS recorded a positive revenue adjustment of $704,000 related to eliminating the Medicare cap billing limitation recorded in the fourth quarter of 2013 for one program and partially eliminating the Medicare cap billing limitation in another program offset by the recording of Medicare cap billing limitation for one program's liability for the 2014 Medicare cap year. This compares with a $18,000 Medicare cap liability reversal recorded in the first six months of 2013. The ADC decrease was driven by a 0.4% decrease in routine homecare, a decrease of 9.4% in continuous care and a decrease of 3.5% in general inpatient. Over 90% of VITAS' service revenues for the period were from Medicare and Medicaid.

The increase in plumbing revenues for the first six months of 2014 versus 2013 is attributable to a 3.4% increase in job count, offset by a 0.3% decrease in geographical and service mix shift. Drain cleaning revenues for the first six months of 2014 versus 2013 reflect a 7.6% decrease in the number of jobs performed, offset by a 4.3% increase in a combination of price and geographical/service mix shift. Contractor operations revenue increased 11.3% for the first six months of 2014. Other Roto-Rooter revenue increased 24.0% as a result of increases in other lines of business including franchisee fees, product sales, and other non plumbing service revenues.

The consolidated gross margin was 28.3% in the first six months of 2014 as compared with 28.2% in the first six months of 2013. On a segment basis, VITAS' gross margin was 21.6% in the first six months of 2014 and 21.7% in the first six months of 2013. The Roto-Rooter segment's gross margin was 46.6% for the first six months of 2014 as compared with 46.7% for the first six months of 2013.

Selling, general and administrative expenses ("SG&A") comprise (in thousands):

	Six months ended June 30,	
	2014	2013
SG&A expenses before long-term incentive compensation and the impact of market gains and		

losses of deferred compensation plans	$105,364	$102,991
Long-term incentive compensation	986	1,106
Expenses related to OIG investigation	1,158	2,035
Impact of market value gains on liabilities held in deferred compensation trusts	1,812	2,535
Total SG&A expenses	$109,320	$108,667

SG&A expenses before long-term incentive compensation, expenses related to OIG investigation and the impact of market gains of deferred compensation plans for the first six months of 2014 were up 2.3% when compared to the first six months of 2013 mainly as a result of normal salary increases.

Other operating expenses decreased $14.8 million in the first six months of 2014 when compared to the first six months of 2013 as a result of a lawsuit settlement at Roto-Rooter in 2013 that did not repeat in 2014.

Other income - net comprise (in thousands):

	Six months ended June 30,	
	2014	2013
Market value gains on assets held in deferred compensation trusts	$ 1,812	$ 2,535
Loss on disposal of property and equipment	(326)	(79)
Interest income	8	973
Other	78	(27)
Total other income - net	$ 1,572	$ 3,402

Our effective income tax rate was 38.9% in the first six months of 2014 which is flat when compared to the first six months of 2013.

Net income for both periods included the following after-tax items/adjustments that reduced or increased after-tax earnings (in thousands):

	Six Months Ended June 30,	
	2014	2013
VITAS		
Legal expenses of OIG investigation	$(718)	$(1,262)
Expenses related to litigation settlements	(70)	-
Acquisition expenses	(1)	(12)
Roto-Rooter		
Litigation settlements	-	(8,967)
Expenses related to litigation settlements	(137)	(430)
Expenses of severance arrangements	-	(184)
Acquisition expenses	-	(1)
Corporate		
Stock option expense	(1,544)	(1,963)
Noncash impact of change in accounting for convertible debt	(2,143)	(2,671)
Long-term incentive compensation	(624)	(700)
Expenses of securities litigation	(119)	(2)
Loss on extinguishment of debt	-	(294)
Total	$(5,356)	$(16,486)

Six months ended June 30, 2014 versus 2013 - Segment Results

The change in after-tax earnings for the first six months of 2014 versus the first six months of 2013 is due to (in thousands):

	Increase/(Decrease)	
	Amount	Percent
VITAS	$ (1,577)	(3.9)
Roto-Rooter	9,713	88.0
Corporate	(85)	0.6
	$ 8,051	21.8

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2014
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2014 (a)				
Service revenues and sales	$ 264,026	$ 96,156	$ -	$ 360,182
Cost of services provided and goods sold	205,818	51,189	-	257,007
Selling, general and administrative expenses	21,002	25,705	6,942	53,649
Depreciation	4,564	2,561	147	7,272
Amortization	205	137	393	735
Total costs and expenses	231,589	79,592	7,482	318,663
Income/(loss) from operations	32,437	16,564	(7,482)	41,519
Interest expense	(57)	(111)	(2,261)	(2,429)
Intercompany interest income/(expense)	1,517	680	(2,197)	-
Other income/(expense)—net	(95)	198	653	756
Income/(expense) before income taxes	33,802	17,331	(11,287)	39,846
Income taxes	(12,910)	(6,612)	4,039	(15,483)
Net income/(loss)	$ 20,892	$ 10,719	$ (7,248)	$ 24,363

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$ -	$ -	$ (1,144)	$ (1,144)
Noncash impact of accounting for convertible debt	-	-	(1,130)	(1,130)
Long-term incentive compensation	-	-	(613)	(613)
Expenses related to litigation settlements	-	(32)	-	(32)
Expenses related to securities litigation	-	-	(189)	(189)
Expenses related to OIG investigation	(410)	-	-	(410)
Total	$ (410)	$ (32)	$ (3,076)	$ (3,518)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	$ -	$ -	$ (722)	$ (722)
Noncash impact of accounting for convertible debt	-	-	(714)	(714)

Long-term incentive compensation	-	-	(388)	(388)
Expenses related to litigation settlements	-	(20)	-	(20)
Expenses related to securities litigation	-	-	(119)	(119)
Expenses related to OIG investigation	(254)	-	-	(254)
Total	$ (254)	$ (20)	$ (1,943)	$ (2,217)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2013
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2013 (a)				
Service revenues and sales	$ 263,568	$ 93,630	$ -	$ 357,198
Cost of services provided and goods sold	205,788	49,571	-	255,359
Selling, general and administrative expenses	21,063	25,230	6,814	53,107
Depreciation	4,520	2,246	133	6,899
Amortization	536	149	496	1,181
Other operating expenses	-	14,760	-	14,760
Total costs and expenses	231,907	91,956	7,443	331,306
Income/(loss) from operations	31,661	1,674	(7,443)	25,892
Interest expense	(51)	(97)	(3,549)	(3,697)
Intercompany interest income/(expense)	866	436	(1,302)	-
Other income/(expense)—net	585	34	1,077	1,696
Income/(expense) before income taxes	33,061	2,047	(11,217)	23,891
Income taxes	(12,576)	(633)	3,926	(9,283)
Net income/(loss)	$ 20,485	$ 1,414	$ (7,291)	$ 14,608

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$ -	$ -	$ (1,612)	$ (1,612)
Noncash impact of accounting for convertible debt	-	-	(2,132)	(2,132)
Long-term incentive compensation	-	-	(494)	(494)
Litigation settlement	-	(14,760)	-	(14,760)
Expenses related to litigation settlement	-	(567)	-	(567)
Expenses related to securities litigation	-	-	(1)	(1)
Acquisition expenses	(19)	(1)	-	(20)
Expenses of OIG investigation	(996)	-	-	(996)
Total	$ (1,015)	$ (15,328)	$ (4,239)	$ (20,582)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				

Stock option expense	$ -	$ -	$ (1,020)	$ (1,020)
Noncash impact of accounting for convertible debt	-	-	(1,348)	(1,348)
Long-term incentive compensation	-	-	(313)	(313)
Litigation settlement	-	(8,967)	-	(8,967)
Expenses related to litigation settlements	-	(344)	-	(344)
Expenses related to securities litigation	-	-	(1)	(1)
Acquisition expenses	(12)	(1)	-	(13)
Expenses of OIG investigation	(618)	-	-	(618)
Total	$ (630)	$ (9,312)	$ (2,682)	$ (12,624)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2014
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2014 (a)				
Service revenues and sales	$ 524,438	$ 194,044	$ -	$ 718,482
Cost of services provided and goods sold	411,210	103,616	-	514,826
Selling, general and administrative expenses	42,716	52,887	13,717	109,320
Depreciation	9,178	4,961	282	14,421
Amortization	624	282	838	1,744
Total costs and expenses	463,728	161,746	14,837	640,311
Income/(loss) from operations	60,710	32,298	(14,837)	78,171
Interest expense	(112)	(208)	(5,924)	(6,244)
Intercompany interest income/(expense)	2,860	1,330	(4,190)	-
Other income/(expense)—net	(388)	139	1,821	1,572
Income/(expense) before income taxes	63,070	33,559	(23,130)	73,499
Income taxes	(24,019)	(12,808)	8,265	(28,562)
Net income/(loss)	$ 39,051	$ 20,751	$ (14,865)	$ 44,937

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$ -	$ -	$ (2,453)	$ (2,453)
Noncash impact of accounting for convertible debt	-	-	(3,389)	(3,389)
Long-term incentive compensation	-	-	(986)	(986)
Expenses related to litigation settlements	(113)	(225)	-	(338)
Expenses related to securities litigation	-	-	(189)	(189)
Acquisition expenses	(1)	-	-	(1)
Expenses related to OIG investigation	(1,158)	-	-	(1,158)
Total	$ (1,272)	$ (225)	$ (7,017)	$ (8,514)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	$ -	$ -	$ (1,544)	$ (1,544)

Noncash impact of accounting for convertible debt	-	-	(2,143)	(2,143)
Long-term incentive compensation	-	-	(624)	(624)
Expenses related to litigation settlements	(70)	(137)	-	(207)
Expenses related to securities litigation	-	-	(119)	(119)
Acquisition expenses	(1)	-	-	(1)
Expenses related to OIG investigation	(718)	-	-	(718)
Total	$ (789)	$ (137)	$ (4,430)	$ (5,356)

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2013
(in thousands)(unaudited)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
2013 (a)				
Service revenues and sales	$ 534,895	$ 188,944	$ -	$ 723,839
Cost of services provided and goods sold	418,949	100,717	-	519,666
Selling, general and administrative expenses	42,667	51,892	14,108	108,667
Depreciation	9,033	4,394	267	13,694
Amortization	1,026	303	979	2,308
Other operating expenses	-	14,760	-	14,760
Total costs and expenses	471,675	172,066	15,354	659,095
Income/(loss) from operations	63,220	16,878	(15,354)	64,744
Interest expense	(97)	(156)	(7,538)	(7,791)
Intercompany interest income/(expense)	1,709	864	(2,573)	-
Other income/(expense)—net	805	34	2,563	3,402
Income/(expense) before income taxes	65,637	17,620	(22,902)	60,355
Income taxes	(25,009)	(6,582)	8,122	(23,469)
Net income/(loss)	$ 40,628	$ 11,038	$ (14,780)	$ 36,886

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	$ -	$ -	$ (3,103)	$ (3,103)
Noncash impact of accounting for convertible debt	-	-	(4,223)	(4,223)
Long-term incentive compensation	-	-	(1,106)	(1,106)
Expenses of severance arrangements	-	(302)	-	(302)
Loss on extinguishment of debt	-	-	(465)	(465)
Litigation settlement	-	(14,760)	-	(14,760)
Expenses related to litigation settlements	-	(708)	-	(708)
Expenses related to securities litigation	-	-	(3)	(3)
Acquisition expenses	(20)	(1)	-	(21)
Expenses of OIG investigation	(2,035)	-	-	(2,035)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Total	$ (2,055)	$ (15,771)	$ (8,900)	$ (26,726)

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	$ -	$ -	$ (1,963)	$ (1,963)
Noncash impact of accounting for convertible debt	-	-	(2,671)	(2,671)
Long-term incentive compensation	-	-	(700)	(700)
Expenses of severance arrangements	-	(184)	-	(184)
Loss on extinguishment of debt	-	-	(294)	(294)
Litigation settlement	-	(8,967)	-	(8,967)
Expenses related to litigation settlements	-	(430)	-	(430)
Expenses related to securities litigation	-	-	(2)	(2)
Acquisition expenses	(12)	(1)	-	(13)
Expenses of OIG investigation	(1,262)	-	-	(1,262)
Total	$ (1,274)	$ (9,582)	$ (5,630)	$ (16,486)

Consolidating Summary and Reconciliation of
Adjusted EBITDA

Chemed Corporation and Subsidiary Companies
(in thousands)

For the three months ended June 30, 2014	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$20,892	$10,719	$(7,248)	$24,363
Add/(deduct):				
Interest expense	57	111	2,261	2,429
Income taxes	12,910	6,612	(4,039)	15,483
Depreciation	4,564	2,561	147	7,272
Amortization	205	137	393	735
EBITDA	38,628	20,140	(8,486)	50,282
Add/(deduct):				
Intercompany interest expense/(income)	(1,517)	(680)	2,197	-
Interest income	(43)	(12)	(3)	(58)
Expenses related to OIG investigation	410	-	-	410
Expenses related to litigation settlements	-	32	-	32
Advertising cost adjustment	-	(399)	-	(399)
Stock option expense	-	-	1,144	1,144
Long-term incentive compensation	-	-	613	613
Expenses related to securities litigation	-	-	189	189
Adjusted EBITDA	$37,478	$19,081	$(4,346)	$52,213

For the three months ended June 30, 2013	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$20,485	$1,414	$(7,291)	$14,608
Add/(deduct):				
Interest expense	51	97	3,549	3,697
Income taxes	12,576	633	(3,926)	9,283
Depreciation	4,520	2,246	133	6,899
Amortization	536	149	496	1,181
EBITDA	38,168	4,539	(7,039)	35,668
Add/(deduct):				
Intercompany interest expense/(income)	(866)	(436)	1,302	-
Interest income	(642)	(14)	(14)	(670)
Expenses related to OIG investigation	996	-	-	996
Acquisition expenses	19	1	-	20
Litigation settlement	-	14,760	-	14,760
Advertising cost adjustment	-	(505)	-	(505)
Expenses related to litigation settlements	-	567	-	567
Long-term incentive compensation	-	-	494	494
Stock option expense	-	-	1,612	1,612
Expenses of securities litigation	-	-	1	1
Adjusted EBITDA	$37,675	$18,912	$(3,644)	$52,943

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Consolidating Summary and Reconciliation of
Adjusted EBITDA

Chemed Corporation and Subsidiary Companies
(in thousands)

For the six months ended June 30, 2014	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$39,051	$20,751	$(14,865)	$44,937
Add/(deduct):				
Interest expense	112	208	5,924	6,244
Income taxes	24,019	12,808	(8,265)	28,562
Depreciation	9,178	4,961	282	14,421
Amortization	624	282	838	1,744
EBITDA	72,984	39,010	(16,086)	95,908
Add/(deduct):				
Intercompany interest expense/(income)	(2,860)	(1,330)	4,190	-
Interest income	20	(19)	(9)	(8)
Expenses related to OIG investigation	1,158	-	-	1,158
Acquisition expenses	1	-	-	1
Expenses related to litigation settlements	113	225	-	338
Advertising cost adjustment	-	(1,140)	-	(1,140)
Stock option expense	-	-	2,453	2,453
Long-term incentive compensation	-	-	986	986
Expenses related to securities litigation	-	-	189	189
Adjusted EBITDA	$71,416	$36,746	$(8,277)	$99,885

For the six months ended June 30, 2013	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	$40,628	$11,038	$(14,780)	$36,886
Add/(deduct):				
Interest expense	97	156	7,538	7,791
Income taxes	25,009	6,582	(8,122)	23,469
Depreciation	9,033	4,394	267	13,694
Amortization	1,026	303	979	2,308
EBITDA	75,793	22,473	(14,118)	84,148
Add/(deduct):				
Intercompany interest expense/(income)	(1,709)	(864)	2,573	-
Interest income	(888)	(56)	(29)	(973)
Expenses related to OIG investigation	2,035	-	-	2,035
Acquisition expenses	20	1	-	21
Litigation settlement	-	14,760	-	14,760
Advertising cost adjustment	-	(974)	-	(974)
Expenses related to litigation settlements	-	708	-	708
Expenses of severance arrangements	-	302	-	302
Long-term incentive compensation	-	-	1,106	1,106
Stock option expense	-	-	3,103	3,103
Expenses related to securities litigation	-	-	3	3
Adjusted EBITDA	$75,251	$36,350	$(7,362)	$104,239

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
RECONCILIATION OF ADJUSTED NET INCOME
(in thousands, except per share data)(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income as reported	$24,363	$14,608	$44,937	$36,886
Add/(deduct) after-tax cost of:				
Litigation settlement	-	8,967	-	8,967
Additional interest expense resulting from the change in accounting				
for the conversion feature of the convertible notes	714	1,348	2,143	2,671
Stock option expense	722	1,020	1,544	1,963
Expenses of OIG investigation	254	618	718	1,262
Long-term incentive compensation	388	313	624	700
Expenses related to litigation settlements	20	344	207	430
Acquisition expenses	-	13	1	13
Loss on extinguishment of debt	-	-	-	294
Expenses of severance arrangements	-	-	-	184
Expenses related to securities litigation	119	1	119	2
Adjusted net income	$26,580	$27,232	$50,293	$53,372
Diluted Earnings Per Share As Reported				
Net income	$1.36	$0.77	$2.48	$1.94
Average number of shares outstanding	17,880	18,966	18,097	18,980
Adjusted Diluted Earnings Per Share				
Adjusted net income	$1.50	$1.44	$2.81	$2.81
Adjusted average number of shares outstanding*	17,759	18,966	17,895	18,980

* Adjusted diluted average shares outstanding excludes the estimated dilutive impact of the Convertible Notes prior to conversion of these Notes on May 15, 2014 (121,000 shares for the three months ended June 30, 2014 and 202,000 shares for the six months ended June 30, 2014) as this impact was entirely offset upon the exercise of the note hedges on May 15, 2014.

(In thousands)

Assets

Cash and cash equivalents
$
145,623

$
145,623

$
—

$
—

Liabilities

Derivative instruments
$
11,871

$
—

$
11,871

$
—

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 September 30, 2011 and December 31, 2010.

Our derivative instruments are classified in the fair value hierarchy as Level 2 as the LIBOR swap rate is observable at commonly quoted intervals for the full term of the interest rate swaps. See Note 10, Derivative Instruments for further discussion regarding the fair valuation of our interest rate swaps.

Balances Disclosed at Fair Value

The following table provides the fair value measurement information about our long-term debt at September 30, 2011 and December 31, 2010.

	September 30, 2011			
	Outstanding Face Amount (In thousands)	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Bank credit facility	$1,423,147	$1,423,147	$1,328,998	Level 2
9.125% Senior Notes due 2018	500,000	491,134	424,585	Level 1
6.75% Senior Subordinated Notes due 2014	215,668	215,668	198,173	Level 1
7.125% Senior Subordinated Notes due 2016	240,750	240,750	181,526	Level 1
Borgata bank credit facility	15,000	15,000	15,000	Level 2
Borgata 9.50% Senior Secured Notes due 2015	398,000	386,452	364,170	Level 1
Borgata 9.875% Senior Secured Notes due 2018	393,500	382,274	348,248	Level 1
Other	11,248	11,248	10,686	Level 3
Total long-term debt, including current maturities	$3,197,313	$3,165,673	$2,871,386	

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	December 31, 2010			
	Outstanding Face Amount	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
	(In thousands)			
Bank credit facility	$1,425,000	$1,425,000	$1,346,625	Level 2
9.125% Senior Notes due 2018	500,000	490,206	487,755	Level 1
6.75% Senior Subordinated Notes due 2014	215,668	215,668	212,163	Level 1
7.125% Senior Subordinated Notes due 2016	240,750	240,750	217,879	Level 1
Borgata bank credit facility	60,900	60,900	60,900	Level 2
Borgata 9.50% Senior Secured Notes due 2015	400,000	386,712	375,111	Level 1
Borgata 9.875% Senior Secured Notes due 2018	400,000	387,758	379,518	Level 1
Other	11,761	11,761	11,173	Level 3
Total long-term debt, including current maturities	$3,254,079	$3,218,755	$3,091,124	

The estimated fair value of the Amended Credit Facility is based on a relative value analysis performed on or about September 30, 2011 and December 31, 2010, respectively. The estimated fair value of Borgata's bank credit facility at September 30, 2011 and December 31, 2010 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 September 30, 2011 and December 31, 2010, 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 and Level 2 measurements during the nine months ended September 30, 2011 or the year ended December 31, 2010.

Fair Value of Non-Recourse Obligations of Variable Interest Entity

At September 30, 2011 and December 31, 2010, 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 16. WRITE-DOWNS AND OTHER ITEMS, NET

Write-downs and other items, net are comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	In thousands			
Impairment of trademark	$—	$—	$5,000	$—
Measurement period adjustments	—	—	(473)	—
Asset write-downs	(3)	262	926	274
Acquisition related expenses	1,874	1,078	2,244	4,658

Tunica flood expenses, net of recoveries	429	—	1,572	—
Total write-downs and other items, net	$2,300	$1,340	$9,269	$4,932

Impairment of Trademark
As discussed in Note 5, Intangible Assets, during the nine months ended September 30, 2011, we recorded a $5.0 million impairment to the trademark, based upon the performance of an interim impairment test in connection with the valuation of Borgata.

Measurement Period Adjustments
In connection with the valuation procedures we performed on Borgata, we recorded measurement adjustments of $0.5 million during the nine months ended September 30, 2011, which were primarily comprised of a $0.3 million bargain purchase gain.

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Asset Write-Downs

During the three months ended September 30, 2010, we recognized a loss of $0.3 million in connection with the disposal of certain property and equipment in the ordinary course of business. During the nine months ended September 30, 2011 and 2010, we recognized losses of $0.9 million and $0.3 million, respectively, in connection with the disposal of certain property and equipment in the ordinary course of business.

Acquisition Related Expenses

During the three months ended September 30, 2011 and 2010, we recorded $1.9 million and $1.1 million of expenses related to evaluating various acquisition possibilities and other business development activities. During the nine months ended September 30, 2011 and 2010, we recorded $2.2 million and $4.7 million of expenses related to evaluating various acquisition possibilities and other business development activities.

Tunica Flood Expenses, Net of Recoveries

Due to flooding of the Mississippi River and temporary closure of the property in May 2011, during the three and nine months ended September 30, 2011, we recorded $0.4 million and $1.6 million of Tunica flood expenses, net of recoveries.

NOTE 17. SEGMENT INFORMATION

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

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
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

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

Results of Operations - Adjusted EBITDA

We determine each of our wholly-owned properties' profitability based upon Property EBITDA, which represents each property's earnings before interest expense, income taxes, depreciation and amortization, preopening expenses, write-downs and other charges, 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 segments, and also includes our share of Borgata's

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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. Effective April 1, 2008, we reclassified the reporting of our Midwest and South segment to exclude the results of Dania Jai-Alai, our pari-mutuel jai-alai facility, since it does not share similar economic characteristics with our other Midwest and South operations; therefore, the results of Dania Jai-Alai are included as part of the "Other" category on the accompanying table.

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 is now presented to include 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, in addition to the corporate portion of share-based compensation expense. 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.

The following table sets forth, for the periods indicated, certain operating data for our Reportable Segments, and reconciles Adjusted EBITDA to operating income (loss), as reported in our accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Net Revenues				
Las Vegas Locals	$145,915	$145,593	$452,270	$455,243
Downtown Las Vegas	53,327	51,898	165,578	161,088
Midwest and South	187,906	188,695	553,787	556,221
Atlantic City	202,018	207,687	553,864	411,355
Reportable Segment Net Revenues	589,166	593,873	1,725,499	1,583,907
Other	1,049	1,505	4,065	5,052
Net revenues	$590,215	$595,378	$1,729,564	$1,588,959
Reportable Segment Adjusted EBITDA				
Las Vegas Locals	$30,793	$26,116	$109,006	$103,339
Downtown Las Vegas	6,005	5,679	24,375	23,361
Midwest and South	44,524	38,407	128,011	113,276
Atlantic City	50,287	54,319	120,626	102,182
Our share of Borgata's operating income				8,180
Reportable Segment Adjusted EBITDA	$131,609	$124,521	$382,018	$350,338
Other operating costs and expenses				
Depreciation and amortization	$46,034	$52,451	$145,106	$147,905
Corporate expense	11,025	11,021	36,569	36,636

Preopening expenses	1,720	2,684	5,292	4,990
Our share of Borgata's other items and write-downs, net	—	—	—	34
Write-downs and other items, net	2,300	1,340	9,269	4,932
Other	2,366	2,542	7,524	7,652
Total other operating costs and expenses	63,445	70,038	203,760	202,149
Operating income	$68,164	$54,483	$178,258	$148,189

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Operating Income from Borgata
The following table reconciles our operating income from Borgata, as reported in our condensed consolidated statements of operations, to the Atlantic City Reportable Segment Adjusted EBITDA, as reported above:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	In thousands			
Operating income from Borgata	$—	$—	$—	$8,146
Our share of Borgata's write-downs and other items, net	—	—	—	34
Our share of Borgata's operating income before net amortization, preopening and other items	$—	$—	$—	$8,180

As discussed above, Borgata's results of operations for the three and nine months ended September 30, 2011 and for the period from July 1, 2010 through September 30, 2010 and March 24 through September 30, 2010 are included in our condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010, respectively.

Total Assets
The Company's total assets, by Reportable Segment, consisted of the following amounts at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
	(In thousands)	
Assets		
Las Vegas Locals	$1,250,101	$1,284,160
Downtown Las Vegas	131,832	136,868
Midwest and South	1,088,407	1,117,959
Atlantic City	1,421,326	1,433,265
Total Reportable Segment assets	3,891,666	3,972,252
Corporate	1,488,640	1,428,763
Other	258,516	288,274
Total assets	$5,638,822	$5,689,289

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NOTE 18. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Separate condensed consolidating financial information for our subsidiary guarantors and non-guarantors of our 9.125% senior notes due 2018 is presented below. 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 September 30, 2011 and December 31, 2010 and the condensed consolidating statements of operations for the three and nine month periods ended September 30, 2011 and 2010 and the condensed consolidating statements of cash flows for the nine months ended September 30, 2011 and 2010.

Condensed Consolidating Balance Sheets

	September 30, 2011						
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations		Consolidated
			(In thousands)				
Assets							
Cash and cash equivalents	$75,603	$76,185	$3,145	$ 32,185	$—		$187,118
Other current assets	15,570	67,686	16,951	46,215	—		146,422
Property and equipment, net	109,909	1,882,468	72,562	1,231,457	—		3,296,396
Assets held for development	—	923,793	—	196,052	—		1,119,845
Investments in subsidiaries	3,721,284	262,357	32	4,175	(3,987,848)		—
Intercompany receivable	—	634,230	—	—	(634,230)		—
Other assets, net	78,833	(21,388)	2,898	68,047	—		128,390
Intangible assets, net	21,373	459,933	—	65,769	—		547,075
Goodwill, net	—	212,794	782	—	—		213,576
Total assets	$4,022,572	$4,498,058	$96,370	$ 1,643,900	$(4,622,078)		$5,638,822
Liabilities and Stockholders' Equity							
Current maturities of long-term debt	$362,878	$720	$—	$ —	$—	—	$363,598
Non-recourse obligations	—	—	—	221,912	—	243,059	221,912
Current liabilities	51,861	182,205	14,899	114,834	—		363,799

Intercompany payable	378,661	—	192,900	—	(571,561)	—
Long-term debt, net of current maturities	2,007,821	10,528	—	783,726	—	2,802,075
Other long-term liabilities	20,699	403,686	1,401	57,760	—	483,546
Preferred stock	—	—	—	—	—	—
Common stock	863	31,128	32	—	(31,160)	863
Additional paid-in capital	642,243	2,914,250	41,724	476,733	(3,432,707)	642,243
Retained earnings (deficit)	557,546	955,541	(154,586)	(11,065)	(789,890)	557,546
Total Boyd Gaming Corporation stockholders' equity (deficit)	1,200,652	3,900,919	(112,830)	465,668	(4,253,757)	1,200,652
Noncontrolling interest	—	—	—	—	203,240	203,240
Total stockholders' equity (deficit)	1,200,652	3,900,919	(112,830)	465,668	(4,050,517)	1,403,892
Total liabilities and stockholders' equity	$4,022,572	$4,498,058	$96,370	$ 1,643,900	$(4,622,078)	$5,638,822

Condensed Consolidating Balance Sheets, continued

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	December 31, 2010					
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
			(In thousands)			
Assets						
Cash and cash equivalents	$11,231	$88,282	$3,679	$ 42,431	$—	$145,623
Other current assets	10,395	61,829	15,246	46,546	—	134,016
Property and equipment, net	111,921	1,939,834	77,949	1,253,667	—	3,383,371
Assets held for development	—	923,038	—	196,365	—	1,119,403
Investments in subsidiaries	3,373,486	424,707	—	5,185	(3,803,378)	—
Intercompany receivable	50,824	—	69,931	—	(120,755)	—
Other assets, net	73,420	46,885	2,979	89,836	(59,534)	153,586
Intangible assets, net	—	460,714	—	79,000	—	539,714
Goodwill, net	—	212,794	782	—	—	213,576
Total assets	$3,631,277	$4,158,083	$170,566	$ 1,713,030	$(3,983,667)	$5,689,289
Liabilities and Stockholders' Equity						
Current maturities of long-term debt	$25,000	$690	$—	$ —	$—	$25,690
Non-recourse obligations	—	—	—	243,059	—	243,059
Current liabilities	39,663	175,870	17,462	109,161	—	342,156
Intercompany payable	—	472,794	246,144	—	(718,938)	—
Long-term debt, net of current maturities	2,346,623	11,072	—	835,370	—	3,193,065
Other long-term liabilities	30,786	399,148	1,538	59,104	—	490,576
Preferred stock	—	—	—	—	—	—
Common stock	862	30,298	32	—	(30,330)	862
Additional paid-in capital	635,028	2,320,477	41,724	421,472	(2,783,673)	635,028
Retained earnings (deficit)	560,909	747,734	(136,334)	44,864	(656,264)	560,909
Accumulated other comprehensive loss	(7,594)	—	—	—	—	(7,594)
Total Boyd Gaming Corporation stockholders' equity (deficit)	1,189,205	3,098,509	(94,578)	466,336	(3,470,267)	1,189,205
Noncontrolling interest	—	—	—	—	205,538	205,538
Total stockholders' equity (deficit)	1,189,205	3,098,509	(94,578)	466,336	(3,264,729)	1,394,743
Total liabilities and stockholders' equity	$3,631,277	$4,158,083	$170,566	$ 1,713,030	$(3,983,667)	$5,689,289

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Condensed Consolidating Statements of Operations

	Three months ended September 30, 2011					
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
			(In thousands)			
Net revenues	$39,028	$374,328	$13,869	$ 204,742	$(41,752)	$590,215
Costs and expenses						
Operating	—	207,138	14,033	102,575	—	323,746
Selling, general and administrative	—	61,739	1,703	32,859	—	96,301
Maintenance and utilities	—	23,067	1,182	16,676	—	40,925
Depreciation and amortization	2,158	27,943	770	15,163	—	46,034
Corporate expense	23,160	76,993	1,157	—	(90,285)	11,025
Preopening expenses	229	1,176	4,039	—	(3,724)	1,720
Write-downs and other items, net	1,875	428	4	(7)	—	2,300
Total costs and expenses	27,422	398,484	22,888	167,266	(94,009)	522,051
Equity in earnings of subsidiaries	16,322	24,950	—	—	(41,272)	—
Operating income	27,928	794	(9,019)	37,476	10,985	68,164
Other expense (income)						
Interest expense, net	33,902	170	—	25,996	—	60,068
Other income	(1,000)	—	—	—	—	(1,000)
Gain on early retirement of debt	—	—	—	(54)	—	(54)
Total other expense, net	32,902	170	—	25,942	—	59,014
Income (loss) before income taxes	(4,974)	624	(9,019)	11,534	10,985	9,150
Income taxes	8,083	(15,244)	6,458	(1,467)	—	(2,170)
Net income (loss)	3,109	(14,620)	(2,561)	10,067	10,985	6,980
Net loss attributable to controlling interest	—	—	—	—	(3,871)	(3,871)
Net income (loss) attributable to Boyd Gaming Corporation	$3,109	$(14,620)	$(2,561)	$ 10,067	$7,114	$3,109

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Condensed Consolidating Statements of Operations, continued

	Three months ended September 30, 2010					
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
			(In thousands)			
Net revenues	$33,574	$375,916	$12,506	$ 207,688	$(34,306)	$595,378
Costs and expenses						
Operating	—	211,371	13,689	104,981	—	330,041
Selling, general and administrative	—	67,337	2,187	31,173	—	100,697
Maintenance and utilities	—	24,174	1,272	17,215	—	42,661
Depreciation and amortization	2,914	32,893	191	16,453	—	52,451
Corporate expense	12,513	72,071	2,131	—	(75,694)	11,021
Preopening expenses	553	4,355	(2,224)	—	—	2,684
Write-downs and other items, net	1,078	69	197	(4)	—	1,340
Total costs and expenses	17,058	412,270	17,443	169,818	(75,694)	540,895
Equity in earnings of subsidiaries	14,600	4,160	—	—	(18,760)	—
Operating income	31,116	(32,194)	(4,937)	37,870	22,628	54,483
Other expense (income)						
Interest expense, net	28,326	(1,635)	1,815	17,275	—	45,781
Other income	—	(12,535)	—	—	—	(12,535)
Total other expense, net	28,326	(14,170)	1,815	17,275	—	33,246
Income (loss) before income taxes	2,790	(18,024)	(6,752)	20,595	22,628	21,237
Income taxes	2,801	(11,377)	4,251	(2,046)	—	(6,371)
Net income (loss)	5,591	(29,401)	(2,501)	18,549	22,628	14,866
Net loss attributable to noncontrolling interest	—	—	—	—	(9,275)	(9,275)
Net income (loss) attributable to Boyd Gaming Corporation	$5,591	$(29,401)	$(2,501)	$ 18,549	$13,353	$5,591

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BOYD GAMING CORPORATION AND SUBSIDIARIES
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(Unaudited)

Condensed Consolidating Statements of Operations, continued

	Nine months ended September 30, 2011					
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
			(In thousands)			
Net revenues	$115,728	$1,133,248	$42,452	$ 561,998	$(123,862)	$1,729,564
Costs and expenses						
Operating	—	618,299	43,086	289,700	—	951,085
Selling, general and administrative	—	186,489	5,978	96,405	—	288,872
Maintenance and utilities	—	63,551	3,119	48,443	—	115,113
Depreciation and amortization	6,186	86,140	2,203	50,577	—	145,106
Corporate expense	71,814	78,405	2,078	—	(115,728)	36,569
Preopening expenses	724	12,610	—	92	(8,134)	5,292
Write-downs and other items, net	2,244	1,263	4	5,758	—	9,269
Total costs and expenses	80,968	1,046,757	56,468	490,975	(123,862)	1,551,306
Equity in earnings of subsidiaries	46,471	19,716	—	—	(66,187)	—
Operating income	81,231	106,207	(14,016)	71,023	(66,187)	178,258
Other expense (income)						
Interest expense, net	113,472	514	—	70,042	—	184,028
Fair value adjustment of derivative instruments	265	—	—	—	—	265
Other income	(1,000)	—	—	—	—	(1,000)
(Gain) loss on early retirements of debt	20	—	—	(54)	—	(34)
Total other expense, net	112,757	514	—	69,988	—	183,259
Income (loss) before income taxes	(31,526)	105,693	(14,016)	1,035	(66,187)	(5,001)
Income taxes	28,163	(32,064)	4,904	(975)	—	28
Net income (loss)	(3,363)	73,629	(9,112)	60	(66,187)	(4,973)
Net loss attributable to noncontrolling interest	—	—	—	—	1,610	1,610
Net income (loss) attributable to Boyd Gaming Corporation	$(3,363)	$73,629	$(9,112)	$ 60	$(64,577)	$(3,363)

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Condensed Consolidating Statements of Operations, continued

	Nine months ended September 30, 2010					
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
			(In thousands)			
Net revenues	$103,400	$1,131,724	$46,611	$ 411,356	$(104,132)	$1,588,959
Costs and expenses						
Operating	—	627,911	41,767	209,364	—	879,042
Selling, general and administrative	—	199,487	6,681	64,473	—	270,641
Maintenance and utilities	—	66,075	3,358	35,337	—	104,770
Depreciation and amortization	9,330	99,704	2,557	36,314	—	147,905
Corporate expense	59,781	72,071	8,916	—	(104,132)	36,636
Preopening expenses	709	4,281	—	—	—	4,990
Write-downs and other items, net	4,658	69	197	8	—	4,932
Total costs and expenses	74,478	1,069,598	63,476	345,496	(104,132)	1,448,916
Equity in earnings of subsidiaries	52,297	18,325	—	—	(62,476)	8,146
Operating income	81,219	80,451	(16,865)	65,860	(62,476)	148,189
Other expense (income)						
Interest expense, net	85,539	(1,267)	1,815	23,347	—	109,434
Gain on early retirements of debt	(3,949)	—	—	—	—	(3,949)
Other income	—	(12,535)				(12,535)
Other non-operating expenses, net	—	3,133	—	—	—	3,133
Total other expense, net	81,590	(10,669)	1,815	23,347	—	96,083
Income (loss) before income taxes	(371)	91,120	(18,680)	42,513	(62,476)	52,106
Income taxes	17,779	(35,393)	6,265	(4,183)	—	(15,532)
Net income (loss)	17,408	55,727	(12,415)	38,330	(62,476)	36,574
Noncontrolling interest	—	—	—	—	(19,166)	(19,166)
Net income (loss) attributable to Boyd Gaming Corporation	$17,408	$55,727	$(12,415)	$ 38,330	$(81,642)	$17,408

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BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statements of Cash Flows

	Nine months ended September 30, 2011					
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
			(In thousands)			
Cash flows from operating activities						
Net cash from operating activities	$108,892	$10,671	$(317)	$ 63,670	$—	$182,916
Cash flows from investing activities						
Capital expenditures	(13,441)	(22,768)	(217)	(19,065)	—	(55,491)
Acquisitions of assets	(34,495)	—	—	—	—	(34,495)
Decrease in restricted investment	—	—	—	27,184	—	27,184
Net cash from investing activities	(47,936)	(22,768)	(217)	8,119	—	(62,802)
Cash flows from financing activities						
Borrowings under bank credit facility	109,650	—	—	574,700	—	684,350
Payments under bank credit facility	(111,503)	—	—	(620,600)	—	(732,103)
Payments on long-term debt	—	—	—	(8,198)	—	(8,198)
Debt financing costs, net	—	—	—	(27,000)	—	(27,000)
Other financing activities	5,269	—	—	(937)	—	4,332
Net cash from financing activities	3,416	—	—	(82,035)	—	(78,619)
Net change in cash and cash equivalents	64,372	(12,097)	(534)	(10,246)	—	41,495
Cash and cash equivalents, beginning of period	11,231	88,282	3,679	42,431	—	145,623
Cash and cash equivalents, end of period	$75,603	$76,185	$3,145	$ 32,185	$—	$187,118

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BOYD GAMING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Condensed Consolidating Statements of Cash Flows

	Nine months ended September 30, 2010					
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (100% Owned)	Non-Guarantor Subsidiaries (Not 100% Owned)	Eliminations	Consolidated
			(In thousands)			
Cash flows from operating activities						
Net cash from operating activities	$229,108	$28,372	$45,355	$ 89,109	$(150,983)	$240,961
Cash flows from investing activities						
Capital expenditures	(12,082)	(42,240)	(129)	(9,618)	—	(64,069)
Net cash upon change in control of Borgata	—	—		26,025	—	26,025
Other investing activities	54	—	—	(785)	—	(731)
Net cash from investing activities	(12,028)	(42,240)	(129)	15,622	—	(38,775)
Cash flows from financing activities						
Borrowings under bank credit facility	525,700	—	—	369,773	—	895,473
Payments under bank credit facility	(714,800)	—	—	(954,962)	—	(1,669,762)
Payments under note payable	—	—	(46,875)	—	—	(46,875)
Distributions to noncontrolling interest	—	—	—	(271,159)	150,983	(120,176)
Proceeds from stock options exercised	—	—	—	773,176	—	773,176
Payments on long-term debt	(28,181)	(680)	—	—	—	(28,861)
Other financing activities	237	—	—	(5,925)	—	(5,688)
Net cash from financing activities	(217,044)	(680)	(46,875)	(89,097)	150,983	(202,713)
Net change in cash and cash equivalents	36	(14,548)	(1,649)	15,634	—	(527)
Cash and cash equivalents, beginning of period	363	88,071	4,768	—	—	93,202
Cash and cash equivalents, end of period	$399	$73,523	$3,119	$ 15,634	$—	$92,675

NOTE 19. SUBSEQUENT EVENTS

We have evaluated all events or transactions that occurred after September 30, 2011. During this period, the following material subsequent events occurred.

Completion of Acquisition of IP Casino Resort Spa

On October 4, 2011, we completed our previously announced acquisition of the assets of the IP Casino Resort Spa in Biloxi, Mississippi, (the "IP") for a purchase price of $278 million in cash. Following the closing of the transaction, we also made a charitable contribution to the Engelstad Family Foundation equal to an aggregate of $10 million, which funds are intended to be distributed on behalf of, and in the name of, the Company, over five years to local and regional Biloxi charitable organizations to be designated by the Company. In addition, following the closing, we intend to perform certain capital improvement projects with respect to the IP with costs estimated to be $44 million.

We will apply acquisition method accounting to this business combination at the transaction date, which requires acquired assets and assumed liabilities to be recorded at their respective fair values. Due to the limited time since the acquisition date, the initial accounting for the business combination is incomplete at this time. Prospectively, however, the acquired assets and liabilities will be recorded in our consolidated balance sheet at fair value as of the closing date; the results of operations of the IP will be included in our consolidated statements of operations and cash flows beginning in the fourth quarter of 2011; and all other disclosures pursuant to the guidance for business combinations will be provided in our Annual Report on Form 10-K for the year ended December 31, 2011.

Agreement with bwin.party
On October 31, 2011, we announced that we had entered into an agreement with bwin.party digital entertainment plc, the world's largest publicly traded online gaming company. Should Congress legalize online poker in the United States (the "U.S."), and subject to regulatory approvals, we would acquire a 10% stake in a new company that would offer online poker to U.S.-based players under bwin.party's brands, including PartyPoker. Separately, we entered into a 15-year agreement to use bwin.party's technology platform and associated services to offer online poker to U.S. players under a brand we develop, assuming Congress passes enabling legislation.

Entry into Lender Joinder Agreement
On November 2, 2011, we entered into a Lender Joinder Agreement (the “Lender Joinder Agreement”) among the Company, Bank of America, N.A. (“Bank of America”), as the Administrative Agent, and the Increasing Lender. The Lender Joinder Agreement increases the Term Loan Commitments under the Second Amended and Restated Credit Agreement dated as of December 17, 2010 (as amended, restated, supplemented or otherwise modified from time to time, the “Credit Facility”) among the Company, certain financial institutions as lenders, Bank of America, as the Administrative Agent and as letter of credit issuer, and Wells Fargo Bank, National Association, as syndication agent and swing line lender, by an aggregate amount of $350 million (the “Increased Term Loan”).

The Lender Joinder Agreement provides that subject only to continued satisfaction of the representations, warranties and covenants under the Credit Facility, the Increased Term Loan will be funded on November 10, 2011. Proceeds from the Increased Term Loan will be used to repay the outstanding portion of our existing credit facility which otherwise matures in May 2012.

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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 35 years.
We are a diversified operator of 15 wholly-owned gaming entertainment properties and one controlling interest in a limited liability company. Headquartered in Las Vegas, we have gaming operations in Nevada, Illinois, Louisiana, Mississippi, Indiana and New Jersey, which we aggregate in order to present the following four 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
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
Atlantic City	
Borgata Hotel Casino & Spa	Atlantic City, New Jersey

Hawaiian Operations
In addition to these properties, we own and operate a travel agency in Hawaii, and a captive insurance company, also in Hawaii, that underwrites travel-related insurance. Results for our travel agency and our captive insurance company are included in our Downtown Las Vegas segment, as our Downtown Las Vegas properties concentrate their marketing efforts on gaming customers from Hawaii.

Dania Jai-Alai
We also own and operate Dania Jai-Alai, which is a pari-mutuel jai-alai facility with approximately 47 acres of related land located in Dania Beach, Florida. As discussed under "Other Items Affecting Liquidity", on April 29, 2011, we and Dania Entertainment Center, LLC entered into an asset purchase agreement for the sale of certain assets and liabilities of Dania Jai-Alai.

Echelon Development
Additionally, we own 85 acres of land on the Las Vegas Strip, where our multibillion dollar Echelon development project ("Echelon") is located. On August 1, 2008, due to the difficult environment in the capital markets, as well as weak economic conditions, we announced the delay of Echelon. As we do not believe that a significant level of economic recovery has occurred along the Las Vegas Strip, we do not expect to resume construction of Echelon for three to five years, as previously disclosed. We also do not believe that financing for a development project like

Echelon is currently available on terms satisfactory to us.

IP Casino Resort Spa

On October 4, 2011, we completed our previously announced acquisition of the assets of the IP Casino Resort Spa in Biloxi, Mississippi, (the "IP") for a purchase price of $278 million in cash. Following the closing of the transaction, we also made a

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charitable contribution to the Engelstad Family Foundation equal to an aggregate of $10 million, which funds are intended to be distributed on behalf of, and in the name of, the Company, over five years to charitable organizations to be designated by the Company. In addition, following the closing, we intend to perform certain capital improvement projects with respect to the IP with costs estimated to be $44 million.

We will apply acquisition method accounting to this business combination at the transaction date, which requires acquired assets and assumed liabilities to be recorded at their respective fair values. Due to the limited time since the acquisition date, the initial accounting for the business combination is incomplete at this time. Prospectively, however, the acquired assets and liabilities will be recorded in our consolidated balance sheet at fair value as of the closing date; the results of operations of the IP will be included in our consolidated statements of operations and cash flows beginning in the fourth quarter of 2011; and all other disclosures pursuant to the guidance for business combinations will be provided in our Annual Report on Form 10-K for the year ended December 31, 2011. The IP will be reported in our Midwest and South business segment.

Our Properties
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 volume 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.

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. We took an important step in this direction when we reached an agreement in April 2011 to sell Dania Jai-Alai for $80 million. This asset is not consistent with our current growth strategy, and if this sale closes, we will raise a significant amount of capital from the consideration in the transaction that can be used to repay debt.

Operating Efficiently: We also remain committed to operating more efficiently. We will endeavor to prevent unneeded expense from returning to the 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: Another key component of our strategy could be acquisitions. We will evaluate potential transactions 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: Finally, 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 each of the three and nine months ended September 30, 2011 have begun to show positive trends. Although over the course of the past several years, the severe economic recession has had a profound effect on consumer confidence, and has shifted spending away from discretionary items, such as leisure, hospitality, gaming and entertainment activities, these recent quarterly results indicate that we have realized some stabilizing trends in our business. Generally, the tourism industry is recovering, as evidenced by increased visitation, hotel room rates and convention business.

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We continually work to position our Company for greater success by strengthening our existing operations and growing through capital investment and other strategic initiatives. 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 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, iPod Touch or iPad. The application further expands the benefits of the “B Connected” program. “B Connected Mobile,” a GPS powered feature, provides real-time personalized information when a customer visits a Boyd property, including: hotel, dining and gaming offers, such as “Best Rates Available” on hotel rooms for “B Connected” members, instant access to event information, schedules and special offers at all Boyd Gaming properties using “B Connected,” a search engine that 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.

Over the last several years, we have worked to strengthen B Connected with a robust online and mobile presence. We have further expanded the power of B Connected with the launch of dedicated mobile applications for the iPhone, iPad and Android, making B Connected Mobile the first application of its kind available on multiple platforms. B Connected Online and B Connected Mobile give our guests highly personalized and constantly updated information and offers that generate better customer experiences and greater loyalty to our brands. These tools help customers get the greatest value out of their B Connected membership, and ensure that our marketing is as effective as possible.

Development Activities

On August 1, 2008, due to the difficult environment in the capital markets, as well as weak economic conditions, we announced the delay of our multibillion dollar Echelon development project on the Las Vegas Strip. As we do not believe that a significant level of economic recovery has occurred along the Las Vegas Strip, or that financing for a development project like Echelon is currently available on terms satisfactory to us, we do not expect to resume construction of Echelon for three to five years.

Nonetheless, we remain committed to having a significant presence on the Las Vegas Strip. During the suspension period, we continue to consider alternative development options for Echelon, which may include developing the project in phases, alternative capital structures for the project, scope modifications to the project, or additional strategic partnerships, among others. We can provide no assurances as to when, or if, construction will resume on the project, or if we will be able to obtain alternative sources of financing for the project. As we develop and explore the viability of alternatives for the project, we will monitor these assets for recoverability. If we are subject to a non-cash write-down of these assets, it could have a material adverse impact on our consolidated financial statements.

LVE Energy Partners, LLC (“LVE”) is a joint venture between Marina Energy LLC and DCO ECH Energy, LLC. Through our wholly-owned subsidiary, Echelon Resorts LLC ("Echelon Resorts"), we have entered into an Energy Sales Agreement ("ESA") with LVE, to design, build, own (other than the underlying real property which is leased from Echelon Resorts) and operate a central energy center and related distribution system for our planned Echelon resort development. Pursuant to the ESA, LVE will provide chilled and hot water, electricity and emergency

electricity generation to Echelon and potentially other joint venture entities associated with the Echelon development project or other third parties. The term of the ESA is 25 years, beginning when Echelon commences commercial operations. Assuming the central energy center is completed and functions as planned, we will pay a monthly service fee, which is comprised of a fixed capacity charge, an escalating operations and maintenance charge, and an energy charge. The aggregate of our monthly fixed capacity charge portion of the service fee will be $23.4 million per annum (the “Annual Fixed Capacity Charge”). The Annual Fixed Capacity Charge, which will be payable for a 25-year period, was to commence in November 2010. However, LVE has suspended construction of the central energy center and the obligation to pay the Fixed Capacity Charge has not commenced.

On April 3, 2009, LVE notified us that, in its view, Echelon Resorts would be in breach of the ESA unless it recommenced and proceeded with construction of the Echelon development project by May 6, 2009. We believe that LVE's position is without merit; however, in the event of litigation, we cannot state with certainty the eventual outcome nor estimate the possible loss or range of loss, if any, associated with this matter.

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On March 7, 2011, Echelon Resorts and LVE entered into both a purchase option agreement (the "Purchase Option Agreement") and a periodic fee agreement (the "Periodic Fee Agreement"). LVE has agreed not to initiate any litigation with respect to its April 3, 2009 claim of an alleged breach of the ESA and both Echelon Resorts and LVE have mutually agreed that neither LVE nor Echelon Resorts would give notice of, file or otherwise initiate any claim or cause of action, in or before any court, administrative agency, arbitrator, mediator or other tribunal, that arises under the ESA, subject to certain exceptions, and that any statute of limitations or limitation periods for defenses, claims, causes of actions and counterclaims shall be tolled while the Periodic Fee Agreement is in effect. Under the Periodic Fee Agreement, Echelon Resorts agreed to pay LVE, beginning on March 4, 2011, a monthly periodic fee (the “Periodic Fee”) and an operation and maintenance fee until Echelon Resorts either (i) resumes construction of the project or (ii) exercises its option to purchase LVE's assets pursuant to the terms of the Purchase Option Agreement. The amount of the Periodic Fee is fixed at $11.9 million annually through November 2013. Thereafter, the amount of the Periodic Fee is estimated to be approximately $10.8 million annually. The operation and maintenance fee cannot exceed $0.6 million per annum without Echelon Resorts' prior approval. We have posted a letter of credit in the amount of $6.0 million to secure Echelon Resorts' obligation to pay the Periodic Fee and the operation and maintenance fee.

Under the Purchase Option Agreement, Echelon Resorts has the right, at its sole discretion, upon written notice to LVE, to purchase the assets of LVE including the central energy center and the related distribution system for a price of $195.1 million, subject to certain possible adjustments. The ESA will be terminated concurrent with the purchase of the LVE assets.

As of September 30, 2011, we have incurred approximately $924.0 million in capitalized costs related to the Echelon project, including land, and not including approximately $196.1 million associated with the construction costs of the central energy facility. As part of the delay of the project, we expect to additionally incur approximately $0.3 million to $3.0 million of capitalized costs annually, principally related to such items as offsite fabrication of a skylight and curtain wall as well as offsite improvements. In addition, we expect annual recurring project costs, consisting primarily of monthly charges related to construction of the central energy center, site security, property taxes, rent and insurance, of approximately $15.0 million to $17.0 million that will be charged to preopening or other expense as incurred during the project's suspension period.

In addition to the expansion projects mentioned above, 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

Effective Control of Borgata

On March 24, 2010, as a result of the amendment to our operating agreement with MGM Resorts International (“MGM”) (our original 50% partner in Borgata), which provided, among other things, for the termination of MGM's participating rights in the operations of Borgata, we effectively obtained control of Borgata. The amendment to the operating agreement was related to MGM's divestiture of its interest pursuant to a regulatory settlement.

As discussed above, due to our controlling interest in Borgata, we measured our previously held equity interest at a provisional fair value. Additionally, the financial position of Borgata is presented in our condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010; its results of operations for the three months ended September 30, 2011 are included in our condensed consolidated statement of operations for the three months ended September 30, 2011; its results of operations for the nine months ended September 30, 2011 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2011; its results of operations for the three months ended September 30, 2010 are included in our condensed consolidated statement of operations for the three months ended September 30, 2010; and its results of operations for the period from March 24 through September 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2010.

At the date we obtained effective control, and applied the acquisition method of accounting, we were required to make significant estimates and assumptions regarding the provisional fair values of Borgata's assets and liabilities. This method also allowed us to refine these estimates over a one-year measurement period to reflect new information obtained about facts and circumstances that existed as of the date of effective control, which, if known, would have affected the measurement of the amounts recognized as of that date. Any changes to the provisional valuation during this one-year period are referred to as “measurement period adjustments”. We recorded certain measurement period adjustments and retrospectively included the effects of those adjustments in the condensed consolidated balance sheet as of December 31, 2010 included herein.

RESULTS OF OPERATIONS

Summary

Three and Nine Months Ended September 30, 2011 and 2010

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Throughout the discussion in this section, our results of operations for the nine months ended September 30, 2010 are presented considering the pro forma effect of the consolidation of Borgata as if such had occurred on January 1, 2010, rather than March 24, 2010. This presentation is for the purposes of comparability, and all such results reflecting this pro forma adjustment are identified as such.

We believe that our key operating results for each of the three and nine months ended September 30, 2011 continue to show positive trends. Although over the course of the past several years, the severe economic recession has had a profound effect on consumer confidence, and has shifted spending away from discretionary items, such as leisure, hospitality, gaming and entertainment activities, these recent quarterly results indicate that we have realized some stabilizing trends in our business. Generally, the job market is strengthening, as the national unemployment rate has continued to decline throughout 2011. As the job market recovers and expands, we believe that consumer confidence will strengthen further. These and other positive trends reflect recoveries in our wholly-owned businesses.

Specifically, in our Las Vegas Locals region, visitor counts, room rates and convention sales have been increasing or stable over the past eighteen months. Our Downtown Las Vegas segment is benefiting from successful marketing efforts to our Hawaiian customers, and the strength of the local Hawaiian economy. The economy in the Midwest and South region has been slightly more resilient than the national and certainly the Las Vegas economies, where certain of our properties reported margin improvements and record month growth during the quarter. Although we have gained increased market share and non-gaming revenues in Atlantic City, the entire market continues to experience a difficult period, due to increased local and regional competition.

Overview of Key Operating Results
Three and Nine Months Ended September 30, 2011 and 2010
The following provides a summary of certain key operating results:

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2011	2010	2011	2010 Actual	2010 Pro Forma
	(In thousands)				
Net revenues	$590,215	$595,378	$1,729,564	$1,588,959	$1,747,249
Operating Income	68,164	54,483	178,258	148,189	156,335
Net income (loss) attributable to Boyd Gaming Corporation	3,109	5,591	(3,363)	17,408	17,408

Net revenues
Net revenues were $590.2 million for the three months ended September 30, 2011, compared to $595.4 million for the comparable period in the prior year. The decline was relatively flat, as most regions of our business continue to stabilize. As discussed below, we saw growth in our Las Vegas Locals and Downtown regions, which were slightly offset by a decline in our Midwest and South segment, and more significantly by a decrease in Atlantic City.

Giving consideration to the pro forma effect of the consolidation of Borgata, net revenues were $1.73 billion compared to $1.75 billion for the nine months ended September 30, 2011 and 2010, respectively, a slight decline, which was primarily driven by results in Atlantic City, which were competitively impacted during the first nine months of the year, and adversely effected by the forced closure of the property in August due to Hurricane Irene.

Operating income
Operating income increased by 25.1% to $68.2 million during the three months ended September 30, 2011 compared to the corresponding period of the prior year primarily due to improved operating margins, our ongoing cost

containment efforts and lower depreciation and amortization expense, as discussed below.

For largely the same reasons, operating income increased by 14.0% to $178.3 million during the nine months ended September 30, 2011 as compared to $156.3 million in the comparable period of the prior year, as adjusted to reflect the pro forma consolidation of Borgata during such entire period. These improved results during the nine month period ended September 30, 2011 were offset by an increase in write-down and other charges, net, related to acquisition related expenses and a write-down of the trademark value at Borgata.

Net income (loss) attributable to Boyd Gaming Corporation

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Net income attributable to Boyd Gaming was $3.1 million for the three months ended September 30, 2011, compared to $5.6 million for the corresponding period of the prior year, due primarily to a decline in pre-tax income related to increased interest expense on higher average outstanding debt balances and interest rates related to our refinancing activities in 2010 and non-recurring fee income recorded during the prior quarter.

Net loss attributable to Boyd Gaming was $3.4 million for the nine months ended September 30, 2011 compared to net income of $17.4 million for the nine months ended September 30, 2010. The decrease in this period is also due to significantly higher interest costs, non-recurring fee income and gains on retirement of debt recorded in the prior period.

Operating Revenues

Three and Nine Months Ended September 30, 2011 and 2010

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 72% of gross revenues for each of the three months ended September 30, 2011 and 2010, and 72% and 73% of gross revenues for the nine months ended September 30, 2011 and 2010, respectively. Food and beverage gross revenues, which produced approximately 14% of gross revenues for each of the three and nine months ended September 30, 2011 and 2010, respectively, represent the next most significant revenue source, followed by room and other, both of which separately contributed less than 10% of gross revenues during these respective periods.

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2011	2010	2011	2010 Actual	2010 Pro Forma
	(In thousands)				
REVENUES					
Gaming	$500,824	$503,746	$1,469,316	$1,344,283	$1,482,114
Food and beverage	99,221	101,164	285,883	255,166	286,383
Room	64,831	64,142	181,881	154,247	178,401
Other	34,105	33,960	100,412	91,595	100,774
	$698,981	$703,012	$2,037,492	$1,845,291	$2,047,672
COSTS AND EXPENSES					
Gaming	$230,675	$237,601	$680,457	$635,461	$695,322
Food and beverage	50,868	50,690	148,516	132,481	145,981
Room	13,586	13,661	39,921	36,767	38,952
Other	28,617	28,089	82,191	74,333	81,460
	$323,746	$330,041	$951,085	$879,042	$961,715
MARGINS					
Gaming	53.9 %	52.8 %	53.7 %	52.7 %	53.1 %
Food and beverage	48.7 %	49.9 %	48.1 %	48.1 %	49.0 %
Room	79.0 %	78.7 %	78.1 %	76.2 %	78.2 %
Other	16.1 %	17.3 %	18.2 %	18.9 %	19.2 %

Three Months Ended September 30, 2011 and 2010

Gaming

Gaming revenues are significantly comprised of the net win from our slot machine operations and table games. The $2.9 million, or 0.6% decrease in gaming revenues during the three months ended September 30, 2011 as compared to the corresponding period of the prior year was due primarily to a 1.0% decrease in slot win, on a 0.6% decrease in slot handle, offset by a 5.3% increase in table game win on a 1.1% increase in table game drop. Our gaming revenues were also unfavorably impacted by losses on sports

book results during the quarter. The decrease in gaming costs of $6.9 million or 2.9% is due to improved margins on the related revenue base, attributable to cost containment initiatives and targeted marketing spend.

Food and Beverage

Food and beverage revenues decreased $1.9 million and 1.9% during the three months ended September 30, 2011 as compared to the corresponding period of the prior year, due to a 1.5% decrease in the number of guests served offset by a 2.1 % increase in the value of the average guest check. The slight increase in food and beverage cost is due to a 3.0% increase in cost per guest served.

Room

Room revenues increased by $0.7 million, or 1.1% during the three months ended September 30, 2011 as compared to the corresponding period of the prior year, due to increased ADR of 3.0% and increased occupancy of 1.9% driven largely by destination and convention business. The decrease in room costs and expenses is due to efficiencies generated by higher occupancy.

Other

Other revenues have increased slightly during the three months ended September 30, 2011 as compared to the corresponding period of the prior year, due to the increases in patronage pf differing amenities at our properties, including entertainment and nightclub revenues, retail sales, theater tickets and other venues.

Nine Months Ended September 30, 2011 and 2010

Gaming

Gaming revenues decreased by $12.8 million, or 0.9%, during the nine months ended September 30, 2011 as compared to the corresponding pro forma amount from the prior year period, due primarily to a 0.1% decrease in slot win, on a 0.9% decrease in slot coin-in, coupled with a 0.6% decrease in table game win on a 1.0% decrease in table game drop. Gaming related costs have correspondingly decreased by $14.9 million, or 2.1% based on lower revenues and enhanced cost containment measures.

Food and Beverage

Food and beverage revenues decreased by $0.5 million, or 0.2% during the nine months ended September 30, 2011 as compared to the corresponding period of the prior year, due to a 1.6% increase in average guest check, which more than offset a 1.4% decrease in the number of guests served. The increase in food and beverage cost of $2.5 million, or 1.7%, is due to a 2.9% increase in cost per guest served.

Room

Room revenues increased by $3.5 million, or 2.0% during the nine months ended September 30, 2011 as compared to the corresponding period of the prior year, primarily due to increased ADR of 1.4% and increased occupancy of 2.1% driven by destination and convention business. The increase in room costs and expenses is due to the increased occupancy coupled with a 0.2% increase in cost per room.

Other

Other revenues have decreased slightly during the nine months ended September 30, 2011 as compared to the corresponding period of the prior year, primarily due to a decline in 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 write-downs and other items, 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 and Atlantic City segments and also includes our share of Borgata's operating income, (during the period in which it was accounted for under the equity method of accounting), before net amortization, preopening and other items.

The following table presents our net revenues and Adjusted EBITDA, by Reportable Segment, for the three and nine months ended September 30, 2011 and 2010.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Net revenues				
Las Vegas Locals	$145,915	$145,593	$452,270	$455,243
Downtown Las Vegas	53,327	51,898	165,578	161,088
Midwest and South	187,906	188,695	553,787	556,221
Atlantic City	202,018	207,687	553,864	411,355
Reportable Segment Net Revenues	589,166	593,873	1,725,499	1,583,907
Other	1,049	1,505	4,065	5,052
Net revenues	$590,215	$595,378	$1,729,564	$1,588,959
Adjusted EBITDA				
Las Vegas Locals	$30,793	$26,116	$109,006	$103,339
Downtown Las Vegas	6,005	5,679	24,375	23,361
Midwest and South	44,524	38,407	128,011	113,276
Wholly-owned Adjusted Property EBITDA	81,322	70,202	261,392	239,976
Corporate expense	(9,570)	(9,144)	(29,826)	(30,065)
Wholly-owned Adjusted EBITDA	71,752	61,058	231,566	209,911
Atlantic City	50,287	54,319	120,626	102,182
Adjusted EBITDA	$122,039	$115,377	$352,192	$312,093

Significant factors that affected our Reportable Segment Net Revenues and Adjusted EBITDA for the three and nine months ended September 30, 2011, as compared to the corresponding period of the prior year, are listed below:

Three Months Ended September 30, 2011 and 2010

Las Vegas Locals

Net revenues increased slightly by 0.2% while Adjusted EBITDA increased 17.9% during the three months ended September 30, 2011, as compared to the corresponding period of the prior year, which reflect improved operating performance and a margin increase of 320 basis points. The significant growth in Adjusted EBITDA represents flow through as a result of our refined cost structure. Three of our four major properties in this segment experienced growth in Adjusted EBITDA, despite an elevated promotional environment. The performance in this region was the result of continued focus on maximizing returns on marketing spend, and creating further efficiencies throughout the business.

Downtown Las Vegas

Net revenues and Adjusted EBITDA increased 2.8% and 5.7% respectively, during the three months ended September 30, 2011, as compared to the corresponding period of the prior year, due primarily to successful marketing initiatives which generated growth in both visitation and play from our Hawaiian customers, which represent approximately 57% of our business in this segment. These gains were partially offset by significantly higher fuel costs related to the operation of our Hawaiian charter operation.

Midwest and South

Net revenues declined slightly during the three months ended September 30, 2011, as compared to the three months ended September 30, 2010, while Adjusted EBITDA increased by 15.9% during the same respective period. Results were positively impacted by strong performances at our Southern Louisiana properties. Four of our six properties in this region posted positive growth during this period, reflecting improved margins in Adjusted EBITDA. Such improvements were guided by effective marketing initiatives and tight cost control.

Atlantic City

Borgata's net revenues declined by 2.7% during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010, and Adjusted EBITDA declined 7.4% during the same respective periods. The net revenue and Adjusted

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EBITDA results were negatively impact by the forced closure of the property for three days during Hurricane Irene. Table games hold rate was normalized at 13%, in line with our long-term expectations, and Borgata lead the Atlantic City market with a 24% share of table game drop.

Nine Months Ended September 30, 2011 and 2010

Las Vegas Locals

Net revenues declined by a slight 0.7% while Adjusted EBITDA increased by 5.5% to $109.0 million, during the nine months ended September 30, 2011, as compared to the corresponding period of the prior year, reflecting improved overall operating performance, generated by successful cost initiatives. The local competition has created an elevated promotional environment; however,through strategic marketing, the region has increased margins by 140 basis points on a year to date basis through September 30, 2011 as compared to the same period in the prior year. The segment also generated growth in hotel occupancy and average daily rates due to increased convention business in the Las Vegas market generally.

Downtown Las Vegas

Net revenues and Adjusted EBITDA increased 2.8% and 4.3% respectively, during the nine months ended September 30, 2011, as compared to the corresponding period of the prior year, due primarily to growth in all primary operating revenues: gaming, food and beverage and room, generated largely from our Hawaiian customers. Greater efficiencies in our operations contributed to strong flow-through in our results, which were also partially offset by significantly higher fuel costs at our Hawaiian charter operation. Jet fuel prices have risen sharply during the period, and while our ability to increase fares is limited by competition, we recently introduced a new aircraft on the charter service that will increase capacity and improve costs.

Midwest and South

Net revenues declined slightly to $553.8 million during the nine months ended September 30, 2011, from $556.2 million in corresponding period of the prior year, while Adjusted EBITDA increased by 13.0% to $128.0 million from $113.3 million during the same periods, respectively. Our business continues to grow across this region, most particularly resulting from economic strength in southern Louisiana. Margin improvements of 280 basis points have resulted from tight cost control, including disciplined marketing spend.

Atlantic City

Results were not consolidated fully during the nine months ended September 30, 2010, however, on a comparable pro forma basis, net revenues declined 2.8% to $553.9 million from $569.6 million and Adjusted EBITDA declined 10.8% to $120.6 million from $135.3 million during the nine months ended September 30, 2011 and 2010, respectively. Overall, results during the current nine months were negatively impacted by the closure of the property during Hurricane Irene, which cost the property three days of business volume during a relatively busy summer month. Also, throughout the year, Borgata has been adversely impacted by promotional spend, which increased to 23.6% of gross gaming revenue for the nine months ended September 30, 2011 from 22.0% for the nine months ended September 30, 2010. This spend represents increased promotional incentives in response to the competitive environment in the Atlantic City and Eastern Pennsylvania gaming markets.

Other Costs and Expenses

Three and Nine Months Ended September 30, 2011 and 2010

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2011	2010	2011	2010 Actual	2010 Pro Forma

	(In thousands)				
Selling, general and administrative	$96,301	$100,697	$288,872	270,641	299,622
Maintenance and utilities	40,925	42,661	115,113	104,770	118,292
Depreciation and amortization	46,034	52,451	145,106	147,905	164,659
Corporate expense	11,025	11,021	36,569	36,636	36,636
Preopening expenses	1,720	2,684	5,292	4,990	4,990
Write-downs and other items, net	2,300	1,340	9,269	4,932	5,000

The results for the three and nine months ended September 30, 2011 and for the three months ended September 30, 2010, as

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reported above, reflect the consolidation of Borgata for the entire periods while the results for the nine months ended September 30, 2010 reflect the consolidation of Borgata for the period from March 24, 2010 through September 30, 2010. The "Pro Forma" column in the nine months ended September 30, 2010 column above reflects the results of operations as if Borgata had been consolidated for such entire period, and thus, for purposes of comparability, will be the basis for the nine month analytical discussions below.

Selling, general and administrative

Selling, general and administrative expenses, as a percentage of gross revenues, declined to 13.8% during the three months ended September 30, 2011 from 14.3% during the three months ended September 30, 2010, and 14.2% of gross revenues compared to 14.6% for the nine months ended September 30, 2011 and 2010, respectively. These costs primarily include marketing, technology, compliance and risk, surveillance and security. These costs have generally been reduced in the periods presented due to disciplined and targeted marketing spend, and our ongoing cost containment efforts.

Maintenance and Utilities

Maintenance and utilities expenses, as a percentage of gross revenues, decreased to 5.9% and 6.1% during the three months ended September 30, 2011 and 2010, respectively, and 5.6% and 5.8% during the nine months ended September 30, 2011 and 2010, respectively. The decreases in each period are due primarily to the fact that no major maintenance projects were undertaken in either period, coupled with cost reductions associated with the Company's conscious energy savings initiatives.

Depreciation and Amortization

Depreciation and amortization expense, as a percentage of gross revenues, declined during the three months ended September 30, 2011, as compared to the corresponding period of the prior year, representing 6.6% and 7.5%, respectively, and during the nine month periods to 7.1% from 8.0%, respectively, as certain property and equipment became fully depreciated and there were no significant expansion capital expenditures placed into service during these periods.

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, as a percentage of gross revenues of 1.6% during each of the three months ended September 30, 2011 and 2010, and 1.8% during each of the nine month periods ended September 30, 2011 and 2010 reflect the ongoing efforts to contain costs across the business.

Preopening Expenses

We expense certain costs of start-up activities as incurred. During the three and nine months ended September 30, 2011 and 2010, we recorded preopening expenses related to our Echelon development project, expenses related to our efforts to develop gaming activities in other jurisdictions and expenses related to other business development activities. Additionally, the Period Fees, as discussed above, are included in the expenses related to our Echelon development project during the three and nine months ended September 30, 2011; however, such amounts were eliminated upon the consolidation of LVE and not reflected in total preopening expenses.

Write-downs and Other Items, Net

Write-downs and other charges generally include losses on the disposal or impairment of certain assets, costs incurred in relation to acquisition activities and costs associated with property damage from natural disasters. Specifically during the three months ended September 30, 2011 and 2010, these costs were primarily related to acquisition related expenses, which were $1.9 million and $1.1 million during these respective periods. During the nine months ended September 30, 2011, these costs included an impairment charge related to the Borgata trademark of $5 million; the

insurance deductible and related costs for the closure of Sam's Town Tunica during the month of May due to the flooding of the Mississippi river of $1.6 million, with the remaining costs incurred in relation to acquisition activities. During the nine months ended September 30, 2010, these costs were primarily acquisition related.

Operating Income from Borgata
Nine Months Ended September 30, 2010
Our share of Borgata's operating income represents the amounts recorded in our consolidated financial statements under the equity method, which is partially reflected in the nine months ended September 30, 2010, as part of that period was prior to our consolidation of the operating results of Borgata .

Other Expense (Income)
Interest Expense

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Three and Nine Months Ended September 30, 2011 and 2010

The following table presents our interest expense for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2011	2010	2011	2010 Actual	2010 Pro Forma
	(In thousands)				
Interest Expense					
Boyd Gaming Corporation	$34,086	$28,506	$114,026	$86,091	$86,081
Borgata	20,995	17,275	59,606	23,347	28,407
Variable Interest Entity	5,002	—	10,436	—	
	$60,083	$45,781	$184,068	$109,438	$114,488
Average Long-Term Debt Balance					
Boyd Gaming Corporation	$2,391,826	$2,460,410	$2,391,996	$2,555,253	$2,555,253
Borgata	$813,250	$731,700	$833,700	$680,284	$680,284
Weighted Average Interest Rates					
Boyd Gaming Corporation	5.2 %	4.5 %	5.2 %	4.5 %	4.5 %
Borgata	9.5 %	6.4 %	9.6 %	4.6 %	4.6 %

Three and Nine Months Ended September 30, 2011 and 2010

Summary

Interest expense was $60.0 million for the three months ended September 30, 2011, as compared to $45.8 million during the comparable period in the prior year, representing an increase of 31.2%. Excluding the effects of the interest on the variable interest entity's non-recourse debt, the interest expense for the three months ended September 30, 2011 would have been $55.0 million, or an increase of 20.2%. Interest expense was $184.1 million for the nine months ended September 30, 2011, as compared to $114.5 million (on a pro forma basis) during the comparable period in the prior year, representing a significant increase during the period, as further detailed below.

Boyd Gaming Corporation

The increase of $5.5 million during the three months ended September 30, 2011, and $27.9 million during the nine months ended September 30, 2011, as compared to the corresponding periods in the prior year, respectively, was entirely rate driven, as average outstanding balances have declined over each period. Average balances during all periods presented reflect approximately $1.4 billion in amounts outstanding under our credit facility, which are currently at a blended interest rate of 3.3%, thereby diluting the rate effect of our high yield notes.

We previously were a party to certain floating-to-fixed interest rate swap agreements with an aggregate notional amount of $500 million, whereby we received payments based upon the three-month LIBOR and made payments based upon a stipulated fixed rate. As market interest rates during the period were significantly lower than the 5.1% weighted-average fixed rate associated with these swaps, the effect of the swaps increased our interest expense by $5.8 million for the three months ended September 30, 2010, and by $11.8 million and $17.0 million during the nine months ended September 30, 2011 and 2010, respectively. Our interest rate swap agreements expired on June 30, 2011.

Borgata

The increases in interest expense during the three and nine months ended September 30, 2011 and 2010 as compared to corresponding periods in the prior year were due to higher average interest rates on higher average outstanding debt balances. The increase of $3.7 million, or 21.5% during the three months ended September 30, 2011, which reflects the full quarter effect of the refinancing, which closed in during the three months ended September 30, 2010. Interest expense doubled during the nine months ended September 30, 2011 as compared to the corresponding prior periods, on a pro forma basis, due entirely to the refinancing impact, the full effect of which was realized in the current quarter.

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Fair Value Adjustment of Derivative Instruments
Three and Nine Months Ended September 30, 2011 and 2010

During the fourth quarter of 2010, in anticipation of the execution of our Amended Credit Facility, we de-designated all of our interest rate swap agreements as cash flow hedges. Concurrent with the de-designation of the hedging relationship, hedge accounting was suspended and the amount remaining in accumulated other comprehensive loss associated with this cash flow hedging relationship was frozen. This amount is being amortized into interest expense over the respective remaining term of the associated underlying contract. Prospectively, from such date, and through June 30, 2011, the date all of these interest rate swap agreements matured, all changes in the fair value of these interest rate swaps were recognized immediately in earnings. This mark-to-market adjustment resulted in a realized loss of $0.3 million during the nine months ended September 30, 2011.

Gain on Early Retirements of Debt
Three and Nine Months Ended September 30, 2011 and 2010

During the three months ended September 30, 2011,Borgata purchased and retired a principal amount of $8.5 million of its senior secured notes for a purchase price of $8.2 million, resulting in a gain of less than $0.1 million. During the nine months ended September 30, 2010, Boyd Gaming purchased and retired $33.0 million, respectively, principal amount of its senior subordinated notes. The total purchase price of the notes was $28.9 million, respectively, resulting in a gain of $3.9 million, net. The gains are computed net of original issue discount, deferred financing and underwriting fees.

Income Taxes
Three and Nine Months Ended September 30, 2011 and 2010

The effective tax rates during the three months ended September 30, 2011 and 2010 were 23.7% and 30.0% , respectively, while the effective tax rates during the nine months ended September 30, 2011 and 2010 were 0.5% and 29.8%, respectively. Our tax provisions and benefits were both favorably and unfavorably impacted by permanent adjustments related to our consolidation of Borgata and LVE. We consolidate Borgata's income and LVE's loss for financial statement purposes; however, under federal income tax statutes, we are subject to income tax on our fifty percent interest in Borgata and exclude LVE's loss in its entirety. In 2011, our tax benefit was adversely impacted by certain recurring permanent adjustments that are unaffected by our loss from continuing operations. Additionally, in 2011, and to a lesser extent in 2010, our state tax provision was adversely impacted by a statutory change in state income tax rates, changes in apportionment and the geographic mix of our income.
Adjusted Earnings (Loss) and Adjusted EPS
Three and Nine Months Ended September 30, 2011 and 2010

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 write-downs, net.

The following tables present our Adjusted Earnings (Loss) and Adjusted Earnings per Share for the three and nine months ended September 30, 2011 and 2010.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Net income (loss) attributable to Boyd Gaming Corporation	$3,109	$5,591	$(3,363)	$17,408
Adjustments related to Boyd Gaming:				
Preopening expenses, excluding impact of LVE	4,444	2,684	13,334	4,990
Adjustments to property tax accruals, net	(3,926)	—	(7,464)	—
Write-downs and other items, net	2,280	1,344	3,484	4,924
Change in fair value of derivative instruments	—	—	265	—
(Gain) loss on early retirements of debt, net	—	—	20	(3,949)
Other income	(1,000)	(10,000)	(1,000)	(10,000)
Gain on equity distribution	—	(2,535)	—	(2,535)
Adjustments related to Borgata:				
Preopening expenses	—	—	92	—
Write-downs and other items, net	20	(4)	5,785	8
Accelerated amortization on deferred loan fees	—	2,012	—	2,012
Valuation adjustments related to consolidation, net	649	—	322	—
Gain on early retirements of debt, net	(54)	—	(54)	—
Our share of Borgata's write-downs and other items, net	—	—	—	34
Total adjustments	2,413	(6,499)	14,784	(4,516)
Income tax effect for above adjustments	(587)	3,322	(4,332)	2,620
Impact on noncontrolling interest	(308)	(1,004)	(3,073)	(1,010)
Adjusted earnings (loss)	$4,627	$1,410	$4,016	$14,502

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic net income (loss) per common share	$0.04	$0.06	$(0.04)	$0.20
Adjustments related to Boyd Gaming:				
Preopening expenses, excluding impact of LVE	0.05	0.03	0.15	0.06
Adjustments to property tax accruals, net	(0.05)	—	(0.09)	—
Write-downs and other items, net	0.02	0.03	0.04	0.07
Change in fair value of derivative instruments	—	—	—	—
(Gain) loss on early retirements of debt, net	—	—	—	(0.05)
Other income	(0.01)	(0.12)	(0.01)	(0.12)
Gain on equity distribution	—	(0.03)	—	(0.03)
Adjustments related to Borgata:				
Preopening expenses	—	—	—	—
Write-downs and other items, net	—	—	—	—
Accelerated amortization on deferred loan fees	—	0.02	0.08	0.02
Valuation adjustments related to consolidation, net	0.01	—	—	—
Gain on early retirements of debt, net	—	—	—	—
Our share of Borgata's write-downs and other items, net	—	—	—	—
Total adjustments	$0.02	$(0.07)	$0.17	$(0.05)
Income tax effect for above adjustments	(0.01)	0.04	(0.05)	0.03
Impact on noncontrolling interest	—	(0.01)	(0.03)	(0.01)
Adjusted earnings (loss) per share	$0.05	$0.02	$0.05	$0.17

Adjusted earnings per share for the nine months ended September 30, 2011 were computed using our diluted weighted average shares outstanding, although the presentation on our condensed consolidated statement of operations for such period does not consider the effect of common stock equivalents, as such were anti-dilutive to the net loss, as reported. However, as such net loss has been adjusted to an earnings per share amount, the dilutive effect is considered in the per share calculation above.

During the three and nine months ended September 30, 2011 and 2010, 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 Expenses, Excluding Impact of Consolidation of LVE

Preopening expenses are comprised of costs primarily related to maintenance of our Echelon development project and expenditures for the exploration of new business development initiatives.

Adjustments to Property Tax Accruals

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.

Write-Downs and Other Items, net

Write-downs and other charges generally include losses on the disposal or impairment of certain assets, costs incurred in relation to acquisition activities and costs associated with property damage from natural disasters.

Change in Fair Value of Derivative Instruments

Change in fair value of derivative instruments is comprised of the charge to earnings for the change in fair value of our interest rate swaps that were de-designated as cash flow hedges during 2010.

(Gain) Loss on Early Retirements of Debt

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(Gain) loss on early retirements of debt represents the difference between the principal amount of our senior subordinated notes repurchased and the purchase price of such notes.

Other Income
Other income represents the non-refundable $1 million fee received in connection with our agreement to extend the closing of Dania Jai-Alai, reflected in the three and nine months ended September 30, 2011. Other income represents the consent fee received in connection with our agreement to modify the Borgata operating agreement, received in August 2010, and reported in the three and nine months ended September 30, 2010.

Gain on Equity Distribution
This gain represents the difference between the total distribution received from Borgata for our unilateral capital contribution and its carrying value.

Adjustments Related to Borgata
Preopening Expenses
Preopening expenses at Borgata related to costs incurred to open a new retail outlet during the quarter.

Write -Downs and Other Items, net
Write-downs and other charges generally include losses on the disposal or impairment of certain assets, costs incurred in relation to acquisition activities and insurance costs associated with property damage from natural disasters.

Accelerated Amortization of Deferred Loan Fees
This amortization represents the remaining unamortized balance of deferred loan fees associated with the prior credit facility, which were accelerated and written off upon the refinancing of all Borgata's debt in August 2010.

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.

Gain on Early Retirements of Debt
Gain on early retirements of debt represents the difference between the principal amount of our senior subordinated notes repurchased and the purchase price of such notes.

LIQUIDITY AND CAPITAL RESOURCES
Financial Position
Current Maturities of Our Indebtedness
We classified certain non-extending balances due under our Amended Credit Facility as a current maturity, as such amounts come due within the next twelve months. As discussed below, we signed a Lender Joinder Agreement, which increases the term loan commitments under our Amended Credit Facility by an aggregate amount of $350 million. We anticipate that these commitments will be funded on November 10, 2011, the proceeds of which shall be used to repay the current portion of our Amended Credit Facility. While we anticipate this borrowing, as well as remaining availability under our Amended Credit Facility will provide the short term liquidity required to fund our existing debt obligations, if for any unforeseen reason the Lender Joinder Agreement is not funded, management will reengage other plans to aggressively pursue the repayment of all debt as currently due.

Completion of Acquisition of IP Casino Resort Spa

On October 4, 2011, the Company consummated the acquisition of IP Casino Resort Spa in Biloxi, Mississippi for a purchase price of $288 million. The purchase was financed with cash on hand and a borrowing under our Amended Credit Facility of approximately $200 million. Subsequent to the acquisition, Boyd has approximately $2.6 billion of long-term debt outstanding with approximately $415 million outstanding on the non-extended portion of the Amended Credit Facility that matures in May 2012, with a remaining $215 million of availability under the extended portion of the Amended Credit Facility that matures in December 2015.

Consolidation of Variable Interest Entity

At September 30, 2011, we reported LVE's total assets and total liabilities of $249.7 million and $265.1 million, respectively in

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our condensed consolidated balance sheet. However, LVE's financial position, including its working capital and indebtedness, are not discussed herein as such indebtedness is non-recourse to us and will not require our working capital or free cash flows in order to service such. Therefore, the assets and liabilities of LVE are completely disregarded from the discussion below, due to the irrelevance to our overall liquidity and capital resources.

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 Amended Credit Facility. As of September 30, 2011 and December 31, 2010, we had balances of cash and cash equivalents of $187.1 million and $145.6 million, respectively. However, we had working capital deficits of $387.3 million and $87.5 million as of September 30, 2011 and December 31, 2010, respectively. The increase in this deficit is due to the current classification of certain of our debt obligations becoming due in May 2012.

We and Borgata separately manage our working capital positions, including our cash and indebtedness levels. 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 it 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 our projected operating and maintenance capital expenditures for at least the next twelve months. The source of funds for the repayment of our debt or our 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 or Borgata could also seek to secure additional working capital, repay our respective current debt maturities, or fund our respective development projects, in whole or in part, through incremental bank financing and additional debt or equity offerings. If availability does not exist under our respective 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 either us or Borgata, and if available, may not be on terms favorable to either us or Borgata.

Indebtedness

Our indebtedness primarily consists of amounts outstanding under our $1.5 billion Amended Credit Facility (including $500 million of term loans, and excluding the non-extending amounts of $331.0 million) and $956.4 million aggregate principal amount of our senior and senior subordinated notes, which are the obligations of Boyd, and a $150 million bank credit facility and $791.5 million aggregate principal amount of senior secured notes, all of which are the obligations of Borgata.

Bank Credit Facility

Significant Terms

On December 3, 2010, we entered into an Amendment and Restatement Agreement with certain financial institutions (each a “Lender”), including Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association, as swing line lender (the “Amendment and Restatement Agreement”). Pursuant to the terms of the Amendment and Restatement Agreement, our First Amended and Restated Credit Agreement, dated as of May 24, 2007, as amended by the First Amendment and Consent to First Amended Credit Agreement, dated as of December 21, 2009 (as amended, the “Amended Credit Facility”), was amended and restated to, among other things, (i) reduce the aggregate commitments under the former credit facility and (ii) permit consenting Lenders to extend the maturity date of their commitments, new Lenders to issue revolving commitments and term loans and existing Lenders to increase their commitments (each, an “Extending Lender”) in each case with a maturity date five years from the restatement effective date.

Each of the Extending Lenders permanently reduced their commitments under the Amended Credit Facility by up to 50% of the amount thereof. As a result, the aggregate commitments under the Amended Credit Facility were reduced from $3 billion to approximately $1.5 billion (including $500 million of term loans, and excluding $331.0 million in non-extending amounts), which commitments may be increased from time to time by up to $500 million (instead of $1 billion commitment increases provided for under the former credit facility) through additional revolving credit or term loans under the Amended Credit Facility.

Pursuant to the terms of the Amended Credit Facility, the term loans amortize in an annual amount equal to 5% of the original principal amount thereof, which commenced on March 31, 2011, payable on a quarterly basis. The interest rate per annum applicable to revolving and term loans under the Amended Credit Facility are based upon, at our option, LIBOR or the “base rate,” plus an applicable margin in either case. The applicable margin under the Amended Credit Facility is a percentage per annum determined in accordance with a specified pricing grid based on the total leverage ratio. The applicable margin on the outstanding balance on the Extended Revolving 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

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from 0.625% to 1.625% (if using LIBOR), and from 0.0% 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 Amended Credit Facility.
The “base rate” under the Amended 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 letter of credit fees under the Amended Credit Facility remain the same as those under the Credit Facility; however, the margins payable to Extending Lenders are based on the margins applicable to the Extended Revolving Facility.
Subject to certain conditions, amounts outstanding under the Amended Credit Facility may be prepaid without premium or penalty, and the unutilized portion of any of the commitments may be terminated without penalty.

The blended interest rates for outstanding borrowings under our Amended Credit Facility were 3.3% at September 30, 2011 and December 31, 2010. At September 30, 2011, approximately $1.42 billion was outstanding under our Amended Credit Facility, with $15.5 million allocated to support various letters of credit, leaving remaining contractual availability of approximately $564.5 million.

Guarantees
Our obligations under the Amended Credit Facility, subject to certain exceptions, are guaranteed by certain of our subsidiaries and are secured by the capital stock of certain subsidiaries. In addition, subject to certain exceptions, we and each of the guarantors granted the administrative agent first priority liens and security interests on substantially all of our 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 Amended Credit Facility.

Financial and Other Covenants
The Amended 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, we may be required to repay the amounts outstanding under the Amended Credit Facility in connection with certain asset sales and issuances of certain additional secured indebtedness.
The minimum consolidated Interest Coverage Ratio (all capitalized terms are defined in the Amended Credit Facility) is calculated as (a) twelve-month trailing Consolidated EBITDA to (b) consolidated interest expense.

The maximum permitted consolidated Total Leverage Ratio (as defined in our Amended Credit Facility) is calculated as Consolidated Funded Indebtedness to twelve-month trailing Consolidated EBITDA. Presently, and through December 31, 2011, our maximum Total Leverage Ratio is set at 7.75 to 1.00. Thereafter, on a scheduled basis in 0.25 basis point increments, the maximum ratio decreases to a low 5.50 to 1.00 at March 15, 2015 through the duration of the term.

The maximum permitted Secured Leverage Ratio is calculated as Secured Indebtedness to twelve-month trailing Consolidated EBITDA. Presently, and through March 31, 2012, our maximum Secured Leverage Ratio is set at 4.50 to 1.00. Thereafter, on a scheduled basis in 0.25 basis point increments, the maximum ratio decreases to a low 3.25 to 1.00 at June 30, 2014 through the duration of the term.

Compliance with Financial Covenants
We believe that we were in compliance with the Amended Credit Facility covenants, including the minimum consolidated Interest Coverage Ratio, the maximum permitted consolidated Total Leverage Ratio and the maximum

permitted Secured Leverage Ratio, which, at September 30, 2011, were 2.26 to 1.00, 7.15 to 1.00 and 4.25 to 1.00, respectively.

At September 30, 2011, assuming our twelve-month trailing Consolidated EBITDA remains constant, we estimate that we could draw an additional $202 million of the availability under our Amended Credit Facility and maintain compliance with our Total Leverage Ratio.

Debt Financing Costs

In conjunction with the Amendment and Restatement Agreement, we incurred approximately $20.6 million in incremental debt financing costs, which have been deferred and are being amortized over the remaining term of the Amended Credit Facility.

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Senior Notes
9.125% Senior Notes due December 2018
Significant Terms
On November 10, 2010, we issued, through a private placement, $500 million aggregate principal amount of 9.125% senior notes due December 2018. The notes require semi-annual interest payments on December 1 and June 1 of each year, which commenced on June 1, 2011. The notes will mature on December 1, 2018 and are fully and unconditionally guaranteed, in 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 are in compliance with these covenants at September 30, 2011. In addition, upon the occurrence of a change of control (as defined in the indenture governing the notes), we will be required, unless certain conditions are met, to offer to repurchase the notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any, to, but not including , the date of purchases. If we sell assets or experience an event of loss, we will be required under certain circumstances to offer to purchase the notes. At any time prior to December 1, 2013, we may redeem up to 35% of the aggregate principal amount of the notes at a redemption price equal to 109.125% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the applicable redemption date, with the net cash proceeds that we raise in one or more equity offerings. In addition, prior to December 1, 2014, we may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the applicable redemption date, plus a make whole premium. Subsequent to December 1, 2014, we may redeem all or a portion of the notes at redemption prices (expressed as percentages of the principal amount) ranging from 104.563% in 2014 to 100% in 2016 and thereafter, plus accrued and unpaid interest.

Registration Rights Agreement
Pursuant to the registration rights agreement entered into with the initial purchasers of these senior notes at the time of the private placement, on September 15, 2011, Boyd Gaming commenced an offer to exchange all of the outstanding $500.0 million aggregate principal amount of 9.125% Senior Notes due 2018, that have been registered under the Securities Act of 1933. On October 18, 2011, the expiration date of the exchange offer, 100% of the 9.125% Senior Notes due 2018 were validly tendered and accepted for exchange.

Senior Subordinated Notes
6.75% Senior Subordinated Notes due April 2014
Significant Terms
On April 15, 2004, we issued, through a private placement, $350 million principal amount of 6.75% senior subordinated notes due April 2014. In July 2004, all of the notes, except for $50,000 in aggregate principal amount of these notes, were exchanged for substantially similar notes that were registered with the SEC. The notes require semi-annual interest payments on April 15 and October 15 of each year, through April 2014, at which time the entire principal balance becomes due and payable. 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 are in compliance with these covenants at September 30, 2011. We may redeem all or a portion of the notes at redemption prices (expressed as percentages of the principal amount) ranging from 103.375% in 2009 to 100% in 2012 and thereafter, plus accrued and unpaid interest.

7.125% Senior Subordinated Notes due February 2016
Significant Terms

On January 30, 2006, we issued $250 million principal amount of 7.125% senior subordinated notes due February 2016. The notes require semi-annual interest payments on February 1 and August 1 of each year, through February 2016, at which time the entire principal balance becomes due and payable. 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 are in compliance with these covenants at September 30, 2011. We may redeem all or a portion of the notes at redemption prices (expressed as percentages of the principal amount) ranging from 103.563% in 2011 to 100% in 2014 and thereafter, plus accrued and unpaid interest.

Repurchases of Senior Subordinated Notes

During the nine months ended September 30, 2010, we purchased and retired $33.0 million, principal amount of our senior subordinated notes. The total purchase price of the notes was $28.9 million, resulting in a gain of $3.9 million, net of associated deferred financing fees, which is recorded on our condensed consolidated statement of operations for the respective period. The transactions were funded by availability under our former bank credit facility.

Indentures

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The indentures governing the senior and senior subordinated notes each include permitted investment clauses, the most restrictive of which limits the amount of permitted investments to a basket of $150 million, increased by a calculated amount including 50% of net income, as defined in the indentures, and net of previous permitted investments. Also, the indentures allow for the incurrence of additional indebtedness, if after giving effect to such incurrence, our coverage ratio (as defined in the indentures, essentially a ratio of consolidated EBITDA to fixed charges, including interest) for a trailing four quarter period on a pro forma basis would be at least 2.0 to 1.0. Such pro forma coverage ratio was above 2.0 to 1.0 at the dates in which these respective tranches of senior and senior subordinated notes were issued; and, at September 30, 2011, after giving effect to the repayment of certain indebtedness, as defined in the indentures, our coverage ratio was above 2.0 to 1.0.

Borgata Bank Credit Facility

Significant Terms

In August 2010, Marina District Finance Company, Inc. (“MDFC”) closed a $950 million debt financing, consisting of the establishment of a $150.0 million new payment priority secured revolving credit facility (the "Borgata bank credit facility") and the issuance of $800 million of aggregate principal amount of notes. MDFC is a wholly-owned subsidiary of MDDC, which develops and owns Borgata, and which is the guarantor of both the Borgata bank credit facility and the notes. The proceeds from the financing were used to (i) pay fees and expenses related to the financing; (ii) repay the former credit facility; and (iii) make a one-time distribution to Borgata's joint venture owners.

The Borgata bank credit facility provides for a $150.0 million payment priority 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 the assets of MDFC, MDDC and any future subsidiaries of MDDC, subject to certain exceptions. The obligations under the Borgata bank credit facility have priority in payment to payment of the notes.

Neither Boyd Gaming nor any of its wholly-owned subsidiaries is a guarantor of Borgata's new bank credit facility. Outstanding borrowings under the Borgata bank credit facility accrue interest at a selected rate based upon either: (i) the highest of (a) the agent bank's quoted prime rate, (b) the one-month Eurodollar rate plus 1.00%, and (c) the daily federal funds rate plus 1.50%, and in any event not less than 1.50% (such highest rate, the “base rate”), or (ii) the Eurodollar rate, plus with respect to each of clause (i) and (ii) an applicable margin as provided in the 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.

At September 30, 2011, the outstanding balance under the Borgata bank credit facility was $15.0 million, leaving contractual availability of $135.0 million. The interest rate on the outstanding borrowings at September 30, 2011 was 4.4%.

Financial and Other Covenants

The Borgata bank credit facility contains certain financial and other covenants, including, without limitation, (i) establishing a minimum consolidated EBITDA (as defined in the Borgata bank credit facility) of $150 million over each trailing twelve-month period ending on the last day of each calendar quarter; (ii) establishing a minimum liquidity (as defined in the Borgata bank credit facility) of $30 million as of the end of each calendar quarter; (iii) imposing limitations on MDFC's ability to incur additional debt; and (iv) imposing restrictions on 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.

Compliance with Financial Covenants

We believe that MDFC was in compliance with the Borgata bank credit facility covenants, including minimum consolidated EBITDA and minimum liquidity, which, at September 30, 2011, were $155.4 million and $135.0 million, respectively.

Borgata Senior Secured Notes
9.5% Senior Secured Notes Due 2015
Significant Terms
In August 2010, MDFC issued, through a private placement, $400 million principal amount of 9.5% senior secured notes due October 2015, at an issue price of 98.943%, resulting in a discount at issuance of $4.2 million. The notes require semi-annual interest payments on April 15 and October 15, and commenced on April 15, 2011. The notes are guaranteed on a senior secured basis by MDDC and any future restricted subsidiaries of MDDC. The notes contain covenants that, among other things, limit MDFC's ability and the ability of MDDC to (i) incur additional indebtedness or liens; (ii) pay dividends or make distributions; (iii) make certain investments; (iv) sell or merge with other companies; and (v) enter into certain types of transactions. MDFC believes that it is in compliance with these covenants at September 30, 2011.

At any time prior to October 15, 2013, the notes may be redeemed at 100% of the principal amount thereof, plus a “make-whole

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

9.875% Senior Secured Notes Due 2018
Significant Terms
In August 2010, MDFC issued, through a private placement, $400 million principal amount of 9.875% senior secured notes due August 2018, at an issue price of 99.315%, resulting in an original issue discount of $2.7 million. The notes require semi-annual interest payments on February 15 and August 15, and commenced on February 15, 2011. The notes are guaranteed on a senior secured basis by MDDC and any future restricted subsidiaries of MDDC. The notes contain covenants that, among other things, limit MDFC's ability and the ability of MDDC to (i) incur additional indebtedness or liens; (ii) pay dividends or make distributions; (iii) make certain investments; (iv) sell or merge with other companies; and (v) enter into certain types of transactions. MDFC believes that it is in compliance with these covenants at September 30, 2011.

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

The original issue discount has been recorded as an offset to the principal amount of these notes and is being accreted to interest expense over the term of the notes using the effective interest method. The effective interest rate on the 9.5% notes due 2015 notes is 10.2% and on the 9.875% notes due 2018 is 10.3%.

Repurchase of Senior Secured Notes
During the three and nine months ended September 30, 2011, Borgata repurchased and retired $8.5 million, principal amount, in total, of their senior secured notes, which included $2.0 million of the 9.5% notes and $6.5 million of the 9.875% notes. The total purchase price of the notes was $8.4 million, resulting in a gain of $0.1 million, net of associated deferred financing fees, which is recorded on Borgata's condensed consolidated statement of operations for the respective periods.

Registration Rights Agreement
Pursuant to the registration rights agreement entered into with the initial purchasers of these senior secured notes at the time of the private placement, on May 27, 2011, MDFC commenced an offer to exchange all of the outstanding $400.0 million aggregate principal amount of 9.5% Senior Secured Notes due 2015 and $400.0 million aggregate principal amount of 9.875% Senior Secured Notes due 2018 for new 9.5% Senior Secured Notes due 2015 and 9.875% Senior Secured Notes due 2018, respectively, that have been registered under the Securities Act of 1933. On June 28, 2011, the expiration date of the exchange offer, $396.4 million of the 9.5% Senior Secured Notes due 2015

and $400.0 of the 9.875% Senior Secured Notes due 2018 were validly tendered and accepted for exchange. This amount represents approximately 99.1% of the 9.5% Senior Secured Notes due 2015 and 100% of the 9.875% Senior Secured Notes due 2018, respectively.

Cash Flows Summary
Nine Months ended September 30. 2011 and 2010

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	Nine Months Ended September 30,	
	2011	2010
	(In thousands)	
Net cash provided by operating activities	$182,916	$240,961
Cash flows from investing activities:		
Capital expenditures	(55,491)	(64,069)
Acquisition of assets	(34,495)	—
Decrease in restricted investments	27,184	—
Net cash effect upon change in controlling interest of Borgata	—	26,025
Other investing activities	—	(731)
Net cash used in investing activities	(62,802)	(38,775)
Cash flows from financing activities:		
Net payments under bank credit facility	(1,853)	(189,100)
Net payments under Borgata bank credit facility	(45,900)	(585,189)
Proceeds from issuance of Borgata senior secured notes	—	773,176
Payments on retirements of long-term debt	(8,198)	(28,861)
Deferred financing costs related to issuance of Borgata senior secured notes	(1,283)	—
Payments on variable interest entity non-recourse obligations	(27,000)	—
Payments under note payable	—	(46,875)
Noncontrolling interest distributions by Borgata	—	(120,176)
Other financing activities	5,615	(5,688)
Net cash used in financing activities	(78,619)	(202,713)
Increase (decrease) in cash and cash equivalents	$41,495	$(527)

Cash Flows from Operating Activities

For the nine months ended September 30, 2011, we generated operating cash flow of $182.9 million, compared to $241.0 million for the nine months ended September 30, 2010, a decrease of $58.1 million. Generally, operating cash flows dropped due to a decrease in net income, which was primarily related to increases in interest incurred and income taxes.

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 nine months ended September 30, 2011 were $55.5 million and included the Echelon development project, which included spending of approximately $1.0 million, and maintenance capital expenditures of approximately $29.9 million. Cash paid for capital expenditures on major projects for the nine months ended September 30, 2010 were $64.1 million and included the Echelon development project, which included spending of approximately $27.4 million, and maintenance capital expenditures of approximately $36.7 million.

Asset Acquisitions

During the nine months ended September 30, 2011, we made an escrow deposit related to the purchase of IP Casino Resort Spa in the amount of $10 million, which was subsequently applied against the purchase price upon the closing. Additionally, we purchased the membership interests of an LLC for $24.5 million, and in exchange recorded assets at the same value.

Restricted Investment
During the nine months ended September 30, 2011, as a result of the consolidation of LVE as a variable interest entity, we recorded the liquidation of its restricted investment in the amount of $27.2 million, the proceeds of which were used to repay certain of its existing indebtedness, all of which is non-recourse to us.

Cash from Borgata Consolidation
As a result of our consolidation of Borgata during the nine months ended September 30, 2010, we included its cash balance of

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$26.0 million as an investing cash flow.

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

Net Payments under Credit Facility
During the nine months ended September 30, 2011, net amounts of $1.9 million and $45.9 million were paid under Boyd Gaming's and Borgata's respective credit facilities; the net amounts paid were $189.1 million and $585.2 million during the nine months ended September 30, 2010, respectively. 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. Borgata repaid its previous credit facility during the nine months ended September 30, 2010 upon the consummation of a refinancing effort, which included the issuance of $800 million in senior notes, as discussed below.

Proceeds from Issuance of Notes
In August 2010, Borgata completed a refinancing of its existing debt structure, and thereby repaid all amounts due under its existing credit facility by issuing two tranches of senior secured notes in the aggregate principal amount of $800 million. The net amount of the proceeds from this offering, as reduced for underwriting and other fees, of $773.2 million was recorded during the nine months ended September 30, 2010.

Repayments of Long-Term Debt
As market conditions provide, we may repurchase our senior notes, senior subordinated notes, and/or senior secured notes. During the nine months ended September 30, 2011 and 2010, Borgata purchased and retired principal amounts of $8.5 million of its senior secured notes and Boyd Gaming repurchased and retired $33.0 million of its senior subordinated notes. Repayments, net of accrued interest and related costs were $8.2 million and $28.9 million for these respective transactions, during these respective periods.

Payments on Variable Interest Entity Non-Recourse Obligation
During the nine months ended September 30, 2011, LVE made a principal repayment of $27.0 million related to its outstanding obligations, the proceeds for which were funded from the liquidation of restricted investments, as discussed above.

Payments under Note Payable
During the nine months ended September 30, 2010, we made a final principal payment of $46.9 million related to the promissory note to the seller of Dania Jai-Alai.

Distributions from Borgata
We did not receive distributions from Borgata during the nine months ended September 30, 2011. During the nine months ended September 30, 2010, primarily in connection with its debt refinancing, Borgata made distribution to us of $152.9 million. Borgata's existing bank credit facility allows for certain limited distributions to be made to its partners, and accordingly, we do not anticipate significant future distributions.

Dividends
Dividends are declared at the discretion of our Board of Directors. We are subject to certain limitations regarding payment of dividends, such as restricted payment limitations related to our outstanding notes and our bank credit facility. In July 2008, our Board of Directors suspended the quarterly dividend for the current and future periods; therefore, we did not declare a dividend during the nine months ended September 30, 2011 or 2010.

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 nine months ended September 30, 2011 and 2010, 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

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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, with such disruptions expected to continue for the foreseeable future. Despite these disruptions, we anticipate the ability to fund our capital requirements using cash flows from operations and availability under our bank 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.

Agreement to Sell Dania Jai-Alai

On April 29, 2011, we and Dania Entertainment Center, LLC (the "Buyer") entered into an Asset Purchase Agreement (the "Agreement") for the sale of certain assets and liabilities of the Dania Jai-Alai Business (as defined below).

Pursuant to the terms of the Agreement, we agreed to sell and transfer, and the Buyer agreed to purchase and assume, certain assets and liabilities ("Assets and Liabilities") related to our Dania Jai-Alai 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 (the "Dania Jai-Alai Business"), for a purchase price of $80.0 million (the "Purchase Price").

The closing of the transactions contemplated by the Agreement is subject to certain closing conditions.

On September 15, 2011, the Buyer elected to extend the closing date of the pending acquisition of the Dania Jai-Alai Business. The terms of the extension provide that sale will close on or before November 28, 2011; however, we have no assurance that the Buyer can or will be in a position to close on such date. As permitted under the terms of the Agreement, the Buyer made an additional, non-refundable payment of $2 million to us in exchange for the extension of the closing date. Of the $2 million payment, $1 million will be applied to the $80 million purchase price. We previously received a $5 million non-refundable deposit upon execution of the definitive agreement.

Completion of Acquisition of IP Casino Resort Spa

On October 4, 2011, we completed our previously announced acquisition of the assets of the IP Casino Resort Spa in Biloxi, Mississippi, for a purchase price of $278 million in cash. Following the closing of the transaction, we also made a charitable contribution to the Engelstad Family Foundation equal to an aggregate of $10 million, which funds are intended to be distributed on behalf of, and in the name of, Boyd Gaming, over five years to charitable organizations to be designated by Boyd Gaming. In addition, following the closing, we intend to perform certain capital improvement projects with respect to the IP Casino Resort Spa with costs estimated to be $44 million.

Commitments

There have been no material changes to our commitments 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, 2010 filed with the SEC on March 15, 2011.

Contingencies

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. On April 14, 2008, the Department filed a Petition for Rehearing (the “Petition”) on the decision. Additionally, on the same date the Nevada Legislature filed an Amicus Curiae brief in support of the Department's position. The Nevada Supreme Court denied the Department's Petition on July 17, 2008. We paid use tax, over the period November 2000 through May 2008, on food purchased for subsequent use in complimentary and employee meals at our Nevada casino properties and estimate the refund to be in the range of $17.5 million to $19.9 million, including interest. In late 2009, the Department audited and denied our refund claim and subsequently issued 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 ("Judge") 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 included in the refund claim period, effectively overturning the Department's 2009 deficiency assessment.

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Both we and the Department appealed the decision, with the exception of the portion related to the deficiency assessment, to the Nevada State Tax Commission (the "Commission"). The Department did not appeal the Judge's decision overturning the 2009 deficiency assessment and therefore, the ruling on the deficiency assessment is final and non-appealable. On August 8, 2011, the Commission remanded the case back to the Judge. The administrative hearing was held on September 26, 2011, at which time we introduced additional supporting documentation. The Judge issued a decision on November 8, 2011, reversing her position on the employee meal refund claim. Such decision also affirmed 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. We intend to appeal the decision to the Commission. Due to uncertainty surrounding the ultimate resolution of an appeal to the Commission, as well as subsequent appeals to higher levels of the state judicial system, we will not record any gain until both we and the Department have exhausted all appeal options and a final, non-appealable decision has been rendered. For periods subsequent to May 2008, we have not collected, remitted or accrued a liability for sales tax on complimentary and employee meals at our Nevada casino properties, as we do not believe it is probable, based on both procedural issues and the technical merits of the Department's arguments, that we will owe this tax.

Blue Chip Property Taxes

In May 2007, Blue Chip received a valuation notice indicating an unanticipated increase of nearly 400% to its assessed property value as of January 1, 2006. At that time, we estimated that the increase in assessed property value could result in a property tax assessment ranging between $4 million and $11 million for the eighteen-month period ended June 30, 2007. We recorded an additional charge of $3.2 million during the three months ended June 30, 2007 to increase our property tax liability to $5.8 million at June 30, 2007 as we believed that was the most likely amount to be assessed within the range. We subsequently received a property tax bill related to our 2006 tax assessment for $6.2 million in December 2007. As we have appealed the assessment, Indiana statutes allow for a minimum required payment of $1.9 million, which was paid against the $6.2 million assessment in January 2008. In February 2009, we received a notice of revaluation, which reduced the property's assessed value by $100 million and the tax assessment by approximately $2.2 million per year. We have subsequently paid the minimum required payment of $1.9 million against provisional bills received in 2007 through 2011, all of which were based on the 2006 valuation notice. In March 2011, we reached a settlement with the assessor, reducing the valuation by an additional $96.0 million and $74.0 million for the 2006 and 2007 tax years, respectively. As a result of the agreement reached on the 2006 and 2007 valuations, we have revised our accrual for years 2008 through 2011 to reflect the expected carryforward effect of the reductions received in the prior year settlements. In October 2011, we reached an agreement with the assessor on valuations for tax years 2008 and 2009. As a result, we further reduced our property tax liability and previously accrued property tax expense by an additional $3.7 million during the three months ended September 30, 2011, which aggregated to a reduction of $9.7 million during the nine months ended September 30, 2011. Although we have not received valuation notices for years 2010 through 2011, or final tax rates for the years 2007 through 2011, we believe the assessment for the period from January 1, 2008 through September 30, 2011 could result in a property tax assessment ranging between $10.0 million and $15.0 million. We have accrued, net of the payments discussed above, approximately $14.6 million of property tax liability as of September 30, 2011, based on what we believe to be the most likely assessment within our range, once all appeals have been exhausted; however, we can provide no assurances that the estimated amount will approximate the actual amount. The final tax assessment notices for the period January 1, 2007 through June 30, 2011, which have not been received as of September 30, 2011, could result in further adjustment to our estimated property tax liability at Blue Chip.

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 September 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

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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.We currently are vigorously defending the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it could have a significant adverse effect on our business, financial condition and results of operations.

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 Amended 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 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, 2010 filed with the SEC on March 15, 2011.

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, 2010, as originally filed with the SEC on March 15, 2011 (the "Provisional Form 10-K"). Revisions to the Provisional Form 10-K were subsequently filed on a Form 8-K on September 2, 2011 ("Retrospective Form 8-K") to update the audited consolidated financial statements and certain other items of the Provisional Form 10-K, specifically and primarily related to the recasting of the consolidated balance sheet as of December 31, 2010, and related notes thereto.

When we filed our Provisional Form 10-K for the year ended December 31, 2010, the initial acquisition method accounting for the effective change in control of Borgata Hotel Casino and Spa ("Borgata") was not finalized. The application of acquisition method accounting, required in accordance with the authoritative accounting guidance for business combinations, initially had the following effects on our unaudited condensed consolidated financial statements: (i) our previously held equity interest was measured at a provisional fair value at the date control was obtained; (ii) we recognized and measured the provisional fair value of the identifiable assets and liabilities in accordance with promulgated valuation recognition and measurement provisions; and (iii) we recorded the provisional fair value of the noncontrolling interest held in trust as a separate component of our stockholders'

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equity.
Since the filing of the Provisional Form 10-K, we have made adjustments to the provisional fair value amounts recognized at the date of effective change in control, or March 24, 2010, to reflect new information obtained about facts and circumstances that existed as of March 24, 2010 that, if known, would have affected the measurement of the amounts recognized as of that date. These adjustments, referred to herein as “measurement period adjustments” materially shifted the value of certain tangible and intangible assets. We have applied the measurement period adjustments retrospectively to the consolidated balance sheet reported as of December 31, 2010, as previously reported in the Provisional Form 10-K; however, the impact on the consolidated statement of operations for the year ended December 31, 2010, as retrospectively adjusted to the statement as reported on the Provisional Form 10-K was not material, and was therefore not adjusted for any measurement period adjustments.
The updated historical financial statements, and other conforming changes to the Provisional Form 10-K are filed as Exhibit 99.1 to the Retrospective Form 8-K and have been updated, solely to include the retrospective measurement period adjustments and new footnote disclosure. All other information provided in the Provisional Form 10-K, unless otherwise provided, remain unchanged and the Retrospective Form 8-K does not modify or update such other disclosures in the Provisional Form 10-K in any other way.
The Provisional Form 10-K, including the revisions pursuant to the Retrospective Form 8-K, as well as the Quarterly Reports on Form 10-Q filed with the SEC on May 10, 2011 and August 5, 2011 should be read in connection with the updates provided below, which summarize the material changes to our critical accounting polices during the intervening periods since those respective filings.

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 2011-08 Intangibles, Goodwill and Other ("Update 2011-08")
In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-08 Intangible, Goodwill and Other, which is an amendment to Topic 350 of the Accounting Standards Codification ("ASC").

The objective of Update 2011-08 is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic ASC 350. (the more-likely-than-not threshold is defined as having a likelihood of more than 50 percent). Previous guidance under Topic ASC 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in Update 2011-08, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount.

The amendment will be effective for our fiscal year, and interim periods within the fiscal year beginning January 1, 2012, although early adoption is permitted. Update 2011-08 will not have a material impact on the computation of the impairment of goodwill or other intangibles.

Accounting Standards Update 2011-05 Presentation of Comprehensive Income ("Update 2011-05")

In June 2011, the FASB issued Accounting Standards Update 2011-05 Presentation of Comprehensive Income, which is an amendment to Topic ASC 220.

The objective of Update 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Update 2011-05 provides an entity with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. In a single continuous statement, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two-statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income should immediately follow the statement of net income and include

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the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income.

Update 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor does Update 2011-05 affect how earnings per share is calculated or presented. Update 2011-05 should be applied retrospectively and will be effective for our fiscal year, and interim periods within the fiscal year beginning January 1, 2012. Update 2011-05 will not have a material impact on the computation of comprehensive income, but will require a revised presentation thereof.

Accounting Standards Update 2011-04 Fair Value Measurement ("Update 2011-04")
In May 2011, the FASB issued Accounting Standards Update 2011-04 Fair Value Measurement, which is an amendment to Topic ASC 820.

The objective of Update 2011-04 is to more clearly explain how to measure fair value to allow for better comparability between GAAP and International Financial Reporting Standards ("IFRS"). It is not intended to result in a change in the application of the requirements in Topic ASC 820, but instead is intended to amend a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

Update 2011-04 does not change the items that must be reported as fair value measurements under Topic ASC 820 but simply how to measure these items and how they should be disclosed. Update 2011-04 should be applied prospectively. Early adoption is not permitted. Update 2011-04 will be effective for our fiscal year, and interim periods within the fiscal year beginning January 1, 2012. Update 2011-04 will not have a material impact on our financial statements.

Important Information Regarding Forward-Looking Statements
This Annual 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,” “anticipat “outlook,” “could,” “would,” “estimate,” “continue,” “pursue,” “target,” “project,” “intend,” “plan,” “seek,” “estimate,” “shoul 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;
- 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;
- expenses;
- our commitment to having a significant presence on the Las Vegas Strip;
- 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 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 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;

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- our expectations with respect to continued disruptions in the global capital markets, the effect of this 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 and our ability to obtain financing for and successfully take advantage of such opportunities;

- our intention to fund purchases made under our share repurchase program, if any, with existing cash resources and availability under our bank credit facility;

- our expectations regarding the closing of the sale of the Assets and Liabilities related to the Dania Jai-Alai Business in the fourth quarter of 2011;

- our expenditures for capital improvement projects with respect to IP Casino Resort and Spa;

- Adjusted EBITDA, Adjusted Earnings (Loss) and Adjusted Earnings Per Share and their usefulness as measures of operating performance or valuation;

- the impact of new accounting pronouncements on our consolidated financial statements;

- that our Amended Credit Facility and Borgata's 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 Amended Credit Facility;

- our ability to satisfy the representations, warranties and covenants in the Lender Joinder Agreement, receive funding and make repayments under the Increased Term Loan;

- our market risk exposure and efforts to minimize risk;

- the timing of the delay of construction at Echelon, when, or if, construction will recommence, the effect that such delay will have on our business, operations or financial condition, our expectations as to the costs associated with delays related to the project as well as the value of capitalized costs and recurring project costs we expect to incur in the future, and our belief that financing for a development project like Echelon continues to be unavailable;

- 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;

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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;

- that margin improvements will remain a driver of profit growth for the Company 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;

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- 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 U.S.;

- 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;

- our relationship with LVE including, without limitation, our mutual agreement to not initiate litigation, the monthly periodic fee and our option to purchase LVE's assets;

- the likelihood of interruptions to our rights in the land we lease under long term leases for certain of our hotels 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 consolidated financial statements;

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

- expectations, plans, beliefs, hopes or intentions regarding the future.

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;
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- 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 our ongoing suspension of construction at Echelon may result in adverse affects on our business, results of operations or financial condition, including with respect to our joint venture participants and other resulting liabilities;

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- The risk that USCG may not continue to allow in-place underwater inspections of our riverboats;
- 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 Amended Credit Facility or Borgata's bank credit facility 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 in our Amended Credit Facility, and the risks associated with Borgata's ability to comply with the minimum consolidated EBITDA and minimum liquidity covenants;

- 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 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 Amended Credit Facility and Borgata's bank credit facility;

- 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 our Company, 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; and

- 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 September 30, 2011 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of September 30, 2011, 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, 2010, filed with the SEC on March 15, 2011.

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.

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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 September 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.We currently are vigorously defending the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it could have a significant adverse effect on our business, financial condition and results of operations.

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, 2010. 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.

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

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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, the year ended December 31, 2009 was 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.

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. 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.

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.

We also 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

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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, these competing Native American properties could continue to have an adverse impact on the operations of Blue Chip and Sam's Town Shreveport.

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, have 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 the economic downturns, and the resulting impact on the solvency of financial institutions, that are negatively impacted. 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 Amended 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 Amended Credit Facility. If we were otherwise required to renegotiate or replace our Amended Credit Facility, there is no assurance that we would be able to secure terms that are as favorable to us, if at all.

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. We perform the annual impairment testing for goodwill and indefinite-lived intangible assets in the second quarter of each fiscal year. The results of our annual scheduled impairment test of goodwill and indefinite-lived intangible assets did not require us to record an impairment charge during the nine months ended September 30, 2011; however, as discussed below, if our estimates of projected cash flows related to these 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.

In addition, in accordance with the provisions of the authoritative accounting guidance for the impairment or disposal of long-lived assets, we test long-lived assets for impairment if a triggering event occurs. During the nine months ended September 30, 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.

We are entirely dependent upon our properties for future cash flows and our continued success depends on our ability to draw customers to our properties. Significant negative industry or economic trends, reduced estimates of future cash flows, disruptions to our business, slower growth rates or lack of growth in our business have resulted in significant write-downs and impairment charges during the years ended December 31, 2009 and 2008, and, if one or more of such events were to recur, additional impairment charges may be required in future periods. If we are required to record additional impairment charges, this could have a material adverse impact on our consolidated financial statements.

On August 1, 2008, due to the difficult environment in the capital markets, as well as weak economic conditions, we announced the delay of our multibillion dollar Echelon development project on the Las Vegas Strip. As we do not yet

believe that a significant level of economic recovery has occurred along the Las Vegas Strip, we do not expect to resume construction for three to five years, as previously disclosed. We also do not believe that financing for a development project such as Echelon is currently available on terms satisfactory to us.

The change in circumstances implies that the carrying amounts of the assets related to Echelon may not be recoverable; therefore, we performed an impairment test of these assets during the year ended December 31, 2009. While the outcome of this evaluation resulted in no impairment of Echelon's assets, as the estimated weighted net undiscounted cash flows from the project exceeded the current carrying value of the assets of approximately $928 million at December 31, 2009, we can provide no assurances that future evaluations will not result in impairment charges. As we further develop and explore the viability of alternatives for the project, we will continue to monitor these assets for recoverability. If we are subject to a non-cash write-down of these assets, it could have a material adverse impact on our consolidated financial statements.

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Our partner in Marina District Development Holding Co., LLC (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 NJDGE's investigation of MGM's relationship with its joint venture partner in Macau, MGM entered into a settlement agreement with the NJDGE and the NJCCC under which MGM placed its 50% ownership interest in Borgata into a Divestiture Trust, which was established for the purpose of selling the MGM Interest to a third party.
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, we believe we will 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 and amended 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.
Borgata's bank credit facility 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 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 2011, we announced the pending sale of Dania Jai Alai and the completion of the acquisition of the IP Casino Resort Spa. In February 2007, we completed the Barbary Coast exchange transaction. 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. With respect to the pending sale of Dania Jai-Alai there can be no assurance that the transactions will close as anticipated, or at all.

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.

On August 1, 2008, we announced that, due to the difficult environment in both the capital markets and the economy, our Echelon project would be delayed. As previously disclosed, we do not anticipate that Echelon will resume construction for three to five years. We also believe financing for a project like Echelon continues to be unavailable. We can provide no assurances regarding the timing or effects of our delay of construction at Echelon and when, or if, construction will recommence, or the effect that such delay will have on our business, operations or financial condition. In addition, our agreements or arrangements with third parties could require additional fees or terms in connection with modifying their agreements that may be unfavorable to us, and we can provide no assurances that we will be able to reach agreement on any modified terms.

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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, development, investment and renovation projects may face significant risks inherent in construction projects or implementing a new marketing strategy, including receipt of necessary government approvals.

We regularly evaluate expansion, development, investment and renovation opportunities. On January 4, 2006, we announced our planned Las Vegas Strip development, Echelon, which represents the largest and most expensive development project we have undertaken to date.

This project and any other development projects we may undertake will be subject to the many 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:

- delays and significant cost increases;
- shortages of materials;
- shortages of skilled labor or work stoppages;
- poor performance or nonperformance by any of our joint venture partners or other third parties on whom we place reliance;
- unforeseen construction scheduling, engineering, environmental, permitting, construction or geological problems; and
- weather interference, floods, fires or other casualty losses.

The completion dates of any of our projects could differ significantly from expectations for construction-related or other reasons.

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 have incurred significant incremental costs in connection with delaying construction of Echelon and anticipate that additional cost increases could continue to occur if and when we recommence development of Echelon.

Additional costs upon restarting construction of Echelon could include, without limitation, costs associated with remobilization, changes in design, increases in material, labor, or insurance costs, construction code changes during the delay period, corrosive damage risk, damage to uncompleted structures, etc. The cost of any project may vary significantly from initial budget expectations and we may have a limited amount of capital resources to fund cost overruns. If we cannot finance cost overruns on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. 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.

LVE Energy Partners, LLC (“LVE”) is a joint venture between Marina Energy LLC and DCO ECH Energy, LLC. Through our wholly-owned subsidiary, Echelon Resorts LLC ("Echelon Resorts"), we have entered into an Energy Sales Agreement ("ESA") with LVE, to design, build, own (other than the underlying real property which is leased from Echelon Resorts) and operate a central energy center and related distribution system for our planned Echelon resort development. Pursuant to the ESA, LVE will provide chilled and hot water, electricity and emergency electricity generation to Echelon and potentially other joint venture entities associated with the Echelon development project or other third parties. However, since we are obligated to purchase substantially all of the output of the central energy center, we are the primary beneficiary under the terms of the ESA.

LVE has suspended construction of the central energy center while the Echelon project is delayed. On April 3, 2009, LVE notified us that, in its view, Echelon Resorts would be in breach of the ESA unless it recommences and proceeds with construction of the Echelon development project by May 6, 2009. We believe that LVE's position is without

merit; however, in the event of litigation, we cannot state with certainty the eventual outcome nor estimate the possible loss or range of loss, if any, associated with this matter. On March 7, 2011, Echelon Resorts and LVE entered into both a purchase option agreement (the "Purchase Option Agreement") and a periodic fee agreement (the "Periodic Fee Agreement"). Under the Periodic Fee Agreement, Echelon Resorts and LVE have mutually agreed that neither LVE nor Echelon Resorts would give notice of, file or otherwise initiate any claim or cause of action, in or before any court, administrative agency, arbitrator, mediator or other tribunal, that arises under the ESA, subject to certain exceptions, and that any statute of limitations or limitation periods for defenses, claims, causes of actions and counterclaims shall be tolled while the Periodic Fee Agreement is in effect. The prohibition on the initiation of litigation and the tolling of the statute of limitations provided for in the Periodic Fee Agreement should be applicable to any litigation with respect to LVE's April 3, 2009 claim of an alleged breach of the ESA. Under the Periodic Fee Agreement, Echelon Resorts has agreed to

pay LVE, beginning March 4, 2011, the Periodic Fee and an operation and maintenance fee until either (i) Echelon notifies LVE that it has resumed construction of a portion of the Echelon development project that it will own in fee simple and Echelon and LVE have mutually agreed to changes to the dates in their respective construction milestones under the ESA: or (ii) Echelon exercises its option to purchase LVE's assets pursuant to the terms of the Purchase Option Agreement. The amount of the Periodic Fee is fixed at $11.9 million annually through November 2013. Thereafter, the amount of the Periodic Fee is estimated to be approximately $10.8 million annually. The operation and maintenance fee cannot exceed $0.6 million per annum without Echelon Resorts' prior approval. We have posted a letter of credit in the amount of $6.0 million to secure Echelon Resorts' obligation to pay the Periodic Fee and the operation and maintenance fee.

Under the Purchase Option Agreement, Echelon Resorts has the right, at its sole discretion, upon written notice to LVE, to purchase the assets of LVE including the central energy center and related distribution system for a price of $195.1 million, subject to certain possible adjustments. The ESA will be terminated concurrent with the purchase of LVE's assets.

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. For example, to make way for the development of Echelon, we closed Stardust in November 2006 and demolished the property in March 2007. Any significant disruption in operations of a property could have a significant adverse effect on our business, financial condition and results of operations.

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 Amended 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 Amended 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 our Amended 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 funding for any of our expansion projects would come from cash flows from operations and availability under our Amended Credit Facility (to the extent that availability exists under our Amended Credit Facility, as applicable, after we meet our working capital needs).

If availability under our Amended 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.

We are subject to a variety of regulations in the jurisdictions in which we operate. Regulatory authorities at the federal, state and local levels have broad powers with respect to the licensing of casino operations and may revoke, suspend, condition or limit our gaming or other licenses, impose substantial fines and take other actions, any one of which could have a significant adverse effect

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on our business, financial condition and results of operations. A more detailed description of the governmental gaming regulations to which we are subject is included in Exhibit 99.4 to our Registration Statement on Form S-4 filed with the SEC on September 2, 2011. 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. Legislation of this type may be enacted in the future.

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.

Additionally, 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 until at least the end of 2011.

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 in the joint venture. 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.

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 such as Echelon, 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. 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. Also, In May 2007, Blue Chip received a valuation notice indicating an unanticipated increase of nearly 400% to its assessed property value as of January 1, 2006. At that time, we estimated that the increase in assessed property value could result in a property tax assessment ranging between $4 million and $11 million for the eighteen-month period ended June 30, 2007. We recorded an additional charge of $3.2 million during the three months ended June 30, 2007 to increase our property tax liability to $5.8 million at June 30, 2007 as we believed that was the most likely amount to be assessed within the range. We subsequently received a property tax bill related to our 2006 tax assessment for $6.2 million in December 2007. As we have appealed the assessment, Indiana statutes allow for a minimum required payment of $1.9 million, which was paid against the $6.2 million assessment in January 2008. In February 2009, we received a notice of revaluation, which reduced the property's assessed value by $100 million and the tax assessment by

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approximately $2.2 million per year. We have subsequently paid the minimum required payment of $1.9 million against provisional bills received in 2007 through 2011, all of which were based on the 2006 valuation notice. In March 2011, we reached a settlement with the assessor, reducing the valuation by an additional $96.0 million and $74.0 million for the 2006 and 2007 tax years, respectively. As a result of the agreement reached on the 2006 and 2007 valuations, we have revised our accrual for years 2008 through 2011 to reflect the expected carryforward effect of the reductions received in the prior year settlements. In October 2011, we reached an agreement with the assessor on valuations for tax years 2008 and 2009. As a result, we further reduced our property tax liability and previously accrued property tax expense by an additional $3.7 million during the three months ended September 30, 2011, which aggregated to a reduction of $9.7 million during the nine months ended September 30, 2011. Although we have not received valuation notices for years 2010 through 2011, or final tax rates for the years 2007 through 2011, we believe the assessment for the period from January 1, 2008 through September 30, 2011 could result in a property tax assessment ranging between $10.0 million and $15.0 million. We have accrued, net of the payments discussed above, approximately $14.6 million of property tax liability as of September 30, 2011, based on what we believe to be the most likely assessment within our range, once all appeals have been exhausted; however, we can provide no assurances that the estimated amount will approximate the actual amount. The final tax assessment notices for the period January 1, 2007 through June 30, 2011, which have not been received as of September 30, 2011, could result in further adjustment to our estimated property tax liability at Blue Chip.

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.

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. On April 14, 2008, the Department filed a Petition for Rehearing (the “Petition”) on the decision. Additionally, on the same date the Nevada Legislature filed an Amicus Curiae brief in support of the Department's position. The Nevada Supreme Court denied the Department's Petition on July 17, 2008. We paid use tax, over the period November 2000 through May 2008, on food purchased for subsequent use in complimentary and employee meals at our Nevada casino properties and estimate the refund to be in the range of $17.5 million to $19.9 million, including interest. In late 2009, the Department audited and denied our refund claim and subsequently issued 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 ("Judge") 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 included in the refund claim period, effectively overturning the Department's 2009 deficiency assessment. Both we and the Department appealed the decision, with the exception of the portion related to the deficiency assessment, to the Nevada State Tax Commission (the "Commission"). The Department did not appeal the Judge's decision overturning the 2009 deficiency assessment and therefore, the ruling on the deficiency assessment is final and non-appealable. On August 8, 2011, the Commission remanded the case back to the Judge. The administrative hearing was held on September 26, 2011, at which time we introduced additional supporting documentation. The Judge issued a decision on November 8, 2011, reversing her position on the employee meal refund claim. Such decision also affirmed 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. We intend to appeal the decision to the Commission. Due to uncertainty surrounding the ultimate resolution of an appeal to the Commission, as well as subsequent appeals to higher levels of the state judicial system, we will not record any gain until both we and the Department have exhausted all appeal options and a final, non-appealable decision has been rendered. For periods subsequent to May 2008, we have not collected, remitted or accrued a liability for sales tax on complimentary and employee meals at our Nevada casino properties, as we do not believe it is probable, based on both procedural issues and the technical merits of the Department's arguments, that we will owe this tax.

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.

We own real property and are subject to extensive environmental regulation, which creates uncertainty regarding future environmental expenditures and liabilities.

We may incur costs to comply with environmental requirements, such as those relating to discharges into the air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of our property affected by hazardous substances. Under

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these and other environmental requirements we may be required to investigate and clean up hazardous or toxic substances or chemical releases at our property. 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. These laws typically impose cleanup responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the contaminants. 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.

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 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 will begin making increased monthly contributions to the Fund on October 1, 2011.

Borgata's current monthly pension contributions to the Fund range from $0.4 million to $0.5 million, and its unfunded vested liability to the Fund is $47.1 million for the plan year beginning on January 1, 2010. 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. Borgata's current monthly pension contributions to the funds associated with these plans is approximately less than $0.1 million per month in the aggregate. Borgata's aggregate unfunded vested liability to these funds is approximately $4.3 million.

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. Based on an estimate provided by the Fund in April 2010, Borgata has estimated that its pre-tax withdrawal, assuming a hypothetical immediate and complete withdrawal from the Fund, could be in excess of $47 million. In addition, Borgata estimates the pre-tax withdrawal liability for the other funds to which it contributes to be approximately $4.0 million. However, 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 we are still negotiating a settlement with our insurer.

In addition, certain of our properties have been forced to close due to hurricanes. In August 2008, Treasure Chest was closed for eight days over 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. In 2005, Delta Downs suffered significant property damage as a result of Hurricane Rita and closed for 42 days. In September 2011, Borgata

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was closed for 3 days due to Hurricane Irene.
Moreover, 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 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 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.
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 September 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

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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. We currently are vigorously defending the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it could have a significant adverse effect on our business, financial condition and results of operations.

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, including Echelon. 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%. At all times when we have a loan or credit facility from federally insured or regulated lender or lenders, we are required to maintain flood insurance at least equal to the lesser of (i) the outstanding principal balance of the loan; (ii) the maximum amount of coverage allowed for the type of property under the National Flood Insurance Program (“NFIP”) managed by FEMA; or (iii) the full replacement cost value of the collateral. The maximum amount of NFIP insurance currently available on a commercial building is currently $0.5 million. 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. For the three months ended September 30, 2011, patrons from Hawaii comprised 63% of the room nights sold

at the California, 53% at Fremont and 51% at Main Street Station, For the nine months ended September 30, 2011, patrons from Hawaii comprised 66% of the room nights sold at the California, 52% at Fremont and 53% at Main Street Station. 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

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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.

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 affect 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 $11.0 million per annum as of September 30, 2011. 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 and Sam's Town Shreveport gaming operations on riverboats. Each of our riverboats must comply with 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 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 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 and Borgata's hotel and gaming facility are located. In addition, we lease other parcels of land on which portions of the Cal 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.

We had total consolidated long-term debt, net of current maturities, of approximately $2.80 billion at September 30, 2011. 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,

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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;
- incur liens securing indebtedness or other obligations;
- 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.

On December 3, 2010, the Amendment and Restatement Agreement pursuant to which our Amended Credit Facility was amended and restated to, among other things, (i) reduce the aggregate commitments under the Credit Facility and (ii) permit consenting Lenders to extend the maturity date of their commitments, new Lenders to issue revolving commitments and term loans and existing Lenders to increase their commitments (each, an “Extending Lender”) in each case with a maturity date five years from the restatement effective date.

Each of the Extending Lenders permanently reduced their commitments under the former credit facility by up to 50% of the amount thereof. As a result, the aggregate commitments under the Amended Credit Facility were reduced from $3 billion to approximately $1.5 billion (including $500 million of term loans, and excluding $331.0 million in non-extending amounts), which commitments may be increased from time to time by up to $500 million (instead of $1 billion commitment increases provided for under the former credit facility) through additional revolving credit or term loans under the Amended Credit Facility.

Our current debt service requirements on the extending amounts under the Amended Credit Facility primarily consist of interest payments on the outstanding borrowings. However, pursuant to the terms of the Amended Credit Facility, the term loans amortize in an annual amount equal to 5% of the original principal amount thereof, and commenced March 31, 2011, payable on a quarterly basis. The interest rate per annum applicable to revolving and term loans under the Amended Credit Facility is based upon, at our option, LIBOR or the “base rate,” plus an applicable margin in either case. Debt service requirements under our current outstanding senior subordinated and senior notes consist of semi-annual interest payments (based upon fixed annual interest rates ranging from 6.75% to 9.125%) and repayment of our senior subordinated and senior notes due April 15, 2014, February 1, 2016 and December 1, 2018 for each of our 6.75% and 7.125% senior subordinated notes and our 9.125% senior notes, respectively.

The Amended 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 Amended Credit Facility in connection with certain asset sales and issuances of certain additional secured indebtedness.
In addition, our Amended Credit Facility requires us to maintain certain ratios, including a minimum Interest Coverage Ratio (as defined in the Amended Credit Facility) of 2.00 to 1.00, a Total Leverage Ratio and a Secured Leverage Ratio (both as defined in the Amended Credit Facility) that adjust over the life of our Amended Credit Facility. We believe that we were in compliance with the Amended Credit Facility covenants, including the minimum consolidated Interest Coverage Ratio, the maximum permitted consolidated Total Leverage Ratio and the maximum permitted Secured Leverage Ratio, which, at September 30, 2011, were 2.26 to 1.00, 7.15 to 1.00 and 4.25 to 1.00, respectively.

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At September 30, 2011, assuming our current level of Consolidated Funded Indebtedness remains constant, we estimate that a.12.1% or greater decline in our twelve-month trailing Consolidated EBITDA, as compared to September 30, 2011, would cause us to exceed our maximum permitted consolidated Total Leverage Ratio covenant for that period. In addition, at September 30, 2011, assuming our current level of Secured Indebtedness remains constant, we estimate that a 5.9% or greater decline in our twelve-month trailing Consolidated EBITDA, as compared to September 30, 2011, would cause us to exceed our maximum permitted Secured Leverage Ratio covenant for that period. Additionally, at September 30, 2011, assuming our current level of interest expense remains constant, we estimate that a 7.9% or greater decline in our twelve-month trailing Consolidated EBITDA, as compared to September 30, 2011, would cause us to go below our minimum consolidated Interest Coverage Ratio covenant for that period.

However, in the event that we project our Consolidated EBITDA may decline by such levels or more, we could implement certain actions in an effort to minimize the possibility of a breach of the maximum permitted consolidated Total Leverage Ratio, the maximum permitted Secured Leverage Ratio and the minimum consolidated Interest Coverage Ratio covenants. These actions may 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.

In addition, Borgata has significant indebtedness 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 agreement and the indenture governing Borgata's senior secured notes.

We did not receive distributions from Borgata during the nine months ended September 30, 2011. Prior to the August 2010 distribution, our distributions from Borgata were $17.5 million during the nine months ended September 30, 2010. Other than the August 2010 distribution, the distributions from Borgata have generally declined as a result of the decline in Borgata's operating results. 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.

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.

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 Amended 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 maturity, and cannot provide assurances that we will be able to refinance any of our

indebtedness, including our Amended 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 effected 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.

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We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of the indentures governing our senior subordinated and senior notes and Borgata's senior secured notes do not fully prohibit us or our subsidiaries from doing so. Approximately $564.5 million of contractual availability was available for borrowing under our Amended Credit Facility as of September 30, 2011. 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.
In August 2010, Borgata entered into a $150 million bank credit facility that matures in August 2014 and issued $800 million in senior secured debt, $400 million of which matures in October 2015 and $400 million of which matures in August 2018. 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 effected 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 Amended 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 Amended 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 Amended Credit Facility (to the extent that availability exists after we meet our working capital needs).
If availability under the Amended 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 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.

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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 36.2% of the Company's outstanding shares of common stock as of September 30, 2011. 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.

Item 6. Exhibits
Exhibits

31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act rule 13a-14(a).
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.
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.
101	The following materials from Boyd Gaming Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010, (iii) Condensed Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2011, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010, 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.

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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 November 9, 2011.

BOYD GAMING CORPORATION

By: /S/ ELLIE J. BOWDISH
Ellie J. Bowdish
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

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EXHIBIT LIST

10.2	Agreement for Purchase and Sale, dated June 15, 2011, among the Company, Imperial Palace of Mississippi, LLC and Key Largo Holdings, LLC.
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