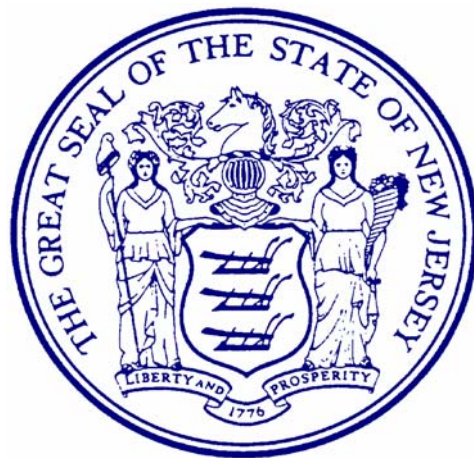


**Borgata Casino Hotel & Spa**  
**QUARTERLY REPORT**

**March 31, 2007**

**SUBMITTED TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY**



**DIVISION OF FINANCIAL EVALUATION  
REPORTING MANUAL**

# Borgata Casino Hotel & Spa BALANCE SHEETS

AS OF MARCH 31, 2007 AND 2006

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$42,172	\$30,990
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2007 \$17,086, 2006, \$11,407).....	2	57,066	55,084
4	Inventories .....		4,186	3,017
5	Other Current Assets.....		5,477	5,547
6	Total Current Assets.....		108,901	94,638
7	Investments, Advances, and Receivables.....	5	12,760	8,041
8	Property and Equipment - Gross.....		1,442,798	1,213,514
9	Less: Accumulated Depreciation and Amortization.....		(209,170)	(149,455)
10	Property and Equipment - Net.....		1,233,628	1,064,059
11	Other Assets.....		10,382	11,403
12	Total Assets.....		\$1,365,671	\$1,178,141
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$33,704	\$33,071
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....		3,120	10,740
18	Other Accrued Expenses.....	3	61,728	49,847
19	Other Current Liabilities.....	4	21,189	12,511
20	Total Current Liabilities.....		119,741	106,169
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....	7	555,400	376,700
23	Deferred Credits .....		5,568	5,246
24	Other Liabilities.....		12,426	7,805
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		693,135	495,920
27	Stockholders', Partners', or Proprietor's Equity.....		672,536	682,221
28	Total Liabilities and Equity.....		\$1,365,671	\$1,178,141

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

Amended 8/8/2007

## Borgata Casino Hotel & Spa STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	Revenue:			
1	Casino.....		\$187,269	\$174,256
2	Rooms.....		23,893	21,231
3	Food and Beverage.....		33,110	27,880
4	Other.....		9,734	6,990
5	Total Revenue.....		254,006	230,357
6	Less: Promotional Allowances.....		50,276	42,789
7	Net Revenue.....		203,730	187,568
	Costs and Expenses:			
8	Cost of Goods and Services.....		114,934	95,408
9	Selling, General, and Administrative.....		25,679	24,662
10	Provision for Doubtful Accounts.....	2	1,557	1,636
11	Total Costs and Expenses.....		142,170	121,706
12	Gross Operating Profit.....		61,560	65,862
13	Depreciation and Amortization.....		16,827	14,498
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....		0	0
16	Income (Loss) from Operations.....		44,733	51,364
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....	7	(7,693)	(4,082)
19	CRDA Related Income (Expense) - Net.....		(1,489)	(730)
20	Nonoperating Income (Expense) - Net.....		(373)	(1,475)
21	Total Other Income (Expenses).....		(9,555)	(6,287)
22	Income (Loss) Before Taxes and Extraordinary Items.....		35,178	45,077
23	Provision (Credit) for Income Taxes.....	1,8	(90)	367
24	Income (Loss) Before Extraordinary Items.....		35,268	44,710
25	Extraordinary Items (Net of Income Taxes - 2006, \$0; 2005, \$0 ).....		0	0
26	Net Income (Loss).....		\$35,268	\$44,710

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

**Borgata Casino Hotel & Spa**  
**STATEMENTS OF CHANGES IN PARTNERS',**  
**PROPRIETOR'S OR MEMBERS' EQUITY**

FOR THE THREE MONTHS ENDED MARCH 31, 2007  
AND THE TWELVE MONTHS ENDED DECEMBER 31, 2006

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	Accumulated Other Comp Income (Loss) (e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2005.....		\$477,507	\$200,600	\$0	\$678,107
2	Net Income (Loss) - 2006.....			153,833		153,833
3	Capital Contributions.....					0
4	Capital Withdrawals.....					0
5	Partnership Distributions.....			(165,207)		(165,207)
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2006.....		477,507	189,226	0	666,733
11	Net Income (Loss) - 2007.....			35,268		35,268
12	Capital Contributions.....					0
13	Capital Withdrawals.....					0
14	Partnership Distributions.....			(29,221)		(29,221)
15	Prior Period Adjustments.....					0
16	Change in Accounting Principles			(244)		(244)
17	_____					0
18	_____					0
19	Balance March 31, 2007.....		\$477,507	\$195,029	\$0	\$672,536

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

**Borgata Casino Hotel & Spa**  
**STATEMENTS OF CASH FLOWS**  
FOR THE THREE MONTHS ENDED MARCH 31, 2007  
(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$60,968	\$53,068
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments .....			
3	Proceeds from the Sale of Short-Term Investments .....			
4	Cash Outflows for Property and Equipment.....		(43,312)	(63,663)
5	Proceeds from Disposition of Property and Equipment.....			
6	CRDA Obligations .....		(870)	(1,459)
7	Other Investments, Loans and Advances made.....		0	
8	Proceeds from Other Investments, Loans, and Advances .....			
9	Cash Outflows to Acquire Business Entities.....		0	0
10				
11				
12	Net Cash Provided (Used) By Investing Activities.....		(44,182)	(65,122)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....			
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt .....		142,800	190,500
16	Costs of Issuing Debt.....		0	(1,208)
17	Payments to Settle Long-Term Debt.....		(142,000)	(155,500)
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21	Partnership Distributions .....		(29,221)	(40,596)
22				
23	Net Cash Provided (Used) By Financing Activities.....		(28,421)	(6,804)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(11,635)	(18,858)
25	Cash and Cash Equivalents at Beginning of Period.....		53,807	49,848
26	Cash and Cash Equivalents at End of Period.....		\$42,172	\$30,990
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$8,445	\$2,497
28	Income Taxes.....		(\$10,275)	\$951

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

**Borgata Casino Hotel & Spa**  
**STATEMENTS OF CASH FLOWS**  
FOR THE THREE MONTHS ENDED MARCH 31, 2007  
(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		\$35,268	\$44,710
30	Depreciation and Amortization of Property and Equipment...		16,493	14,440
31	Amortization of Other Assets.....		334	58
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current .....			
34	Deferred Income Taxes - Noncurrent .....			
35	(Gain) Loss on Disposition of Property and Equipment.....		(69)	292
36	(Gain) Loss on CRDA-Related Obligations.....		1,489	730
37	(Gain) Loss from Other Investment Activities.....			
38	(Increase) Decrease in Receivables and Patrons' Checks .....		6,059	(3,391)
39	(Increase) Decrease in Inventories .....		(124)	90
40	(Increase) Decrease in Other Current Assets.....		(25)	160
41	(Increase) Decrease in Other Assets.....		549	42
42	Increase (Decrease) in Accounts Payable.....		(679)	(600)
43	Increase (Decrease) in Other Current Liabilities .....		(327)	(4,642)
44	Increase (Decrease) in Other Liabilities .....		2,000	1,179
45	Net Loss (Gain) on Derivative Financial Instrum .....		0	0
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$60,968	\$53,068

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$43,312)	(\$63,663)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$43,312)	(\$63,663)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....			
52	Goodwill Acquired.....			
53	Other Assets Acquired - net .....			
54	Long-Term Debt Assumed.....			
55	Issuance of Stock or Capital Invested.....			
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>			
57	Total Issuances of Stock or Capital Contributions.....			
58	Less: Issuances to Settle Long-Term Debt.....			
59	Consideration in Acquisition of Business Entities.....			
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

Amended 1/07/2008

## Borgata Casino Hotel & Spa SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE THREE MONTHS ENDED MARCH 31, 2007

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	144,911	\$14,083		
2	Food	426,509	9,955	344,500	3,445
3	Beverage	1,728,819	5,618		
4	Travel			8,028	2,007
5	Bus Program Cash				
6	Other Cash Complimentaries	679,188	16,980		
7	Entertainment	27,033	1,081	1,260	126
8	Retail & Non-Cash Gifts	13,092	655	13,224	3,306
9	Parking				
10	Other	76,154	1,904	349,960	751
11	Total	3,095,706	\$50,276	716,972	\$9,635

\* Promotional Allowances - Other includes \$833K of Spa comps and \$1,066K change in Comp and Slot dollars earned but not redeemed.

\* Promotional Expenses - Other includes \$591K of comp taxes.

FOR THE THREE MONTHS ENDED MARCH 31, 2007

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	144,911	\$14,083		
2	Food	426,509	9,955	344,500	3,445
3	Beverage	1,728,819	5,618		
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\* Promotional Expenses - Other includes \$591K of comp taxes.

**Borgata Casino Hotel & Spa**  
**STATEMENT OF CONFORMITY,**  
**ACCURACY, AND COMPLIANCE**

March 31, 2007

1. I have examined this Quarterly Report
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.

5/15/2007

Date



Hugh Turner

Vice President of Finance

Title

007833-11

License Number

On Behalf of:

Borgata Hotel Casino & Spa

Casino Licensee



# Marina District Development Company, LLC and Subsidiary



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

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

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## Note 1. Summary of Significant Accounting Policies

### *Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of Marina District Development Company, LLC, d.b.a. Borgata, (“MDDC, LLC”) and Marina District Finance Company, Inc. (“MDFC”), its wholly-owned subsidiary, collectively referred to herein as the “Company”, “We”, or “Us”. The Company is a wholly-owned subsidiary of Marina District Development Holding Co., LLC (“Holding Company” or “Parent”). Holding Company is jointly owned by MAC, Corp. (“MAC”), a wholly-owned subsidiary of MGM MIRAGE, and Boyd Atlantic City, Inc. (“BAC”), a wholly-owned subsidiary of Boyd Gaming Corporation. Our purpose is to develop, own, and operate a hotel casino and spa facility at Renaissance Pointe in Atlantic City, New Jersey. We opened Borgata on July 3, 2003 with approximately 2,000 hotel rooms, a 125,000 square foot casino, and other amenities. On June 30, 2006, we opened our first expansion (“Public Space Expansion”), a project with a cost of approximately \$200,000,000. The Public Space Expansion consists of approximately 35,000 square feet of additional casino space and substantial additions of non-gaming amenities including three additional fine dining restaurants, a second nightclub, and a multi-concept quick service dining facility.

We are currently in the process of our second expansion (“Rooms Expansion”). The centerpiece of the Rooms Expansion is a new hotel tower, The Water Club at Borgata, containing approximately 800 rooms and suites, and is being built on a portion of the existing surface parking lot, near the existing porte cochere. In addition to the hotel, which will have access separate from our existing hotel tower, the Rooms Expansion will include a new spa, additional meeting room space, and a new parking structure. Construction of the Rooms Expansion, which is being built on land leased from MGM MIRAGE, began January 2006 and is expected to open near the beginning of 2008 at an estimated cost of approximately \$400,000,000. BAC and MAC do not expect to make further capital contributions to us for the expansion project as we expect to finance the project from our cash flow and from our bank credit facility (see Note 7).

Pursuant to the Joint Venture Agreement (the “JV Agreement”), BAC, as the managing venturer of the Holding Company, has oversight responsibility for the management of Borgata which includes the design, development, and construction as well as the day-to-day operations. We do not record a management fee to BAC, as our management team directly performs these services or negotiates contracts to provide for these services. As a result, the costs of these services are directly borne by the Company and are reflected in our accompanying consolidated financial statements.

### *Capitalized Interest*

Interest costs associated with our expansion projects are capitalized as part of the cost of our constructed assets. Interest costs, which include commitment fees and the amortized portion of deferred loan origination fees, are capitalized on amounts expended for the respective projects using our weighted average cost of borrowing. Capitalization of interest will cease when the respective project, or discernible portions of the projects, are substantially complete. We amortize capitalized interest over the estimated useful life of the related asset. Capitalized interest was \$1,667,000 and \$1,550,000 for the three months ended March 31, 2007 and 2006 respectively.

### *Income Taxes*

Our Parent and we are treated as a partnership for federal income tax purposes; therefore, federal income taxes are the responsibility of MAC and BAC. In New Jersey, casino partnerships are subject to state income taxes under the Casino Control Act; therefore, we are required to record New Jersey state income taxes. In 2004, we were granted permission by New Jersey, pursuant to a ruling request, to file a consolidated New Jersey corporation business tax return with MAC and BAC. The amounts reflected in our consolidated financial statements are on a stand-alone basis; however, we file a state consolidated tax return with MAC and BAC. The amounts due to MAC and BAC are a result of the tax attributes MAC and BAC have contributed to the consolidated state tax return. Pursuant to our tax sharing agreement with MAC and BAC, we owe them approximately \$5,823,000 at March 31, 2007, of which \$1,898,000 is included in income taxes payable.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. Significant estimates incorporated into our accompanying consolidated financial statements include the estimated useful lives for depreciable and amortizable assets, the estimated allowance for doubtful accounts receivable, the estimate for available tax credits, the estimated liabilities for our self-insured medical plan, slot club programs, contingencies and litigation, claims and assessments. Actual results could differ from those estimates and assumptions.

### *Preopening Expenses*

We expense certain costs of start-up activities as incurred. Preopening expenses were \$930,000 and \$1,330,000 for the three months ended March 31, 2007 and 2006, respectively, consisting primarily of payroll expenses and ground lease expenses related to our expansion projects.

### *Recently Issued Accounting Standards*

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by SFAS No. 159 permits all companies to choose to measure eligible items at fair value at specified election dates. At each subsequent reporting date, a company shall report in earnings any unrealized gains and losses on items for which the fair value option has been elected. SFAS No. 159 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November

15, 2007, provided the company also elects to apply the provisions of SFAS No. 157, *Fair Value Measurements*.

## Note 2. Receivables and Patrons' Checks

Receivables and patrons' checks consist of the following:

	March 31	
	2007	2006
Casino receivables (net of an allowance for doubtful accounts – 2007 \$16,886,000 and 2006 \$11,222,000)	\$ 26,680,000	\$ 23,872,000
NJ tax refund receivable	15,703,000	22,271,000
Other (net of an allowance for doubtful accounts – 2007 \$200,000 and 2006 \$185,000)	14,549,000	8,885,000
Due from related parties (Note 6)	134,000	56,000
<b>Receivables and patrons' checks, net</b>	<b>\$ 57,066,000</b>	<b>\$ 55,084,000</b>

## Note 3. Other Accrued Expenses

Other accrued expenses consist of the following:

	March 31	
	2007	2006
Payroll and related	\$ 23,897,000	\$ 18,580,000
Other	37,831,000	31,267,000
<b>Other accrued expenses</b>	<b>\$ 61,728,000</b>	<b>\$ 49,847,000</b>

## Note 4. Other Current Liabilities

Other current liabilities consist of the following:

	March 31,	
	2007	2006
Due to related parties (Note 1, 6)	\$ 6,471,000	\$ 481,000
Other	14,718,000	12,030,000
<b>Other current liabilities</b>	<b>\$ 21,189,000</b>	<b>\$ 12,511,000</b>

## Note 5. Investment in ACES

In 2006, we entered into an agreement with two other Atlantic City casinos to form Atlantic City Express Service, LLC ("ACES"). With each member having a 33.3% interest, this New Jersey limited liability company was formed for the purpose of contracting with New Jersey Transit to operate express rail service between Manhattan and Atlantic City. The responsibilities of the managing member will rotate annually among the members. Our anticipated investment in ACES will be approximately \$5,500,000. ACES is currently in the development stage and is expected to be operational by the end of 2007.

We account for our share of ACES under the equity method of accounting. As of March 31, 2007, we have made capital contributions of \$400,000 which is included on the accompanying consolidated balance sheet. Our share of ACES' net loss for the three months ended March 31, 2007 was \$11,000 and is included in preopening expenses on the accompanying consolidated statements of operations.

#### **Note 6. Related Parties**

Pursuant to the JV Agreement, MAC is solely responsible for any investigation, analyses, clean-up, detoxification, testing, monitoring, or remediation related to Renaissance Pointe. MAC is also responsible for their allocable share of expenses related to master plan and government improvements at Renaissance Pointe. The related amounts due from MAC for these types of expenditures incurred by us were \$48,000 and \$16,000 at March 31, 2007 and 2006, respectively. Reimbursable expenditures incurred were \$68,000 and \$75,000 for the three months ended March 31, 2007 and 2006, respectively.

Boyd Gaming Corporation reimburses us for expenses relating to investigative services for our casino license and other expenses. The related amounts due from Boyd Gaming Corporation for these types of expenditures were \$86,000 and \$40,000 for the three months ended March 31, 2007 and 2006 respectively. Reimbursable expenditures incurred were \$41,000 and \$163,000 for the three months ended March 31, 2007 and 2006, respectively.

In 2005, we entered into a series of ground lease agreements with MAC related to our expansion projects which increase our leased premises from a total of 15.5 acres to a total of 19.0 acres. These new ground lease agreements and the modified existing employee parking garage ground lease agreement provide the land on which our existing employee parking garage, the Public Space Expansion, the Rooms Expansion, and a modified surface parking lot will reside. The lease terms extend until December 31, 2070 with the exception of the surface parking lot lease (which can be terminated by either party upon 18 months written notice). The related amounts due to MAC for these types of expenditures were \$0 and \$153,000 at March 31, 2007 and 2006, respectively. Related rent incurred was \$1,484,000 and \$1,304,000 for the three months ended March 31, 2007 and 2006, respectively, portions of which were capitalized on the accompanying consolidated balance sheets and portions of which were included in the accompanying consolidated statements of operations.

Pursuant to the ground lease agreements, we are responsible for reimbursing MAC for related property taxes paid on our behalf. The related amounts due to MAC for these types of expenditures were \$0 at March 31, 2007 and 2006, respectively. Related property tax incurred was \$1,336,000 and \$490,000 for the three months ended March 31, 2007 and 2006, respectively, portions of which were capitalized on the accompanying consolidated balance sheets and portions of which were included in the accompanying consolidated statements of operations.

We reimburse BAC for compensation paid to employees performing services for us on a full-time basis and for out-of-pocket costs and expenses incurred related to travel. BAC is also reimbursed for various payments made on our behalf primarily related to third party legal fees, investigative fees, and other. The related amounts due to BAC for these types of expenditures paid by BAC were \$2,546,000 and \$328,000 at March 31, 2007 and 2006. Reimbursable expenditures during the three months ended March 31, 2007 and 2006 were \$6,237,000 and \$4,420,000 respectively, which were included in the accompanying consolidated statement of operations.

The related party balances are non-interest bearing.

## Note 7. Debt

Amounts outstanding under each component of our bank credit agreements are as follows:

	March 31	
	2007	2006
Revolving line of credit	555,400,000	376,700,000
Less current maturities	-	-
<b>Total long – term debt</b>	<b>\$ 555,400,000</b>	<b>\$ 376,700,000</b>

Our bank credit agreement consists of a \$750,000,000 revolving credit facility that matures on January 31, 2011. At March 31, 2007, \$555,400,000 was outstanding under the revolving credit facility and \$3,601,000 was allocated to support a letter of credit, leaving availability under the bank credit facility of \$190,999,000.

The interest rate on the revolving credit facility is based upon either (i) the agent bank's quoted base rate or (ii) the Eurodollar rate, plus an applicable margin that is determined by the level of a predefined financial leverage ratio. In addition, we incur a commitment fee on the unused portion of the revolving credit facility that ranges from 0.2% to 0.375% per annum. The bank credit agreement is secured by substantially all of our real and personal property and is non-recourse to MAC and BAC.

The bank credit agreement contains certain financial and other covenants, including, without limitation, various covenants (i) establishing a maximum permitted total leverage ratio, (ii) establishing a minimum required interest coverage ratio, (iii) imposing limitations on the incurrence of additional secured indebtedness, and (iv) imposing restrictions on investments, dividends and certain other payments. We believe that we are in compliance with the covenants related to the bank credit agreement at March 31, 2007.

## Note 8. Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and applies to all tax positions accounted for in accordance with SFAS No. 109.

The total amount of unrecognized tax benefits upon the adoption of FIN 48 on January 1, 2007 was \$6,500,000. As a result of the implementation of FIN 48, we recognized a \$1,980,000 increase in the liability for unrecognized tax benefits which was accounted for as follows (in thousands):

Reduction in retained earnings	\$ 244
Additional deferred tax assets	<u>1,736</u>
Increase in other tax liabilities	<u>\$ 1,980</u>

Included in the \$6,500,000 balance of unrecognized tax benefits at January 1, 2007 are \$4,100,000 of tax benefits that, if recognized, would affect the effective tax rate and \$2,400,000 of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the income tax provision. During the years ended December 31, 2006, 2005 and 2004, we recognized accrued interest and penalties of approximately \$200,000, \$200,000 and less than \$100,000, respectively. We had \$500,000 and \$200,000 for the payment of interest and penalties accrued at December 31, 2006 and 2005, respectively. Upon adoption of FIN 48 on January 1, 2007, we increased our accrual for interest and penalties to \$700,000.

We are subject to state taxation in New Jersey and our state tax returns are subject to examination for tax years ended on or after December 31, 2001. Our state tax return for the year ended December 31, 2001 is open to the extent of a net operating loss carryforward utilized in subsequent years. As we are a partnership for federal income tax purposes, we are not subject to federal income tax. The federal tax liabilities of MAC and BAC would be affected by any tax adjustments resulting from federal audits.

We are currently under examination for federal income tax purposes. As noted above, any adjustments related to the federal examination would affect MAC and BAC, as we are not subject to federal income tax. We are not under examination for New Jersey state income tax purposes and we do not anticipate any material changes, over the next 12 month period, to our recorded unrecognized tax benefits as of January 1, 2007.

## **Note 9. Commitments and Contingencies**

### *Utility Contract*

In 2005, we amended our executory contracts with a wholly-owned subsidiary of a local utility company extending the end of the terms to 20 years from the opening of our Rooms Expansion. The utility company provides us with electricity and thermal energy (hot water and chilled water). Obligations under the thermal energy executory contract contain both fixed fees and variable fees based upon usage rates. The fixed fee components under the thermal energy executory contract are currently estimated at approximately \$6,500,000 per annum. We also committed to purchase a certain portion of our electricity demand at essentially a fixed rate which is estimated at approximately \$4,800,000 per annum. Electricity demand in excess of the commitment is subject to market rates based on our tariff class.

### *Investment Alternative Tax*

The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. Generally, we may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the New Jersey Casino Reinvestment Development Authority ("CRDA"). Funds deposited with the CRDA may be used to

purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to fifty years and bear interest at below market rates.

#### *Grant and Donations Agreement*

In June 2004, Borgata and the eleven other casinos in the Atlantic City gaming market (collectively, the "Casinos") entered into a Grant and Donations Agreement (the "Agreement") with the New Jersey Sports & Exposition Authority (the "NJSEA") and the CRDA in the interest of deferring or preventing the proliferation of competitive gaming at New Jersey racing tracks.

Under the terms of the Agreement, the Casinos shall pay to the NJSEA \$34,000,000 to be used for certain authorized purposes (the "Authorized Uses") as defined by the Agreement. The \$34,000,000 to be paid by the Casinos shall be payable over a four year period as follows: \$7,000,000 was paid October 15, 2004; \$8,000,000 was paid October 15, 2005; \$9,000,000 was paid on October 15, 2006; and \$10,000,000 will be paid on or before October 15, 2007. In the event any of the \$34,000,000 is not used by NJSEA for the Authorized Uses by January 1, 2009, the unused funds shall be returned by NJSEA to the Casinos pro rata based upon the share each casino contributed. For each year, each casino's share of the \$34,000,000 will equate to a percentage representing its gross gaming revenue for the twelve months ending June 30 prior to the October 15 payment date compared to the gross gaming revenues for that period for all Casinos. The Casinos, individually and collectively, shall be responsible for the payment of all amounts due. In the event that any casino shall fail to make its payment as required, the remaining Casinos shall pay a pro rata share of the defaulted payment based upon their share of the gross gaming revenue for the period as compared to the gross gaming revenues for the period for all Casinos calculated without the gross gaming revenue of the defaulting casino. As a result, we will expense our pro rata share of the \$34,000,000, estimated to be approximately \$4,652,000 in total using our actual and forecasted market share of gross gaming revenue, on a straight line basis over the applicable term of the Agreement. Based upon the gross gaming revenues for all Casinos for the twelve months ended June 30, 2006, our share of the \$9,000,000 paid on October 15, 2006 was approximately 13.9%, or \$1,251,000. Based upon the gross gaming revenues for all Casinos for the twelve months ended June 30, 2005, our share of the \$8,000,000 paid on October 15, 2005 was approximately 13.9%, or \$1,112,000. Based upon the gross gaming revenues for all Casinos for the twelve months ended June 30, 2004, our share of the \$7,000,000 paid on October 15, 2004 was approximately 12.0%, or \$837,000. We have recorded an estimated expense of \$258,000 and \$259,000 for the three months ended March 31, 2007 and 2006, respectively.

Also under the terms of the Agreement, the CRDA approved donations in the aggregate amount of \$62,000,000 from the Casino's North Jersey Obligations (pursuant to the New Jersey Casino Control Act) for certain uses as defined by the Agreement including casino projects approved pursuant to rules of the CRDA. The CRDA shall credit 100% of the donations received from each casino against that casino's obligation to purchase bonds. The donation shall provide that each casino's share of the \$62,000,000 will equate to a percentage representing its gross gaming revenue for the twelve months ended June 30, 2004 compared to the gross gaming revenues for that period for all Casinos. Each casino's respective annual donation shall be made first from uncommitted current and future funds in the North Jersey Project Fund established in accordance with the CRDA Urban Revitalization Act of that Casino and shall be credited as fulfilling said obligation on behalf of the particular casino making the payment. To the extent such North Jersey Project funds of that casino are not adequate to pay a Casino's share of the required donations, then that casino's other uncommitted current and future North Jersey Obligations shall be utilized. As a result, we will expense our pro rata share of the \$62,000,000 on a straight line basis over the applicable term of the Agreement; however, our Rooms Expansion project may qualify, pursuant to rules of the CRDA, for eligibility to receive future credits of approximately \$6,800,000 under this Agreement. Based upon the gross gaming revenues for all Casinos for the twelve months ended June 30, 2004, our share of the \$62,000,000 is approximately 12.0%, or \$7,400,000. We have recorded an estimated expense of \$412,000

and \$411,000 for the three months ended March 31, 2007 and 2006, respectively. Based on current gross gaming revenue projections, we expect it will take approximately 10 to 12 years to fully fund this obligation as the third quarter of 2006 was the first quarter we were subject to fund North Jersey Obligations.

**Note 10. Subsequent Event**

On April 16, 2007, we increased our revolving credit facility from \$750,000,000 to \$850,000,000 under the existing terms of our bank credit agreement.