# BORGATA HOTEL CASINO & SPA

# QUARTERLY REPORT

## FOR THE QUARTER ENDED DECEMBER 31, 2008

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

**DIVISION OF FINANCIAL EVALUATION**
**REPORTING MANUAL**

# BORGATA HOTEL CASINO & SPA
# BALANCE SHEETS

AS OF DECEMBER 31, 2008 AND 2007

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2008 (c) | 2007 (d) |
|---|---|---|---|---|
| | ASSETS: | | | |
| | Current Assets: | | | |
| 1 | Cash and Cash Equivalents | 1 | $43,690 | $52,866 |
| 2 | Short-Term Investments | | 0 | 0 |
| 3 | Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2008, $21,308; 2007, $19,707) | 2 | 50,778 | 69,840 |
| 4 | Inventories | 1 | 5,499 | 4,386 |
| 5 | Other Current Assets | | 10,312 | 9,053 |
| 6 | Total Current Assets | | 110,279 | 136,145 |
| 7 | Investments, Advances, and Receivables | 6 | 24,594 | 17,817 |
| 8 | Property and Equipment - Gross | | 1,761,248 | 1,639,735 |
| 9 | Less: Accumulated Depreciation and Amortization | | (330,130) | (259,803) |
| 10 | Property and Equipment - Net | 3 | 1,431,118 | 1,379,932 |
| 11 | Other Assets | | 11,672 | 8,187 |
| 12 | Total Assets | | $1,577,663 | $1,542,081 |
| | LIABILITIES AND EQUITY: | | | |
| | Current Liabilities: | | | |
| 13 | Accounts Payable | | $13,868 | $45,222 |
| 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 | 1 | 3,323 | 3,109 |
| 18 | Other Accrued Expenses | 4 | 59,078 | 66,187 |
| 19 | Other Current Liabilities | 5, 11 | 27,265 | 17,201 |
| 20 | Total Current Liabilities | | 103,534 | 131,719 |
| | Long-Term Debt: | | | |
| 21 | Due to Affiliates | | 0 | 0 |
| 22 | External | 8 | 740,536 | 722,700 |
| 23 | Deferred Credits | | 8,963 | 7,289 |
| 24 | Other Liabilities | | 13,819 | 13,692 |
| 25 | Commitments and Contingencies | | 0 | 0 |
| 26 | Total Liabilities | | 866,852 | 875,400 |
| 27 | Stockholders', Partners', or Proprietor's Equity | | 710,811 | 666,681 |
| 28 | Total Liabilities and Equity | | $1,577,663 | $1,542,081 |

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

# BORGATA HOTEL CASINO & SPA
# STATEMENTS OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008 AND 2007

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2008 (c) | 2007 (d) |
|---|---|---|---|---|
| | Revenue: | | | |
| 1 | Casino | | $734,306 | $748,649 |
| 2 | Rooms | | 110,616 | 100,898 |
| 3 | Food and Beverage | | 147,334 | 141,061 |
| 4 | Other | | 52,207 | 44,071 |
| 5 | Total Revenue | | 1,044,463 | 1,034,679 |
| 6 | Less: Promotional Allowances | 1 | 213,974 | 196,036 |
| 7 | Net Revenue | | 830,489 | 838,643 |
| | Costs and Expenses: | | | |
| 8 | Cost of Goods and Services | | 519,055 | 480,803 |
| 9 | Selling, General, and Administrative | 1, 10 | 105,693 | 106,992 |
| 10 | Provision for Doubtful Accounts | 2 | 4,643 | 5,866 |
| 11 | Total Costs and Expenses | | 629,391 | 593,661 |
| 12 | Gross Operating Profit | | 201,098 | 244,982 |
| 13 | Depreciation and Amortization | 3 | 76,096 | 68,576 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees | | 0 | 0 |
| 15 | Other | | 0 | 0 |
| 16 | Income (Loss) from Operations | | 125,002 | 176,406 |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates | | 0 | 0 |
| 18 | Interest Expense - External | 8 | (29,049) | (31,194) |
| 19 | CRDA Related Income (Expense) - Net | 10 | (5,405) | (5,312) |
| 20 | Nonoperating Income (Expense) - Net | 6 | (4,289) | (2,226) |
| 21 | Total Other Income (Expenses) | | (38,743) | (38,732) |
| 22 | Income (Loss) Before Taxes and Extraordinary Items | | 86,259 | 137,674 |
| 23 | Provision (Credit) for Income Taxes | 1, 9 | 2,970 | (3,658) |
| 24 | Income (Loss) Before Extraordinary Items | | 83,289 | 141,332 |
| | Extraordinary Items (Net of Income Taxes - | | | |
| 25 | 2008, $0; 2007, $0 ) | | 0 | 0 |
| 26 | Net Income (Loss) | | $83,289 | $141,332 |

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

# BORGATA HOTEL CASINO & SPA
# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 2008 AND 2007

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2008 (c) | 2007 (d) |
|---|---|---|---|---|
| | Revenue: | | | |
| 1 | Casino | | $169,796 | $179,529 |
| 2 | Rooms | | 26,915 | 24,082 |
| 3 | Food and Beverage | | 33,547 | 33,130 |
| 4 | Other | | 12,260 | 11,019 |
| 5 | Total Revenue | | 242,518 | 247,760 |
| 6 | Less: Promotional Allowances | 1 | 59,035 | 45,034 |
| 7 | Net Revenue | | 183,483 | 202,726 |
| | Costs and Expenses: | | | |
| 8 | Cost of Goods and Services | | 122,305 | 118,278 |
| 9 | Selling, General, and Administrative | 1, 10 | 23,850 | 27,964 |
| 10 | Provision for Doubtful Accounts | 2 | (305) | 1,683 |
| 11 | Total Costs and Expenses | | 145,850 | 147,925 |
| 12 | Gross Operating Profit | | 37,633 | 54,801 |
| 13 | Depreciation and Amortization | 3 | 20,511 | 17,496 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees | | 0 | 0 |
| 15 | Other | | 0 | 0 |
| 16 | Income (Loss) from Operations | | 17,122 | 37,305 |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates | | 0 | 0 |
| 18 | Interest Expense - External | 8 | (8,171) | (7,770) |
| 19 | CRDA Related Income (Expense) - Net | 10 | (1,224) | (1,412) |
| 20 | Nonoperating Income (Expense) - Net | 6 | 582 | (499) |
| 21 | Total Other Income (Expenses) | | (8,813) | (9,681) |
| 22 | Income (Loss) Before Taxes and Extraordinary Items | | 8,309 | 27,624 |
| 23 | Provision (Credit) for Income Taxes | 1, 9 | (1,930) | (1,788) |
| 24 | Income (Loss) Before Extraordinary Items | | 10,239 | 29,412 |
| 25 | Extraordinary Items (Net of Income Taxes - 2008, $0; 2007, $0 ) | | 0 | 0 |
| 26 | Net Income (Loss) | | $10,239 | $29,412 |

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

# BORGATA HOTEL CASINO & SPA
# STATEMENTS OF CHANGES IN PARTNERS', PROPRIETOR'S OR MEMBERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008 AND 2007

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | Contributed Capital (c) | Accumulated Earnings (Deficit) (d) | (e) | Total Equity (Deficit) (f) |
|---|---|---|---|---|---|---|
| 1 | **Balance, December 31, 2006..........** | | $477,507 | $189,226 | $0 | $666,733 |
| 2 | Net Income (Loss) - 2007.......... | | | 141,332 | | 141,332 |
| 3 | Capital Contributions................ | | | | | 0 |
| 4 | Capital Withdrawals.................. | | | | | 0 |
| 5 | Partnership Distributions........... | | | (141,140) | | (141,140) |
| 6 | Prior Period Adjustments.......... | | | | | 0 |
| 7 | Cummulative effect of change in | 8 | | (244) | | (244) |
| 8 | accounting principle | | | | | 0 |
| 9 | | | | | | 0 |
| 10 | **Balance, December 31, 2007..........** | | 477,507 | 189,174 | 0 | 666,681 |
| 11 | Net Income (Loss) - 2008.......... | | | 83,289 | | 83,289 |
| 12 | Capital Contributions................ | | | | | 0 |
| 13 | Capital Withdrawals.................. | | | | | 0 |
| 14 | Partnership Distributions........... | | | (39,159) | | (39,159) |
| 15 | Prior Period Adjustments.......... | | | | | 0 |
| 16 | | | | | | 0 |
| 17 | | | | | | 0 |
| 18 | | | | | | 0 |
| 19 | **Balance, December 31, 2008..........** | | $477,507 | $233,304 | $0 | $710,811 |

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

# BORGATA HOTEL CASINO & SPA
# STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008 AND 2007

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2008 (c) | 2007 (d) |
|---|---|---|---|---|
| 1 | CASH PROVIDED (USED) BY OPERATING ACTIVITIES.. | | $169,870 | $208,719 |
| | 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 | | (146,479) | (230,313) |
| 5 | Proceeds from Disposition of Property and Equipment | | | |
| 6 | CRDA Obligations | | (3,140) | (4,076) |
| 7 | Other Investments, Loans and Advances made | | (3,753) | (1,929) |
| 8 | Proceeds from Other Investments, Loans, and Advances | | 0 | |
| 9 | Cash Outflows to Acquire Business Entities | | 0 | 0 |
| 10 | | | | |
| 11 | | | | |
| 12 | Net Cash Provided (Used) By Investing Activities | | (153,372) | (236,318) |
| | CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| 13 | Proceeds from Short-Term Debt | | | |
| 14 | Payments to Settle Short-Term Debt | | | |
| 15 | Proceeds from Long-Term Debt | | 1,815,596 | 843,000 |
| 16 | Costs of Issuing Debt | | (4,351) | (302) |
| 17 | Payments to Settle Long-Term Debt | | (1,797,760) | (674,900) |
| 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 | | (39,159) | (141,140) |
| 22 | | | | |
| 23 | Net Cash Provided (Used) By Financing Activities | | (25,674) | 26,658 |
| 24 | Net Increase (Decrease) in Cash and Cash Equivalents | | (9,176) | (941) |
| 25 | Cash and Cash Equivalents at Beginning of Period | | 52,866 | 53,807 |
| 26 | Cash and Cash Equivalents at End of Period | | $43,690 | $52,866 |

| Line | Description | Notes | 2008 | 2007 |
|---|---|---|---|---|
| | CASH PAID DURING PERIOD FOR: | | | |
| 27 | Interest (Net of Amount Capitalized) | | $30,522 | $26,988 |
| 28 | Income Taxes | | ($10,199) | ($7,146) |

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

# BORGATA HOTEL CASINO & SPA
# STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008 AND 2007

(UNAUDITED)

($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2008 (c) | 2007 (d) | |
|---|---|---|---|---|---|
| | CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| 29 | Net Income (Loss)........................................................... | | $83,289 | $141,332 | |
| 30 | Depreciation and Amortization of Property and Equipment... | | 74,893 | 67,580 | |
| 31 | Amortization of Other Assets............................................... | | 1,203 | 996 | |
| 32 | Amortization of Debt Discount or Premium.......................... | | | | |
| 33 | Deferred Income Taxes - Current .......................................... | | 67 | (193) | * |
| 34 | Deferred Income Taxes - Noncurrent .................................... | | 1,674 | 677 | * |
| 35 | (Gain) Loss on Disposition of Property and Equipment......... | | 1 | 734 | |
| 36 | (Gain) Loss on CRDA-Related Obligations........................... | | 5,405 | 5,312 | |
| 37 | (Gain) Loss from Other Investment Activities....................... | | 116 | 78 | |
| 38 | (Increase) Decrease in Receivables and Patrons' Checks ....... | | 14,797 | (2,450) | |
| 39 | (Increase) Decrease in Inventories ....................................... | | (1,113) | (324) | |
| 40 | (Increase) Decrease in Other Current Assets.......................... | | (1,326) | (3,408) | * |
| 41 | (Increase) Decrease in Other Assets...................................... | | (336) | 2,384 | |
| 42 | Increase (Decrease) in Accounts Payable.............................. | | 4,441 | (4,619) | |
| 43 | Increase (Decrease) in Other Current Liabilities .................... | | (13,368) | (3,690) | |
| 44 | Increase (Decrease) in Other Liabilities ................................ | | 127 | 4,310 | * |
| 45 | Net Loss (Gain) on Derivative Financial Instrum.................... | | 0 | 0 | |
| 46 | .................... | | | | |
| 47 | Net Cash Provided (Used) By Operating Activities.................... | | $169,870 | $208,719 | |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| Line | Description | Notes | 2008 | 2007 |
|---|---|---|---|---|
| | ACQUISITION OF PROPERTY AND EQUIPMENT: | | | |
| 48 | Additions to Property and Equipment.................................... | | ($146,479) | ($230,313) |
| 49 | Less: Capital Lease Obligations Incurred.............................. | | | |
| 50 | Cash Outflows for Property and Equipment.............................. | | ($146,479) | ($230,313) |
| | ACQUISITION OF BUSINESS ENTITIES: | | | |
| 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 |
| | STOCK ISSUED OR CAPITAL CONTRIBUTIONS: | | | |
| 57 | Total Issuances of Stock or Capital Contributions.................. | | $0 | $0 |
| 58 | Less: Issuances to Settle Long-Term Debt............................ | | 0 | 0 |
| 59 | Consideration in Acquisition of Business Entities.................. | | 0 | 0 |
| 60 | Cash Proceeds from Issuing Stock or Capital Contributions...... | | $0 | $0 |

* prior year amounts have been restated to reflect current year presentation.

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

# BORGATA HOTEL CASINO & SPA
# SCHEDULE OF PROMOTIONAL
# EXPENSES AND ALLOWANCES

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008

(UNAUDITED)
($ IN THOUSANDS)

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| Line (a) | Description (b) | Number of Recipients (c) | Dollar Amount (d) | Number of Recipients (e) | Dollar Amount (f) |
| 1 | Rooms | 686,276 | $69,723 | | |
| 2 | Food | 1,804,064 | 42,135 | 1,091,100 | 10,911 |
| 3 | Beverage | 7,103,030 | 23,083 | | |
| 4 | Travel | | | 27,096 | 6,774 |
| 5 | Bus Program Cash | | | | |
| 6 | Promotional Gaming Credits | 2,396,557 | 59,913 | | |
| 7 | Complimentary Cash Gifts | 273,047 | 6,827 | | |
| 8 | Entertainment | 204,724 | 8,189 | 4,500 | 450 |
| 9 | Retail & Non-Cash Gifts | 68,795 | 3,440 | 42,808 | 10,702 |
| 10 | Parking | | | | |
| 11 | Other | 137,348 | 664 | 1,618,407 | 6,740 |
| 12 | Total | 12,673,841 | $213,974 | 2,783,911 | $35,577 |

* Promo Allow - Other inc $4,030K of Spa comps and ($3,434K) change in Comp and Slot dollars earned but not redeemec
* Promotional Expenses - Other includes $2,246K of comp taxes.

FOR THE THREE MONTHS ENDED DECEMBER 31, 2008

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| Line (a) | Description (b) | Number of Recipients (c) | Dollar Amount (d) | Number of Recipients (e) | Dollar Amount (f) |
| 1 | Rooms | 194,155 | $18,542 | | |
| 2 | Food | 406,292 | 9,646 | 249,300 | 2,493 |
| 3 | Beverage | 1,682,189 | 5,466 | | |
| 4 | Travel | | | 5,784 | 1,446 |
| 5 | Bus Program Cash | | | | |
| 6 | Promotional Gaming Credits | 866,277 | 21,656 | | |
| 7 | Complimentary Cash Gifts | 105,307 | 2,634 | | |
| 8 | Entertainment | 53,919 | 2,157 | 1,680 | 168 |
| 9 | Retail & Non-Cash Gifts | 17,410 | 870 | 10,132 | 2,533 |
| 10 | Parking | | | | |
| 11 | Other | 33,376 | (1,936) | 398,788 | 1,687 |
| 12 | Total | 3,358,925 | $59,035 | 665,684 | $8,327 |

* Promo Allow - Other inc $877K of Spa comps and ($2,850K) change in Comp and Slot dollars earned but not redeemed.
* Promotional Expenses - Other includes $664K of comp taxes.

NOTE: Prior 2008 amounts related to lines 6 and 7 have been restated to reflect current presentation.

# BORGATA HOTEL CASINO & SPA
# STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED DECEMBER 31, 2008

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.

3/31/2009
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 Consolidated Financial Statements
(Unaudited)

**Note 1. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited 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"). 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. In June 2008, operations commenced related to our second expansion ("Rooms Expansion"). The centerpiece of the Rooms Expansion is a new hotel tower, The Water Club, a signature hotel by Borgata, containing approximately 800 guest rooms and suites, built on a portion of the existing surface parking lot, near the existing porte cochere. In addition to the hotel, which has access separate from our existing hotel tower, the Rooms Expansion includes a new spa, additional meeting room space, and a new parking structure. BAC and MAC did not make further capital contributions to us for the expansion projects as we financed the projects from our cash flow from operations and from our bank credit facility (see Note 8 and Note 11).

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.

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of our operations and cash flows for the years ended December 31, 2008 and 2007. We suggest reading this report in conjunction with our audited consolidated financial statements for the year ended December 31, 2008.

Our operating results and cash flows for the years ended December 31, 2008 and 2007 are not necessarily indicative of the results that will be achieved for future periods.

*Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with maturities of three months or less at their date of purchase. The carrying value of these investments approximates their fair value due to their short maturities.

*Accounts Receivable, Net*

Accounts receivable consist primarily of casino, hotel and other receivables, net of an allowance for doubtful accounts of $21,308,000 and $19,707,000 at December 31, 2008 and 2007, respectively. The allowance for doubtful accounts is estimated based upon our collection experience and the age of the receivables.

*Inventories*

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

*Property and Equipment*

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets (see Note 3). Costs of major improvements are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred. Losses on disposal of assets are recognized when such assets are impaired while gains are recognized as realized.

*Capitalized Interest*

Interest costs, primarily 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 $8,756,000 and $12,632,000 for the years ended December 31, 2008 and 2007, respectively.

*Deferred Financing Fees*

Deferred financing fees incurred in connection with the issuance of long-term debt are amortized over the terms of the related debt agreement.

*Revenue and Promotional Allowances*

Gaming revenue represents the net win from gaming activities, which is the difference between gaming wins and losses. The majority of our gaming revenue is counted in the form of cash and chips and therefore is not subject to any significant or complex estimation procedures. Gross revenues include the estimated retail value of rooms, food and beverage, and other goods and services provided to customers on a complimentary basis. Such amounts are then deducted as promotional allowances. The estimated costs and expenses of providing these promotional allowances are charged to the gaming department in the following amounts:

| | Year Ended December 31, | |
|---|---|---|
| | 2008 | 2007 |
| Room | $ 23,876,000 | $ 17,801,000 |
| Food and beverage | 51,148,000 | 49,728,000 |
| Other | 17,247,000 | 12,656,000 |
| **Total** | **$ 92,271,000** | **$ 80,185,000** |

Promotional allowances also include incentives such as cash, goods and services (such as complimentary rooms and food and beverages) earned in our slot club and other gaming programs. We reward customers, through the use of loyalty programs, with points based on amounts wagered that can be redeemed for a specified period of time, principally for restricted free play slot machine credits and complimentary goods or services. We record the estimated retail value of these incentives as revenue and then deduct them as a promotional allowance. For the years ended December 31, 2008 and 2007 these incentives were $63,305,000 and $60,400,000, respectively.

*Income Taxes*

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 (see Note 9). 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. A reconciliation of the components of our stand-alone state income taxes payable is presented below:

| | December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Amounts receivable – state | $ (650,000) | $ (718,000) |
| Amounts payable to MAC and BAC | 3,973,000 | 3,827,000 |
| **Income taxes payable** | **$ 3,323,000** | **$ 3,109,000** |

*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 insurance receivable related to The Water Club fire, 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 $5,570,000 and $3,116,000 for the years ended December 31, 2008, and 2007, respectively, consisting primarily of payroll expenses and ground lease expenses related to our expansion projects.

*Advertising Expenses*

Advertising costs are expensed the first time such advertising appears. Total advertising costs included in selling, general and administrative expenses on the accompanying consolidated statements of operations were $13,530,000 and $10,575,000 for the years ended December 31, 2008 and 2007, respectively.

*Employee Benefit Plans*

We contribute to pension plans under various union agreements. Contributions, based on wages paid to covered employees, totaled approximately $5,996,000 and $5,915,000 for the years ended December 31, 2008 and 2007, respectively.

We have a retirement savings plan under Section 401(k) of the Internal Revenue Code covering our non-union employees. The plan allows employees to defer up to the lessor of the Internal Revenue Code prescribed maximum amount or 100% of their income on a pre-tax basis through contributions to the plan. We expensed our voluntary contributions to the 401(k) plan of $3,344,000 and $3,402,000 for the years ended December 31, 2008 and 2007, respectively.

*Self Insurance*

We are currently self insured up to $75,000,000, $1,000,000, $250,000, and $250,000 with respect to each catastrophe related property damage claim, non-catastrophe related property damage claim, general liability claim and non-union employee medical case, respectively. We have accrued $4,298,000 and $3,950,000 for such claims at December 31, 2008 and 2007, respectively, and incurred expenses of approximately $18,110,000 and $14,858,000 for the years ended December 31, 2008 and 2007, respectively.

*Recently Issued Accounting Standards*

In May 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 162, *Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement was effective November 15, 2008. Although we can provide no assurances, we do not believe that the adoption of SFAS 162 will have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*, and requires enhanced related disclosures. FSP 142-3 must be applied prospectively to all intangible assets acquired as of and subsequent to fiscal years beginning after December 15, 2008. We believe that the adoption of FSP 142-3 will not have a material impact on our consolidated financial statements.

In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of SFAS No. 157, *Fair Value Measurements* ("SFAS 157") to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We are currently evaluating whether to adopt the fair value option under SFAS No. 157 and evaluating what impact such adoption would have on our consolidated financial statements.

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.

**Note 2. Receivables and Patrons' Checks**

Receivables and patrons' checks consist of the following:

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| Casino receivables (net of an allowance for doubtful accounts – 2008 $21,229,000 and 2007 $19,618,000) | $ 28,431,000 | $ 27,143,000 |
| Insurance receivable | - | 4,265,000 |
| NJ tax refund receivable (Note 9) | 15,633,000 | 26,380,000 |
| Other (net of an allowance for doubtful accounts – 2008 $79,000 and 2007 $89,000) | 6,646,000 | 11,989,000 |
| Due from related parties (Note 7) | 68,000 | 63,000 |
| **Receivables and patrons' checks, net** | **$ 50,778,000** | **$ 69,840,000** |

**Note 3. Property and Equipment**

Property and equipment consists of the following:

| | Estimated Life | December 31, | |
|---|---|---|---|
| | (Years) | 2008 | 2007 |
| Land | - | $ 87,301,000 | $ 87,301,000 |
| Building and improvements | 3-40 | 1,380,474,000 | 996,607,000 |
| Furniture and equipment | 3-7 | 276,877,000 | 228,841,000 |
| Construction in progress | - | 16,596,000 | 326,986,000 |
| Total | | 1,761,248,000 | 1,639,735,000 |
| Less accumulated depreciation | | 330,130,000 | 259,803,000 |
| **Property and equipment, net** | | **$1,431,118,000** | **$1,379,932,000** |

Depreciation expense was $74,894,000 and $67,868,000 for the years ended December 31, 2008 and 2007, respectively. At December 31, 2008, construction in progress in the above table consists of various maintenance capital projects currently in process. At December 31, 2007, our Rooms Expansion was in process (see Note 1). The majority of the total expenditures for this project as of December 31, 2007 are classified as construction in progress in the above table.

**Note 4. Other Accrued Expenses**

Other accrued expenses consist of the following:

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Payroll and related | $ 21,728,000 | $ 25,425,000 |
| Other | 37,350,000 | 40,762,000 |
| **Other accrued expenses** | **$ 59,078,000** | **$ 66,187,000** |

**Note 5. Other Current Liabilities**

Other current liabilities consist of the following:

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Deferred gain on insurance liabilities | $ 11,132,000 | $ - |
| Casino related liabilities | 9,353,000 | 9,421,000 |
| Due from related parties (see Note 7) | 514,000 | 91,000 |
| Other | 6,266,000 | 7,689,000 |
| **Other current liabilities** | **$ 27,265,000** | **$ 17,201,000** |

**Note 6. 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. Each member has guaranteed, jointly and severally, liability for all terms, covenants, and conditions of the ACES agreement consisting primarily of the necessary operating and capital expenses of ACES. The responsibilities of the managing member will rotate annually among the members. Our anticipated investment in ACES will be approximately $6,500,000. ACES commenced operations in February, 2009.

We account for our share of ACES under the equity method of accounting. As of December 31, 2008 we have made capital contributions of $6,082,000 which is included on the accompanying consolidated balance sheet. Our share of ACES’ net loss was $116,000 and $78,000 for the years ended December 31, 2008 and 2007, respectively, and is included in nonoperating expenses on the accompanying consolidated statements of operations.

**Note 7. 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 $45,000 and $50,000 at December 31, 2008 and 2007, respectively. Reimbursable expenditures incurred were $570,000 and $514,000 for the years ended December 31, 2008 and 2007, 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 $23,000 and $13,000 for the twelve months ended December 31, 2008 and 2007, respectively. Reimbursable expenditures incurred were $386,000 and $448,000 for the years ended December 31, 2008 and 2007, 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. MAC has provided us with written notice to terminate this lease effective April 2009; however, it is the intent of the Company and MAC to renegotiate the terms of this lease which includes the retraction of the termination notice. The related amounts due to MAC for these types of expenditures were $0 at December 31, 2008 and 2007, respectively. Related rent incurred $6,082,000 and $6,004,000 for the years ended December 31, 2008 and 2007, respectively, portions of which were included in preopening expenses on 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 December 31, 2008 and 2007, respectively. Related property tax incurred was $11,748,000 and $6,192,000 for the years ended December 31, 2008 and 2007, 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 $514,000 and $91,000 at December 31, 2008 and 2007, respectively. Reimbursable expenditures were $9,200,000 and $10,890,000 for the years ended December 31, 2008 and 2007, respectively, which were included in the accompanying consolidated statement of operations.

The related party balances are non-interest bearing and are included in either accounts receivable or accrued and other liabilities on the accompanying consolidated balance sheets.

**Note 8. Debt**

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

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| Revolving line of credit | 740,536,000 | 722,700,000 |
| Less current maturities | - | - |
| **Total long – term debt** | **$ 740,536,000** | **$ 722,700,000** |

On February 15, 2006, the First Amendment was made to our First Amended and Restated Credit Agreement among MDFC, MDDC, Canadian Imperial Bank of Commerce and certain other financial institutions (the "Credit Parties"). The amended bank credit agreement modified our existing amended bank credit agreement and consists of a $750,000,000 revolving credit facility that matures on January 31, 2011. Availability under the revolving credit facility was used to repay in full the outstanding term loan component of the previous bank credit agreement. On February 27, 2007, we increased the revolving credit facility to $850,000,000. On December 10, 2008, the Second Amendment was made to our First Amended and Restated Credit Agreement among the Credit Parties. The amended bank agreement modified our existing amended bank credit agreement and provides for adjustments to certain financial covenants. The Second Amendment also reduced the revolving credit facility to $800,000,000 with further reductions of $10,000,000 per quarter commencing on March 31, 2009 and ending on December 31, 2010, resulting in the revolving credit facility of $720,000,000 maturing on January 31, 2011. At December 31, 2008, $740,536,000 was outstanding under the revolving credit facility and $148,000 was allocated to support a letter of credit, leaving availability under the bank credit facility of $59,316,000. The carrying amount of debt approximates its fair value at December 31, 2008 and 2007.

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. The applicable margin is a percentage per annum (which ranges from 1.00% to 2.50% if we elect to use the base rate and 2.25% to 3.75% if we elect to use the Eurodollar rate) determined in accordance with a specified pricing grid based upon our predefined leverage ratio. In addition, we incur a commitment fee on the unused portion of the revolving credit facility that ranges from 0.25% to 0.5% per annum. The blended interest rates for outstanding borrowings under the bank credit agreements at December 31, 2008 and 2007 were 4.2% and 6.5%, respectively. 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 fixed charge 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 December 31, 2008.

The scheduled maturities of long-term debt for the years ending December 31 are as follows (in thousands):

| | |
|---|---|
| 2009 | $ - |
| 2010 | - |
| 2011 | 740,536,000 |
| **Total** | **$ 740,536,000** |

**Note 9. Income Taxes**

A summary of the provision for (benefit from) state income taxes is as follows:

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| State | | |
| Current | $ (762,000) | $ (9,446,000) |
| Deferred | 2,208,000 | 5,788,000 |
| **Provision for (benefit from) state income taxes** | **$ 2,970,000** | **$ (3,658,000)** |

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

| | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| Tax provision at state statutory rate | 9.0% | 9.0% |
| New jobs investment tax credit | (5.8) | (12.7) |
| Other, net | 0.2 | 1.0 |
| **Total state income tax provision (benefit)** | **3.4%** | **(2.7)%** |

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

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Deferred state tax assets: | | |
| Provision for doubtful accounts | $ 1,918,000 | $ 1,774,000 |
| State tax credit carryforwards | 1,395,000 | 1,658,000 |
| Gaming taxes | 1,099,000 | 1,575,000 |
| Reserve for employee benefits | 250,000 | 261,000 |
| Preopening expense | - | 543,000 |
| Other | 1,282,000 | 1,075,000 |
| Gross deferred state tax asset | 5,944,000 | 6,886,000 |
| Deferred state tax liabilities: | | |
| Difference between book and tax basis of property | 12,817,000 | 12,253,000 |
| Reserve differential for gaming activities | 87,000 | 19,000 |
| Other | 819,000 | 652,000 |
| Gross deferred state tax liability | 13,723,000 | 12,924,000 |
| **Net deferred state tax liability** | **$ (7,779,000)** | **$( 6,038,000)** |

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

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Current deferred income tax asset | $ 1,184,000 | $ 1,251,000 |
| Non-current deferred income tax liability | (8,963,000) | (7,289,000) |
| **Net deferred state tax liability** | **$ (7,779,000)** | **$ (6,038,000)** |

*New Jersey New Jobs Investment Tax Credit*

Based on New Jersey state income tax rules, we are eligible for a refundable state tax credit under the New Jersey New Jobs Investment Tax Credit ("New Jobs Tax Credit") because we made a qualified investment in a new business facility that created new jobs. The total net credit related to our original investment was approximately $75,000,000 over a five-year period that ended in 2007. Incremental net credits related to our Public Space Expansion and our Rooms Expansion are estimated to be approximately $8,400,000 and $5,200,000, respectively, over five-year periods ending in 2010 and 2012, respectively. We have recorded $5,000,000 and $17,400,000, respectively, of net New Jobs Tax Credits in arriving at our state income tax benefit (provision) on the accompanying consolidated statements of operations for the years ended December 31, 2008, and December 31, 2007. We expect to generate net New Jobs Tax Credits of approximately $2,700,000 per year for years 2009 through 2010, and $1,000,000 per year for years 2011 and 2012.

In connection with our formation in 2000, MAC contributed assets consisting of land and South Jersey Transportation Authority bonds with a tax basis of approximately $9,200,000 and $13,800,000, respectively. The recorded book value of those assets was $90,000,000. Pursuant to the Joint Venture and Tax Sharing Agreements between MAC and BAC, any subsequent gain or loss associated with the sale of the MAC contributed property would be allocated directly to MAC for both state and federal income tax purposes. As such, no state deferred tax liability has been recorded in connection with the book and tax basis differences related to the MAC contributed property.

*Adoption of FIN 48*

Under FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, 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 for public companies and applies to all tax positions accounted for in accordance with SFAS No. 109.

The total amount of unrecognized tax benefits upon our early 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:

| | |
|---|---|
| Reduction in retained earnings (cumulative effect) | $ 244,000 |
| Additional deferred tax assets | 1,736,000 |
| Increase in other tax liabilities | $1,980,000 |

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

| | 2008 | 2007 |
|---|---|---|
| Unrecognized tax benefit, January 1 | $8,220,000 | $6,523,000 |
| Additions based on tax positions related to the current year | 252,000 | 1,684,000 |
| Additions based on tax positions related to prior years | 55,000 | 26,000 |
| Reductions based on tax positions related to prior years | (738,000) | (13,000) |
| Unrecognized tax benefit, December 31 | $7,789,000 | $8,220,000 |

Included in the $7,789,000 balance of unrecognized tax benefits at December 31, 2008 are $5,589,000 of tax benefits that, if recognized, would affect the effective tax rate and $2,200,000 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, 2008, and 2007, we recognized accrued interest and penalties of approximately $900,000, and $1,000,000, respectively. We had $2,600,000 and $1,700,000 for the payment of interest and penalties accrued at December 31, 2008 and 2007, 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. Statute expirations, related to state income tax returns filed for years prior to December 31, 2004 have been extended to December 31, 2009. The statute of limitations for all remaining state income tax returns will begin to expire over the period October 2010 through October 2013. 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 related to the tax returns filed for the years ended December 31, 2004 and 2003. Any adjustments related to the federal examination would affect MAC and BAC, as we are not subject to federal income tax. Additionally, New Jersey state income tax returns for the years ended December 31, 2003 through December 31, 2006 are under audit by the New Jesey Division of Taxation. As the Division of Taxation has not started field work in connection with their audit, it is difficult to determine when these examinations will be closed. As it relates to years under audit and unaudited open years, we do not anticipate any material changes, over the next 12 month period, to our unrecognized tax benefits as of December 31, 2008.

## Note 10. Commitments and Contingencies

*Future Minimum Lease Payments*

Future minimum lease payments required under noncancelable operating leases (principally for land, see Note 7) as of December 31, 2008 are as follows:

| | |
|---|---|
| 2009 | $ 6,889,000 |
| 2010 | 6,536,000 |
| 2011 | 5,859,000 |
| 2012 | 5,501,000 |
| 2013 | 5,226,000 |
| Thereafter | 297,869,000 |
| **Total** | **$ 327,880,000** |

For the years ended December 31, 2008 and 2007, total rent expense was $13,810,000 and $13,504,000, respectively.

*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 $11,200,000 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.

Our CRDA obligations for the years ended December 31, 2008 and 2007 were $9,235,000 and $9,387,000, respectively, of which valuation provisions of $5,405,000 and $5,311,000 respectively, are included in selling general and administrative expenses on the accompanying consolidated statements of operations due to the respective underlying agreements.

*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 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 through January 1, 2009.

Under the terms of the Grant and Donations Agreement, the Casinos paid to the NJSEA $34,000,000 to be used for certain authorized purposes as defined by the Grant and Donations Agreement. The $34,000,000 was paid by the Casinos 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 was paid October 15, 2007. For each year, each casino's share of the $34,000,000 equated 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, were responsible for the payment of all amounts due. As a result, we expense our pro rata share of the $34,000,000, totaling $4,683,000, on a straight-line basis over the applicable term of the Grant and Donationss Agreement. Based upon the gross gaming revenues for all Casinos for the twelve months ended June 30, 2007, our share of the $10,000,000 paid on October 15, 2007 was 14.5%, or $1,482,000. 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 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 $838,000. We have recorded an expense of $1,041,000 for each of the years ended December 31, 2008 and December 31, 2007, respectively.

Also under the terms of the Grant and Donations 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 Grant and Donations 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 qualified, pursuant to rules of the CRDA, for eligibility to receive future credits of approximately $6,800,000 under this Grant and Donations 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 was approximately 12.0%, or $7,421,000. We have recorded an estimated expense of $1,649,000 for each of the years ended December 31, 2008 and December 31, 2007, 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.

*Purse Enhancement Agreement*

In August, 2008, Borgata and the ten other casinos in the Atlantic City gaming market (collectively, the "Casinos") entered into a Purse Enhancement Agreement with the NJSEA and the CRDA in the interest of further deferring or preventing the proliferation of competitive gaming at New Jersey racing tracks through December 31, 2011. In addition to the continued prohibition of casino gaming in New Jersey outside of Atlantic City, legislation was enacted to provide for the deduction of certain promotional gaming credits from the calculation of the tax on casino gross revenue.

Under the terms of the Purse Enhancement Agreement, the Casinos shall make scheduled payments to the NJSEA totaling $90,000,000 to be used for certain authorized purposes (the "Authorized Uses") as defined by the Purse Enhancement Agreement. In the event any of the $90,000,000 is not used by NJSEA for the Authorized Uses by January 1, 2012, the unused funds shall be returned by NJSEA to the Casinos pro rata based upon the share each casino contributed. For each year, each casino's share of the scheduled payments will equate to a percentage representing its gross gaming revenue for the prior calendar year compared to the gross gaming revenues for that period for all Casinos. Each casino, solely and individually, shall be responsible for its respective share of the scheduled amounts due. In the event that any casino shall fail to make its payment as required, the remaining Casinos shall have the right, but not the obligation, to cure a payment delinquency. As a result, we will expense our pro rata share of the $90,000,000, estimated to be approximately $14,404,000 in total using our actual and forecasted market share of gross gaming revenue, on a straight-line basis over the applicable term of the Purse Enhancement Agreement.

*Legal Matters*

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

**Note 11. Write-downs and Other Charges, net**

A summary of total write-downs and other charges, net is as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2008 | 2007 |
| Loss on disposal of assets | $ 1 | $ 607,000 |
| Fire related write-downs and other charges, net | 161,000 | 349,000 |
| Total write-downs and other charges, net | **$ 162,000** | **$ 956,000** |

On September 23, 2007, The Water Club, our 800-room boutique hotel expansion then under construction, sustained a fire that caused damage to property with a carrying value of approximately $11,365,000. We carry insurance policies that we believe will cover most of the replacement costs related to property damage, with the exception of minor amounts principally related to insurance deductibles and certain other limitations. As of December 31, 2008, we have received insurance advances related to property damage totaling $22,397,000. We have recorded a deferred gain of $11,132,000 (see Note 5) on our consolidated balance sheet at December 31, 2008, representing the amount of insurance advances related to property damage in excess of the $11,365,000 carrying value of assets damaged or destroyed by the fire (after our $100,000 deductible). The deferred gain, and any other deferred gain that may arise from further advances from insurance recoveries related to property damage, will not be recognized on our consolidated statement of operations until final settlement with our insurance carrier. In addition, we have "delay in-completion" insurance coverage for The Water Club for certain costs, subject to various limitations and deductibles, which may help to offset some of the costs related to the postponement of its opening. Recoveries, if any, from the insurance carrier will be recorded when earned and realized. We continue to work with our insurance carrier on the scope of the claims and can provide no assurance with respect to the ultimate resolution of these matters.

# Borgata Hotel Casino & Spa

# ANNUAL FILINGS

## FOR THE YEAR ENDED DECEMBER 31, 2008

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

**DIVISION OF FINANCIAL EVALUATION**
**REPORTING MANUAL**

# Borgata Hotel Casino & Spa
# SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS
FOR THE YEAR ENDED DECEMBER 31, 2008

(UNAUDITED)
($ IN THOUSANDS)

| ACCOUNTS RECEIVABLE BALANCES | | | | |
|---|---|---|---|---|
| **Line (a)** | **Description (b)** | **Account Balance (c)** | **Allowance (d)** | **Accounts Receivable (Net of Allowance) (e)** |
| | Patrons' Checks: | | | |
| 1 | Undeposited Patrons' Checks.................................. | $21,528 | | |
| 2 | Returned Patrons' Checks.................................... | 28,132 | | |
| 3 | Total Patrons' Checks....................................... | 49,660 | $21,229 | $28,431 |
| 4 | Hotel Receivables.................................................. | 2,116 | 79 | $2,037 |
| | Other Receivables: | | | |
| 5 | Receivables Due from Officers and Employees.... | - | | |
| 6 | Receivables Due from Affiliates.......................... | 68 | | |
| 7 | Other Accounts and Notes Receivables................ | 20,242 | | |
| 8 | Total Other Receivables.................................... | 20,310 | | $20,310 |
| 9 | Totals (Form CCC-205)......................................... | $72,086 | $21,308 | $50,778 |

| UNDEPOSITED PATRONS' CHECKS ACTIVITY | | |
|---|---|---|
| **Line (f)** | **Description (g)** | **Amount (h)** |
| 10 | Beginning Balance (January 1)............................................................................. | $25,813 |
| 11 | Counter Checks Issued.................................................................................... | 598,381 |
| 12 | Checks Redeemed Prior to Deposit........................................................................ | (411,426) |
| 13 | Checks Collected Through Deposits........................................................................ | (158,226) |
| 14 | Checks Transferred to Returned Checks.................................................................... | (33,014) |
| 15 | Other Adjustments........................................................................................ | 0 |
| 16 | Ending Balance............................................................................................ | $21,528 |
| 17 | "Hold" Checks Included in Balance on Line 16............................................................ | 0 |
| 18 | Provision for Uncollectible Patrons' Checks.............................................................. | $4,581 |
| 19 | Provision as a Percent of Counter Checks Issued.......................................................... | 0.8% |

# Borgata Hotel Casino & Spa
# EMPLOYMENT AND PAYROLL REPORT

AT DECEMBER 31, 2008
($ IN THOUSANDS)

| Line (a) | Department (b) | Number of Employees (c) | Salaries and Wages: Other Employees (d) | Salaries and Wages: Officers & Owners (e) | Salaries and Wages: Totals (f) |
|---|---|---|---|---|---|
| | CASINO: | | | | |
| 1 | Table and Other Games | 2,038 | | | |
| 2 | Slot Machines | 137 | | | |
| 3 | Administration | 8 | | | |
| 4 | Casino Accounting | 270 | | | |
| 5 | Simulcasting | 22 | | | |
| 6 | Other | 33 | | | |
| 7 | Total - Casino | 2,508 | $55,633 | $1,457 | $57,090 |
| 8 | ROOMS | 626 | 15,389 | | 15,389 |
| 9 | FOOD AND BEVERAGE | 1,985 | 38,231 | | 38,231 |
| 10 | GUEST ENTERTAINMENT | 261 | 3,850 | | 3,850 |
| 11 | MARKETING | 182 | 7,605 | 1,392 | 8,997 |
| 12 | OPERATION AND MAINTENANCE | 352 | 10,933 | | 10,933 |
| | ADMINISTRATIVE AND GENERAL: | | | | |
| 13 | Executive Office | 29 | 373 | 2,104 | 2,477 |
| 14 | Accounting and Auditing | 113 | 3,811 | | 3,811 |
| 15 | Security | 294 | 8,254 | | 8,254 |
| 16 | Other Administrative and General | 141 | 8,859 | | 8,859 |
| | OTHER OPERATED DEPARTMENTS: | | | | |
| 17 | Spa, Fitness Center, and Pool | 153 | 2,991 | | 2,991 |
| 18 | Transportation | 139 | 2,244 | | 2,244 |
| 19 | Barber Shop/Salon | 23 | 393 | | 393 |
| 20 | Retail | 34 | 1,154 | | 1,154 |
| 21 | | | | | 0 |
| 22 | | | | | 0 |
| 23 | TOTALS - ALL DEPARTMENTS | 6,840 | $159,720 | $4,953 | $164,673 |

# Borgata

# ANNUAL GROSS REVENUE TAX RETURN

FOR THE YEAR ENDED DECEMBER 31, 2008

| Line | | |
|---|---|---|
| | CASINO WIN: | |
| 1. | Table and Other Games……............................................................................ | $ 297,334,851 |
| 2. | Slot Machines ........................................................................................ | 441,443,988 |
| 3. | Total Casino Win.......................................................................................... | 738,778,839 |
| 4. | Adjustments…………………………...……………………………………… | 205 |
| 5. | Gross Revenue (line 3 plus line 4)........................................................... | 738,779,044 |
| 6. | Deduction for Eligible Promotional Gaming Credits………………………… | 6,465,977 |
| 7. | Taxable Gross Revenue (line 5 minus line 6)........................................... | 732,313,067 |
| 8. | Tax on Gross Revenue - Reporting Year (8% of line 7).................................. | 58,585,045 |
| 9. | Audit or Other Adjustments to Tax on Gross Revenues in Prior Years ............ | 850 |
| 10. | Total Taxes on Gross Revenue (the sum of lines 8 and 9)............................... | 58,585,895 |
| 11. | Total Deposits Made for Tax on Reporting Year's Gross Revenue.................. | (58,585,045) |
| 12. | Settlement of Prior Years' Tax on Gross Revenue<br>Resulting from Audit or Other Adjustments - (Deposits) Credits .................... | (850) |
| 13. | Gross Revenue Taxes Payable (the net of lines 10, 11, and 12) ........................ | $ 0 |

Under penalties of perjury, I declare that I have examined this Annual Gross Revenue Tax Return and to the best of my knowledge and belief, the information contained in this return is accurate.

Betty J. Parker

3/6/2009
**Date**

**Betty J. Parker**

Casino Controller 8038-11
**Title (License Number)**