AMERISTAR CASINO ST LOUIS INC
Form S-4/A
January 12, 2010

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As filed with the Securities and Exchange Commission on January 12, 2010

Registration No. 333-163578

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
to
FORM S-4
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

Ameristar Casinos, Inc.
(Exact name of registrant as specified in its charter)

Nevada	**7990**	**880304799**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

3773 Howard Hughes Parkway, Suite 490S
Las Vegas, Nevada 89169
(702) 567-7000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Peter C. Walsh
Senior Vice President and General Counsel
3773 Howard Hughes Parkway, Suite 490S
Las Vegas, Nevada 89169
(702) 567-7000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:
Jonathan Layne
Gibson, Dunn & Crutcher LLP
2029 Century Park East
Los Angeles, CA 90067
(310) 552-8580

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

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

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit(1)	Proposed maximum aggregate offering price(1)	Amount of registration fee
91/4% Senior Notes due 2014	$650,000,000	100%	$650,000,000	$36,270(3)
Guarantees of Subsidiaries*	$650,000,000	N/A(2)	N/A(2)	N/A(2)

(1) Exclusive of accrued interest, if any, and estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(f) under the Securities Act of 1933, as amended.
(2) No separate fee is payable pursuant to Rule 457(n). The guarantees are not traded separately.
(3) Previously paid.

*Other Registrants

EXACT NAME OF CO-REGISTRANTS AS SPECIFIED IN ITS CHARTER	STATE OR OTHER JURISDICTION OF ORGANIZATION	PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER	I.R.S. EMPLOYER IDENTIFICATION NUMBER
Cactus Pete s, Inc.	Nevada	7990	88-0069444
Ameristar Casino Vicksburg, Inc.	Mississippi	7990	64-0827382
Ameristar Casino Council Bluffs, Inc.	Iowa	7990	93-1151022
Ameristar Casino Las Vegas, Inc.	Nevada	7990	88-0360636
A.C. Food Services, Inc.	Nevada	7990	86-0885736
Ameristar Casino St. Louis, Inc.	Missouri	7990	43-1879218
Ameristar Casino Kansas City, Inc.	Missouri	7990	36-4401000
Ameristar Casino St. Charles, Inc.	Missouri	7990	36-4401002
Ameristar Casino Black Hawk, Inc.	Colorado	7990	20-1290693
Ameristar East Chicago Holdings, LLC	Indiana	7990	26-0302265
Ameristar Casino East Chicago, LLC	Indiana	7990	26-0302265

The registrant and co-registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrant and the co-registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. This prospectus is not an offer to sell these securities nor a solicitation of an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. We may not complete the exchange offer and issue these securities until the registration statement filed with the Securities and Exchange Commission is effective.

Subject to Completion, dated January 12, 2010

PROSPECTUS

$650,000,000

Ameristar Casinos, Inc.

Exchange Offer for All Outstanding
91/4% Senior Notes due 2014
(CUSIP Nos. 03070Q AK7 and U02677 AD1)
for new 91/4% Senior Notes due 2014
that have been registered under the Securities Act of 1933

This exchange offer will expire at 5:00 p.m., New York City time,
on , 2010, unless extended.

The Exchange Notes:

The terms of the registered 91/4% Senior Notes due 2014 to be issued in the exchange offer are substantially identical to the terms of the outstanding 91/4% Senior Notes due 2014, except that the transfer restrictions, registration rights and additional interest provisions relating to the outstanding notes will not apply to the exchange notes.

We are offering the exchange notes pursuant to a registration rights agreement that we entered into in connection with the issuance of the outstanding notes.

Material Terms of the Exchange Offer:

The exchange offer expires at 5:00 p.m., New York City time, on , 2010, unless extended.

Upon expiration of the exchange offer, all outstanding notes that are validly tendered and not withdrawn will be exchanged for an equal principal amount of the exchange notes.

You may withdraw tendered outstanding notes at any time prior to the expiration of the exchange offer.

The exchange offer is not subject to any minimum tender condition, but is subject to customary conditions.

The exchange of the exchange notes for outstanding notes will not be a taxable exchange for U.S. federal income tax purposes.

There is no existing public market for the outstanding notes or the exchange notes. We do not intend to list the exchange notes on any securities exchange or quotation system.

See Risk Factors beginning on page 14.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or the accuracy of this prospectus. Any representation to the contrary is a criminal offense.

None of the Nevada Gaming Commission, the Missouri Gaming Commission, the Mississippi Gaming Commission, the Iowa Racing and Gaming Commission, the Indiana Gaming Commission, the Colorado Limited Gaming Control Commission or any other gaming regulatory authority has approved or disapproved of the exchange notes or determined if this prospectus is truthful or complete.

Prospectus dated , 2010

You should rely only on the information contained in this prospectus or incorporated by reference in this prospectus. We have not authorized any dealer, salesperson or other person to give any information or represent anything to you about Ameristar, its financial results or this offering other than the information contained or incorporated by reference in this prospectus. If given or made, any such other information or representation should not be relied upon as having been authorized by Ameristar.

Ameristar is not making an offer to sell or asking for offers to buy any of the securities in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who can not legally be offered the securities.

The information in this prospectus is current only as of the date on its cover, and may change after that date. The information in any document incorporated by reference in this prospectus is current only as of the date of any such document. For any time after the cover date of this prospectus, we do not represent that our affairs are the same as described or that the information in this prospectus is correct nor do we imply those things by delivering this prospectus or selling securities to you.

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Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it shall deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer shall not be deemed to admit that it is an

underwriter within the meaning of the Securities Act of 1933 (the Securities Act). This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after consummation of the exchange offer, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

WHERE YOU CAN FIND MORE INFORMATION

We will provide without charge to each person to whom a copy of this prospectus has been delivered, who makes a written or oral request, a copy of our filings and any and all of the documents referred to herein, including the registration rights agreement and the indenture for the notes, which are summarized in this prospectus, by writing or calling us at the following address or telephone number.

Ameristar Casinos, Inc.
3773 Howard Hughes Parkway, Suite 490S
Las Vegas, Nevada 89169
Attn: Corporate Secretary
Telephone: (702) 567-7000

In order to ensure timely delivery, you must request the information no later than five business days before the expiration of the exchange offer.

INCORPORATION BY REFERENCE

We incorporate by reference certain information we have filed with the Securities and Exchange Commission (the SEC). The information incorporated by reference is an important part of this prospectus. Specifically, we incorporate by reference the documents listed below:

Our annual report on Form 10-K for the year ended December 31, 2008, as amended by Amendment No. 1 on Form 10-K/A filed on January 8, 2010;

Our definitive proxy statement filed on April 29, 2009;

Our quarterly report on Form 10-Q for the quarter ended March 31, 2009;

Our quarterly report on Form 10-Q for the quarter ended June 30, 2009;

Our quarterly report on Form 10-Q for the quarter ended September 30, 2009;

Our current report on Form 8-K filed on March 16, 2009;

Our current report on Form 8-K filed on May 29, 2009;

Our current report on Form 8-K filed on June 4, 2009; and

Our current report on Form 8-K filed on November 19, 2009.

All documents and reports filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) after the date of this prospectus and on or before the time that our offering of the exchange notes is completed are deemed to be incorporated by reference in this prospectus from the date of filing of such documents or reports, except as to any portion of any future annual, quarterly or current reports or proxy statements which is not deemed to be filed under those sections. Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus will be deemed modified or superseded for purposes of this

prospectus to the extent that any statement contained herein or in any subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

The information in the above filings speaks only as of the respective dates thereof, or, where applicable, the dates identified therein. You may read and copy any document we file with the SEC at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549, as well as the SEC s regional offices. Please call the SEC at 1-800-SEC-0330 for further information relating to the public reference room. These SEC filings are also available to the public at the SEC s website at www.sec.gov.

Anyone who receives this prospectus may obtain a copy of the Indenture and registration rights agreement without charge by writing to Ameristar Casinos, Inc., 3773 Howard Hughes Parkway, Suite 490 South, Las Vegas, Nevada 89169, Attention: Corporate Secretary.

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MARKET, RANKING AND OTHER INDUSTRY DATA

The data included in this prospectus or incorporated by reference regarding markets and ranking, including the size of certain markets and our position and the position of our competitors within these markets, are based on reports of government agencies or published industry sources and estimates based on Ameristar s management s knowledge and experience in the markets in which Ameristar operates. These estimates have been based on information obtained from our trade and business organizations and other contacts in the markets in which we operate. Ameristar believes these estimates to be accurate as of the date of this prospectus or the date of such incorporated document, as applicable. However, this information may prove to be inaccurate because of the method by which Ameristar obtained some of the data for the estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. As a result, you should be aware that market, ranking and other similar industry data included in this prospectus, and estimates and beliefs based on that data, may not be reliable. Ameristar cannot guarantee the accuracy or completeness of any such information contained in this prospectus.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents it incorporates by reference contain certain forward-looking statements, including the plans and objectives of management for our business, operations and financial performance. These forward-looking statements generally can be identified by the context of the statement or the use of forward-looking terminology, such as believes, estimates, anticipates, intends, expects, plans, is confident that, should o similar meaning, with reference to us or our management. Similarly, statements that describe our future operating performance, financial results, financial position, plans, objectives, strategies or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control, including but not limited to uncertainties concerning operating cash flow in future periods, our borrowing capacity under our senior credit facility or any replacement financing, our properties future operating performance, our ability to undertake and complete capital expenditure projects in accordance with established budgets and schedules, changes in competitive conditions, regulatory restrictions and changes in regulation or legislation (including gaming tax laws) that could affect us. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement. Important factors that could cause actual results to differ materially from such expectations are disclosed in this prospectus, including, without limitation, those set forth under Risk Factors.

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by this cautionary statement. We are under no duty or obligation to update any of the forward-looking statements after the date of this prospectus.

PROSPECTUS SUMMARY

In this prospectus, the words Ameristar, we, our, ours, us and Company refer to Ameristar Casinos, Inc., the i
the exchange notes, and its consolidated subsidiaries (except as otherwise indicated). The following summary contains basic information about the Company and this offering. It is not complete and likely does not contain all the information that is important to you. For a more complete understanding of this offering, you should read this entire document and the documents we have referred you to.

The Company

We are a developer, owner and operator of casino entertainment facilities in local and regional markets. Founded in 1954, we have been a public company since November 1993. We have eight properties in seven markets and believe that we benefit from the diversification of our properties. Although we are headquartered in Las Vegas, Nevada to facilitate the recruitment and retention of corporate operating management, we have no casino entertainment facilities located in the Las Vegas area.

Our strategy is to capitalize on our high-quality facilities and products and our dedication to superior guest service to effectively compete in each of our markets and to drive growth that creates value for our stockholders. We believe the Ameristar experience differentiates us from our competitors. That experience is built upon our high-quality facilities and products, such as slot machines, food, lodging and entertainment, and the friendly and efficient service our approximately 7,750 team members offer to our guests. Our casinos feature spacious gaming floors and in most cases have the greatest number of gaming positions in our markets. We focus on providing guests the games they want to play in a layout that optimizes revenue. We design the flow of our casino floors so that the right games are in the right places, with convenient access to other amenities, which we believe creates a more entertaining experience for our guests.

Most of our revenue comes from slot play and, accordingly, part of our strategy is to stay current with the latest slot technology. We also offer a wide range of popular table games, including blackjack, craps, roulette and poker, in the majority of our markets. We set competitive minimum and maximum betting limits based on each market. Our gaming revenues are derived from a broad base of guests and, at most properties, we do not depend upon high-stakes players. We extend gaming credit at our properties in Indiana, Mississippi and Nevada, and credit represents a significant amount of table games play at Ameristar East Chicago.

We generally offer a greater variety of quality dining choices than the other casinos in our markets. Our signature dining concepts include steakhouses, elaborate buffets and casual dining restaurants, along with sports bars. Whether in our steakhouses or delis, our emphasis is on quality in all aspects of the dining experience food, service, ambiance, facilities. Our Star Awards loyalty program rewards our guests based on their level of play, and the private Star Clubs at all Ameristar-branded properties offer our top-tier Star Awards members an exclusive place to relax. Our properties also showcase a range of entertainment, including live local, regional and national talent.

Our properties consist of the following:

Ameristar Casino Resort Spa St. Charles, a casino and related all-suite hotel and other facilities located on the Missouri River, situated immediately north of the Interstate 70 bridge in the St. Louis metropolitan area;

Ameristar Casino Hotel East Chicago, a casino and related hotel and other facilities, located in Northwest Indiana 25 miles from downtown Chicago, Illinois and situated near major Interstates 90 and 80/294, which attracts guests

within the Chicagoland area from both Northeast Illinois and Northwest Indiana;

Ameristar Casino Hotel Kansas City, a casino and related hotel and other facilities located seven miles from downtown Kansas City, Missouri;

Ameristar Casino Hotel Council Bluffs, a casino and related hotel and other facilities, located in Council Bluffs, Iowa across the Missouri River from Omaha, Nebraska;

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Ameristar Casino Hotel Vicksburg, a casino and related hotel and other facilities, located in Vicksburg, Mississippi, approximately 45 miles west of Jackson, Mississippi;

Ameristar Casino Resort Spa Black Hawk, a casino and related hotel and other facilities located in the center of the Black Hawk gaming district, approximately 40 miles west of Denver, Colorado, which caters primarily to patrons from the Denver metropolitan area; and

Cactus Petes Resort Casino and The Horseshu Hotel and Casino, two casino-hotels located on either side of U.S. Highway 93 in Jackpot, Nevada at the Idaho border.

Except as noted below, the following table provides summary data for our properties as of November 30, 2009:

Property	**Year Opened (1)**	**Casino Square Footage**	**# of Slots**	**# of Table Games (2)**	**# of Hotel Rooms**	**Restaurant /Bar Seating Capacity**	**# of Parking Spaces**	**Market Share (3)**
Ameristar Casino Resort Spa St. Charles	1994	130,000	2,970	73	397	1,624/193	6,280	29%
Ameristar Casino Hotel East Chicago	1997	56,000	1,935	52	290	550/21	2,245	27%
Ameristar Casino Hotel Kansas City	1997	140,000	2,935	74	184	1,639/394(4)	8,320	34%
Ameristar Casino Hotel Council Bluffs	1996	38,500	1,565	41	444(5)	1,058/25	3,000	37%
Ameristar Casino Hotel Vicksburg	1994	70,000	1,640	39	149	826/297	2,200	42%
Ameristar Casino Resort Spa Black Hawk	2001	56,000	1,540	37	536	656/130	1,550	18%
Jackpot Properties (6)	1956	29,000	900	36	416	530/126	1,100	N/A

(1) We acquired Ameristar St. Charles and Ameristar Kansas City in December 2000, Ameristar Black Hawk in December 2004 and Ameristar East Chicago in September 2007.

(2) Includes 20 poker tables at Ameristar Casino Resort Spa St. Charles, 17 poker tables at Ameristar Casino Hotel Kansas City, 10 poker tables at Ameristar Casino Hotel Vicksburg, 14 poker tables at Ameristar Casino Resort Spa Black Hawk and seven poker tables at the Jackpot properties.

(3) Market share is based on gross gaming revenues for the nine months ended September 30, 2009. Market share data is not reported for the Jackpot market.

(4) Includes a 64-seat food court and Arthur Bryant s Barbecue restaurant leased to and operated by third parties.

(5) Includes 284 rooms operated by affiliates of Kinseth Hospitality Corporation and located on land owned by us and leased to affiliates of Kinseth.

(6) Includes the operations of Cactus Petes Resort Casino and The Horseshu Hotel and Casino.

Recent Property Enhancements and Regulatory Reforms

Several of the Ameristar properties have recently undergone expansions and renovations as described below. The expansions are meant to enhance the assets and continue the ability of those assets to achieve market-leading positions.

Ameristar Casino Hotel Vicksburg completed an approximately $100 million expansion project in 2008 that included an expanded gaming facility and 1,000-space parking garage. The expansion created direct access to the casino floor from covered parking and added approximately 500 new gaming positions and additional amenities, including a VIP lounge and two new restaurants.

Ameristar Casino Resort Spa St. Charles completed its new 397-room, all-suite luxury hotel and spa improvements in 2008. The expansion also included 2,280 new parking spaces, attached directly to the new hotel. As a result of the expansion, Ameristar St. Charles is now the largest casino hotel resort in the St. Louis market and has the largest casino floor of any casino hotel in the market.

Ameristar Casino Hotel East Chicago was re-branded from Resorts East Chicago in June 2008, upon the completion of approximately $30 million in enhancements at the property since its acquisition in 2007.

The 536-room hotel tower at Ameristar Casino Resort Spa Black Hawk, including a rooftop pool and luxury spa, opened on September 29, 2009. Ameristar Casino Resort Spa Black Hawk now offers destination resort amenities and services that are unequaled in the Denver gaming market. The total cost of the project was approximately $230 million.

In November 2008, positive regulatory reform was implemented at our Kansas City and St. Charles properties. The regulatory reform eliminated the $500 buy-in limit and the requirement for all casino guests to use player identification and tracking cards. Additionally, the Missouri gaming reform raised taxes on gross gaming receipts from 20% to 21% and placed a moratorium on the issuance of new gaming licenses.

In Colorado, voters approved the extension of casino operating hours from 18 hours daily to up to 24 hours daily, the increase in maximum bet limits from $5 to up to $100 and the addition of roulette and craps. These regulatory changes were implemented on July 2, 2009. The regulatory reform also fixed the maximum gaming tax rate at its 2008 level (20%) and provides that gaming tax rates can be raised only after a statewide voter referendum, as is required to increase other taxes in Colorado. The regulatory changes and the new hotel have had a significant positive impact on the revenues and cash flow of Ameristar Casino Resort Spa Black Hawk.

Corporate Information

We were incorporated in 1993 under the laws of the State of Nevada.

Our principal executive offices are located at 3773 Howard Hughes Parkway, Suite 490S, Las Vegas, Nevada 89169, and our telephone number is (702) 567-7000.

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Summary of the Exchange Offer

The following is a summary of the principal terms of the exchange offer. A more detailed description is contained in the section The Exchange Offer. The term outstanding notes refers to Ameristar s outstanding 91/4% Senior Notes due 2014, which were issued on May 27, 2009. The term exchange notes refers to Ameristar s 91/4% Senior Notes due 2014 offered by this prospectus, which have been registered under the Securities Act of 1933, as amended, which we refer to as the Securities Act. The term Notes refers to both the outstanding notes and the exchange notes. The term Indenture refers to the indenture that governs both the outstanding notes and the exchange notes.

The Exchange Offer	We are offering to exchange $1,000 principal amount of our exchange notes, which have been registered under the Securities Act, for each $1,000 principal amount of outstanding notes, subject to a minimum exchange of $2,000. As of the date of this prospectus, $650 million aggregate principal amount of the outstanding notes is outstanding. We issued the outstanding notes in a private transaction for resale pursuant to Rule 144A and Regulations S under the Securities Act. The terms of the exchange notes are substantially identical to the terms of the outstanding notes, except that the transfer restrictions, registration rights and rights to increased interest in addition to the stated interest rate on the outstanding notes (Additional Interest) provisions applicable to the outstanding notes will not apply to the exchange notes. In order to exchange your outstanding notes for exchange notes, you must properly tender them before the expiration of the exchange offer. Upon expiration of the exchange offer, your rights under the registration rights agreement pertaining to the outstanding notes will terminate, except under limited circumstances.
Expiration Time	The exchange offer will expire at 5:00 p.m., New York City time, on , 2010, unless the exchange offer is extended, in which case the expiration time will be the latest date and time to which the exchange offer is extended. See The Exchange Offer Terms of the Exchange Offer; Expiration Time.
Interest	You will receive interest on the exchange notes starting from the date interest was last paid on your outstanding notes. If your outstanding notes are exchanged for exchange notes, you will not receive any accrued interest on your outstanding notes.
Conditions to the Exchange Offer	The exchange offer is subject to customary conditions (see Exchange Offer Conditions to the Exchange Offer), some of which we may waive in our sole discretion. The exchange offer is not conditioned upon any minimum principal amount of outstanding notes being tendered for exchange.
Procedures for Tendering Outstanding Notes	You may tender your outstanding notes through book-entry transfer in accordance with The Depository Trust Company s Automated Tender Offer Program, known as ATOP. If you wish to accept the exchange offer, you must:

complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, in accordance with the instructions contained in the letter of transmittal, and mail or

	otherwise deliver prior to the expiration time the letter of transmittal, together with your outstanding notes, to the exchange agent at the address set forth under The Exchange Offer The Exchange Agent; or
	arrange for The Depository Trust Company to transmit to the exchange agent certain required information, including an agent s message forming part of a book-entry transfer in which you agree to be bound by the terms of the letter of transmittal, and transfer the outstanding notes being tendered into the exchange agent s account at The Depository Trust Company.
	You may tender your outstanding notes for exchange notes in whole or in part in minimum denominations of $2,000 and integral multiples of $1,000 in excess of $2,000.
	See The Exchange Offer How to Tender Outstanding Notes for Exchange.
Guaranteed Delivery Procedures	If you wish to tender your outstanding notes and time will not permit your required documents to reach the exchange agent by the expiration time, or the procedures for book-entry transfer cannot be completed by the expiration time, you may tender your outstanding notes according to the guaranteed delivery procedures described in The Exchange Offer Guaranteed Delivery Procedures.
Special Procedures for Beneficial Owners	If you beneficially own outstanding notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct it to tender on your behalf. See The Exchange Offer How to Tender Outstanding Notes for Exchange.
Withdrawal of Tenders	You may withdraw your tender of outstanding notes at any time prior to the expiration time by delivering a written notice of withdrawal to the exchange agent in conformity with the procedures discussed under The Exchange Offer Withdrawal Rights.
Acceptance of Outstanding Notes and Delivery of Exchange Notes	Upon consummation of the exchange offer, we will accept any and all outstanding notes that are properly tendered in the exchange offer and not withdrawn prior to the expiration time. The exchange notes issued pursuant to the exchange offer will be delivered promptly after acceptance of the tendered outstanding notes. See The Exchange Offer Terms of the Exchange Offer; Expiration Time.
Registration Rights Agreement	We are making the exchange offer pursuant to the registration rights agreement that we entered into on May 27, 2009 with the initial purchasers of the outstanding notes. As a result of making and consummating this exchange offer, we will have fulfilled most of our obligations under the registration rights agreement. If you do not tender

your outstanding notes in the exchange offer, you will not have any further registration rights under the registration rights agreement or otherwise unless you were not eligible to participate

in the exchange offer or do not receive freely tradable exchange notes in the exchange offer.

Resales of Exchange Notes

We believe that the exchange notes issued in the exchange offer may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:

- you are not an affiliate of ours;
- the exchange notes you receive pursuant to the exchange offer are being acquired in the ordinary course of your business;
- you have no arrangement or understanding with any person to participate in the distribution of the exchange notes issued to you in the exchange offer;
- if you are not a broker-dealer, you are not engaged in, and do not intend to engage in, a distribution of the exchange notes issued in the exchange offer; and
- if you are a broker-dealer, you will receive the exchange notes for your own account, the outstanding notes were acquired by you as a result of market-making or other trading activities, and you will deliver a prospectus when you resell or transfer any exchange notes issued in the exchange offer. See Plan of Distribution for a description of the prospectus delivery obligations of broker-dealers in the exchange offer.

If you do not meet these requirements, your resale of the exchange notes must comply with the registration and prospectus delivery requirements of the Securities Act.

Our belief is based on interpretations by the staff of the SEC, as set forth in no-action letters issued to third parties. The staff of the SEC has not considered this exchange offer in the context of a no-action letter, and we cannot assure you that the staff of the SEC would make a similar determination with respect to this exchange offer.

If our belief is not accurate and you transfer an exchange note without delivering a prospectus meeting the requirements of the federal securities laws or without an exemption from these laws, you may incur liability under the federal securities laws. We do not and will not assume, or indemnify you against, this liability.

See The Exchange Offer Consequences of Exchanging Outstanding Notes.

Consequences of Failure to Exchange Your Outstanding Notes

If you do not exchange your outstanding notes for exchange notes in the exchange offer, your outstanding notes will continue to be subject to the

restrictions on transfer provided in the legend on the outstanding notes and in the Indenture. In general, the outstanding notes may not be offered or sold unless registered or sold in a transaction exempt from registration under the Securities Act and applicable state securities laws. Accordingly, the trading market for your untendered outstanding notes could be adversely affected.

	See The Exchange Offer Consequences of Failure to Exchange Outstanding Notes.
Exchange Agent	The exchange agent for the exchange offer is Deutsche Bank Trust Company Americas. For additional information, see The Exchange Offer Exchange Agent and the accompanying letter of transmittal.
Certain Federal Income Tax Considerations	The exchange of your outstanding notes for exchange notes will not be a taxable exchange for United States federal income tax purposes. **You should consult your own tax advisor as to the tax consequences to you of the exchange offer, as well as tax consequences of the ownership and disposition of the exchange notes.** For additional information, see Certain United States Federal Income Tax Considerations.

Summary of the Terms of the Exchange Notes

The terms of the exchange notes are substantially identical to the outstanding notes, except that the transfer restrictions, registration rights and Additional Interest provisions applicable to the outstanding notes will not apply to the exchange notes. The following is a summary of the principal terms of the exchange notes. A more detailed description is contained in the section Description of the Notes in this prospectus.

Issuer	Ameristar Casinos, Inc.
Exchange Notes Offered	$650,000,000 aggregate principal amount of 91/4% Senior Notes due 2014.
Maturity Date	The exchange notes will mature on June 1, 2014.
Interest Payment Dates	June 1 and December 1 of each year.
Ranking	The exchange notes will be our senior unsecured obligations and will:

- rank *pari passu* in right of payment with all of our existing and future senior debt;
- rank senior in right of payment to all of our future senior subordinated or subordinated debt;
- be effectively subordinated in right of payment to our existing senior credit facilities and any future secured debt, to the extent of the value of the assets securing such debt; and
- be structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of our non-guarantor subsidiaries (other than indebtedness and liabilities owed to us or one of our guarantor subsidiaries).

Similarly, the guarantees by the Guarantors will be senior unsecured obligations of the Guarantors and will:

- be *pari passu* in right of payment with all of the applicable Guarantor s existing and future senior debt;
- be senior in right of payment to each Guarantor s existing or future senior subordinated or subordinated debt;
- be effectively subordinated in right of payment to all of the applicable Guarantor s existing and future secured debt, to the extent of the value of the assets securing such debt; and
- be structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any subsidiary of a Guarantor that is not also a Guarantor of the notes.

	Our non-guarantor subsidiaries generated none of our revenues for the nine months ended September 30, 2009 and had none of our assets or liabilities at September 30, 2009.
Guarantees	Each of our material subsidiaries will unconditionally guarantee the exchange notes as set forth herein. If we create or acquire a new material subsidiary, it will guarantee the exchange notes unless we designate the subsidiary as an unrestricted subsidiary under the Indenture.

Optional Redemption	We may redeem the exchange notes, in whole or in part, at any time prior to December 1, 2011 at a redemption price equal to the 100% of their principal amount plus accrued and unpaid interest to the redemption date and a make-whole premium. Thereafter, we may redeem the exchange notes, in whole or in part, at the redemption prices set forth in this prospectus. See Description of the Notes Optional Redemption.
Optional Redemption after Public Equity Offerings	At any time (which may be more than once) prior to June 1, 2011, we may choose to redeem up to 35% of the initially outstanding aggregate principal amount of the Notes with the net cash proceeds of one or more public equity offerings by us, as long as: we pay 109.250% of the principal amount of the Notes, plus accrued interest; we give notice of such redemption within 30 days of completing the public equity offering, and redeem the Notes within 60 days after such notice; and at least 65% of the initially outstanding aggregate principal amount of the Notes issued remains outstanding afterwards.
Redemption Based Upon Gaming Laws	The exchange notes are subject to redemption requirements imposed by gaming laws and regulations of gaming authorities in the jurisdictions in which we conduct gaming operations. See Description of the Notes Redemption Based on Gaming Laws.
Change of Control Offer	If certain kinds of changes of control of the Company occur, we must give holders of the exchange notes the opportunity to sell their exchange notes to us at 101% of their face amount, plus accrued interest. See Description of the Notes Repurchase at the Option of Holders Change of Control.
Asset Sale Proceeds	If we engage in certain kinds of asset sales, we generally must either invest the net cash proceeds from such sales in our business within a period of time or make an offer to purchase a principal amount of the exchange notes equal to the excess net cash proceeds. The purchase price of the exchange notes will be 100% of their principal amount, plus accrued interest. See Description of the Notes Asset Sales.
Covenants	The Indenture contains covenants limiting, among other things, our ability to: incur additional debt; pay dividends or make distributions on our capital stock or repurchase our capital stock; make certain investments;

- create liens on our assets;
- enter into transactions with affiliates;
- merge or consolidate with another company; and
- transfer and sell assets.

	These covenants are subject to a number of important limitations and exceptions. See Description of the Notes.
Form and Denomination	The exchange notes will be initially issued only in the form of global notes. Except as otherwise provided under the Indenture, holders of the exchange notes will not be entitled to receive physical delivery of definitive exchange notes or to have exchange notes issued and registered in their names and will not be considered the owners of the exchange notes under the Indenture governing the notes. Interests in the global notes will be issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Risk Factors	**See Risk Factors for a discussion of certain risks you should carefully consider.**

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Summary Historical Consolidated Financial and Other Data

We have derived the following summary historical financial data for each of the three years ended December 31, 2008 from our audited consolidated financial statements. We have derived the summary historical financial data for the nine months ended September 30, 2009 and 2008 and for the 12-month period ended September 30, 2009 from our unaudited condensed consolidated financial statements, which include all adjustments, consisting only of normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of our results of operations for such periods. The results of operations for the nine months ended September 30, 2009 and the 12-month period ended September 30, 2009 are not necessarily indicative of the results for the full year or any future period. The summary data below should be read in conjunction with Selected Historical Consolidated Financial and Other Data included in this prospectus as well as Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical financial statements and notes thereto incorporated into this prospectus by reference to our publicly available documents.

	Year Ended December 31,			Nine Months Ended September 30,		12-Month Period Ended September 30,
	2008	2007	2006	2009	2008	2009
				(unaudited)	(unaudited)	(unaudited)
	(amounts in thousands)					
Statement of Operations Data(1):						
REVENUES:						
Casino	$ 1,296,806	$ 1,083,380	$ 1,008,311	$ 949,547	$ 1,000,514	$ 1,245,840
Food and beverage	156,987	136,471	131,795	103,970	120,521	140,436
Rooms	56,024	30,844	27,972	47,084	42,197	60,911
Other	38,491	30,387	29,082	25,012	29,806	33,696
	1,548,308	1,281,082	1,197,160	1,125,613	1,193,038	1,480,883
Less: Promotional allowances	(280,406)	(200,559)	(196,862)	(201,444)	(218,772)	(263,078)
Net revenues	1,267,902	1,080,523	1,000,298	924,169	974,266	1,217,805
OPERATING EXPENSES:						
Casino	604,747	478,504	439,101	421,898	465,163	561,482
Food and beverage	74,650	70,439	68,744	49,270	56,643	67,277
Rooms	11,221	9,341	6,780	6,496	8,584	9,132
Other	21,154	19,157	18,749	11,340	16,568	15,926
Selling, general and administrative	265,622	229,801	200,588	180,579	201,766	244,436
Depreciation and amortization	105,895	94,810	93,889	78,807	78,901	105,801
Impairment of goodwill (2)	130,300				77,000	53,300
Impairment of other intangible assets (2)	184,200				52,000	132,200

Impairment of fixed assets	1,031	4,758	931	107	449	689
Net loss (gain) on disposition of assets	683	1,408	(683)	99	927	(145)
Total operating expenses	1,399,503	908,218	828,099	748,596	958,001	1,190,098
(Loss) income from operations	(131,601)	172,305	172,199	175,573	16,265	27,707
OTHER INCOME (EXPENSE):						
Interest income	774	2,113	2,746	390	593	571
Interest expense, net (3)	(76,639)	(57,742)	(50,291)	(72,617)	(56,849)	(92,407)
Loss on early retirement of debt			(26,264)	(5,365)		(5,365)
Other	(3,404)	(178)		1,675	(1,459)	(270)
(Loss) income before income tax (benefit) provision	(210,870)	116,498	98,390	99,656	(41,450)	(69,764)
Income tax (benefit) provision	(80,198)	47,065	38,825	41,013	(11,875)	(27,310)
NET (LOSS) INCOME	$ (130,672)	$ 69,433	$ 59,565	$ 58,643	$ (29,575)	$ (42,454)
Other Financial Data:						
EBITDA (4)	$ (25,706)	$ 267,115	$ 266,088	$ 254,380	$ 95,166	$ 133,508
Adjusted EBITDA (5)						$ 339,101
Capital expenditures	$ 241,826	$ 277,312	$ 249,123	$ 110,781	$ 190,742	$ 161,865
Cash dividends declared (6)	$ 18,015	$ 23,389	$ 21,068	$ 18,137	$ 12,006	$ 18,137

	As of September 30, 2009 (unaudited)	As of December 31, 2008
	(amounts in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 132,124	$ 73,726
Total assets	2,316,655	2,225,238
Total long-term debt, net of current maturities	1,661,205	1,643,997
Stockholders equity	394,668	338,780

	12-Month Period Ended September 30, 2009
Credit Statistics:	
Ratio of total debt to Adjusted EBITDA (5)	4.91:1
Ratio of Adjusted EBITDA (5) to interest expense, net (3)	3.67:1
Ratio of Adjusted EBITDA (5) to fixed charges (7)	3.12:1

	Year Ended December 31,					Nine-Month Period Ended September 30,	Pro Forma Nine-Month Period Ended September 30,
	2008	2007	2006	2005	2004	2009	2009 (9)
Ratio of Earnings to Fixed Charges (unaudited)(8)		2.25	2.53	2.50	2.68	2.16	1.81

(1) We acquired Ameristar East Chicago (formerly known as Resorts East Chicago) on September 18, 2007 and its operating results are included only from the acquisition date.

(2) As required under Accounting Standards Codification (ASC) Topic 350, we perform an annual assessment of our goodwill and other intangible assets to determine if the carrying value exceeds the fair value. Additionally, ASC Topic 350 requires an immediate impairment assessment if a change in circumstances can materially negatively affect the fair value of the intangible assets. In 2008, we assessed the intangible assets at Ameristar East Chicago for impairment due to a significant deterioration of the debt and equity capital markets, weakening economic conditions and changes in the forecasted operations that materially affected the property s fair value. As a result, in 2008, we recorded a total of $314.5 million in non-cash impairment charges relating to the goodwill and gaming license acquired in the purchase of the East Chicago property and $1.0 million of other impairment charges.

(3) Includes amortization of debt issuance costs and is net of capitalized interest.

(4) EBITDA consists of earnings before interest, taxes, depreciation and amortization. EBITDA is a commonly used measure of performance in the gaming industry that we believe, when considered with measures calculated in accordance with United States generally accepted accounting principles, or GAAP, gives investors a more complete understanding of operating results before the impact of investing and financing transactions and income taxes and facilitates comparisons between us and our competitors. Our presentation of EBITDA may be different from the presentations used by other companies and therefore comparability among companies may be limited. Additionally, EBITDA does not consider capital expenditures and other investing activities and should not be considered as a measure of our liquidity. We compensate for these limitations by providing the relevant disclosure of our depreciation, interest and income tax expense, capital expenditures and other items both in our reconciliations to the GAAP financial measures and in our consolidated financial statements, all of which should be considered when evaluating our performance. EBITDA should not be considered as an alternative to net income, operating income or any other operating performance measure prescribed by GAAP, nor should EBITDA be relied upon to the exclusion of GAAP financial measures. EBITDA reflects an additional way of viewing our operations that we believe, when viewed with our GAAP results and the reconciliations to the corresponding GAAP financial measures, provides a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. Management strongly encourages investors to review our financial information in its entirety and not to rely on a single financial measure.

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The following table reconciles EBITDA, a non-GAAP financial measure, to operating (loss) income, which is the most closely comparable GAAP measure of liquidity:

	Year Ended December 31,			Nine Months Ended September 30,		12-Month Period Ended September 30, 2009
				(unaudited)	(unaudited)	(unaudited)
	(amounts in thousands)					
	2008	2007	2006	2009	2008	2009
Operating (loss) income	$ (131,601)	$ 172,305	$ 172,199	$ 175,573	$ 16,265	$ 27,707
Depreciation and amortization	105,895	94,810	93,889	78,807	78,901	105,801
EBITDA	$ (25,706)	$ 267,115	$ 266,088	$ 254,380	$ 95,166	$ 133,508

(5) Adjusted EBITDA reflects EBITDA (as defined above), calculated without giving effect to any non-cash compensation expense, pre-opening expenses or any extraordinary, unusual or non-recurring gains or losses. As used herein, Adjusted EBITDA has been calculated as provided in the senior credit facilities for the financial ratios calculated above. This presentation of Adjusted EBITDA may be different from the presentations used by other companies and therefore comparability among companies may be limited. Adjusted EBITDA should not be considered as an alternative to net income, operating income or any other operating performance measure prescribed by GAAP, nor should Adjusted EBITDA as set forth herein be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review our financial information in its entirety and not to rely on a single financial measure.

The following table reconciles Adjusted EBITDA, as utilized in certain of the foregoing ratio calculations presented, to EBITDA:

	12-Month Period Ended September 30, 2009 (unaudited) (amounts in thousands)
EBITDA	$ 133,508
Impairment losses on East Chicago intangible assets	185,500
Non-cash compensation expense	12,162
Missouri and Colorado ballot initiative costs	3,328
Black Hawk and Vicksburg pre-opening expenses	2,749

One-time non-cash adjustment to Black Hawk property taxes	1,276
Impairment loss on discontinued expansion projects	578
Adjusted EBITDA	$ 339,101

(6) Dividends of $18.0 million, $23.4 million and $21.1 million were declared and paid in 2008, 2007 and 2006, respectively. The total dividends paid per share were $0.315 in 2008, $0.41 in 2007 and $0.375 in 2006. During the nine months ended September 30, 2009 and 2008, the dividends paid per share were $0.21 and $0.315, respectively. The Company declared a quarterly dividend of $0.105 per share on September 10, 2009 that was paid on October 6, 2009.

(7) For purposes of computing the ratio of Adjusted EBITDA to fixed charges, Adjusted EBITDA consists of Adjusted EBITDA (as defined in note (5) above) less cash payments made for dividends, federal and state income taxes, stock repurchases and maintenance fixed asset additions. For this ratio, fixed charges consist of interest expensed and capitalized, amortization of debt issuance costs and scheduled debt principal payments.

(8) For purposes of computing the ratio of earnings to fixed charges, earnings consist of income before income taxes plus fixed charges and the amortization of capitalized interest. For this ratio, fixed charges consist of interest expensed and capitalized, amortization of debt issuance costs and the portion of rental expense considered representative of interest expense. For the year ended December 31, 2008, our earnings were insufficient to cover fixed charges by $40,055.

(9) The pro forma ratio of earnings to fixed charges has been prepared as if the issuance of the outstanding notes and the application of the net proceeds to prepay and permanently retire a portion of the revolving loans outstanding under the senior credit facilities had occurred on January 1, 2009.

RISK FACTORS

The exchange notes involve substantial risks similar to those associated with the outstanding notes. To understand these risks you should carefully consider the risk factors set forth below and the risk factors in our annual report on Form 10-K incorporated by reference herein in addition to the other information included or incorporated by reference in this prospectus.

Risks Related to the Exchange Notes

We cannot assure you that an active trading market for the exchange notes will exist if you desire to sell the exchange notes.

There is no existing public market for the outstanding notes or the exchange notes. We do not intend to have the exchange notes listed on a national securities exchange or to arrange for quotation on any automated dealer quotation systems. Therefore, we cannot assure you as to the development or liquidity of any trading market for the exchange notes. The liquidity of any market for the exchange notes will depend on a number of factors, including:

- the number of holders of exchange notes;
- our operating performance and financial condition;
- the market for similar securities;
- the interest of securities dealers in making a market in the exchange notes; and
- prevailing interest rates.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the exchange notes. The market, if any, for the exchange notes may face similar disruptions that may adversely affect the prices at which you could sell your exchange notes. Therefore, you may not be able to sell your exchange notes at a particular time and the price that you receive when you sell may not be favorable.

You may have difficulty selling any outstanding notes that you do not exchange.

If you do not exchange your outstanding notes for exchange notes in the exchange offer, you will continue to hold outstanding notes subject to restrictions on their transfer. Those transfer restrictions are described in the Indenture governing the outstanding notes and in the legend contained on the outstanding notes, and arose because we originally issued the outstanding notes under an exemption from the registration requirements of the Securities Act.

In general, you may offer or sell your outstanding notes only if they are registered under the Securities Act and applicable state securities laws, or if they are offered and sold under an exemption from those requirements. We do not currently intend to register the outstanding notes under the Securities Act or any state securities laws. If a substantial amount of the outstanding notes is exchanged for a like amount of the exchange notes issued in the exchange offer, the liquidity of your outstanding notes could be adversely affected. See The Exchange Offer Consequences of Failure to Exchange Outstanding Notes for a discussion of additional consequences of failing to exchange your outstanding notes.

Risks Related to the Notes

We have substantial debt and may incur additional debt; leverage may impair our financial condition and restrict our operations.

We currently have a substantial amount of debt. As of September 30, 2009, our total consolidated debt was $1.67 billion.

Subject to specified limitations, the Indenture permits us to incur substantial additional debt. In addition, our senior credit facilities permit us to borrow up to an additional $102.7 million as of

September 30, 2009 (subject to the maintenance of required debt covenant ratios) and all of such borrowings under the senior credit facilities would be effectively senior to the exchange notes to the extent of the value of the assets securing such indebtedness. If new debt is added to our current debt levels, the related risks that we now face could intensify. See Description of Other Indebtedness for additional information. Our substantial debt and any additional debt we may incur could have important consequences for the holders of the exchange notes, including:

making it more difficult for us to satisfy our obligations with respect to the exchange notes;

increasing our vulnerability to general adverse economic and industry conditions;

limiting our ability to obtain additional financing to fund capital expenditures and acquisitions, particularly when the availability of financing in the capital markets is limited as is now the case;

requiring a substantial portion of our cash flows from operations for the payment of interest on our debt and reducing our ability to use our cash flows to fund working capital, capital expenditures, acquisitions and general corporate requirements;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

placing us at a competitive disadvantage to less leveraged competitors.

Servicing our debt will require a significant amount of cash, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to make payments on and refinance our debt and to fund capital expenditures depends on our ability to generate cash flow in the future. To some extent, this is subject to general economic, financial, competitive, legislative and regulatory factors and other factors that are beyond our control. In addition, the ability to borrow funds under our senior credit facilities in the future will depend on our satisfying the financial covenants in the agreement governing such facilities, including maximum senior and total leverage ratio tests. As of September 30, 2009, approximately $102.7 million would have been available for general corporate purposes under the revolving credit facility. We cannot assure you that our business will generate cash flow from operations or that future borrowings will be available to us under our senior credit facilities in an amount sufficient to enable us to pay our debt or to fund other liquidity needs. As a result, we may need to refinance all or a portion of our debt on or before maturity. Our non-extending revolving loan commitments mature in November 2010, our extending revolving loan commitments mature in August 2012 and our term loan matures in November 2012. We cannot assure you that we will be able to refinance any of our debt on favorable terms, if at all. Any inability to generate sufficient cash flow or refinance our debt on favorable terms could have a material adverse effect on our financial condition.

Covenant restrictions under our senior credit facilities and the Indenture may limit our ability to operate our business.

The agreement governing our senior credit facilities and the Indenture contain covenants that may restrict our ability to, among other things, borrow money, pay dividends, make capital expenditures and effect a consolidation, merger or disposal of all or substantially all of our assets. Although the covenants in our senior credit facilities and the Indenture are subject to various exceptions, we cannot assure you that these covenants will not adversely affect our ability to finance future operations or capital needs or to engage in other activities that may be in our best interest. In addition, our long-term debt requires us to maintain specified financial ratios and satisfy certain financial condition tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. A breach

of any of these covenants could result in a default under our senior credit facilities and the Indenture. If an event of default under our senior credit facilities occurs, the lenders thereunder could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In addition, our senior credit facilities are secured by first priority security interests on substantially all of our real and personal property, including the capital stock of our subsidiaries. If we are unable to pay all amounts declared due and payable in the event of

a default, the lenders could foreclose on these assets. See Description of Other Indebtedness and Description of the Notes for additional information.

The Notes and the guarantees will be unsecured and effectively subordinated to our and the Guarantors existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness.

The Notes and the guarantees will be our senior unsecured obligations ranking effectively junior in right of payment to all of our existing and future secured indebtedness and that of each Guarantor, including indebtedness under our senior credit facilities, to the extent of the value of the assets securing such indebtedness. Additionally, the Indenture will permit us to incur additional secured indebtedness in the future. In the event that we or a Guarantor is declared bankrupt, becomes insolvent or is liquidated or reorganized, holders of our and our Guarantor s secured indebtedness will be entitled to be paid in full from our assets or the assets of the Guarantor, as applicable, securing such indebtedness before any payment may be made with respect to the Notes or the affected guarantees. Holders of the Notes will participate ratably with all holders of our senior unsecured indebtedness, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. As of September 30, 2009, the Notes and the guarantees would have been effectively subordinated to $1.03 billion of senior secured indebtedness.

You will not have any claim as a creditor against the subsidiaries that are not Guarantors of the Notes, and the indebtedness and other liabilities, including trade payables, whether secured or unsecured, of nonguarantor subsidiaries will be effectively senior to any claim you may have against these non-guarantor subsidiaries relating to the Notes. Our non-guarantor subsidiaries generated none of our revenues for the nine months ended September 30, 2009 and had none of our assets or liabilities at September 30, 2009. In the event of a bankruptcy, liquidation, reorganization or other winding up of our non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those non-guarantor subsidiaries before any assets are made available for distribution to us; see Description of the Notes Brief Description of the Notes and the Guarantees for additional information.

The Estate of Craig H. Neilsen owns a majority of our common stock and may have interests that differ from those of the holders of the Notes.

Craig H. Neilsen, our founder and former Chairman of the Board and Chief Executive Officer, died in November 2006. At the time of his death, Mr. Neilsen beneficially owned approximately 56% of our outstanding common stock. As a result of his death, these shares passed by operation of law to Mr. Neilsen s estate (the Estate). The co-executors of the Estate are Ray H. Neilsen, our Chairman of the Board, and Gordon R. Kanofsky, our Chief Executive Officer and Vice Chairman. Craig H. Neilsen s estate plan provides that 25,000,000 shares of our common stock owned by the Estate (or approximately 43% of our shares currently outstanding) will ultimately pass to The Craig H. Neilsen Foundation, a private foundation primarily focused on funding spinal cord injury research and treatment (the Foundation). Messrs. Neilsen and Kanofsky serve as the co-trustees of the Foundation, and they also serve on the Foundation s five-person board of directors.

In light of their control over a majority of our common stock, Messrs. Neilsen and Kanofsky jointly have the ability to elect our entire Board of Directors over time and, except as otherwise provided by law or our Articles of Incorporation or Bylaws, to approve or disapprove other matters that may be submitted to a vote of the stockholders. In addition, Messrs. Neilsen and Kanofsky, as co-executors of the Estate, disclosed in a Schedule 13D amendment filed with the SEC in October 2007 that, on behalf of the Estate, they will continue to review the Estate s liquidity needs and other factors impacting the Estate s investment in our common stock and may evaluate strategic alternatives to the Estate s holdings in us, including possible sales of some or all of our common stock held by the Estate or one or more transactions that could influence or change control of the Company. Some of the factors influencing the Estate s

investment decisions with respect to our common stock could be in conflict with your interests as a noteholder.

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We may not have the ability to raise the funds necessary to finance the change of control offer required by the Indenture.

Upon certain kinds of changes of control, we are required to offer to repurchase all outstanding Notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. Any such change of control would also constitute a default under our senior credit facilities. Therefore, upon the occurrence of such a change of control, the lenders under the senior credit facilities would have the right to accelerate their loans and we would be required to prepay all outstanding obligations under the senior credit facilities before the Notes could be repurchased. We cannot assure you that we will have available funds sufficient to pay the change of control purchase price for any or all of the Notes that might be delivered by holders of the Notes seeking to accept the change of control offer. See Description of the Notes Repurchase at the Option of Holders Change of Control and Description of Other Indebtedness for additional information.

Federal and state statutes allow courts, under specific circumstances, to void the guarantees and require noteholders to return payments received from us or the Guarantors.

Our creditors or the creditors of the Guarantors could challenge the guarantees as fraudulent conveyances or on other grounds. Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, the delivery of the guarantees could be found to be a fraudulent transfer and declared void if a court determined that the Guarantor, at the time it incurred the indebtedness evidenced by its guarantee:

- delivered the guarantee with the intent to hinder, delay or defraud its existing or future creditors;

- received less than reasonably equivalent value or did not receive fair consideration for the delivery of the guarantee and any of the following three conditions applies:

- the Guarantor was insolvent or rendered insolvent at the time it delivered the guarantee;

- the Guarantor was engaged in a business or transaction for which its remaining assets constituted unreasonably small capital; or

- the Guarantor intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

If a court declares the guarantees to be void, or if the guarantees must be limited or voided in accordance with their terms, any claim you may make against us for amounts payable on the Notes would, with respect to amounts claimed against the Guarantors, be subordinated to the debt of our Guarantors, including trade payables. The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a Guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that each Guarantor, after giving effect to its guarantee of the Notes, will not be insolvent, will not have unreasonably small capital for the business in which it is engaged and will not have incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

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We may require you to dispose of your Notes or redeem your Notes if required by applicable gaming regulations.

Gaming authorities in any jurisdiction to which we or any of our subsidiaries are or may become subject have the power to investigate any of our debt security holders, including holders of the Notes. These gaming authorities may, in their discretion, require a holder of any of our debt securities to file applications, be investigated and be found suitable to own our debt securities, and the costs of the investigation of such finding of suitability will be the responsibility of such holder. Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by such gaming authorities may be found unsuitable. Under certain circumstances, we have the right, at our option, to cause a holder to dispose of its Notes or to redeem its Notes in order to comply with gaming laws to which we are subject. See Description of the Notes Redemption Based on Gaming Laws for additional information.

The Notes were issued with original issue discount for U.S. federal income tax purposes.

The Notes were issued with original issue discount (OID) for U.S. federal income tax purposes to the extent that the issue price of the Notes was less than their stated principal amount. A U.S. holder of a Note will have to report any OID as income as it accrues (prior to the receipt of cash attributable thereto), based on a constant yield method and regardless of the U.S. holder s regular method of accounting for U.S. federal income tax purposes. See Summary of Certain United States Federal Income Tax Considerations.

If a bankruptcy petition were filed by or against us, holders of the Notes may receive a lesser amount for their claim than they would have been entitled to receive under the Indenture.

If a bankruptcy petition were filed by or against us under the U.S. Bankruptcy Code after the issuance of the Notes, the claim by any holder of the Notes for the principal amount of the Notes may be limited to an amount equal to the sum of:

- the original issue price for the Notes; and
- that portion of the original issue discount that does not constitute unmatured interest for purposes of the U.S. Bankruptcy Code.

Any original issue discount that was not amortized as of the date of the bankruptcy filing would constitute unmatured interest. Accordingly, holders of the Notes under these circumstances may receive a lesser amount than they would be entitled to receive under the terms of the Indenture, even if sufficient funds are available.

Risks Related to Our Business

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

Our business has been and may continue to be adversely affected by the economic downturn currently being experienced in the United States, as we are highly dependent on discretionary spending by our guests. We are not able to predict the length or severity of the downturn. Changes in discretionary consumer spending or consumer preferences brought about by factors such as increased unemployment, significant increases in energy prices, perceived or actual deterioration in general economic conditions, the current housing crisis, the current credit crisis, bank failures and the potential for additional bank failures, perceived or actual decline in disposable consumer income and wealth and changes in consumer confidence in the economy may continue to reduce customer demand for the leisure activities we offer and adversely affect our revenues and cash flow.

Conditions in the financial system and the capital and credit markets may negatively affect our business, results of operations and financial condition.

The current difficulties in the banking system and financial markets has resulted in a severe tightening in the credit markets, a low level of liquidity in many financial markets and other adverse conditions for

issuers in fixed income and equity markets. Within the past two years, these markets have experienced disruption that has had a significant impact on the availability and cost of capital and credit. While the United States and other governments have enacted legislation and taken other actions to help alleviate these conditions, there is no assurance that such steps will have the effect of easing the conditions in credit and capital markets. Therefore, we have no assurance that we will have further access to credit or capital markets at desirable times or at rates that we would consider acceptable, and the lack of such funding could have a material adverse effect on our business, results of operations and financial condition, including our ability to refinance our senior credit facilities, which mature at various dates from November 2010 to November 2012. We are unable to predict the duration or severity of the current disruption in the capital and credit markets, or its further impact on the larger economy.

The gaming industry is very competitive and increased competition could have a material adverse effect on our future operations.

The gaming industry is very competitive and we face dynamic competitive pressures in each of our markets. Several of our competitors are larger and have greater financial and other resources. We may choose or be required to take actions in response to competitors that may increase our marketing costs and other operating expenses.

Our operating properties are located in jurisdictions that restrict gaming to certain areas or are adjacent to states that prohibit or restrict gaming operations. These restrictions and prohibitions provide substantial benefits to our business and our ability to attract and retain guests. The legalization or expanded legalization or authorization of gaming within or near a market area of one of our properties could result in a significant increase in competition and have a material adverse effect on our business, financial condition and results of operations. Economic difficulties faced by state governments, as well as the increased acceptance of gaming as a leisure activity, could lead to intensified political pressure for the expansion of legalized gaming.

In 2007, the Kansas legislature enacted a law that authorizes up to four state-owned and operated freestanding casinos and three racetrack slot machine parlors developed and managed by third parties. At that time, one casino and one racetrack location were authorized in Wyandotte County in the greater Kansas City market. The owner of the potential racetrack slot machine parlor license surrendered its racing license due to concerns about the tax rate that would apply to its gaming operations, which was substantially higher than the tax rate in Missouri or applicable to Kansas freestanding casinos. The future status of the racetrack license is uncertain. On December 1, 2009, the Kansas Lottery Gaming Facility Review Board selected a proposal by a partnership that includes a major commercial casino operator to develop a large land-based casino and entertainment facility at the Kansas Speedway, approximately 24 miles from Ameristar Kansas City. Subject to state licensing and the satisfaction of other conditions, construction of the project is expected to begin in the second half of 2010 and to be completed in the first quarter of 2012. This facility will provide significant additional competition for Ameristar Kansas City that could have a material adverse effect on the results of operations of that property.

Our East Chicago property currently competes with seven other casino gaming facilities in the Chicagoland market in Indiana and Illinois, and with one Native American casino in Michigan. The property s principal competitor is located in Hammond, Indiana, which is closer to and has better access for customers who live in Chicago, Illinois and the Chicago suburbs that are the primary feeder markets for Ameristar East Chicago. The Hammond facility opened a $485 million expansion in July 2008 that has adversely affected our property s business, particularly table games and poker, and we expect will continue to do so.

In December 2008, the Illinois Gaming Board awarded the dormant tenth Illinois gaming license to a developer for a property in Des Plaines, Illinois, located approximately 40 miles from Ameristar East Chicago. From time to time, the Illinois legislature has also considered other forms of gaming expansion in the state, including a land-based casino in the City of Chicago, new riverboat casinos, the authorization of slot machines at the existing racetracks and an

increase in the number of authorized gaming positions at each of the existing Illinois casinos (which are currently limited to 1,200 positions). If the Des Plaines facility is developed or

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Illinois materially expands gaming, particularly in downtown Chicago or the south Chicago suburbs, the additional competition could materially adversely affect the financial performance of Ameristar East Chicago.

In December 2007, a competitor opened a new casino in downtown St. Louis, approximately 22 miles from Ameristar St. Charles, and the same competitor is currently developing a second casino facility in southeastern St. Louis County, approximately 30 miles from Ameristar St. Charles. The southeastern St. Louis County facility is expected to open in March 2010. The new gaming facility in downtown St. Louis has resulted in significant additional competition for Ameristar St. Charles, and the casino under construction in southeastern St. Louis County is also expected to impact Ameristar St. Charles business. The same operator owns another casino that has operated in downtown St. Louis since the early 1990s, which the operator previously indicated it may seek to move to another location in the St. Louis market. In addition, if legislation is enacted in Illinois to permit the operation of slot machines at racetracks, Ameristar St. Charles would face additional competition from the racetrack near East St. Louis, Illinois.

In Vicksburg, a $100 million casino-hotel opened in October 2008. The additional competition has adversely affected the financial results of the other casinos in the market, including Ameristar Vicksburg.

Additionally, in 2005, a $200 million casino development project in Vicksburg received preliminary approval from the Mississippi Gaming Commission, but it is not currently known if or when this development will occur.

Native American gaming facilities in some instances operate under regulatory and financial requirements that are less stringent than those imposed on state-licensed casinos, which could provide them with a competitive advantage and lead to increased competition in our markets. In December 2007, the National Indian Gaming Commission (the NIGC) approved the request of the Ponca Tribe of Nebraska to have a five-acre parcel owned by the tribe in Carter Lake, Iowa, located five miles from Ameristar Council Bluffs, approved for the operation of gaming. In December 2008, in a lawsuit brought by the State of Nebraska and joined by the State of Iowa and the City of Council Bluffs, the federal court reversed the NIGC s decision. The U.S. Department of the Interior has filed an appeal of the federal court ruling. If the Tribe is allowed to conduct gaming at this location, the additional competition would adversely affect our Council Bluffs business.

The entry into our current markets of additional competitors could have a material adverse effect on our business, financial condition and results of operations, particularly if a competitor were to obtain a license to operate a gaming facility in a superior location. Furthermore, increases in the popularity of, and competition from, Internet and other account wagering and gaming services, which allow customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home, could have a material adverse effect on our business, financial condition, operating results and prospects.

If the jurisdictions in which we operate increase gaming taxes and fees, our results could be adversely affected.

State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. From time to time, legislators and government officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. Periods of economic downturn and budget deficits, such as are currently being experienced in many states, may intensify such efforts to raise revenues through increases in gaming taxes.

If the jurisdictions in which we operate were to further increase gaming taxes or fees, depending on the magnitude of the increase and any offsetting factors (such as the elimination of the buy-in limit in Missouri that became effective in November 2008), our financial condition and results of operations could be materially adversely affected.

Our business is subject to restrictions and limitations imposed by gaming regulatory authorities that could adversely affect us.

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. The states of Missouri, Iowa, Indiana, Mississippi, Colorado and Nevada and the applicable local authorities require various licenses, findings of suitability, registrations, permits and approvals to be held by us and our subsidiaries. The Missouri Gaming Commission, the Iowa Racing and Gaming Commission, the Indiana Gaming Commission, the Mississippi Gaming Commission, the Colorado Limited Gaming Control Commission and the Nevada Gaming Commission may, among other things, limit, condition, suspend, revoke or not renew a license or approval to own the stock of any of our Missouri, Iowa, Indiana, Mississippi, Colorado or Nevada subsidiaries, respectively, for any cause deemed reasonable by such licensing authority. Our gaming licenses in Missouri and Colorado must be renewed every two years, our gaming licenses in Iowa and Indiana must be renewed every year, and our gaming license in Mississippi must be renewed every three years. If we violate gaming laws or regulations, substantial fines could be levied against us, our subsidiaries and the persons involved, and we could be forced to forfeit portions of our assets. The suspension, revocation or non-renewal of any of our licenses or the levy on us of substantial fines or forfeiture of assets could have a material adverse effect on our business, financial condition and results of operations.

To date, we have obtained all governmental licenses, findings of suitability, registrations, permits and approvals necessary for the operation of our currently operating gaming activities. However, gaming licenses and related approvals are deemed to be privileges under the laws of all the jurisdictions in which we operate. We cannot assure you that our existing licenses, permits and approvals will be maintained or extended. We also cannot assure you that any new licenses, permits and approvals that may be required in the future will be granted to us.

We are subject to the risk of rising interest rates.

Our outstanding debt under our senior credit facilities bears interest at variable rates. However, we have entered into interest rate protection agreements expiring in July 2010 with counterparty banks with respect to substantially all of this debt. As of September 30, 2009, we had $1.03 billion outstanding under our senior credit facilities. If short-term interest rates rise, our interest cost may increase, which would adversely affect our net income and available cash.

Our business may be adversely affected by legislation prohibiting tobacco smoking.

Legislation in various forms to ban indoor tobacco smoking has recently been enacted or introduced in many states and local jurisdictions, including several of the jurisdictions in which we operate. Effective January 1, 2008, a Colorado smoking ban was extended to include casino floors. We believe this ban has significantly negatively impacted business volumes in all Colorado gaming markets. In April 2008, voters in the City of Kansas City approved a ballot measure, which was subsequently modified by the City Council, that prohibits smoking in most indoor public places within the City, including restaurants, but which contains an exemption for casino floors and 20% of all hotel rooms. One of Ameristar Kansas City s competitors is not subject to a smoking ban in any form, which we believe has had some negative impact on our business. On July 1, 2008, a statewide indoor smoking ban went into effect in the State of Iowa. The law includes an exemption for casino floors and 20% of all hotel rooms. Several bills have been introduced in the Iowa General Assembly that would either remove the casino floor exemption or further prohibit smoking in indoor public places. Similar bills have been introduced in the Indiana and Missouri General Assemblies. If additional restrictions on smoking are enacted in jurisdictions in which we operate, particularly if such restrictions are applicable to casino floors, our business could be materially adversely affected.

Adverse weather conditions or natural disasters in the areas in which we operate, or other conditions that restrict access to our properties, could have an adverse effect on our results of operations and financial condition.

Adverse weather conditions, particularly flooding, heavy snowfall and other extreme conditions, as well as natural disasters, can deter our guests from traveling or make it difficult for them to visit our properties. If any of our properties were to experience prolonged adverse weather conditions, or if multiple properties were to simultaneously experience adverse weather conditions, our results of operations and financial condition would be adversely affected. Our business may also be adversely affected by other events or conditions that restrict access to our properties, such as road closures.

On December 28, 2009, the Indiana Department of Transportation announced that it was permanently closing the Cline Avenue bridge near Ameristar East Chicago. The bridge had been temporarily closed since November 13, 2009 due to safety concerns discovered during an inspection of the bridge. Closure of the bridge has made access to the property inconvenient for many of Ameristar East Chicago s customers and has significantly impacted the property s business levels and operating results, and we expect this to continue unless and until improved access is developed.

We have limited insurance coverage for earthquake damage at our properties. Several of our properties, particularly Ameristar St. Charles, are located near historically active earthquake faults. In the event one of our properties were to sustain significant damage from an earthquake, our business could be materially adversely affected.

Many factors, some of which are beyond our control, could adversely affect our ability to successfully complete our construction and development projects as planned.

General Construction Risks Delays and Cost Overruns. Construction and expansion projects for our properties entail significant risks. These risks include: (1) shortages of materials (including slot machines or other gaming equipment); (2) shortages of skilled labor or work stoppages; (3) unforeseen construction scheduling, engineering, environmental or geological problems; (4) weather interference, floods, hurricanes, fires or other casualty losses; (5) unanticipated cost increases; (6) delays or increased costs in obtaining required governmental permits and approvals; and (7) construction period disruption to existing operations.

Our anticipated costs and construction periods for construction projects are based upon budgets, conceptual design documents and construction schedule estimates prepared by us in consultation with our architects, consultants and contractors. The cost of any construction project undertaken by us may vary significantly from initial expectations, and we may have a limited amount of capital resources to fund cost overruns on any project. If we cannot finance cost overruns on a timely basis, the completion of one or more projects may be delayed until adequate cash flows from operations or other financing is available. The completion date of any of our construction projects could also differ significantly from initial expectations for construction-related or other reasons. We cannot assure you that any project will be completed on time, if at all, or within established budgets. Significant delays or cost overruns on our construction projects could have a material adverse effect on our business, financial condition and results of operations. We are currently engaged in litigation with the general contractor for our St. Charles hotel project, which was completed later and at a higher cost than originally announced.

From time to time, we may employ fast-track design and construction methods in our construction and development projects. This involves the design of future stages of construction while earlier stages of construction are underway. Although we believe the use of fast-track design and construction methods may reduce the overall construction time, these methods may not always result in such reductions, often involve greater construction costs than otherwise would be incurred and may increase the risk of disputes with contractors, all of which could have a material adverse effect on our business, financial condition and results of operations.

Construction Dependent upon Available Financing and Cash Flows from Operations. The availability of funds under our senior credit facilities at any time are dependent upon, among other factors, the amount of our consolidated earnings before interest, taxes, depreciation and amortization expense, as defined in the senior credit facilities (EBITDA), during the preceding four full fiscal quarters. Our future operating performance will be subject to financial, economic, business, competitive, regulatory and other factors, many of which are

beyond our control. Accordingly, we cannot assure you that our future consolidated EBITDA and the resulting availability of operating cash flows or borrowing capacity will be sufficient to allow us to undertake or complete current or future construction projects.

As a result of operating risks, including those described in this section, and other risks associated with a new venture, we cannot assure you that, once completed, any development project will increase our operating profits or operating cash flows.

Our business may be materially impacted by an act of terrorism or by additional security requirements that may be imposed on us.

The U.S. Department of Homeland Security has stated that places where large numbers of people congregate, including hotels, are subject to a heightened risk of terrorism. An act of terrorism affecting one of our properties, whether or not covered by insurance, or otherwise affecting the gaming, travel or tourism industry in the United States, may have a material adverse effect on our business. Additionally, our business may become subject to increased security measures designed to prevent terrorist acts.

Our business may be adversely affected by our ability to retain and attract key personnel.

We depend on the continued performance of our entire senior executive team. If we lose the services of any of our key executives or our senior property management personnel and cannot replace such persons in a timely manner, it could have an adverse effect on our business.

We have experienced and expect to continue to experience strong competition in hiring and retaining qualified property and corporate management personnel, including competition from numerous Native American gaming facilities that are not subject to the same taxation regimes as we are and therefore may be willing and able to pay higher rates of compensation. From time to time, we have a number of vacancies in key corporate and property management positions. If we are unable to successfully recruit and retain qualified management personnel at our properties or at our corporate level, our results of operations could be adversely affected.

As we recruit personnel, we expect successful candidates to exhibit a collaborative, communicative and collegial nature. We also employ a high degree of centralization in a generally highly decentralized industry. These factors create risk in attracting management personnel in a timely fashion, as well as hiring candidates we expect to be successful within our Company.

The concentration and evolution of the slot machine manufacturing industry could impose additional costs on us.

The majority of our revenues are attributable to slot machines operated by us at our casinos. It is important, for competitive reasons, that we offer the most popular and up-to-date slot machine games with the latest technology to our guests.

We believe that a substantial majority of the slot machines sold in the U.S. in 2008 were manufactured by a few companies. In addition, we believe that one company in particular provided a majority of all slot machines sold in the U.S. in 2008.

In recent years, the prices of new slot machines have escalated faster than the rate of inflation. Furthermore, in recent years, slot machine manufacturers have frequently refused to sell slot machines featuring the most popular games, instead requiring participating lease arrangements in order to acquire the machines. Participation slot machine leasing arrangements typically require the payment of a fixed daily rental. Such agreements may also include a percentage

payment of coin-in or net win. Generally, a participating lease is substantially more expensive over the long term than the cost to purchase a new machine.

For competitive reasons, we may be forced to purchase new slot machines or enter into participating lease arrangements that are more expensive than our costs associated with the continued operation of our existing slot machines. If the newer slot machines do not result in sufficient incremental revenues to offset the increased investment and participating lease costs, it could hurt our profitability.

Any loss from service of our riverboat and barge facilities for any reason could materially adversely affect us.

Our riverboat and barge facilities could be lost from service due to casualty, mechanical failure, extended or extraordinary maintenance, floods or other severe weather conditions.

The Ameristar Vicksburg site has experienced ongoing geologic instability that requires periodic maintenance and improvements. Although we have reinforced the cofferdam basin in which the vessel is drydocked on a concrete foundation, further reinforcements may be necessary. We are also monitoring the site to evaluate what further steps may be necessary to stabilize the site to permit operations to continue. A site failure would require Ameristar Vicksburg to limit or cease operations.

The loss of a riverboat or barge facility from service for any period of time likely would adversely affect our operating results and borrowing capacity under our senior credit facilities in an amount that we are unable to reasonably accurately estimate. It could also result in the occurrence of an event of a default under our senior credit facilities.

We are subject to non-gaming regulation.

We are subject to certain federal, state and local environmental laws, regulations and ordinances that apply to non-gaming businesses generally, including the Clean Air Act, the Clean Water Act, the Resource Conservation Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act and the Oil Pollution Act of 1990. Under various federal, state and local laws and regulations, an owner or operator of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances or wastes located on its property, regardless of whether or not the present owner or operator knows of, or is responsible for, the presence of such substances or wastes. We have not identified any issues associated with our properties that could reasonably be expected to have an adverse effect on us or the results of our operations. However, certain of our properties are located in industrial areas or were used for industrial purposes for many years. As a consequence, it is possible that historical or neighboring activities have affected one or more of our properties and that, as a result, environmental issues could arise in the future, the precise nature of which we cannot now predict. We do not have environmental liability insurance to cover most such events, and the environmental liability insurance coverage we maintain to cover certain events includes significant limitations and exclusions. In addition, if we discover any significant environmental contamination affecting any of our properties, we could face material remediation costs or additional development costs for future expansion activities.

Regulations adopted by the Financial Crimes Enforcement Network of the U.S. Treasury Department require us to report currency transactions in excess of $10,000 occurring within a gaming day, including identification of the patron by name and social security number. U.S. Treasury Department regulations also require us to report certain suspicious activity, including any transaction that exceeds $5,000 if we know, suspect or have reason to believe that the transaction involves funds from illegal activity or is designed to evade federal regulations or reporting requirements. Substantial penalties can be imposed against us if we fail to comply with these regulations.

Our riverboats must comply with certain federal and state laws and regulations with respect to boat design, on-board facilities, equipment, personnel and safety. In addition, we are required to have third parties periodically inspect and certify all of our casino barges for stability and single compartment flooding integrity. Our casino barges also must meet local fire safety standards. We would incur additional costs if any of our gaming facilities were not in compliance with one or more of these regulations.

We are also subject to a variety of other federal, state and local laws and regulations, including those relating to zoning, construction, land use, employment, advertising and the sale of alcoholic beverages. If we are not in compliance with these laws and regulations, it could have a material adverse effect on our business, financial

condition and results of operations.

The imposition of a substantial penalty or the loss of service of a gaming facility for a significant period of time would have a material adverse effect on our business.

USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the exchange notes. In consideration for issuing the exchange notes, we will receive outstanding notes in like original principal amount at maturity. All outstanding notes received in the exchange offer will be cancelled. Because we are exchanging the exchange notes for the outstanding notes, which have substantially identical terms, the issuance of the exchange notes will not result in any increase in our indebtedness. The exchange offer is intended to satisfy our obligations under the registration rights agreement executed in connection with the sale of the outstanding notes.

After deducting discounts and expenses, the proceeds from the issuance of the outstanding notes were used to repay and permanently retire a portion of the revolving loans outstanding under our senior credit facilities at par.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2009, on a consolidated basis. The information presented in the table below should be read in conjunction with Use of Proceeds and Selected Historical Consolidated and Other Financial Data included elsewhere in this prospectus as well as the consolidated historical financial statements and notes thereto incorporated into this prospectus by reference.

	As of September 30, 2009 (unaudited) (in millions)	
Cash and cash equivalents	$	132.1
Debt:		
Senior credit facility	$	1,028.0
91/4% Senior Notes due 2014, net of $13.5 million discount		636.5
Other borrowings		0.9
Total debt		1,665.4
Stockholders equity		394.7
Total capitalization	$	2,060.1

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected historical consolidated financial information. This data was derived, in part, from our historical consolidated financial statements for the five years ended December 31, 2008 and the unaudited condensed consolidated financial statements for the nine months ended September 30, 2009 and 2008 and reflects our operations and financial position at the dates and for the periods indicated. The information in this table should be read in conjunction with the consolidated financial statements and accompanying notes, which are incorporated herein by reference to our Annual Report on Form 10-K for the year ended December 31, 2008, as well as other financial data included herein.

Our unaudited interim consolidated financial statements were prepared on a basis consistent with our audited consolidated financial statements. In our opinion, the unaudited interim consolidated financial statements include all adjustments necessary for a fair presentation of those statements. Our results for the nine months ended September 30, 2009 are not necessarily indicative of the results for the year ending December 31, 2009.

						Ni
	Year Ended December 31,					Sep
	2008	2007	2006	2005	2004	2009
						(u
	(amounts in thousands, except per share data)					
tions Data(1):						
	$ 1,296,806	$ 1,083,380	$ 1,008,311	$ 974,178	$ 856,901	$ 949,5
	156,987	136,471	131,795	125,918	114,010	103,9
	56,024	30,844	27,972	25,355	26,082	47,0
	38,491	30,387	29,082	26,041	23,166	25,0
	1,548,308	1,281,082	1,197,160	1,151,492	1,020,159	1,125,6
owances	(280,406)	(200,559)	(196,862)	(190,134)	(165,461)	(201,4
	1,267,902	1,080,523	1,000,298	961,358	854,698	924,1
NSES:						
	604,747	478,504	439,101	431,101	379,909	421,8
	74,650	70,439	68,744	66,299	63,758	49,2
	11,221	9,341	6,780	6,454	6,565	6,4
	21,154	19,157	18,749	16,503	13,687	11,3
dministrative	265,622	229,801	200,588	186,050	157,907	180,5
ortization	105,895	94,810	93,889	85,366	73,236	78,8
vill	130,300					
ntangible assets	184,200					
assets	1,031	4,758	931	869	174	1
position of assets	683	1,408	(683)	1,576	904	

nses	1,399,503	908,218	828,099	794,218	696,140	748,59
operations	(131,601)	172,305	172,199	167,140	158,558	175,57
EXPENSE):						
	774	2,113	2,746	830	245	39
	(76,639)	(57,742)	(50,291)	(60,913)	(57,003)	(72,6
ent of debt			(26,264)	(2,074)	(923)	(5,36
	(3,404)	(178)		(79)		1,67
income tax (benefit) provision	(210,870)	116,498	98,390	104,904	100,877	99,63
(benefit)	(80,198)	47,065	38,825	38,619	38,898	41,0
ME	$ (130,672)	$ 69,433	$ 59,565	$ 66,285	$ 61,979	$ 58,64
PER SHARE (2):						
	$ (2.28)	$ 1.22	$ 1.06	$ 1.19	$ 1.15	$ 1.0
	$ (2.28)	$ 1.19	$ 1.04	$ 1.16	$ 1.11	$ 1.0
AGE SHARES OUTSTANDING (2):						
	57,191	57,052	56,155	55,664	54,114	57,49
	57,191	58,322	57,327	57,127	55,653	58,22

	As of September 30, 2009 (unaudited)	As of December 31, 2008
	(amounts in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 132,124	$ 73,726
Total assets	2,316,655	2,225,238
Total long-term debt, net of current maturities	1,661,205	1,643,997
Stockholders equity (3)	394,668	338,780

(1) We acquired Ameristar Casino Hotel East Chicago (formerly known as Resorts East Chicago) on September 18, 2007 and Ameristar Casino Resort Spa Black Hawk (formerly known as Mountain High Casino) on December 21, 2004, and these operating results are included only from the respective acquisition dates.

(2) On June 20, 2005, we effected a 2-for-1 common stock split. Accordingly, all share and per share information for the year ended December 31, 2004 has been retroactively adjusted to reflect the stock split.

(3) Dividends of $18.0 million, $23.4 million, $21.1 million, $17.4 million and $13.6 million were paid in 2008, 2007, 2006, 2005 and 2004, respectively. The dividends paid per share were $0.315 in 2008, $0.41 in 2007, $0.375 in 2006, $0.3125 in 2005 and $0.25 in 2004. During the nine months ended September 30, 2009 and 2008, the dividends paid per share were $0.21 and $0.315, respectively. The Company declared a quarterly dividend of $0.105 per share on September 10, 2009 that was paid on October 6, 2009.

THE EXCHANGE OFFER

Purpose of the Exchange Offer

This exchange offer is being made pursuant to the registration rights agreement we entered into with the initial purchasers of the outstanding notes on May 27, 2009. The summary of the registration rights agreement contained herein does not purport to be complete and is qualified in its entirety by reference to the registration rights agreement. A copy of the registration rights agreement is filed as an exhibit to the registration statement of which this prospectus forms a part.

Terms of the Exchange Offer; Expiration Time

This prospectus and the accompanying letter of transmittal together constitute the exchange offer. Subject to the terms and conditions in this prospectus and the letter of transmittal, we will accept for exchange outstanding notes that are validly tendered at or before the expiration time and are not validly withdrawn as permitted below. The expiration time for the exchange offer is 5:00 p.m., New York City time, on , 2010, or such later date and time to which we, in our sole discretion, extend the exchange offer.

We expressly reserve the right, in our sole discretion:

- to extend the expiration time;
- if any of the conditions set forth below under Conditions to the Exchange Offer has not been satisfied, to terminate the exchange offer and not accept any outstanding notes for exchange; and
- to amend the exchange offer in any manner.

We will give oral or written notice of any extension, delay, non-acceptance, termination or amendment as promptly as practicable by a public announcement, and in the case of an extension, no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration time.

During an extension, all outstanding notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us, upon expiration of the exchange offer, unless validly withdrawn.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See Plan of Distribution.

How to Tender Outstanding Notes for Exchange

Only a record holder of outstanding notes may tender in the exchange offer. When the holder of outstanding notes tenders and we accept outstanding notes for exchange, a binding agreement between us and the tendering holder is created, subject to the terms and conditions in this prospectus and the accompanying letter of transmittal. Except as set forth below, a holder of outstanding notes who desires to tender outstanding notes for exchange must, at or prior to the expiration time:

transmit a properly completed and duly executed letter of transmittal, the outstanding notes being tendered and all other documents required by such letter of transmittal, to Deutsche Bank Trust Company Americas, the exchange agent, at the address set forth below under the heading The Exchange Agent ; or

if outstanding notes are tendered pursuant to the book-entry procedures set forth below, an agent s message must be transmitted by The Depository Trust Company (DTC) to the exchange agent at the address set forth below under the heading The Exchange Agent, and the exchange agent must receive, at or prior to the expiration time, a confirmation of the book-entry transfer of the outstanding notes being tendered into the exchange agent s account at DTC, along with the agent s message; or

if time will not permit the required documentation to reach the exchange agent before the expiration time, or the procedures for book-entry transfer cannot be completed by the expiration time, the holder may effect a tender by complying with the guaranteed delivery procedures described below.

The term agent s message means a message that:

is transmitted by DTC;

is received by the exchange agent and forms a part of a book-entry transfer;

states that DTC has received an express acknowledgement that the tendering holder has received and agrees to be bound by, and makes each of the representations and warranties contained in, the letter of transmittal; and

states that we may enforce the letter of transmittal against such holder.

The method of delivery of the outstanding notes, the letter of transmittal or agent s message and all other required documents to the exchange agent is at the election and sole risk of the holder. If such delivery is by mail, we recommend registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. No letters of transmittal or outstanding notes should be sent directly to us.

Signatures on a letter of transmittal must be guaranteed unless the outstanding notes surrendered for exchange are tendered:

by a holder of outstanding notes who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal; or

for the account of an eligible institution. The term eligible institution means an institution that is a member in good standing of a Medallion Signature Guarantee Program recognized by the Exchange Agent, for example, the Securities Transfer Agents Medallion Program, the Stock Exchanges Medallion Program or the New York Stock Exchange Medallion Signature Program. An eligible institution includes firms that are members of a registered national securities exchange, members of the National Association of Securities Dealers, Inc., commercial banks or trust companies having an office in the United States or certain other eligible guarantors.

If signatures on a letter of transmittal or notice of withdrawal are required to be guaranteed, the guarantor must be an eligible institution. If outstanding notes are registered in the name of a person other than the person who signed the letter of transmittal, the outstanding notes tendered for exchange must be endorsed by, or accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as determined by us in our sole discretion, duly executed by the registered holder with the registered holder s signature guaranteed by an eligible institution.

We will determine in our sole discretion all questions as to the validity, form, eligibility (including time of receipt) and acceptance of outstanding notes tendered for exchange and all other required documents. We reserve the absolute right to:

reject any and all tenders of any outstanding note not validly tendered;

refuse to accept any outstanding note if, in our judgment or the judgment of our counsel, acceptance of the outstanding note may be deemed unlawful;

waive any defects or irregularities or conditions of the exchange offer, either before or after the expiration time; and

determine the eligibility of any holder who seeks to tender outstanding notes in the exchange offer.

Our determinations, either before or after the expiration time, under, and of the terms and conditions of, the exchange offer, including the letter of transmittal and the instructions to it, or as to any questions with respect to the tender of any outstanding notes, will be final and binding on all parties. To the extent we waive

any conditions to the exchange offer, we will waive such conditions as to all outstanding notes. Holders must cure any defects and irregularities in connection with tenders of outstanding notes for exchange within such reasonable period of time as we will determine, unless we waive such defects or irregularities. Neither we, the exchange agent nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor will any of us incur any liability for failure to give such notification.

If you beneficially own outstanding notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct it to tender on your behalf.

WE MAKE NO RECOMMENDATION TO THE HOLDERS OF THE OUTSTANDING NOTES AS TO WHETHER TO TENDER OR REFRAIN FROM TENDERING ALL OR ANY PORTION OF THEIR OUTSTANDING NOTES IN THE EXCHANGE OFFER. IN ADDITION, WE HAVE NOT AUTHORIZED ANYONE TO MAKE ANY SUCH RECOMMENDATION. HOLDERS OF THE OUTSTANDING NOTES MUST MAKE THEIR OWN DECISION AS TO WHETHER TO TENDER PURSUANT TO THE EXCHANGE OFFER AND, IF SO, THE AGGREGATE AMOUNT OF OUTSTANDING NOTES TO TENDER, AFTER READING THIS PROSPECTUS AND THE LETTER OF TRANSMITTAL AND CONSULTING WITH THEIR ADVISERS, IF ANY, BASED ON THEIR FINANCIAL POSITIONS AND REQUIREMENTS.

Book-Entry Transfers

Any financial institution that is a participant in DTC s system must make book-entry delivery of outstanding notes by causing DTC to transfer the outstanding notes into the exchange agent s account at DTC in accordance with DTC s Automated Tender Offer Program, known as ATOP. Such participant should transmit its acceptance to DTC at or prior to the expiration time or comply with the guaranteed delivery procedures described below. DTC will verify such acceptance, execute a book-entry transfer of the tendered outstanding notes into the exchange agent s account at DTC and then send to the exchange agent confirmation of such book-entry transfer. The confirmation of such book-entry transfer will include an agent s message. The letter of transmittal or facsimile thereof or an agent s message, with any required signature guarantees and any other required documents, must be transmitted to and received by the exchange agent at the address set forth below under The Exchange Agent at or prior to the expiration time of the exchange offer, or the holder must comply with the guaranteed delivery procedures described below.

Guaranteed Delivery Procedures

If a holder of outstanding notes desires to tender such outstanding notes and the holder s outstanding notes are not immediately available, or time will not permit such holder s outstanding notes or other required documents to reach the exchange agent before the expiration time, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if:

at or prior to the expiration time, the exchange agent receives from an eligible institution a validly completed and executed notice of guaranteed delivery, substantially in the form accompanying this prospectus, by facsimile transmission, mail or hand delivery, setting forth the name and address of the holder of the outstanding notes being tendered and the amount of the outstanding notes being tendered. The notice of guaranteed delivery will state that the tender is being made and guarantee that within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery, the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a validly completed and executed letter of transmittal with any required signature guarantees or an agent s message and any other documents required by the letter of transmittal, will be transmitted to the exchange agent; and

the exchange agent receives the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a validly completed and executed letter of transmittal with any required signature guarantees or an agent s

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message and any other documents required by the letter of transmittal, within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery.

The notice of guaranteed delivery must be received prior to the expiration time.

Withdrawal Rights

You may withdraw tenders of your outstanding notes at any time prior to the expiration time.

For a withdrawal to be effective, a written notice of withdrawal, by facsimile or by mail, must be received by the exchange agent, at the address set forth below under The Exchange Agent, prior to the expiration time. Any such notice of withdrawal must:

- specify the name of the person having tendered the outstanding notes to be withdrawn;
- identify the outstanding notes to be withdrawn, including the principal amount of such outstanding notes;
- where outstanding notes have been tendered pursuant to the procedure for book-entry transfer described above, specify the name and number of the account at DTC to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of DTC; and
- bear the signature of the holder in the same manner as the original signature on the letter of transmittal, if any, by which such outstanding notes were tendered, with such signature guaranteed by an eligible institution, unless such holder is an eligible institution.

We will determine all questions as to the validity, form and eligibility (including time of receipt) of such notices and our determination will be final and binding on all parties. Any tendered outstanding notes validly withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Properly withdrawn notes may be re-tendered by following one of the procedures described under How to Tender Outstanding Notes for Exchange above at any time at or prior to the expiration time.

Acceptance of Outstanding Notes for Exchange; Delivery of Exchange Notes

All of the conditions to the exchange offer must be satisfied or waived at or prior to the expiration of the exchange offer. Promptly following the expiration time we will accept for exchange all outstanding notes validly tendered and not validly withdrawn as of such date. We will promptly issue exchange notes for all validly tendered outstanding notes. For purposes of the exchange offer, we will be deemed to have accepted validly tendered outstanding notes for exchange when, as and if we have given oral or written notice to the exchange agent, with written confirmation of any oral notice to be given promptly thereafter. See Conditions to the Exchange Offer for a discussion of the conditions that must be satisfied before we accept any outstanding notes for exchange.

For each outstanding note accepted for exchange, the holder will receive an exchange note registered under the Securities Act having a principal amount equal to, and in the denomination of, that of the surrendered outstanding note. Accordingly, registered holders of exchange notes that are outstanding on the relevant record date for the first interest payment date following the consummation of the exchange offer will receive interest accruing from the most recent date through which interest has been paid on the outstanding notes. Outstanding notes that we accept for exchange will cease to accrue interest from and after the date of consummation of the exchange offer.

If we do not accept any tendered outstanding notes, or if a holder submits outstanding notes for a greater principal amount than the holder desires to exchange, we will return such unaccepted or non-exchanged outstanding notes without cost to the tendering holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent s account at DTC, such non-exchanged outstanding notes will be credited to an account maintained with DTC. We will return the outstanding notes or have them credited to DTC promptly after the withdrawal, rejection of tender or termination of the exchange offer, as applicable.

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Conditions to the Exchange Offer

The exchange offer is not conditioned upon the tender of any minimum principal amount of outstanding notes. Notwithstanding any other provision of the exchange offer, or any extension of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any outstanding notes and may terminate or amend the exchange offer, by oral (promptly confirmed in writing) or written notice to the exchange agent or by a timely press release, if at any time before the expiration of the exchange offer, any of the following conditions exist:

any action or proceeding is instituted or threatened in any court or by or before any governmental agency challenging the exchange offer or that we believe might be expected to prohibit or materially impair our ability to proceed with the exchange offer;

any stop order is threatened or in effect with respect to either (1) the registration statement of which this prospectus forms a part or (2) the qualification of the Indenture governing the notes under the Trust Indenture Act of 1939, as amended;

any law, rule or regulation is enacted, adopted, proposed or interpreted that we believe might be expected to prohibit or impair our ability to proceed with the exchange offer or to materially impair the ability of holders generally to receive freely tradeable exchange notes in the exchange offer. See Consequences of Failure to Exchange Outstanding Notes ;

any change or a development involving a prospective change in our business, properties, assets, liabilities, financial condition, operations or results of operations taken as a whole, that is or may be adverse to us;

any declaration of war, armed hostilities or other similar international calamity directly or indirectly involving the United States, or the worsening of any such condition that existed at the time that we commence the exchange offer; or

we become aware of facts that, in our reasonable judgment, have or may have adverse significance with respect to the value of the outstanding notes or the exchange notes to be issued in the exchange offer.

Accounting Treatment

For accounting purposes, we will not recognize gain or loss upon the issuance of the exchange notes for outstanding notes.

Fees and Expenses

We will not make any payment to brokers, dealers, or others soliciting acceptance of the exchange offer except for reimbursement of mailing expenses. We will pay the cash expenses to be incurred in connection with the exchange offer, including:

SEC registration fees;

fees and expenses of the exchange agent and trustee;

our accounting and legal fees;

printing fees; and

related fees and expenses.

Transfer Taxes

Holders who tender their outstanding notes for exchange will not be obligated to pay any transfer taxes in connection with the exchange. If, however, exchange notes issued in the exchange offer are to be delivered to, or are to be issued in the name of, any person other than the holder of the outstanding notes tendered, or if

a transfer tax is imposed for any reason other than the exchange of outstanding notes in connection with the exchange offer, then the holder must pay these transfer taxes, whether imposed on the registered holder or on any other person. If satisfactory evidence of payment of or exemption from these taxes is not submitted with the letter of transmittal, the amount of these transfer taxes will be billed directly to the tendering holder.

The Exchange Agent

We have appointed Deutsche Bank Trust Company Americas as our exchange agent for the exchange offer. All executed letters of transmittal should be directed to the exchange agent at one of its addresses set forth below. Questions and requests for assistance respecting the procedures for the exchange offer, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery should also be directed to the exchange agent at one of its addresses below:

Deliver to:

Deutsche Bank Trust Company Americas

By hand delivery, mail or overnight courier at:
Deutsche Bank Trust Company Americas
Trust & Securities Services
60 Wall Street, MS NYC60-2710
New York, New York 10005
Attn: Corporates Team Deal Manager Ameristar

or

By facsimile transmission
(for eligible institutions only):
(732) 578-4635

Confirm by telephone:
(908) 608-3191

Delivery of the letter of transmittal to an address other than as set forth above or transmission of such letter of transmittal via facsimile other than as set forth above will not constitute a valid delivery.

Consequences of Failure to Exchange Outstanding Notes

Outstanding notes that are not tendered or are tendered but not accepted will, following the consummation of the exchange offer, continue to be subject to the provisions in the Indenture and the legend contained on the outstanding notes regarding the transfer restrictions of the outstanding notes. In general, outstanding notes, unless registered under the Securities Act, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently anticipate that we will take any action to register under the Securities Act or under any state securities laws the outstanding notes that are not tendered in the exchange offer or that are tendered in the exchange offer but are not accepted for exchange.

Holders of the exchange notes and any outstanding notes that remain outstanding after consummation of the exchange offer will vote together as a single series for purposes of determining whether holders of the requisite percentage of

the series have taken certain actions or exercised certain rights under the Indenture.

Consequences of Exchanging Outstanding Notes

We have not requested, and do not intend to request, an interpretation by the staff of the SEC as to whether the exchange notes issued in the exchange offer may be offered for sale, resold or otherwise transferred by any holder without compliance with the registration and prospectus delivery provisions of the Securities Act. However, based on interpretations of the staff of the SEC, as set forth in a series of no-action letters issued to third parties, we believe that the exchange notes may be offered for resale, resold or otherwise

transferred by holders of those exchange notes without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:

- the holder is not an affiliate of ours within the meaning of Rule 405 promulgated under the Securities Act;
- the exchange notes issued in the exchange offer are acquired in the ordinary course of the holder s business;
- neither the holder, nor, to the actual knowledge of such holder, any other person receiving exchange notes from such holder, has any arrangement or understanding with any person to participate in the distribution of the exchange notes issued in the exchange offer;
- if the holder is not a broker-dealer, the holder is not engaged in, and does not intend to engage in, a distribution of the exchange notes; and
- if such a holder is a broker-dealer, such broker-dealer will receive the exchange notes for its own account in exchange for outstanding notes and:
  - such outstanding notes were acquired by such broker-dealer as a result of market-making or other trading activities; and
  - it will deliver a prospectus meeting the requirements of the Securities Act in connection with the resale of exchange notes issued in the exchange offer, and will comply with the applicable provisions of the Securities Act with respect to resale of any exchange notes. (In no-action letters issued to third parties, the SEC has taken the position that broker-dealers may fulfill their prospectus delivery requirements with respect to exchange notes (other than a resale of an unsold allotment from the original sale of outstanding notes) by delivery of the prospectus relating to the exchange offer). See Plan of Distribution for a discussion of the exchange and resale obligations of broker-dealers in connection with the exchange offer.

Each holder participating in the exchange offer will be required to furnish us with a written representation in the letter of transmittal that they meet each of these conditions and agree to these terms.

However, because the SEC has not considered the exchange offer for our outstanding notes in the context of a no-action letter, we cannot guarantee that the staff of the SEC would make similar determinations with respect to this exchange offer. If our belief is not accurate and you transfer an exchange note without delivering a prospectus meeting the requirements of the federal securities laws or without an exemption from these laws, you may incur liability under the federal securities laws. We do not and will not assume, or indemnify you against, this liability.

Any holder that is an affiliate of ours or that tenders outstanding notes in the exchange offer for the purpose of participating in a distribution:

- may not rely on the applicable interpretation of the SEC staff s position contained in Exxon Capital Holdings Corp., SEC No-Action Letter (April 13, 1988), Morgan, Stanley & Co., Inc., SEC No-Action Letter (June 5, 1991) and Shearman & Sterling, SEC No-Action Letter (July 2, 1993); and
- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction.

The exchange notes issued in the exchange offer may not be offered or sold in any state unless they have been registered or qualified for sale in such state or an exemption from registration or qualification is available and complied with by the holders selling the exchange notes. We currently do not intend to register or qualify the sale of the exchange notes in any state where we would not otherwise be required to qualify.

Filing of Registration Statements

Under the registration rights agreement we agreed, among other things, that if:

we determine that an exchange offer registration is not available or may not be consummated as soon as practicable after the expiration of the exchange offer because it would violate applicable law or the applicable interpretations of the SEC s staff;

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the exchange offer is not consummated by February 21, 2010;

any holder (other than an initial purchaser of the outstanding notes) is not entitled to participate in the exchange offer;

any initial purchaser of the outstanding notes so requests with respect to outstanding notes that are not eligible to be exchanged for exchange notes and are held by such initial purchaser following the termination of the exchange offer; or

any initial purchaser of the outstanding notes that participates in the exchange offer (and tenders its outstanding notes prior to the expiration thereof), does not receive exchange notes that may be sold without restriction under state and federal securities laws (other than due solely to the status of such holder as an affiliate of ours or as a participating broker-dealer);

we will file a registration statement under the Securities Act relating to a shelf registration of the outstanding notes for resale by holders and use our commercially reasonable efforts to have such shelf registration statement declared effective by the SEC. We are required to use our reasonable best efforts to keep the shelf registration statement effective for period from the date the shelf registration is declared effective until the earlier of (i) May 27, 2011 and (ii) the date upon which all the Notes covered by the shelf registration statement have been sold pursuant to the shelf registration statement. The registration rights agreement provides that we may delay the filing or the effectiveness of a registration statement for a period of up to 60 consecutive days (no more than three times during any calendar year):

because of the occurrence of other material events or developments with respect to us that would need to be described in the registration statement, and the effectiveness of the registration statement is reasonably required to be suspended while the registration statement is amended or supplemented to reflect such events or developments;

because of the existence of material events or developments with respect to us, the disclosure of which we determine in good faith would have a material adverse effect on our business, operations or prospects; or

because we do not wish to disclose publicly a pending material business transaction that has not yet been publicly disclosed.

Any delay period as described above will stay the accrual of any additional interest that would have been otherwise payable under the registration rights agreement.

We will provide to the holder or holders of the applicable outstanding notes copies of the prospectus that is a part of the shelf registration statement, notify such holder or holders when the shelf registration statement for the applicable notes has become effective and take certain other actions as are required to permit resales of the applicable outstanding notes under the shelf registration statement. A holder of outstanding notes that sells such notes pursuant to the shelf registration statement generally would be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers, and would be subject to certain of the civil liability provisions under the Securities Act in connection with such sales.

If (A) we have not exchanged exchange notes for all outstanding notes validly tendered in accordance with the terms of the exchange offer on or prior to the 270th day after the issue date or (B) if applicable, a shelf registration statement covering resales of the applicable Notes has been declared effective and such shelf registration statement ceases to be effective at any time during the shelf registration period (subject to certain exceptions), then additional interest

(Additional Interest) shall accrue on the principal amount of the applicable Notes at a rate of 0.25% per annum (which rate will be increased by an additional 0.25% per annum for each subsequent 90-day period that such additional interest continues to accrue, *provided* that the rate at which such additional interest accrues may in no event exceed 1.00% per annum) commencing on (x) the effectiveness target date, in the case of (A) above, or (y) the day such shelf registration statement ceases to be effective, in the case of (B) above; *provided*, *however*, that upon the exchange of exchange notes for all outstanding notes tendered (in the case of clause (A) above), or upon the effectiveness of a shelf registration statement that had ceased to remain effective (in the case of clause (B) above), additional interest on such Notes as a result of such clause (or the relevant subclause thereof), as the case may be, shall cease to accrue.

Any amounts of Additional Interest due will be payable in cash on the same interest payment dates as interest on the Notes is payable.

Although we intend, if required, to file the shelf registration statement, we cannot assure you that the shelf registration statement will be filed or, if filed, that it will become or remain effective.

The foregoing description is a summary of certain provisions of the registration rights agreement. It does not restate the registration rights agreement in its entirety. We urge you to read the registration rights agreement, which is an exhibit to the registration statement of which this prospectus forms a part and can also be obtained from us. See Where You Can Find More Information.

DESCRIPTION OF OTHER INDEBTEDNESS

The following description of indebtedness is qualified in its entirety by reference to the senior credit facilities and the documents governing such indebtedness.

Senior Credit Facilities

In May 2009, we used the net proceeds from the sale of the outstanding notes (approximately $620.0 million, after deducting discounts and expenses) to repay a portion of the indebtedness outstanding under our revolving loan facility. Simultaneously, we terminated $650.0 million of revolving loan commitments that mature in November 2010. Our senior credit facilities now consist of: (a) a $750.0 million revolving loan facility comprising (i) $150.0 million of non-extending revolving loan commitments maturing in November 2010, under which $128.6 million of loans are currently outstanding and (ii) $600.0 million of extending revolving loan commitments maturing in August 2012, under which $514.4 million of loans are currently outstanding; and (b) a $385.0 million term loan maturing in November 2012. The revolving loan facility includes a $75.0 million letter of credit sub-facility and a $25.0 million swingline loan sub-facility.

The term loan bears interest at the London Interbank Offered Rate (LIBOR) plus 325 basis points or the base rate plus 225 basis points, at our option. Borrowings under the non-extending revolving loan facility currently bear interest at LIBOR plus 287.5 basis points or the base rate plus 187.5 basis points, and borrowings under the extending revolving loan facility currently bear interest at LIBOR plus 325 basis points or the base rate plus 225 basis points. The LIBOR margin on the non-extending revolving loan facility is subject to adjustment between 200 and 300 basis points and the base rate margin on the non-extending revolving loan facility is subject to adjustment between 100 and 200 basis points, in each case depending on our leverage ratio. The LIBOR margin on the extending revolving loan facility is subject to adjustment between 225 and 350 basis points and the base rate margin on the extending revolving loan facility is subject to adjustment between 125 and 250 basis points, in each case depending on our leverage ratio. The commitment fee on the non-extending revolving loan facility ranges from 25 to 50 basis points, depending on the leverage ratio, and the commitment fee on the extending revolving loan facility is 12.5 basis points higher. In the case of LIBOR-based loans, we have the option of selecting a one-, two-, three- or six-month interest period. We also have the option to select a nine- or 12-month interest period if agreed to by all senior credit facility lenders. Interest is payable at the earlier of three months from the borrowing date or upon expiration of the interest period selected. As a result of a recent amendment to the senior credit facilities as well as the issuance of the Notes, our interest expense has significantly increased compared to 2008.

The senior credit facilities are guaranteed by all of our operating subsidiaries and are secured by first priority security interests on substantially all of our and our subsidiaries real and personal property, including the capital stock of our subsidiaries.

The agreement governing the senior credit facilities requires us to comply with various affirmative and negative financial and other covenants, including restrictions on the incurrence of additional indebtedness, restrictions on dividend payments and other restrictions and requirements to maintain certain financial ratios and tests. As of September 30, 2009, we were required to maintain a leverage ratio, calculated as consolidated debt divided by EBITDA (as defined in the senior credit agreement) for the prior four full fiscal quarters, of no more than 6.00:1, and a senior leverage ratio, calculated as consolidated senior debt divided by EBITDA, of no more than 5.75:1. As of September 30, 2009 and December 31, 2008, our leverage ratio was 4.91:1 and 5.14:1, respectively. The senior leverage ratio as of September 30, 2009 and December 31, 2008 was also 4.91:1 and 5.14:1, respectively. As of September 30, 2009 and December 31, 2008, we were in compliance with all applicable covenants in the senior credit

agreement .

All mandatory principal payments have been made through September 30, 2009. We are permitted to make up to $30.0 million in annual dividend payments under the terms of the senior credit facilities. In addition, the senior credit facilities permit us to make repurchases of our common stock of up to $50.0 million during the period from November 10, 2005 to November 10, 2012. As of September 30, 2009, we had paid $18.4 million to repurchase stock during the term of the senior credit facilities. The senior credit facilities also limit our aggregate capital expenditures to $1.1 billion during the period from November 10, 2005 to

November 10, 2012. As of September 30, 2009, capital expenditures made during the term of the senior credit facilities totaled $852.2 million. As of September 30, 2009, the amount of the revolving loan facility available for borrowing was $102.7 million, after giving effect to $4.3 million of outstanding letters of credit.

Certain changes in control of the Company, as defined in the senior credit agreement, could result in the acceleration of the obligations under the senior credit facilities.

For a more complete description of our liquidity and our credit facilities and debt instruments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 5 of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008, Note 6 of the notes to the consolidated financial statements in our Quarterly Report on Form 10-Q the quarter ended September 30, 2009, and our Current Report on Form 8-K filed on November 19, 2009. The terms of the obligations described above are complicated; therefore, you should consult the governing agreements, which we have filed as exhibits to our SEC reports, for more detailed information regarding those obligations.

DESCRIPTION OF THE NOTES

You can find the definitions of certain terms used in this description under the subheading Certain Definitions. In this description, the word Company refers only to Ameristar Casinos, Inc. and not to any of its subsidiaries or affiliates. We refer to exchange notes and outstanding notes (to the extent not exchanged for exchange notes) in this section as the Notes.

The exchange notes will be issued under the Indenture dated as of May 27, 2009 among the Company, the initial Guarantors and Wilmington Trust FSB (the Trustee), as successor trustee to Deutsche Bank Trust Company Americas. The terms of the exchange notes and the outstanding notes are substantially identical, except that the exchange notes:

- will have been registered under the Securities Act;
- will not contain transfer restrictions and registration rights that relate to the outstanding notes; and
- will not contain provisions relating to the payment of additional interest.

The exchange notes will be issued only in registered form, without coupons, in minimum denominations of $2,000 and integral multiples of $1,000 in excess of $2,000.

Holders of the outstanding notes who do not exchange their outstanding notes for exchange notes will vote together as a single series of notes with holders of the exchange notes for all relevant purposes under the Indenture. In that regard, the Indenture requires that certain actions by the holders of a series of notes (including acceleration following an Event of Default, as defined below under Events of Default) must be taken, and certain rights must be exercised, by specified minimum percentages of the aggregate principal amount of the Notes. Accordingly, all references in this section will be deemed to mean the requisite percentage in aggregate principal amount of the Notes then outstanding.

The following description is a summary of the material provisions of the Indenture. It does not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights as holders of the Notes. A copy of the Indenture is available as described above under the heading Where You Can Find More Information and is also filed as an exhibit to this registration statement.

Brief Description of the Notes and the Guarantees

The Notes

The Notes:

- are general senior unsecured obligations of the Company;
- are *pari passu* in right of payment with all of our existing and future senior Indebtedness;
- are effectively subordinated in right of payment to all of our existing and future secured Indebtedness, including Indebtedness under the Bank Credit Agreement, to the extent of the value of the assets securing such Indebtedness;
- are senior in right of payment to any future senior subordinated or subordinated Indebtedness of the Company; and
- are unconditionally guaranteed by the Guarantors on a senior unsecured basis.

The Guarantees

The Notes are guaranteed by each of the existing Material Subsidiaries of the Company, and subject to compliance with applicable gaming laws, all future Material Restricted Subsidiaries of the Company or any Subsidiary that is a guarantor under the Bank Credit Agreement, which are all of the direct and indirect Material Subsidiaries of the Company except any existing Subsidiary or future Material Subsidiary that is designated by the Company in accordance with the Indenture to be an Unrestricted Subsidiary.

The Guarantees of the Notes:

- are general senior unsecured obligations of each Guarantor;
- are *pari passu* in right of payment with all of the applicable Guarantor s existing and future senior Indebtedness;
- are effectively subordinated to all secured Indebtedness of each Guarantor to the extent of the value of the assets securing such Indebtedness; and
- are structurally subordinated to all liabilities of any Subsidiary of a Guarantor that is not a Guarantor.

As of September 30, 2009, we had $1.03 billion of Indebtedness outstanding under the Bank Credit Agreement (excluding $4.3 million of outstanding letters of credit and $102.7 million of available undrawn revolving credit commitments) and our Subsidiaries that are not guarantors had no Indebtedness or other liabilities.

As of the date of issuance of the exchange notes, all of our Subsidiaries will be Restricted Subsidiaries. Under the circumstances described below, we are permitted to designate certain subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the Indenture. Unrestricted Subsidiaries will not guarantee these Notes.

The obligations of each Guarantor under its Guarantee will be limited to support findings that the Guarantee will not constitute a fraudulent conveyance or fraudulent transfer under applicable law.

Each Guarantor may consolidate with or merge into or sell its assets to the Company or another Guarantor without limitation, or with other Persons upon the terms and conditions set forth in the Indenture. See Certain Covenants Merger, Consolidation or Sale of Assets. In the event of a sale or other disposition of all or substantially all of the properties and assets of any Guarantor, by way of merger, consolidation or otherwise, or the sale of all of the Capital Stock of a Guarantor, whether by way of merger, consolidation or otherwise, in either case provided that such sale or other disposition complies with the provisions set forth in Repurchase at the Option of Holders Asset Sales (other than provisions for future application of the Net Cash Proceeds), or in the event of the designation of any Guarantor as an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, or upon a discharge of the Indenture in accordance with Satisfaction and Discharge or upon any Legal Defeasance or Covenant Defeasance of the Indenture, the Guarantor s Guarantee will be released.

Each of the Guarantors is a Restricted Subsidiary of the Company, and the existing Guarantors collectively constitute substantially all of the Company s direct and indirect subsidiaries. The Company is a holding company with no operations or material assets, other than its investment in the Guarantors, and the aggregate net assets, earnings and equity of the Guarantors and the Company are substantially equivalent to the net assets, earnings and equity of the Company on a consolidated basis. Separate financial statements and certain other disclosures concerning the Guarantors are not presented because such Guarantors are jointly and severally liable with respect to the Company s obligations pursuant to the Notes.

Gaming Approvals

Restrictions on the transfer of the Capital Stock of the Company s Subsidiaries licensed in certain jurisdictions, and agreements not to encumber such Capital Stock, in each case, in respect of the Notes, are not effective without the prior approval of the applicable Gaming Authorities. All required approvals have been obtained with respect to the Company s existing Subsidiaries in each jurisdiction.

By accepting a Note, each holder or beneficial owner of a Note will be agreeing to comply with all requirements of the Gaming Laws and Gaming Authorities in each jurisdiction where the Company and its Affiliates are licensed or

registered under applicable Gaming Laws or conduct gaming activities.

Principal, Maturity and Interest

The Company issued $650,000,000 in the aggregate principal amount of outstanding notes on May 27, 2009. The Company may issue additional notes from time to time. Any issuance of additional notes will be

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subject to all of the covenants in the Indenture, including the covenant described below under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock. The Notes and any additional notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase; provided, that if any additional notes are not fungible for United States federal income tax purposes with any of the Notes previously issued, such additional notes will have a separate CUSIP number. Notes are issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. The Notes will mature on June 1, 2014.

Interest on the Notes accrues at the rate of 91/4% per annum from the Issue Date. Interest will be payable semi-annually in arrears on June 1 and December 1 of each year. The initial interest payment on the outstanding notes was made on December 1, 2009 and interest on the exchange notes will accrue from that date. The Company will make each interest payment to the holders of record of the Notes on the immediately preceding May 15 or November 15. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Additional interest is payable with respect to the Notes in certain circumstances if the Company does not consummate the exchange offer (or shelf registration, if applicable) as provided in the registration rights agreement.

Methods of Receiving Payments on the Notes

If a holder has given wire transfer instructions to the Company, the Company will make all principal, premium and interest payments on Notes held by such holder in accordance with those instructions. All other payments on the Notes will be made at the office or agency of the Company maintained for such purpose unless the Company elects to make interest payments by check mailed to the holders at the addresses set forth in the register of holders; *provided* that all payments with respect to Global Notes, and any definitive Notes the holder of which has given wire transfer instructions to the Company, will be made by wire transfer. Until otherwise designated by the Company, the Company s office or agency will be the office of the Trustee maintained for such purpose.

Optional Redemption

Except as set forth below and under the next two headings, the Company does not have the option to redeem the Notes prior to December 1, 2011. Thereafter, the Company has the option to redeem the Notes, in whole or in part, upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of the principal amount thereof) set forth below plus accrued and unpaid interest and additional interest, if any, on the Notes redeemed, to the applicable redemption date, if redeemed during the twelve month period beginning on December 1 of the years indicated below:

Year	**Percentage**
2011	104.625%
2012	102.313%
2013	100.00%

Notwithstanding the foregoing, the Company may, at any time prior to June 1, 2011, redeem up to 35% of the outstanding aggregate principal amount of Notes with the net cash proceeds of one or more Equity Offerings of the Company at a redemption price in cash of 109.250% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, on the Notes redeemed, to the redemption date; *provided* that:

(1) at least 65% of the outstanding aggregate principal amount of Notes remains outstanding immediately after the occurrence of such redemption;

(2) notice of any such redemption shall be given by the Company to the holders and the Trustee within 30 days after the consummation of any such Equity Offering; and

(3) such redemption shall occur within 60 days of the date of such notice.

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Redemption at Make-Whole Premium

At any time prior to December 1, 2011, the Company may also redeem all or any part of the Notes upon not less than 30 nor more than 60 days prior notice mailed by first-class mail to each holder s registered address, at a redemption price equal to 100% of the principal amount of Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest and additional interest, if any, to the date of redemption.

Redemption Based on Gaming Laws

Notwithstanding any other provision of the Indenture, if:

(1) any Gaming Authority makes a determination of unsuitability of a holder or beneficial owner of Notes (or of an Affiliate of such holder or beneficial owner), or

(2) any Gaming Authority requires that a holder or beneficial owner of Notes (or an Affiliate thereof) must either (i) be licensed, qualified or found suitable or otherwise obtain any approval, consent, permit or finding under any applicable Gaming Laws or (ii) reduce its position in the Notes to below a level that would require licensure, qualification or a finding of suitability, and such holder or beneficial owner (or Affiliate thereof):

(a) fails to apply for a license, qualification or a finding of suitability within 30 days (or such shorter period as may be required by the applicable Gaming Authority) after being requested to do so by the Gaming Authority,

(b) fails to reduce its position in the Notes appropriately, or

(c) is denied such license or qualification or not found suitable or denied such other approval, consent, permit or finding or otherwise fails to qualify under applicable Gaming Laws,

the Company shall have the right, at any time from or after the Issue Date, at its option:

(1) to require any such holder or beneficial owner to dispose of all or a portion of its Notes within 30 days (or such earlier date as may be required by the applicable Gaming Authority) of receipt of such notice or finding by such Gaming Authority, or

(2) to call for the redemption of all or a portion of the Notes of such holder or beneficial owner at a redemption price equal to the least of:

(a) the principal amount thereof together with accrued and unpaid interest and additional interest, if any, to the earlier of the date of redemption or the date of the denial of license or qualification or of the finding of unsuitability by such Gaming Authority (subject to the rights of holders of Notes on the relevant record dates occurring prior to such redemption date to receive interest on the relevant interest payment date),

(b) the price at which such holder or beneficial owner acquired the Notes, together with accrued and unpaid interest and additional interest, if any, to the earlier of the date of redemption or the date of the denial of license or qualification or of the finding of unsuitability by such Gaming Authority (subject to the rights of holders of Notes on the relevant record dates occurring prior to such redemption date to receive interest on the relevant interest payment date),

(c) the fair market value of the Notes to be redeemed on the date of redemption, or

(d) such other lesser amount as may be required by any Gaming Authority.

Immediately upon a determination by a Gaming Authority that a holder or beneficial owner of Notes (or an Affiliate thereof) will not be licensed, qualified or found suitable or is denied approval, consent, a permit, a license, qualification or a finding of suitability, the holder or beneficial owner will not have any further rights with respect to the Notes to:

(1) exercise, directly or indirectly, through any Person, any right conferred by the Notes,

(2) receive any interest or additional interest, if any, or any other distribution or payment with respect to the Notes, or

(3) receive any remuneration in any form from the Company or its Affiliates for services rendered or otherwise, except the redemption price of the Notes.

The Company shall notify the Trustee in writing of any such redemption as soon as practicable. The holder or beneficial owner (or an Affiliate thereof) applying for a license, qualification or a finding of suitability must pay all costs of the licensure or investigation for such qualification or finding of suitability.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Trustee will select the Notes to be redeemed among the holders of Notes as follows:

(1) if the Notes are listed, in compliance with the requirements of the principal national securities exchange on which the Notes are listed, or

(2) if the Notes are not so listed, on a pro rata basis, by lot (in the case of a partial redemption) or in accordance with the procedures of DTC.

If a partial redemption is made with the proceeds of an Equity Offering, the Trustee will select the Notes only on a pro rata basis or on as nearly a pro rata basis as is practicable (subject to DTC procedures). No Note of a principal amount of $2,000 or less shall be redeemed in part. Notices of redemption shall be mailed by first-class mail at least 30 but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address. Notices of redemption may be conditional in that the Company may, notwithstanding the giving of the notice of redemption, condition the redemption of the Notes specified in the notice of redemption upon the completion of other transactions, such as refinancings or acquisitions (whether of the Company or by the Company).

If any Note is to be redeemed in part only, the notice of redemption that relates to such Note shall state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption, subject to the satisfaction of any conditions to such redemption. On and after the redemption date, subject to the satisfaction of any conditions to such redemption, interest ceases to accrue on Notes or portions of them called for redemption so long as the Company has deposited with the Paying Agent funds sufficient to pay the principal of, plus accrued and unpaid interest and additional interest, if any, on the Notes to be redeemed.

Mandatory Redemption

Except as described below under Repurchase at the Option of Holders, the Company is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

Repurchase at the Option of Holders

Change of Control.

Upon the occurrence of a Change of Control, each holder of Notes will have the right to require the Company to repurchase all or any part (equal to $1,000 or an integral multiple thereof; *provided* that no Note of a principal amount of $2,000 or less shall be redeemed in part) of such holder s Notes pursuant to the offer described below (the *Change*

of Control Offer) at an offer price in cash (the *Change of Control Payment*) equal to 101% of the aggregate principal amount of Notes plus accrued and unpaid interest thereon and additional interest, if any, to the date of repurchase. Within 30 days following any Change of Control, the Company will mail a notice to the Trustee and each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the date specified in such notice, which date shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed (the *Change of Control Payment Date*), pursuant to the procedures required by the Indenture and described in such notice.

The Change of Control Offer may be made up to 60 days prior to the occurrence of a Change of Control, conditional upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer. The Company will comply with all applicable laws, including, without limitation, Section 14(e) of the Exchange Act and the rules thereunder and all applicable federal and state securities laws, and will include all instructions and materials necessary to enable holders to tender their Notes and, to the extent that the provisions of any such laws or rules conflict with the provisions of this covenant, the Company s compliance with such laws and rules shall not in and of itself cause a breach of the Company s obligations under this covenant.

On the Change of Control Payment Date, the Company will, to the extent lawful:

(1) accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer,

(2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered, and

(3) deliver or cause to be delivered to the Trustee the Notes so accepted, together with an officers certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

The Paying Agent will promptly mail to each holder of Notes so tendered the Change of Control Payment for such Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new Note equal in principal amount to the unpurchased portion of the Notes surrendered by such holder, if any; *provided* that each such new Note will be in a principal amount of $2,000 or an integral multiple of $1,000 in excess thereof. The Company will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders of the Notes to require that the Company repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Bank Credit Agreement contains, and any future Credit Facilities or other agreements relating to Indebtedness to which the Company becomes a party may contain, restrictions on the ability of the Company to purchase any Notes, and also may provide that certain change of control events with respect to the Company would constitute a default thereunder. In the event a Change of Control occurs at a time when the Company is prohibited from purchasing Notes, the Company could seek the consents of its lenders to the purchase of Notes or could attempt to refinance the borrowings that contain such prohibition. If the Company does not obtain all such requisite consents or repay such borrowings, the Company will remain prohibited from purchasing Notes. In such case, the Company s failure to purchase tendered Notes would constitute an Event of Default under the Indenture. There can be no assurance that in the event of a Change of Control the Company will have sufficient funds, or that it will be permitted under the terms of the Bank Credit Agreement, to satisfy its obligations with respect to any or all of the tendered Notes.

The Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The definition of Change of Control includes a phrase relating to the sale, lease, transfer, conveyance or other disposition of all or substantially all of the assets of the Company and its Restricted Subsidiaries taken as a whole. Although there is a developing body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a

holder of Notes to require the Company to repurchase such Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company and its Restricted Subsidiaries, taken as a whole, to another Person or group may be uncertain.

The presence of the Company s Note repurchase obligation in the event of a Change of Control may deter potential bidders from attempting to acquire the Company, whether by merger, tender offer or otherwise. Such deterrence may have an adverse effect on the market price for the Company s securities, particularly its common stock.

Asset Sales.

No Obligor will, directly or indirectly:

(1) consummate an Asset Sale unless such Obligor receives consideration at the time of such Asset Sale (determined at such time or at such earlier time as such Obligor becomes obligated to complete such Asset Sale) at least equal to the fair market value of the assets sold or of which other disposition is made (as determined in good faith by the Board of such Obligor), and

(2) consummate or enter into a binding obligation to consummate an Asset Sale unless at least 75% of the consideration received by such Obligor from such Asset Sale will be cash or Cash Equivalents. For purposes of this provision, each of the following shall be deemed to be cash:

(a) any liabilities as shown on the Obligor s most recent balance sheet (or in the notes thereto) (other than (i) Indebtedness subordinate in right of payment to the Notes, (ii) contingent liabilities, (iii) liabilities or Indebtedness to Affiliates of the Company and (iv) Non-Recourse Indebtedness) that are assumed by the transferee of any such assets, and

(b) to the extent of the cash received, any notes or other obligations or securities received by such Obligor from such transferee that are converted by such Obligor into cash within 180 days of receipt.

Notwithstanding the foregoing, an Obligor will be permitted to consummate an Asset Sale without complying with the foregoing provisions if:

(1) such Obligor receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets or other property sold, issued or otherwise disposed of (as evidenced by a resolution of the Board of such Obligor), and

(2) the consideration for such Asset Sale constitutes Productive Assets; *provided* that any non-cash consideration not constituting Productive Assets received by such Obligor in connection with such Asset Sale that is converted into or sold or otherwise disposed of for cash or Cash Equivalents at any time within 360 days after such Asset Sale shall constitute Net Cash Proceeds subject to the provisions set forth above.

Upon the consummation of an Asset Sale, the Company or the affected Obligor will be required to apply an amount equal to all Net Cash Proceeds (excluding amounts received and considered as cash pursuant to clause (2)(a) of the first paragraph of this covenant) that are received from such Asset Sale within 360 days of the receipt thereof either:

(1) to reinvest (or enter into a binding commitment to invest, if such investment is effected within 360 days after the date of such commitment) in Productive Assets or in Asset Acquisitions not otherwise prohibited by the Indenture,

(2) to repay Indebtedness under the Bank Credit Agreement (or other Indebtedness of the Company or such Obligor, as applicable, secured by a Lien secured by clause (7) of the definition of Permitted Liens), and, in the case of any such repayment under any revolving credit or other facility that permits future borrowings, effect a permanent reduction in the availability or commitment under such facility, and/or

(3) a combination of prepayment and reinvestment as permitted by the foregoing clauses (1) and (2).

Pending the final application of any such Net Cash Proceeds, the Obligors may temporarily reduce revolving Indebtedness or otherwise invest such Net Cash Proceeds in any manner not prohibited by the Indenture.

On the 361st day after an Asset Sale (or in the case of any amount committed to reinvestment, on the 181st day following the 361st day after an Asset Sale if such amount is not actually so reinvested) or such earlier date, if any, as the Board of the Company or the affected Obligor determines not to apply the Net Cash Proceeds relating to such Asset Sale as set forth in clause (1), (2), or (3) of the preceding paragraph (each a *Net Proceeds Offer Trigger Date*), such aggregate amount of Net Cash Proceeds which have not been applied on or before such Net Proceeds Offer Trigger Date as permitted in clause (1), (2), or (3) of the preceding paragraph (each a *Net Proceeds Offer Amount*), will be applied by the Company to make an offer to purchase (the *Net Proceeds Offer*), on a date (the *Net Proceeds Offer Payment Date*) not less than 30 nor more than 60 days following the applicable Net Proceeds Offer Trigger Date, on a pro rata basis (a) Notes at a purchase price in cash equal to 100% of the aggregate principal amount of Notes, in each case, plus accrued and unpaid interest thereon and additional interest, if any, on the Net Proceeds Offer Payment Date, and (b) other Indebtedness Incurred by the Company which is *pari passu* with the Notes, in each case to the extent required by the terms thereof; *provided* that if at any time within 360 days after an Asset Sale any noncash consideration received by the Company or the affected Obligor in connection with such Asset Sale (other than non-cash consideration deemed to be cash as provided in clause (2)(b) above) is converted into or sold or otherwise disposed of for cash, then such conversion or disposition will be deemed to constitute an Asset Sale hereunder and the Net Cash Proceeds thereof will be applied in accordance with this covenant. To the extent that the aggregate principal amount of Notes or other *pari passu* Indebtedness tendered pursuant to the Net Proceeds Offer is less than the Net Proceeds Offer Amount, the Obligors may use any remaining proceeds of such Asset Sales for general corporate purposes (but subject to the other terms of the Indenture). Upon completion of a Net Proceeds Offer, the Net Proceeds Offer Amount relating to such Net Proceeds Offer will be deemed to be zero for purposes of any subsequent Asset Sale. In the event that a Restricted Subsidiary consummates an Asset Sale, only that portion of the Net Cash Proceeds therefrom (including any Net Cash Proceeds received upon the sale or other disposition of any non-cash proceeds received in connection with an Asset Sale) that are distributed to or received by any Obligor will be required to be applied by the Obligors in accordance with the provisions of this paragraph. Notwithstanding the foregoing, if a Net Proceeds Offer Amount is less than $25 million, the application of the Net Cash Proceeds constituting such Net Proceeds Offer Amount to a Net Proceeds Offer may be deferred until such time as such Net Proceeds Offer Amount plus the aggregate amount of all Net Proceeds Offer Amounts arising subsequent to the date of the Indenture from all Asset Sales by the Obligors in respect of which a Net Proceeds Offer has not been made aggregate at least $25 million, at which time the affected Obligor will apply all Net Cash Proceeds constituting all Net Proceeds Offer Amounts that have been so deferred to make a Net Proceeds Offer (each date on which the aggregate of all such deferred Net Proceeds Offer Amounts is equal to $25 million or more will be deemed to be a Net Proceeds Offer Trigger Date).

The Company will comply with all applicable laws, including, without limitation, Section 14(e) of the Exchange Act and the rules thereunder and all applicable federal and state securities laws, and will include all instructions and materials necessary to enable holders to tender their Notes and, to the extent that the provisions of any such laws or rules conflict with the provisions of this covenant, the Company s compliance with such laws and rules shall not in and of itself cause a breach of the Company s obligations under this covenant.

Certain Covenants

Restricted Payments.

Neither the Company nor any Restricted Subsidiary will, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution (other than dividends or distributions payable solely in Qualified Capital Stock of the Company or dividends or distributions

payable to the Company or a Restricted Subsidiary) in respect of the Company s or any Restricted Subsidiary s Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Company or such Restricted Subsidiary, as applicable) or to the direct or indirect holders of the Company s or such Restricted Subsidiary s Equity Interests in their capacity as such,

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, any payment in connection with any merger or consolidation involving the Company or any Restricted Subsidiary) Equity Interests of the Company or any Restricted Subsidiary or of any direct or indirect parent of the Company (other than any such Equity Interests owned by the Company or any Restricted Subsidiary),

(3) make any payment on or with respect to, or purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value any Indebtedness that is subordinate in right of payment to the Notes, except (i) a payment of principal, interest or other amounts required to be paid at Stated Maturity or (ii) a payment made to the Company or any Restricted Subsidiary, or

(4) make any Investment (other than Permitted Investments) (each of the foregoing prohibited actions set forth in clauses (1), (2), (3) and (4) being referred to as a *Restricted Payment*),

if at the time of such proposed Restricted Payment or immediately after giving effect thereto,

(1) a Default or an Event of Default has occurred, and is continuing or would result therefrom,

(2) the Company is not, or would not be, able to Incur at least $1.00 of additional Indebtedness under the Consolidated Coverage Ratio test described in the second paragraph of the covenant described below under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock, or (3) the aggregate amount of Restricted Payments (the amount expended for such purposes, if other than in cash, being the fair market value of such property as determined in the good faith reasonable judgment of the Company) exceeds or would exceed the sum, without duplication, of:

(a) 50% of the cumulative Consolidated Net Income (or if cumulative Consolidated Net Income shall be a loss, minus 100% of such loss) of the Company and the Restricted Subsidiaries during the period (treating such period as a single accounting period) beginning on April 1, 2009 and ending on the last day of the most recent fiscal quarter of the Company ending immediately prior to the date of the making of such Restricted Payment for which internal financial statements are available ending not more than 135 days prior to the date of determination, plus

(b) 100% of the fair market value of the aggregate net proceeds received by the Company from any Person (other than from a Subsidiary of the Company) from the issuance and sale of Qualified Capital Stock of the Company or the amount by which Indebtedness of the Company or any Restricted Subsidiary is reduced by the conversion or exchange of debt securities or Disqualified Capital Stock into or for Qualified Capital Stock (to the extent that proceeds of the issuance of such Qualified Capital Stock would have been includable in this clause if such Qualified Capital Stock had been initially issued for cash) subsequent to the Issue Date and on or prior to the date of the making of such Restricted Payment (excluding any Qualified Capital Stock of the Company the purchase price of which has been financed directly or indirectly using funds (i) borrowed from the Company or any Restricted Subsidiary, unless and until and to the extent such borrowing is repaid, or (ii) contributed, extended, guaranteed or advanced by the Company or any Restricted Subsidiary (including, without limitation, in respect of any employee stock ownership or benefit plan)); *provided* that such aggregate net proceeds are limited to cash, Cash Equivalents and other assets used or useful in a Related Business or the Capital Stock of a Person engaged in a Related Business, plus

(c) 100% of the aggregate cash received by the Company subsequent to the Issue Date and on or prior to the date of the making of such Restricted Payment upon the exercise of options or warrants (whether issued prior to or after the Issue Date) to purchase Qualified Capital Stock of the Company, plus

(d) to the extent that any Restricted Investment that was made after the Issue Date is sold for cash or Cash Equivalents or otherwise liquidated or repaid for cash or Cash Equivalents, or any dividends, distributions, interest payments, principal repayments or returns of capital are received by the Company or any Restricted Subsidiary in respect of any Restricted Investment, the proceeds of such sale, liquidation, repayment, dividend, distribution, principal repayment or return of capital, in each such case (i) reduced by the amount of any Amount Limitation Restoration (as defined below) for such Restricted Investment and (ii) valued at the cash or marked-to-market value of Cash Equivalents received with respect to such Restricted Investment (less the cost of disposition, if any), and to the extent that any Restricted Investment consisting of a guarantee or other contingent obligation that was made after the Issue Date is terminated or cancelled, the excess, if any, of (x) the amount by which such Restricted Investment reduced the sum otherwise available for making Restricted Payments under this first paragraph of the Restricted Payment covenant, over (y) the aggregate amount of payments made (including costs incurred) in respect of such guarantee or other contingent obligation, plus

(e) to the extent that any Person becomes a Restricted Subsidiary or an Unrestricted Subsidiary is redesignated as a Restricted Subsidiary after the Issue Date, the lesser of (i) the fair market value of the Restricted Investment of the Company and its Restricted Subsidiaries in such Person as of the date it becomes a Restricted Subsidiary or in such Unrestricted Subsidiary on the date of redesignation as a Restricted Subsidiary or (ii) the fair market value of such Restricted Investment as of the date such Restricted Investment was originally made in such Person or, in the case of the redesignation of an Unrestricted Subsidiary into a Restricted Subsidiary which Subsidiary was designated as an Unrestricted Subsidiary after the Issue Date, the amount of the Company and its Restricted Subsidiaries Restricted Investment therein as determined under the last paragraph of this covenant, plus the aggregate fair market value of any additional Restricted Investments (each valued as of the date made) by the Company and its Restricted Subsidiaries in such Unrestricted Subsidiary after the Issue Date; *provided* that any amount so determined in (i) or (ii) shall be reduced to the extent that such Restricted Investment shall have been recouped as an Amount Limitation Restoration to the Amount Limitation of clause (5) below.

Notwithstanding the foregoing, the provisions set forth in the immediately preceding paragraph will not prohibit:

(1) the payment of any dividend or the making of any distribution within 60 days after the date of declaration of such dividend or distribution if the making thereof would have been permitted on the date of declaration; *provided* such dividend will be deemed to have been made as of its date of declaration for purposes of this clause (1);

(2) the redemption, repurchase, retirement or other acquisition of Capital Stock of the Company or warrants, rights or options to acquire Capital Stock of the Company either (a) solely in exchange for shares of Qualified Capital Stock of the Company or warrants, rights or options to acquire Qualified Capital Stock of the Company, or (b) through the application of net proceeds of a substantially concurrent sale for cash (other than to a Subsidiary of the Company) of shares of Qualified Capital Stock of the Company or warrants, rights or options to acquire Qualified Capital Stock of the Company;

(3) the payment, redemption, repurchase, retirement, defeasance or other acquisition of Indebtedness of any Obligor that is subordinate in right of payment to the Notes or the Guarantees (a) solely in exchange for (i) shares of Qualified Capital Stock of the Company or (ii) Permitted Refinancing Indebtedness, or (b) through the application of the net proceeds of a sale for cash (other than to an Obligor) within 45 days of such sale of (i) shares of Qualified Capital Stock of the Company or warrants, rights or options to acquire Qualified Capital Stock of the Company or (ii) Permitted Refinancing Indebtedness or (c) within one year of the scheduled final maturity thereof;
(4) redemptions, repurchases or repayments to the extent required by any Gaming Authority having jurisdiction over the Company or any Restricted Subsidiary or deemed necessary by the Board of the Company in order to

avoid the suspension, revocation or denial of a gaming license by any Gaming Authority or other right to conduct lawful gaming operations;

(5) other Restricted Payments not to exceed $75 million in the aggregate made on or after the Issue Date; *provided* no Default or Event of Default then exists or would result therefrom;

(6) repurchases by the Company of its common stock, options, warrants or other securities exercisable or convertible into such common stock from employees, officers, consultants or directors of the Company or any of its respective Subsidiaries upon death, disability or termination of employment, relationship or directorship of such employees, officers, consultants or directors;

(7) the payment of any amounts in respect of Equity Interests by any Restricted Subsidiary organized as a partnership or a limited liability company or other pass-through entity:

(a) to the extent of capital contributions made to such Restricted Subsidiary (other than capital contributions made to such Restricted Subsidiary by the Company or any Restricted Subsidiary),

(b) to the extent required by applicable law, or

(c) to the extent necessary for holders thereof to pay taxes with respect to the net income of such Restricted Subsidiary, the payment of which amounts under this clause (c) is required by the terms of the relevant partnership agreement, limited liability company operating agreement or other governing document;

provided, that except in the case of clause (b) or (c), no Default or Event of Default has occurred and is continuing at the time of such Restricted Payment or would result therefrom, and *provided further* that, except in the case of clause (b) or (c), such distributions are made pro rata in accordance with the respective Equity Interests contemporaneously with the distributions paid to the Company or a Restricted Subsidiary or their Affiliates holding an interest in such Equity Interests;

(8) the payment of any dividend or distributions by a Restricted Subsidiary of the Company to the holders of its Equity Interests on a pro rata basis;

(9) the repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options, or upon the vesting of restricted stock, restricted stock units or performance share units to the extent necessary to satisfy tax withholding obligations attributable to such vesting;

(10) the declaration and payment of regularly scheduled or accrued dividends or distributions to holders of any class or series of Disqualified Capital Stock of the Company or any Restricted Subsidiary of the Company issued on or after the Issue Date in accordance with the Consolidated Coverage Ratio test described below under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock ;

(11) payments in lieu of fractional shares of the Company s Capital Stock;

(12) that portion of Restricted Investments the payment for which consists exclusively of the Company s Qualified Capital Stock; or

(13) dividends on the Company s Capital Stock not to exceed $30 million in any fiscal year; provided that an amount not used in any fiscal year may be carried forward and applied in a subsequent fiscal year.

In determining the aggregate amount of Restricted Payments made subsequent to the Issue Date, Restricted Payments made pursuant to clauses 3(a)(ii), 3(b)(ii), (6), (7), (8), (9), (11), (12) or (13) of the immediately preceding paragraph shall, in each case, be excluded from such calculation; *provided*, that any amounts expended or liabilities incurred in respect of fees, premiums or similar payments in connection therewith shall be included in such calculation. Restricted Payments under clause (5) shall be limited to the amount of $75 million set forth in such clause (an *Amount Limitation*). The Amount Limitation shall be permanently reduced at the time of any Restricted Payment made under such clause; *provided*, *however*, that to

the extent that a Restricted Investment made under such clause is sold for cash or Cash Equivalents or otherwise liquidated or repaid for cash or Cash Equivalents, interest payments, principal repayments or returns of capital are received by the Company or any Restricted Subsidiary in respect of such Restricted Investment, valued, in each such case at the cash or marked-to-market value of Cash Equivalents received with respect to such Restricted Investment (less the cost of disposition, if any), or to the extent that any Restricted Investment consisting of a guarantee or other contingent obligation that was made after the Issue Date is terminated or cancelled, the excess, if any of (x) the amount by which such Restricted Investment counted toward the Amount Limitation, over (y) the aggregate amount of payments made (including costs incurred) in respect of such guarantee or other contingent obligation, then the Amount Limitation for such clause shall be increased by the amount so received by the Company or a Restricted Subsidiary or the amount of such excess of (x) over (y) (an *Amount Limitation Restoration*). In no event shall the aggregate Amount Limitation Restoration for a Restricted Investment exceed the original amount of such Restricted Investment.

With respect to clause (5) above, the Amount Limitation under such clause shall also be increased when any Person becomes a Restricted Subsidiary or an Unrestricted Subsidiary is redesignated as a Restricted Subsidiary (each such increase also referred to as an *Amount Limitation Restoration*) by the lesser of (i) the fair market value of the Restricted Investment made under clause (5) above in such Person as of the date it becomes a Restricted Subsidiary or in such Unrestricted Subsidiary as of the date of redesignation, as the case may be, or (ii) the fair market value of such Restricted Investment as of the date such Restricted Investment was originally made in such Person or, in the case of the redesignation of an Unrestricted Subsidiary into a Restricted Subsidiary which Subsidiary was designated as an Unrestricted Subsidiary after the Issue Date, the amount of the Company s Restricted Investment therein as determined under the last paragraph of this covenant, plus the aggregate fair market value of any additional Investments (each valued as of the date made) made under clause (5) above in such Unrestricted Subsidiary after the Issue Date.

Not less than once each fiscal quarter in which the Company has made a Restricted Payment (other than Restricted Payments made pursuant to clauses (8), (9), (11), (12) or (13) above), the Company shall deliver to the Trustee an officers certificate stating that each Restricted Payment (and any Amount Limitation Restoration relied upon in making such Restricted Payment) made during the prior fiscal quarter complies with the Indenture and setting forth in reasonable detail the basis upon which the required calculations were computed, which calculations may be based upon the Company s latest available internal quarterly financial statements. In the event that the Company makes one or more Restricted Payments in an amount exceeding $10 million that have not been covered by an officers certificate issued pursuant to the immediately preceding sentence, the Company shall deliver to the Trustee an officers certificate stating that such Restricted Payments (and any Amount Limitation Restoration relied upon in making such Restricted Payment) comply with the Indenture and setting forth in reasonable detail the basis upon which the required calculations were computed (upon which the Trustee may conclusively rely without any investigation whatsoever), which calculations may be based upon the Company s latest available internal quarterly financial statements. In the event the Company fails to deliver any such report described in this paragraph to the Trustee, such failure shall not constitute a Default until and unless the Company has failed to deliver such report within 30 days after written notice to the Company of such failure by the Trustee or by a holder.

For purposes of this covenant, it is understood that the Company may rely on internal or publicly reported financial statements even though there may be subsequent adjustments (including review and audit adjustments) to such financial statements. For avoidance of doubt, any Restricted Payment that complied with the conditions of this covenant, made in reliance on such calculation by the Company based on such internal or publicly reported financial statements, shall be deemed to continue to comply with the conditions of this covenant, notwithstanding any subsequent adjustments that may result in changes to such internal financial or publicly reported statements.

The Board of the Company may designate any of its Restricted Subsidiaries to be Unrestricted Subsidiaries if such designation would not cause a Default. For purposes of making such determination, all outstanding Investments by the

Obligors (except to the extent repaid in cash or in kind) in the Subsidiary so designated will be deemed to be Restricted Payments at the time of such designation and will reduce the amount available for Restricted Payments under the first paragraph of this covenant to the extent that such

deemed Restricted Payments would not be excluded from such calculation under the second paragraph of this covenant. All such outstanding Investments will be deemed to constitute Investments in an amount equal to the fair market value of such Investments at the time of such designation (as determined in the good faith reasonable judgment of the Company).

Such designation will only be permitted if such Restricted Payment would be permitted at such time and if such Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

Incurrence of Indebtedness and Issuance of Preferred Stock.

The Company will not, directly or indirectly:

(1) Incur any Indebtedness or issue any Disqualified Capital Stock, other than Permitted Indebtedness, or

(2) cause or permit any of its Restricted Subsidiaries to Incur any Indebtedness or issue any Disqualified Capital Stock or preferred stock, in each case, other than Permitted Indebtedness.

Notwithstanding the foregoing limitations, the Company may issue Disqualified Capital Stock and may Incur Indebtedness (including, without limitation, Acquired Debt), and any Obligor (other than the Company) may issue preferred stock or Incur Indebtedness (including, without limitation, Acquired Debt), if immediately after giving pro forma effect to such proposed Incurrence or issuance and the receipt and application of the net proceeds therefrom, the Company s Consolidated Coverage Ratio would not be less than 2.00:1.00.

Any Indebtedness of any Person existing at the time it becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition of capital stock or otherwise) shall be deemed to be Incurred as of the date such Person becomes a Restricted Subsidiary.

Notwithstanding any other provision of this covenant, a guarantee of Indebtedness of the Company or of Indebtedness of a Restricted Subsidiary will not constitute a separate incurrence, or amount outstanding, of Indebtedness so long as the Indebtedness so guaranteed was incurred in accordance with the terms of the Indenture.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (17) of such definition or is entitled to be Incurred pursuant to the second paragraph of this covenant, the Company will, in its sole discretion, classify such item of Indebtedness in any manner that complies with this covenant and such item of Indebtedness will be treated as having been Incurred pursuant to only one of such clauses or pursuant to the second paragraph hereof. The Company may reclassify such Indebtedness from time to time in its sole discretion and may classify any item of Indebtedness in part under one or more of the categories of Permitted Indebtedness and/or in part as Indebtedness entitled to be Incurred pursuant to the second paragraph of this covenant.

Accrual of interest or dividends, the accretion of principal amount or dividends, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms or the payment of dividends on any Disqualified Capital Stock in the form of additional Disqualified Capital Stock with the same terms will not be deemed to be an Incurrence of Indebtedness or an issuance of Disqualified Capital Stock for purposes of this covenant. Any increase in the amount of Indebtedness solely by reason of currency fluctuations will not be deemed to be an incurrence of Indebtedness for purposes of determining compliance with this covenant. A change in GAAP that results in an obligation existing at the time of such change, not previously classified as Indebtedness, becoming Indebtedness will not be deemed to be an incurrence of Indebtedness for purposes of this covenant.

Liens.

No Obligor will, directly or indirectly, create, Incur or assume any Lien, except a Permitted Lien, on or with respect to any of its property or assets including any shares of stock or Indebtedness of any Restricted

Subsidiary, whether owned on the Issue Date or thereafter acquired, or any income, profits or proceeds therefrom, unless:

(1) in the case of any Lien securing Indebtedness that is subordinate in right of payment to the Notes or the Guarantees, the Notes or the Guarantees are secured by a Lien on such property, assets or proceeds that is senior in priority to such Lien as long as such Indebtedness is secured by such Lien; and

(2) in all other cases, the Notes or the Guarantees, as the case may be, are secured on an equal and ratable basis with the obligations secured by such Lien for so long as such obligations are secured by such Lien.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries.

No Restricted Subsidiary will, directly or indirectly, create or otherwise cause or permit or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock,

(2) make loans or advances to or pay any Indebtedness or other obligations owed to the Company or to any other Restricted Subsidiary, or

(3) transfer any of its property or assets to the Company or to any Restricted Subsidiary (each such encumbrance or restriction in clause (1), (2) or (3), a *Payment Restriction*).

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(a) applicable law or required by any Gaming Authority;

(b) the Indenture, the Notes and the Guarantees and other Indebtedness of the Company or any Restricted Subsidiary ranking *pari passu* with the Notes; *provided* that such restrictions are no more restrictive taken as a whole than those imposed by the Indenture;

(c) customary non-assignment provisions of any contract, license or lease of any Restricted Subsidiary entered into in the ordinary course of business of such Restricted Subsidiary;

(d) any instrument governing Acquired Debt Incurred in connection with an acquisition by any Obligor or Restricted Subsidiary in accordance with the Indenture as the same was in effect on the date of such Incurrence; *provided* that such encumbrance or restriction is not, and will not be, applicable to any Person, or the properties or assets of any Person, other than the Person and its Subsidiaries or the property or assets, including directly-related assets, such as accessions and proceeds so acquired or leased;

(e) any restriction or encumbrance contained in contracts for the sale of Equity Interests of any Subsidiary or assets of the Company or any Restricted Subsidiary to be consummated in accordance with the Indenture solely in respect of Equity Interests (or assets of such Restricted Subsidiary) or assets to be sold pursuant to such contract;

(f) any restrictions of the nature described in clause (3) above with respect to the transfer of assets secured by a Lien that is permitted by the Indenture to be Incurred;

(g) any encumbrance or restriction contained in Permitted Refinancing Indebtedness; *provided* that the provisions relating to such encumbrance or restriction contained in any such Permitted Refinancing Indebtedness are no less

favorable to the holders of the Notes in any material respect in the good faith judgment of the Company than the provisions relating to such encumbrance or restriction contained in the Indebtedness being refinanced;

(h) agreements governing Indebtedness of the Company or its Restricted Subsidiaries existing on the Issue Date, and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of those agreements; *provided* that the amendments,

modifications, restatements, renewals, increases, supplements, refundings, replacement or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the date of the Indenture, taken as a whole;

(i) any restriction imposed by Indebtedness incurred under the Credit Facilities; *provided* that suchrestriction or requirement is no more restrictive taken as a whole than that imposed by the Bank Credit Agreement as of the Issue Date;

(j) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, stock sale agreements, sale-leaseback agreements and other similar agreements not prohibited by the indenture;

(k) any restriction on cash or other deposits or net worth imposed by customers or lessors or required by insurance, surety or bonding companies, in each case under contracts entered into in the ordinary course of business; or

(l) any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending the sale or other disposition.

Merger, Consolidation, or Sale of Assets.

The Company may not, in a single transaction or a series of related transactions, consolidate or merge with or into any Person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Company and its Subsidiaries, taken as a whole, to any Person unless:

(1) either

(a) in the case of a consolidation or merger, the Company, or any successor thereto, is the surviving or continuing corporation, or

(b) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition of the properties and assets of the Company and its Subsidiaries, taken as a whole, (i) shall be a corporation organized and validly existing under the laws of the United States or any State thereof or the District of Columbia and (ii) shall expressly assume, by supplemental indenture (in form and substance reasonably satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the Notes and the performance of every covenant of the Notes and the Indenture on the part of the Company to be performed or observed;

(2) in the event that such transaction involves (a) the incurrence by the Company or any Restricted Subsidiary, directly or indirectly, of additional Indebtedness (and treating any Indebtedness not previously an obligation of the Company or any of its Restricted Subsidiaries incurred in connection with or as a result of such transaction as having been incurred at the time of such transaction) and/or (b) the assumption contemplated by clause (1)(b)(ii) above (including giving effect to any Indebtedness and Acquired Debt Incurred or anticipated to be Incurred in connection with or in respect of such transaction), then immediately after giving effect to such incurrence and/or assumption under clauses (a) and (b), (i) the Company, or any such other Person assuming the obligations of the Company through the operation of clause (1)(b) above, could Incur at least $1.00 of Indebtedness (other than Permitted Indebtedness) pursuant to the Consolidated Coverage Ratio test described above under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock or (ii) the Consolidated Coverage Ratio of the Company (or such other Person assuming the obligations of the Company through the operation of clause (1)(b) above) is no less than the

Company s Consolidated Coverage Ratio immediately prior to such transaction or series of transactions;

(3) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(ii) above (including, without limitation, giving effect to any Indebtedness and Acquired Debt Incurred or anticipated to be Incurred and any Lien granted in connection

with or in respect of the transaction) no Default and no Event of Default shall have occurred or be continuing; and

(4) the Company or such other Person shall have delivered to the Trustee an officers certificate and an opinion of counsel, each stating that such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied.

Notwithstanding clause (2) or (3) above:

(a) any Guarantor may consolidate with, or merge with or into, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets to the Company or to another Guarantor; and

(b) the Company or any Subsidiary may consolidate with or merge with or into, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets to any Person that has conducted no business and Incurred no Indebtedness or other liabilities if such transaction is solely for the purpose of effecting a change in the state of incorporation or form of organization of the Company or such Subsidiary.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties and assets of one or more Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

Upon any consolidation or merger or any transfer of all or substantially all the assets of the Company and its Subsidiaries in accordance with the foregoing, the successor corporation formed by such consolidation or into which the Company is merged or to which such transfer is made shall succeed to and (except in the case of a lease) be substituted for, and may exercise every right and power of, the Company under the Indenture with the same effect as if such successor corporation had been named therein as the Company and (except in the case of a lease) the Company shall be released from the obligations under the Notes and the Indenture.

No Guarantor may, in a single transaction or a series of related transactions, consolidate or merge with or into any Person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Guarantor and its Subsidiaries, taken as a whole, to any Person (other than the Company or another Guarantor) unless:

(1) either

(a) in the case of a consolidation or merger, the Guarantor, or any successor thereto, is the surviving or continuing corporation, or

(b) the Person (if other than the Guarantor) formed by such consolidation or into which the Guarantor is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition of the properties and assets of the Guarantor and its Subsidiaries, taken as a whole, (i) shall be a corporation organized and validly existing under the laws of the United States or any State thereof or the District of Columbia and (ii) shall expressly assume, by supplemental indenture (in form and substance reasonably satisfactory to the Trustee), executed and delivered to the Trustee, all the obligations of such Guarantor under its Guarantee, on a senior unsecured basis, on the terms set forth in the Indenture;

(2) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(ii) above (including, without limitation, giving effect to any Indebtedness and Acquired Debt Incurred or anticipated to be Incurred and any Lien granted in connection

with or in respect of the transaction) no Default and no Event of Default shall have occurred or be continuing; and

(3) the Company or such other Person shall have delivered to the Trustee an officers certificate and an opinion of counsel, each stating that such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied.

This section includes a phrase relating to the sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the assets of the Company and its Subsidiaries (or a Guarantor and its Subsidiaries) taken as a whole. Although there is a developing body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, if the Company or its Subsidiaries (or a Guarantor and its Subsidiaries) dispose of less than all their assets by any means described above, the application of the covenant described in this section may be uncertain.

Transactions with Affiliates.

The Company will not, and will not permit any Restricted Subsidiary to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each of the foregoing, an *Affiliate Transaction*), unless:

(1) such Affiliate Transaction is, considered in light of any series of related transactions of which it comprises a part, on terms that are fair and reasonable and no less favorable to the Company or such Restricted Subsidiary than those that might reasonably have been obtained at such time in a comparable transaction or series of related transactions on an arm s-length basis from a Person that is not such an Affiliate;

(2) with respect to any Affiliate Transaction involving aggregate consideration of $20 million or more to the Company or such Restricted Subsidiary, a majority of the disinterested members of the Board of the Company (and of any other affected Restricted Subsidiary, where applicable) shall, prior to the consummation of any portion of such Affiliate Transaction, have approved such Affiliate Transaction, as evidenced by a resolution of its Board; and

(3) with respect to any Affiliate Transaction involving value of $30 million or more to the Company or such Restricted Subsidiary, the Board of the Company or such Restricted Subsidiary shall have received prior to the consummation of any portion of such Affiliate Transaction, a written opinion from an independent investment banking, valuation, accounting or appraisal firm of recognized national standing that such Affiliate Transaction is on terms that are fair to the Company or such Restricted Subsidiary from a financial point of view.

The foregoing restrictions will not apply to:

(1) reasonable fees, compensation and benefit arrangements (including any such compensation in the form of Equity Interests not derived from Disqualified Capital Stock, together with loans and advances, the proceeds of which are used to acquire such Equity Interests) paid to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Company or its Subsidiaries as determined in good faith by the Board or senior management;

(2) any transaction solely between or among the Company and any of its Restricted Subsidiaries to the extent any such transaction is otherwise in compliance with, or not prohibited by, the Indenture;

(3) any Restricted Payment permitted by the terms of the covenant described above under the heading Certain Covenants Restricted Payments or any Permitted Investment;

(4) sales of Equity Interests (other than Disqualified Capital Stock) to any of the Company s Affiliates;

(5) the pledge of the Equity Interests of Unrestricted Subsidiaries or joint ventures to support the Indebtedness thereof;

(6) any transactions between the Company or any of its Restricted Subsidiaries and any Affiliate of the Company the Equity Interests of which Affiliate are owned solely by the Company or one or more of its Restricted Subsidiaries, on the one hand, and by persons who are not Affiliates of the Company or its Restricted Subsidiaries, on the other hand; or

(7) transactions pursuant to agreements existing on the Issue Date and any modification thereto or any transaction contemplated thereby in any replacement agreement therefor so long as such modification or replacement is not more disadvantageous to the Company or any of our Restricted Subsidiaries in any material respect than the respective agreement existing on the Issue Date.

Additional Subsidiary Guarantees.

The Company shall cause (i) any Material Restricted Subsidiary that is not a Guarantor and (ii) any Subsidiary that is not a Guarantor that becomes a guarantor under the Bank Credit Agreement after the Issue Date, to:

(1) execute and deliver to the Trustee a supplemental indenture in form reasonably satisfactory to the Trustee pursuant to which such Restricted Subsidiary shall unconditionally guarantee all of the Company s obligations under the Notes and the Indenture on the terms set forth in the Indenture; and

(2) deliver to the Trustee an opinion of counsel that such supplemental indenture has been duly authorized, executed and delivered by such Restricted Subsidiary and constitutes a legal, valid, binding and enforceable obligation of such Restricted Subsidiary. Thereafter, such Restricted Subsidiary shall be a Guarantor for all purposes of the Indenture.

No Layering.

The Company will not, and will not permit any Guarantor to, incur or suffer to exist Indebtedness that is contractually subordinated in right of payment to any other Indebtedness of the Company or such Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or such Guarantor s Guarantee, as the case may be.

Lines of Business.

The Obligors will not engage in any lines of business other than the Core Businesses and any Related Business.

Reports.

Whether or not required by the rules and regulations of the SEC, so long as any Notes are outstanding, the Company will furnish to the holders of Notes, with a copy to the Trustee:

(1) all quarterly and annual financial information that would be required to be contained in a filing or filings by the Company with the SEC on Forms 10-Q and 10-K if the Company were required to file such forms, including a Management s Discussion and Analysis of Financial Condition and Results of Operations and, with respect to the annual information only, a report thereon by the Company s independent registered public accounting firm, and

(2) all current reports that would be required to be filed by the Company with the SEC on Form 8-K if the Company were required to file such reports, in each case within 15 days of the time periods such filings would be due as specified in the SEC s rules and regulations.

In addition, the Company will file such information with the SEC to the extent the SEC is accepting such filings. The Company has agreed that, for so long as any Notes remain outstanding during any period when it is not subject to Section 13 or 15(d) of the Exchange Act, or otherwise permitted to furnish the SEC

with certain information pursuant to Rule 12g3-2(b) of the Exchange Act, it will furnish to the holders of the Notes and to the prospective investors, upon their reasonable request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. The Indenture permits the Company to deliver the consolidated reports or financial information of the Company to comply with the foregoing requirements.

Events of Default and Remedies

Each of the following constitutes an Event of Default:

(1) default for 30 days in the payment when due of interest (including any additional interest) on the Notes or the Guarantees;

(2) default in payment of the principal of or premium, if any, on the Notes or the Guarantees when due and payable, at maturity, upon acceleration, redemption or otherwise;

(3) subject to the third paragraph from the end of this Events of Default and Remedies section, failure by any Obligor to comply with any of its other agreements in the Indenture, the Notes or the Guarantees for 60 days after written notice to the Company by the Trustee or by holders of not less than 25% in aggregate principal amount of the Notes then outstanding voting as a single class;

(4) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by any Obligor (or the payment of which is guaranteed by any Obligor) whether such Indebtedness or guarantee now exists, or is created after the Issue Date, which default:

(a) is caused by a failure to pay principal of such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a *Payment Default*), or

(b) results in the acceleration of such Indebtedness prior to its express maturity (which acceleration has not been rescinded, annulled or cured within 20 business days of receipt by such Obligor of such notice) and, in each case, the due and payable principal amount of any such Indebtedness, together with the due and payable principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $25 million or more;

(5) failure by any Obligor to pay final judgments aggregating in excess of $25 million, net of any applicable insurance, the carrier or underwriter with respect to which has acknowledged liability in writing, which judgments are not paid, discharged or stayed for a period of 60 days after such judgment or judgments become final and non-appealable; and

(6) certain events of bankruptcy or insolvency with respect to the Company, any of its Significant Subsidiaries or any group of Obligors that, taken together as a whole, would constitute a Significant Subsidiary.

If an Event of Default (other than an Event of Default with respect to certain events of bankruptcy or insolvency with respect to the Company or any of its Significant Subsidiaries or any group of Obligors that, taken together as a whole, would constitute a Significant Subsidiary) occurs and is continuing, then and in every such case, the Trustee or the holders of not less than 25% in aggregate principal amount of the then outstanding Notes may declare the principal amount, together with any accrued and unpaid interest and additional interest, if any, and premium, if any, on all the Notes and Guarantees then outstanding to be due and payable, by a notice in writing to the Company (and to the Trustee, if given by holders) specifying the Event of Default and that it is a notice of acceleration and, upon delivery of such notice, the principal amount, together with any accrued and unpaid interest and additional interest, if any, and

premium, if any, on all Notes and Guarantees then outstanding will become immediately due and payable. Upon the occurrence of specified Events of Default relating to bankruptcy, insolvency or reorganization with respect to the Company or any of its Significant Subsidiaries or any group of Obligors that, taken together as a whole, would constitute a Significant Subsidiary, the principal amount, together with any accrued and unpaid interest and premium and additional interest, if any, will immediately and automatically become due and payable, without

the necessity of notice or any other action by any Person. Holders of the Notes may not enforce the Indenture, the Notes or the Guarantees except as provided in the Indenture. Subject to certain limitations, holders of a majority in principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee shall be under no obligation to exercise any of the rights or powers at the request or direction of any of the holders unless such holders shall have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may withhold from holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest.

Notwithstanding clause (3) of the first paragraph above or any other provision of the Indenture, any failure to perform, or breach of, any covenant or agreement pursuant to Certain Covenants Reports, shall not be a Default or an Event of Default until the 121st day after the Company has received the notice referred to in clause (3) of the first paragraph above (at which point, unless cured or waived, such failure to perform or breach shall constitute an Event of Default). Prior to such 121st day, remedies against the Company for any such failure or breach will be limited to additional interest at a rate per year equal to 0.25% of the principal amount of the Notes from the 60th day following such notice to and including the 120th day following such notice.

The holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may on behalf of the holders of all of the Notes rescind an acceleration or waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of principal of, premium, if any, or interest on the Notes or the Guarantees.

The Company is required to deliver to the Trustee annually statements regarding compliance with the Indenture.

No Personal Liability of Directors, Officers, Employees or Stockholders

No past, present or future director, officer, employee, agent, manager, partner, member, incorporator or stockholder of any Obligor (or of any stockholder of the Company), in such capacity, will have any liability for any obligations of any Obligor under the Notes, the Indenture or the Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes and the Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Legal Defeasance and Covenant Defeasance

The Company may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Guarantors discharged with respect to their Guarantees *(Legal Defeasance)* except for:

(1) the rights of holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, and interest on such Notes when such payments are due from the trust referred to below;

(2) the Company s obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Company s obligations in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have the obligations of the Company and the Guarantors released with respect to certain covenants that are described in the Indenture *(Covenant Defeasance)* and thereafter any omission to comply with those covenants shall not constitute a

Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under Events of Default and Remedies will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the holders of the Notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the outstanding Notes on the stated maturity or on the applicable redemption date, as the case may be, and the Company must specify whether the Notes are being defeased to maturity or to a particular redemption date;

(2) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an opinion of counsel reasonably acceptable to the Trustee confirming that:

(a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or

(b) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an opinion of counsel reasonably acceptable to the Trustee confirming that the holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from transactions occurring contemporaneously with the borrowing of funds, or the borrowing of funds, to be applied to such deposit);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound;

(6) the Company must deliver to the Trustee an officers certificate stating that the deposit was not made by the Company with the intent of preferring the holders of Notes over the other creditors of the Company with the intent of defeating, hindering, delaying or defrauding creditors of the Company or others; and

(7) the Company must deliver to the Trustee an officers certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Transfer and Exchange

A holder may transfer or exchange the Notes in accordance with the Indenture. The Registrar and the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and the Company

may require a holder to pay any taxes and fees required by law or permitted by the Indenture. The Company is not required to transfer or exchange any Note selected for redemption. Also, the Company is not required to transfer or exchange any Note for a period of 15 days before a selection of Notes to be redeemed. The registered holder of a Note will be treated as the owner of it for all purposes.

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Amendment, Supplement and Waiver

Except as provided in the next three succeeding paragraphs, the Indenture or the Notes may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing default or compliance with any provision of the Indenture or the Notes may be waived with the consent of the holders of a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, the Notes).

Without the consent of each holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting holder):

(1) reduce the principal amount of Notes whose holders must consent to an amendment, supplement or waiver,

(2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described above under the caption Repurchase at the Option of Holders),

(3) reduce the rate of or change the time for payment of interest on any Note,

(4) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the Notes (except a rescission of acceleration of the Notes by the holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration),

(5) make any Note payable in money other than that stated in the Notes,

(6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of holders of Notes to receive payments of principal of or premium, if any, or interest on the Notes,

(7) waive a redemption payment with respect to any Note (other than a payment required by one of the conditions described above under the captions; Repurchase at the Option of Holders Change of Control and Asset Sales),

(8) contractually subordinate the Notes or the Guarantees to any other Indebtedness; or

(9) make any change in the foregoing amendment and waiver provisions.

Notwithstanding the foregoing, without notice to or the consent of any holder of Notes, the Obligors and the Trustee may amend or supplement the Indenture or the Notes to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes or Guarantees in addition to or in place of certificated Notes or Guarantees, to provide for the assumption of the Obligors obligations to holders of Notes in the case of a merger, consolidation or disposition of all or substantially all assets, to make any change that would provide any additional rights or benefits to the holders of Notes or that does not adversely affect the legal rights under the Indenture of any such holder, to comply with requirements of the SEC in order to effect or maintain the qualification of the Indenture under the TIA, to comply with requirements of applicable Gaming Laws or to provide for requirements imposed by applicable Gaming Authorities, to allow any Guarantor to execute a Guarantee with respect to the Notes, to evidence and provide for the acceptance of an appointment of a successor trustee, to provide for the issuance of additional Notes in accordance with the provisions set forth in the Indenture or to conform the Indenture or the Notes to this Description of the Notes.

In addition, any amendment which releases any Guarantor from its obligations under any Guarantee (except as specified in the Guarantee release provisions contained in the Indenture prior to any such amendment) will require the consent of the holders of at least 66% in aggregate principal amount of the Notes then outstanding, if such amendment would adversely affect the rights of holders of Notes. The consent of the Noteholders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

Governing Law

The Indenture provides that it, the Notes and the Guarantees will be governed by, and construed in accordance with, the laws of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all Notes issued thereunder, when:

(1) either:

(a) all Notes that have been authenticated (except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust), have been delivered to the Trustee for cancellation; or

(b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption (and all conditions to such redemption having been satisfied or waived) or otherwise or will become due and payable within one year and the Company or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium and accrued interest to the date of maturity or redemption;

(2) the Company or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and

(3) the Company has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Company must deliver an officers certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Upon compliance with the foregoing, the Trustee shall execute proper instrument(s) acknowledging the satisfaction and discharge of all of the Company s obligations under the Notes and the Indenture.

Concerning the Trustee

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue in certain circumstances or resign. The holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. In case an Event of Default shall occur (which shall not be cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. However, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at

the request of any holder of Notes, unless such holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

Certain Definitions

Acquired Debt means, with respect to any specified Person, Indebtedness of another Person and any of such other Person s Subsidiaries existing at the time such other Person becomes a Subsidiary of such Person or at the time it merges or consolidates with such Person or any of such Person s Subsidiaries or is assumed by such Person or any Subsidiary of such Person in connection with the acquisition of assets from such other Person and in each case not Incurred by such Person or any Subsidiary of such Person or such other Person in connection with, or in anticipation or contemplation of, such other Person becoming a Subsidiary of such Person or such acquisition, merger or consolidation.

additional interest means all amounts, if any, payable pursuant to the provisions relating to additional interest described in this prospectus under the heading The Exchange Offer Filing of Registration Statements.

Affiliate means, when used with reference to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, the referent Person. For the purposes of this definition, the term control when used with respect to any specified Person means the power to direct or cause the direction of management or policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms affiliated, controlling, and controlled have meanings correlative of the foregoing. None of the Initial Purchasers of the Notes nor any of their respective Affiliates shall be deemed, solely by virtue of acting in such capacity, to be an Affiliate of any Obligor or of any of their respective Affiliates.

Applicable Premium means with respect to any Note on any redemption date, as determined by the Company, the greater of:

(1) 1.0% of the principal amount of the Note; and

(2) the excess of:

(a) the present value at such redemption date of (i) the redemption price of the Note at December 1, 2011 (such redemption price being set forth in the table appearing above under the caption Optional Redemption) plus (ii) all required interest payments due on the Note through December 1, 2011 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over

(b) the principal amount of the Note.

Asset Acquisition means:

(1) an Investment by any Obligor in any other Person pursuant to which such Person shall become an Obligor or a Restricted Subsidiary of an Obligor or shall be merged into, or with any Obligor or Restricted Subsidiary of an Obligor, or

(2) the acquisition by any Obligor of assets of any Person comprising a division or line of business of such Person or all or substantially all of the assets of such Person.

Asset Sale means any direct or indirect sale, issuance, conveyance, transfer, lease (other than operating leases entered into in the ordinary course of business), assignment or other disposition (for purposes of this definition, each a *disposition*) by any Obligor (including, without limitation, pursuant to any sale and leaseback transaction or any merger or consolidation of any Restricted Subsidiary of the Company with or into another Person (other than another

Obligor) whereby such Restricted Subsidiary shall cease to be a Restricted Subsidiary of the Company) to any Person of:

(1) any property or assets of any Obligor (other than Capital Stock of any Unrestricted Subsidiary) to the extent that any such disposition is not in the ordinary course of business of such Obligor, or

(2) any Capital Stock of any Restricted Subsidiary (other than directors qualifying shares or shares required by law to be held by a Person other than the Company or a Restricted Subsidiary),

other than, in both cases:

(a) any disposition to the Company,

(b) any disposition to any Obligor or Restricted Subsidiary,

(c) any transaction or series of related transactions resulting in Net Cash Proceeds to such Obligor of less than $20 million,

(d) any transaction that is consummated in accordance with Article V,

(e) the sale or discount, in each case without recourse (direct or indirect), of accounts receivable arising in the ordinary course of business of the Company or such Restricted Subsidiary, as the case may be, but only in connection with the compromise or collection thereof,

(f) any Permitted Lien or any other pledge, assignment by way of collateral security, grant of security interest, hypothecation or mortgage, permitted by this Indenture or any foreclosure, judicial or other sale, public or private, by the pledgee, assignee, mortgagee or other secured party of the subject assets,

(g) a disposition of assets constituting a Permitted Investment or a Restricted Payment that is permitted by the covenant described above under the caption Certain Covenants Restricted Payments,

(h) transfers of damaged, worn-out or obsolete equipment or assets that, in the Company s reasonable judgment, are no longer used or useful in the business of the Company or its Restricted Subsidiaries, or

(i) sales or grants of licenses or sublicenses to use the patents, trade secrets, know-how and other intellectual property, and licenses, leases or subleases of other assets of the Company or any Restricted Subsidiary to the extent not materially interfering with the business of the Company and the Restricted Subsidiaries.

Bank Credit Agreement means the credit facility provided to the Company pursuant to the Credit Agreement, dated as of November 10, 2005, as amended, by and among the Company, the financial institutions from time to time named therein, and Wells Fargo Bank, N.A., as Joint Lead Arranger and Syndication Agent, Deutsche Bank Securities Inc., as Joint Lead Arranger, the Documentation Agents and Managing Agents party thereto, and Deutsche Bank Trust Company Americas (*DBTCA*), as Administrative Agent, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, in each case as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise), refinanced (including by means of sales of debt securities to institutional investors or other purchasers), modified, substituted or otherwise restructured (including, but not limited to, the inclusion of additional borrowers thereunder), in whole or in part from time to time whether or not with the same agent, trustee, representative lenders or holders and irrespective of any changes in the terms and conditions thereof. Without limiting the generality of the foregoing, the term Bank Credit Agreement shall include agreements in respect of Interest Swap Obligations and other Hedging Obligations with lenders party to the Bank Credit Agreement or their affiliates.

Bankruptcy Law means the United States Bankruptcy Code and any other bankruptcy, insolvency, receivership, reorganization, moratorium or similar law providing relief to debtors, in each case, as from time to time amended and applicable to the relevant case.

Board means (1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board; (2) with respect to a partnership, the board of directors (or any committee

thereof duly authorized to act on behalf of such board) or other similar governing body of the controlling general partner of the partnership; (3) with respect to a limited liability company, the Person or Persons who are the managing member, members or managers or any controlling committee or managing member, members or managers thereof; and (4) with respect to any other Person, the board or committee or other body of such Person serving a similar function.

Capital Stock means:

(1) with respect to any Person that is a corporation, any and all shares, rights, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of common stock and preferred stock of such Person, and

(2) with respect to any Person that is not a corporation, any and all partnership, membership or other equity interests of such Person.

Capitalized Lease Obligation means, as to any Person, the discounted rental stream payable by such Person that is required to be classified and accounted for as a capital lease obligation under GAAP and, for purposes of this definition, the amount of such obligation at any date shall be the capitalized amount of such obligation at such date, determined in accordance with GAAP. The final maturity of any such obligation shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without penalty.

Cash Equivalents means:

(1) Government Securities;

(2) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within 12 months from the date of acquisition thereof by the Company or any Restricted Subsidiary and, at the time of acquisition, having one of the two highest ratings obtainable from either S&P or Moody s;

(3) certificates of deposit, eurodollar time deposits or bankers acceptances maturing within 12 months from the date of acquisition thereof by the Company or any Restricted Subsidiary and issued by any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia or any U.S. branch of a foreign bank having, at the date of acquisition of the applicable Cash Equivalent, (a) combined capital and surplus of not less than $500 million and (b) a rating of A- (or the equivalent) from S&P or A3 (or the equivalent) from Moody s or at least the equivalent rating from a nationally recognized rating agency;

(4) repurchase obligations with a term of not more than seven days after the date of acquisition thereof by the Company or any Restricted Subsidiary for underlying securities of the types described in clauses (1), (2), (3) and (5) hereof, entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5) commercial paper having a rating of at least P-1 from Moody s or a rating of at least A-1 from S&P on the date of acquisition thereof by the Company or any Restricted Subsidiary;

(6) debt obligations of any corporation maturing within 12 months after the date of acquisition thereof by the Company or any Restricted Subsidiary, having a rating of at least P-1 or aaa from Moody s or A-1 or AAA from S on the date of such acquisition; and

(7) mutual funds and money market accounts investing at least 90% of the funds under management in instruments of the types described in clauses (1) through (6) above and, in each case, maturing within the period specified above for such instrument after the date of acquisition thereof by any Obligor or Restricted Subsidiary.

Casino means any gaming establishment and other property or assets directly ancillary thereto or used in connection therewith, including any building, restaurant, hotel, theater, parking facilities, retail shops, land, golf courses and other

recreation and entertainment facilities, marina, vessel, barge, ship and equipment.

Change of Control means the occurrence of any of the following:

(1) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one transaction or a series of related transactions, of all or substantially all of the assets of the Company, or the Company and its Restricted Subsidiaries taken as a whole, to any

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person (as such term is used in Section 13(d)(3) of the Exchange Act) other than to a Permitted Holder or a Guarantor and other than a transaction where the holders of the Capital Stock of the Company immediately prior to such transaction own, directly or indirectly, not less than a majority of the Capital Stock of the acquiring person,

(2) the adoption, or, if applicable, the approval of any requisite percentage of the Company s stockholders of a plan relating to the liquidation or dissolution of the Company,

(3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person (as defined above) (other than a Permitted Holder) becomes the beneficial owner (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that a person shall be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition), directly or indirectly, of more than 50% of the Voting Stock of the Company (measured by voting power rather than number of shares), or

(4) during any consecutive two-year period, individuals who at the beginning of such period constituted the Board of the Company (together with any new directors whose election to such Board or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of the Company then in office.

Consolidated Coverage Ratio means, with respect to any Person on any date of determination, the ratio of:

(1) Consolidated EBITDA for the period of four consecutive fiscal quarters most recently ended prior to such date for which internal financial reports are available, ended not more than 135 days prior to such date, to

(2) Consolidated Interest Expense during such period;

provided, that the Consolidated Coverage Ratio shall be calculated giving pro forma effect, as of the beginning of the applicable period, to any Asset Acquisition, Incurrence, repayment or redemption of Indebtedness (including the Notes), issuance or redemption of Disqualified Capital Stock, Asset Sale, designation of an Unrestricted Subsidiary as a Restricted Subsidiary or designation of a Restricted Subsidiary as an Unrestricted Subsidiary, at any time during or subsequent to such period, but on or prior to the applicable Determination Date.

In making such computation, Consolidated Interest Expense:

(1) attributable to any Indebtedness bearing a floating interest rate shall be computed on a pro forma basis as if the rate in effect on the date of computation had been the applicable rate for the entire period (except that such interest on Indebtedness, to the extent covered by agreements relating to Interest Swap Obligations, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements), or

(2) attributable to interest on any Indebtedness under a revolving Credit Facility shall be computed on a pro forma basis based upon the average daily balance of such Indebtedness outstanding during the applicable period.

It is understood that the Company may rely on internal or publicly reported financial reports even though there may be subsequent adjustments (including review and audit adjustments) to such financial statements. For avoidance of doubt, any action taken or not taken in compliance with a covenant in this Indenture which is based upon or made in reliance on a computation of the Consolidated Coverage Ratio by the Company based on such internal or publicly reported financial statements, shall be deemed to continue to

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comply with the applicable covenant, notwithstanding any subsequent adjustments that may result in changes to such internal or publicly reported financial statements.

For purposes of calculating Consolidated EBITDA and Consolidated Interest Expense of the Company for the most recently completed period of four full fiscal quarters ending on the last day of the last quarter for which internal financial statements are available (such period of four fiscal quarters, the *Measurement Period*), not more than 135 days prior to the transaction or event giving rise to the need to calculate the Consolidated EBITDA and Consolidated Interest Expense,

(1) any Person that is a Restricted Subsidiary on such Determination Date (or would become a Restricted Subsidiary on such Determination Date in connection with the transaction that requires the determination of the Consolidated Coverage Ratio) shall be deemed to have been a Restricted Subsidiary at all times during such Measurement Period,

(2) any Person that is not a Restricted Subsidiary on such Determination Date (or would cease to be a Restricted Subsidiary on such Determination Date in connection with the transaction that requires the determination of the Consolidated Coverage Ratio) will be deemed not to have been a Restricted Subsidiary at any time during such Measurement Period,

(3) if the Company or any Restricted Subsidiary shall have in any manner

(A) acquired (including through an Asset Acquisition or the commencement of activities constituting such operating business) any operating business or commenced operation of any Project during such Measurement Period or after the end of such Measurement Period and on or prior to the Determination Date, or

(B) disposed of (including by way of an Asset Sale or the termination or discontinuance of activities constituting such operating business) any operating business during such Measurement Period or after the end of such Measurement Period and on or prior to the Determination Date,

such calculation shall be made on a pro forma basis in accordance with GAAP as if, in the case of an Asset Acquisition or the commencement of activities constituting such operating business or operation of such Project, all such transactions had been consummated or effected on the first day of such Measurement Period and, in the case of an Asset Sale or termination or discontinuance of activities constituting such operating business, all such transactions had been consummated prior to the first day of such Measurement Period; *provided*, *however*, that (i) such pro forma adjustment shall not give effect to the Consolidated EBITDA of any acquired Person to the extent that such Person s net income would be excluded pursuant to clause (6) of the definition of Consolidated Net Income and (ii) such pro forma adjustment shall give effect to any pro forma expense and cost reductions that have occurred or are reasonably expected to occur within the 12-month period following the consummation of the transaction, in the reasonable judgment of the chief financial officer or chief accounting officer of the Company (regardless of whether those expense or cost savings could then be reflected in pro forma financial statements in accordance with Regulation S-X promulgated under the Securities Act or any other regulation or policy of the SEC related thereto), provided that such adjustments are set forth in an officer s certificate signed by the chief financial officer or chief accounting officer of the Company which states (A) the amount of such adjustment or adjustments, (B) that such adjustment or adjustments are based on the reasonable good faith belief of the Company at the time of such execution and (C) that any related incurrence of Indebtedness is permitted pursuant to this Indenture; and

(4) any Indebtedness Incurred and proceeds thereof received and applied as a result of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio will be deemed to have been so Incurred, received and applied on the first day of such Measurement Period.

Consolidated EBITDA means, with respect to any Person for any period, the sum (without duplication) of:

(1) the Consolidated Net Income of such Person for such period, plus

(2) to the extent that any of the following shall have been taken into account in determining such Consolidated Net Income, and without duplication:

(a) all income taxes of such Person and its Restricted Subsidiaries paid or accrued in accordance with GAAP for such period (other than income taxes attributable to extraordinary or nonrecurring gains or losses or taxes attributable to sales or dispositions of assets outside the ordinary course of business),

(b) the Consolidated Interest Expense of such Person for such period,

(c) the amortization expense (including the amortization of deferred financing charges) and any amortization or write-off of goodwill or other intangible assets and depreciation expense for such Person and its Restricted Subsidiaries for such period,

(d) all other non-cash items (other than non-cash interest) of such Person or any of its Restricted Subsidiaries reducing such Consolidated Net Income for such period, other than any non-cash item for such period that requires the accrual of or a reserve for cash charges for any future period (except as otherwise provided in clause (E) below) and

(e) any non-recurring costs or expenses of an acquired company or business incurred in connection with the purchase or acquisition of such acquired company or business by such Person and any non-recurring adjustments necessary to conform the accounting policies of the acquired company or business to those of such Person, less

(3) (a) all non-cash items of such Person or any of its Restricted Subsidiaries increasing such Consolidated Net Income for such period other than the accrual of revenue in the ordinary course of business, and (b) all cash payments during such period relating to non-cash items that were added back in determining Consolidated EBITDA in any prior period, plus

(4) pre-opening expenses related to a Project.

Consolidated Interest Expense means, with respect to any Person for any period, the sum of:

(1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization of original issue discount, amortization or write-off of deferred financing costs, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capitalized Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers acceptance financings, and net payments (if any) pursuant to Hedging Obligations or Interest Swap Obligations); *provided, however*, that Consolidated Interest Expense shall not include either (x) amortization or write-offs of deferred financing costs related to the original issuance of the Notes or any financing consummated prior thereto or (y) write-offs relating to termination of interest rate swap arrangements related to the original issuance of the Notes, and

(2) the consolidated interest of such Person and its Restricted Subsidiaries that was capitalized during such period, and

(3) any interest accruing on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries, and

(4) the product of:

(a) all dividend payments on any series of preferred stock of such Person or any of its Restricted Subsidiaries (other than dividends paid in Qualified Capital Stock); *provided*

that with respect to any series of preferred stock that did not pay cash dividends during such period but that is required to pay cash dividends during any period prior to the maturity date of the Notes, cash dividends shall be deemed to have been paid with respect to such series of preferred stock during the period of accrual for purposes of this clause (4); times

(b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory income tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

Consolidated Net Income means, with respect to any Person for any period, the aggregate net income (or loss) of such Person and its Restricted Subsidiaries for such period on a consolidated basis, determined in accordance with GAAP; *provided*, *however*, that there shall be excluded therefrom:

(1) net after-tax gains and losses from all sales or dispositions of assets outside of the ordinary course of business,

(2) net after-tax extraordinary or non-recurring gains or losses and losses on early extinguishment of debt,

(3) the effect of marking to market Interest Swap Obligations and Hedging Obligations permitted to be Incurred by clause (8) of Permitted Indebtedness,

(4) the cumulative effect of a change in accounting principles,

(5) any net income of any other Person if such other Person is not a Subsidiary and is accounted for by the equity method of accounting, except that such Person s equity in the net income of any such other Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such other Person during such period to such Person or a Restricted Subsidiary as a dividend or other distribution (subject, in case of a dividend or other distribution to a Restricted Subsidiary, to the limitation that such amount so paid to a Restricted Subsidiary shall be excluded to the extent that such amount could not at that time be paid to the Company due to the restrictions set forth in clause (6) below),

(6) any net income of any Restricted Subsidiary that is not a Guarantor if such Restricted Subsidiary is subject to restrictions, directly or indirectly, by contract, operation of law, pursuant to its charter or otherwise on the payment of dividends or the making of distributions by such Restricted Subsidiary to such Person except that:

(a) such Person s equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash that could have been paid or distributed during such period to such Person as a dividend or other distribution (provided that such ability is not due to a waiver of such restriction), and

(b) such Person s equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income regardless of any such restriction,

(7) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of Consolidated Net Income accrued at any time following the Issue Date,

(8) income or loss attributable to discontinued operations (including, without limitation, operations disposed of during such period whether or not such operations were classified as discontinued),

(9) in the case of a successor to such Person by consolidation or merger or as a transferee of such Person s assets, any net income or loss of the successor corporation prior to such consolidation, merger or transfer of assets,

(10) non-cash charges relating to compensation expense in connection with benefits provided under employee stock option plans, restricted stock plans and other equity compensation arrangements, and

(11) the net income (but not loss) of any Unrestricted Subsidiary, except that the Company s or any Restricted Subsidiary s equity in the net income of any Unrestricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Unrestricted Subsidiary during such period to the Company or a Restricted Subsidiary as a dividend or other distribution.

Consolidated Total Assets means, as of any Determination Date, the total amount of assets that would appear on a consolidated balance sheet of the Company and its Restricted Subsidiaries, determined on a consolidated basis in accordance with GAAP.

Core Businesses means (a) the gaming, card club, racing, sports, entertainment, amusement, lodging, restaurant, retail operations, service station operations, riverboat operations, real estate development and all other businesses and activities necessary for or reasonably related or incident thereto, including, without limitation, related acquisition, construction, development or operation of related truck stop, transportation, retail and other facilities designed to enhance any of the foregoing and (b) any of the types of pre-existing businesses being operated on land acquired (whether by purchase, lease or otherwise) by an Obligor, or similar types of businesses conducted by such Obligor after such acquisition of land, and all other businesses and activities necessary for or reasonably related or incident thereto, *provided* that such land was acquired by such Obligor for the purpose, determined in good faith by the Company, of ultimately conducting a business or activity described in clause (a) above at some time in the future.

Credit Facilities means, with respect to any Obligor, one or more debt facilities (including, without limitation, the Bank Credit Agreement) or commercial paper facilities with any combination of banks, other institutional lenders and other Persons extending financial accommodations or holding corporate debt obligations in the ordinary course of their business, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise), refinanced (including by means of sales of debt securities to institutional investors), modified, substituted or otherwise restructured (including, but not limited to, the inclusion of additional borrowers thereunder), in whole or in part from time to time by the same or different institutional investors or other purchasers. Without limiting the generality of the foregoing, the term Credit Facilities shall include agreements in respect of Interest Swap Obligations and other Hedging Obligations with lenders party to the Credit Facilities or their affiliates.

Default means any event that is or with the passage of time or the giving of notice or both would be an Event of Default.

Determination Date means, with respect to any calculation, the date on or as of which such calculation is made in accordance with the terms hereof.

Disqualified Capital Stock means any Capital Stock which by its terms (or by the terms of any security into which it is, by its terms, convertible or for which it is, by its terms, exchangeable at the option of the holder thereof), or upon the happening of any specified event (other than a Change of Control), is required to be redeemed or is redeemable (at the option of the holder thereof) at any time prior to the earlier of the repayment of all Notes or the stated maturity of the Notes or is exchangeable at the sole option of the holder (except upon a Change of Control) thereof for Indebtedness at any time prior to the earlier of the repayment of all Notes or the stated maturity of the Notes.

Domestic Restricted Subsidiary means any Restricted Subsidiary that is a Person organized under the laws of the United States or any state thereof or the District of Columbia.

Equity Interests means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

Equity Offering means any public or private sale of Qualified Capital Stock.

Event of Default means the occurrence of any of the events described under the caption Events of Default and Remedies, after giving effect to any applicable grace periods or notice requirements.

GAAP means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect from time to time; *provided* that, except as otherwise specifically provided, all calculations made for purposes of determining compliance with the terms of this Indenture shall utilize GAAP as in effect as of the Issue Date.

Gaming Approval means any governmental approval, license, permit, registration, qualification or finding of suitability relating to any gaming business, operation or enterprise.

Gaming Authority means any federal, state, local or tribal governmental authority, including, but not limited to, the Nevada State Gaming Control Board, the Nevada Gaming Commission, the Liquor Board of Elko County, the Mississippi Gaming Commission, the Mississippi State Tax Commission, the Missouri Gaming Commission, the Iowa Racing and Gaming Commission, the Iowa Division of Gaming Enforcement, the Colorado Division of Gaming, the Colorado Limited Gaming Control Commission, and the Indiana Gaming Commission, with regulatory oversight of, authority to regulate or jurisdiction over any existing or proposed gaming business, operation or enterprise owned, managed or operated by any Obligor.

Gaming Laws means all applicable provisions of all:

(1) constitutions, treaties, statutes or laws governing gaming operations (including without limitation card club casinos and pari-mutuel race tracks) and rules, regulations and ordinances of any Gaming Authority,

(2) Gaming Approvals, and

(3) orders, decisions, judgments, awards and decrees of any Gaming Authority.

Global Note means a permanent global note in registered form deposited with the Trustee, as a custodian for The Depository Trust Company or any other designated depositary.

Government Securities means marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency or instrumentality thereof and backed by the full faith and credit of the United States, in each case maturing within 12 months from the date of acquisition thereof by any Obligor or any Restricted Subsidiary.

Guarantee means a guarantee by a Guarantor of the Obligations of the Company arising under or in connection with the Notes.

Guarantor means each Material Subsidiary of the Company in existence on the Issue Date, any future Material Restricted Subsidiary of the Company and any future Subsidiary that is a guarantor under the Bank Credit Agreement, in each case which has guaranteed the obligations of the Company arising under or in connection with the Notes as required by this Indenture; provided that any Person constituting a Guarantor as described above shall cease to constitute a Guarantor when its respective Guarantee is released in accordance with the terms of this Indenture.

Hedging Obligations means all obligations of the Obligors or any Domestic Restricted Subsidiary that is not an Obligor arising under or in connection with any rate or basis swap, forward contract, commodity swap or option, equity or equity index swap or option, bond, note or bill option, interest rate option, foreign currency exchange transaction, cross currency rate swap, currency option, cap, collar or floor transaction, swap option, synthetic trust product, synthetic lease or any similar transaction or agreement.

Incur means, with respect to any Indebtedness of any Person or any Lien, to create, issue, incur (by conversion, exchange or otherwise), assume, guarantee or otherwise become liable in respect of such

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Indebtedness or Lien or the recording, as required pursuant to GAAP or otherwise, of any such Indebtedness on the balance sheet of such Person (and Incurrence, Incurred, Incurrable and Incurring shall have meanings correlative to the foregoing).

Indebtedness means with respect to any Person, without duplication, whether contingent or otherwise,

(1) any obligations for money borrowed,

(2) any obligation evidenced by bonds, debentures, notes, or other similar instruments,

(3) Letter of Credit Obligations and obligations in respect of other similar instruments,

(4) any obligations to pay the deferred purchase price of property or services, including Capitalized Lease Obligations,

(5) the maximum fixed redemption or repurchase price of Disqualified Capital Stock,

(6) Indebtedness of other Persons of the types described in clauses (1) through (5) above, secured by a Lien on the assets of such Person or its Restricted Subsidiaries, valued, in such cases where the recourse thereof is limited to such assets, at the lesser of the principal amount of such Indebtedness or the fair market value of the subject assets,

(7) Indebtedness of other Persons of the types described in clauses (1) through (5) above, guaranteed by such Person or any of its Restricted Subsidiaries, and

(8) the net obligations of such Person under Hedging Obligations and Interest Swap Obligations,

provided that the amount of any Indebtedness at any date shall be calculated as the outstanding balance of all unconditional obligations and the maximum liability supported by any contingent obligations at such date.

Notwithstanding the foregoing, Indebtedness shall not be construed to include trade payables, deferred payments in respect of services by employees, credit on open account, accrued liabilities, provisional credit, daylight overdrafts or similar items. For purposes of this definition, the maximum fixed redemption or repurchase price of any Disqualified Capital Stock that does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Capital Stock as if such Disqualified Capital Stock were repurchased on the date on which Indebtedness shall be required to be determined pursuant to this Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Capital Stock, such fair market value shall be determined in good faith by the Board of the issuing Person. Unless otherwise specified in this Indenture, the amount outstanding at any time of any Indebtedness issued with original issue discount is the full amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP.

Interest Swap Obligations means the net obligations of any Person under any interest rate protection agreement, interest rate future, interest rate option, interest rate swap, interest rate cap, collar or floor transaction or other interest rate Hedging Obligation.

Investment by any Person means, without duplication, any direct or indirect:

(1) loan, advance or other extension of credit or capital contribution (valued at the fair market value thereof as of the date of contribution or transfer) (by means of transfers of cash or other property or services for the account or use of

other Persons, or otherwise, other than a Permitted Lien under clause (15) of the definition of Permitted Liens); and

(2) purchase or acquisition of Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by any other Person (whether by merger, consolidation, amalgamation or otherwise and whether or not purchased directly from the issuer of such securities or evidences of Indebtedness); and

(3) guarantee or assumption of any Indebtedness or any other obligation of any other Person (except for any assumption of Indebtedness for which the assuming Person receives consideration at the time of such assumption in the form of property or assets with a fair market value at least equal to the principal amount of the Indebtedness assumed); and

(4) all other items that would be classified as investments on a balance sheet of such Person prepared in accordance with GAAP.

Notwithstanding the foregoing, the purchase or acquisition of any securities, Indebtedness or Productive Assets of any other Person solely with Qualified Capital Stock shall not be deemed to be an Investment. The term Investments shall also exclude extensions of trade credit and advances to customers and suppliers to the extent made in the ordinary course of business on ordinary business terms. The amount of any non-cash Investment shall be the fair market value of such Investment, as determined in good faith by management of the Company or the affected Restricted Subsidiary, as applicable, unless the fair market value of such Investment exceeds $20 million, in which case the fair market value shall be determined in good faith by the Board of such Person as of the time such Investment is made or such other time as specified in this Indenture. Unless otherwise required by this Indenture, the amount of any Investment shall not be adjusted for increases or decreases in value, or write-ups, writedowns or write-offs subsequent to the date such Investment is made with respect to such Investment.

Issue Date means May 27, 2009.

Letter of Credit Obligations means Obligations of an Obligor arising under or in connection with letters of credit.

Lien means, with respect to any assets, any mortgage, lien, pledge, charge, security interest or other similar encumbrance (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof.

Material Restricted Subsidiary means any Subsidiary which is both a Material Subsidiary and a Restricted Subsidiary.

Material Subsidiary means any Subsidiary of the Company organized under the laws of the United States or any state thereof or the District of Columbia, other than a Non-Material Subsidiary.

Moody s means Moody s Investors Services, Inc., and its successors.

Net Cash Proceeds means with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents received by any Obligor from such Asset Sale, net of:

(1) reasonable out-of-pocket expenses, fees and other direct costs relating to such Asset Sale (including, without limitation, brokerage, legal, accounting and investment banking fees and sales commissions),

(2) taxes paid or payable after taking into account any reduction in tax liability due to available tax credits or deductions and any tax sharing arrangements,

(3) repayment of Indebtedness (other than any intercompany Indebtedness) that is required by the terms thereof to be repaid or pledged as cash collateral, or the holders of which otherwise have a contractual claim that is legally superior to any claim of the holders (including a restriction on transfer) to the proceeds of the subject assets, in connection with such Asset Sale, and

(4) appropriate amounts to be provided by any applicable Obligor, as a reserve, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by any applicable Obligor including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale and any reserve for adjustment to the sale price received in such Asset Sale for so long as such reserve is held.

Non-Material Subsidiaries means all Restricted Subsidiaries designated by the Company to the Trustee as Non-Material Subsidiaries; *provided*, that (i) no such Restricted Subsidiary may have assets (attributable to the Company s and its Restricted Subsidiaries equity interest in such entity) having a fair market value in excess of $5 million and (ii) all such Restricted Subsidiaries may not in the aggregate at any time have assets (attributable to the Company s and its Restricted Subsidiaries equity interest in such entity) constituting more than 1.5% of the Company s Consolidated Total Assets based on the Company s most recent internal financial statements.

Non-Recourse Indebtedness means Indebtedness of an Unrestricted Subsidiary

(1) as to which none of the Obligors:

(a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness),

(b) is directly or indirectly liable (as a guarantor or otherwise), or

(c) constitutes the lender; and

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness (other than the Notes) of any Obligor to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

Obligations means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities, whether absolute or contingent, payable under the documentation governing any Indebtedness.

Obligor means the Company or any Guarantor, and any successor obligor upon the Notes and the Guarantees, respectively.

Paying Agent means the Person so designated by the Company in accordance with the Indenture, initially the Trustee.

Permitted Holder means the collective reference to (i) the Estate of Craig H. Neilsen, deceased, and the heirs, ancestors, lineal descendants, stepchildren, legatees and legal representatives of Craig H. Neilsen or his Estate, and the trustees from time to time of any bona fide trusts of which Craig H. Neilsen or one or more of the foregoing are the sole beneficiaries or grantors thereof, including but not limited to The Craig H. Neilsen Foundation, Ray H. Neilsen and his estate, spouse, heirs, ancestors, lineal descendants, stepchildren, legatees and legal representatives, and the trustees from time to time of any bona fide trusts of which one or more of the foregoing are the sole beneficiaries or grantors thereof and (ii) any Person controlled, directly or indirectly, by one or more of the foregoing Persons referred to in the immediately preceding clause (i), whether through the ownership of voting securities, by contract, in a fiduciary capacity, through possession of a majority of the voting rights (as directors and/or members) of a not-for-profit entity, or otherwise.

Permitted Indebtedness means, without duplication, each of the following:

(1) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Issue Date (other than Indebtedness under the Bank Credit Agreement) as reduced by the amount of any scheduled amortization payments or mandatory prepayments when actually paid or permanent reductions thereof;

(2) Indebtedness Incurred by the Company under the Notes and by the Guarantors under the Guarantees;

(3) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to the Bank Credit Agreement or other Credit Facilities; *provided* that the aggregate principal amount of all such Indebtedness outstanding under this clause (3) as of any date of Incurrence (after giving pro

forma effect to the application of the proceeds of such Incurrence), including all Permitted Refinancing Indebtedness Incurred to repay, redeem, extend, refinance, renew, replace, defease or refund any Indebtedness Incurred pursuant to this clause (3), shall not exceed $1.8 billion, to be reduced dollar-for-dollar by the aggregate amount of all Net Cash Proceeds of Asset Sales applied by an Obligor to repay Indebtedness under the Credit Facilities pursuant to the covenant described above under the caption Repurchase at the Option of Holders Asset Sales ;

(4) Indebtedness of a Restricted Subsidiary to the Company or any Guarantor, or of the Company to any Guarantor, for so long as such Indebtedness is held by an Obligor; *provided* that if as of any date any Person other than an Obligor acquires any such Indebtedness or holds a Lien in respect of such Indebtedness (other than a Permitted Lien), such acquisition or holding shall be deemed to be an Incurrence of Indebtedness not constituting Permitted Indebtedness under this clause (4) by the issuer of such Indebtedness;

(5) Permitted Refinancing Indebtedness;

(6) the Incurrence by Unrestricted Subsidiaries of Non-Recourse Indebtedness; provided that, if any such Indebtedness ceases to be Non-Recourse Indebtedness of an Unrestricted Subsidiary, such event shall be deemed to constitute an Incurrence of Indebtedness that is not permitted by this clause (6);

(7) (a) Indebtedness Incurred by the Company or any Restricted Subsidiary solely to finance the construction or acquisition or improvement of, or consisting of Capitalized Leased Obligations Incurred to acquire rights of use in, capital assets useful in the Company s or such Subsidiary s business, as applicable, and, in any such case, Incurred prior to or within 180 days after the construction, acquisition, improvement or leasing of the subject assets, not to exceed $75 million in aggregate principal amount outstanding at any time (including all Permitted Refinancing Indebtedness Incurred to repay, redeem, extend, refinance, renew, replace, defease or refund any Indebtedness Incurred pursuant to this clause (7)) for all of the Company and its Restricted Subsidiaries;

(8) Hedging Obligations and Interest Swap Obligations entered into not as speculative Investments but as hedging transactions designed to protect the Company and its Restricted Subsidiaries against fluctuations in interest rates in connection with Indebtedness otherwise permitted hereunder or against exchange rate risk or commodity pricing risk;

(9) Indebtedness of the Company or any Restricted Subsidiary arising in respect of performance bonds, completion guarantees and similar arrangements (to the extent that the Incurrence thereof does not result in the Incurrence of any obligation for the payment of borrowed money of others), in the ordinary course of business; *provided*, that such Indebtedness shall be Incurred solely in connection with the development, construction, improvement or enhancement of assets useful in the business of the Company and its Restricted Subsidiaries or the development, improvement or enhancement of the operations of the Company and its Restricted Subsidiaries;

(10) Indebtedness of the Company or any Restricted Subsidiary arising in respect of letters of credit, bankers acceptances, worker s compensation claims, payment obligations in connection with self-insurance or similar obligations, surety bonds and appeal bonds (to the extent that the Incurrence thereof does not result in the Incurrence of any obligation for the payment of borrowed money of others), in the ordinary course of business, in amounts and for the purposes customary in such Person s industry;

(11) the guarantee by a Guarantor of Indebtedness of the Company or of any other Guarantor, or the guarantee by a Restricted Subsidiary of Indebtedness of the Company or any other Restricted Subsidiary; *provided* such Indebtedness was outstanding on the Issue Date or was, at the time it was incurred, permitted to be incurred by the Company or such Guarantor or Restricted Subsidiary under this Indenture; *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes, then the guarantee may only be incurred by a Guarantor and shall be

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subordinated to, or *pari passu* with, as applicable, the Notes to the same extent as the Indebtedness guaranteed;

(12) the issuance by any of the Company s Restricted Subsidiaries to the Company or to any of its Restricted Subsidiaries of shares of preferred stock; *provided*, *however*, that:

(a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than the Company or a Restricted Subsidiary; and

(b) any sale or other transfer of any such preferred stock to a Person that is not either the Company or a Restricted Subsidiary of the Company;

will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (12);

(13) Indebtedness in an amount not to exceed $25 million under a junior pay-in-kind note incurred in order to redeem or repurchase Capital Stock of the Company upon a final determination by any Gaming Authority of the unsuitability of a holder or beneficial owner of Capital Stock of the Company or upon any other requirement or order by any Gaming Authority having jurisdiction over the Company prohibiting a holder from owning, beneficially or otherwise, the Company s Capital Stock, *provided* that the Company has used its reasonable efforts to effect a disposition of such Capital Stock to a third party and has been unable to do so; *provided further* that such junior pay-in-kind note:

(a) is expressly subordinated to the Notes,

(b) provides that no installment of principal matures (whether by its terms, by optional or mandatory redemption or otherwise) earlier than three months after the maturity of the Notes,

(c) provides for no cash payments of interest, premium or other distributions earlier than six months after the maturity of the Notes and provides that all interest, premium or other distributions may only be made by distributions of additional junior pay-in-kind notes, which such in-kind distributions shall be deemed Permitted Indebtedness, and

(d) contains provisions whereby the holder thereof agrees that prior to the maturity or payment in full in cash of the Notes, regardless of whether any insolvency or liquidation has occurred against any Obligor, such holder will not exercise any rights or remedies or institute any action or proceeding with respect to such rights or remedies under such junior pay-in-kind note;

(14) Indebtedness arising from agreements of the Company or any Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Subsidiary otherwise permitted by this Indenture;

(15) the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Capital Stock in the form of additional shares of the same class of Disqualified Capital Stock;

(16) guarantees incurred in the ordinary course of business supporting obligations of suppliers, lessees and vendors; and

(17) Indebtedness in an aggregate principal amount (or accreted value, as applicable) outstanding under this clause (17) as of any date of Incurrence, including all Permitted Refinancing Indebtedness Incurred to repay, redeem, extend, refinance, renew, replace, defease or refund any Indebtedness Incurred pursuant to this clause (17), not to

exceed $100 million.

For purposes of this definition, it is understood that the Company may rely on internal or publicly reported financial reports even though there may be subsequent adjustments (including review and audit adjustments) to such financial statements. For avoidance of doubt, any incurrence of Permitted Indebtedness which is based upon or made in reliance on a computation based on such internal or publicly reported financial statements shall be deemed to continue to comply with the applicable covenant, notwithstanding any subsequent adjustments that may result in changes to such internal or publicly reported financial statements.

Permitted Investments means, without duplication, each of the following:

(1) Investments in cash (including deposit accounts with major commercial banks) and Cash Equivalents;

(2) Investments by the Company or a Restricted Subsidiary in the Company or any Restricted Subsidiary or any Person that is or will immediately become upon giving effect to such Investment, or as a result of which, such Person is merged, consolidated or liquidated into, or conveys substantially all of its assets to, an Obligor or a Restricted Subsidiary;

(3) Investments existing on the Issue Date;

(4) accounts receivable created or acquired in the ordinary course of business of the Company or any Restricted Subsidiary on ordinary business terms;

(5) Investments arising from transactions by the Company or a Restricted Subsidiary with trade creditors, contract parties, lessees or customers in the ordinary course of business (including any such Investment received pursuant to any plan of reorganization or similar arrangement pursuant to the bankruptcy or insolvency of such trade creditors, contract parties, lessees or customers or otherwise in settlement of a claim);

(6) Investments made as the result of non-cash consideration received from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption Repurchase at the Option of Holders Assets Sales ;

(7) Investments consisting of advances to (or guarantees of third party loans to) officers, directors and employees of the Company or a Restricted Subsidiary for travel, entertainment, relocation, purchases of Capital Stock of the Company or a Restricted Subsidiary permitted by the Indenture and analogous ordinary business purposes;

(8) Hedging Obligations and Interest Swap Obligations otherwise in compliance with this Indenture;

(9) any guarantee of Indebtedness permitted by the covenant described under Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock ; and

(10) other Investments in any Person having an aggregate fair market value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (10) that are at the time outstanding (after giving effect to any such Investments that are returned to the Company or any Subsidiary that made such prior Investment, without restriction, in cash on or prior to the date of any such calculation, but only up to the amount of the Investment made under this clause (10) in such Person), not to exceed the greater of (i) $50 million and (ii) 2.5% of Consolidated Total Assets.

Permitted Liens means:

(1) Liens in favor of the Company or Liens on the assets of any Guarantor so long as such Liens are held by another Obligor;

(2) Liens on property of a Person existing at the time such Person is acquired and becomes a Restricted Subsidiary or is merged into or consolidated with the Company or a Restricted Subsidiary; *provided* that such Liens were not Incurred in anticipation of such acquisition, merger or

consolidation and do not extend to any assets other than those of the acquired Person or the Person merged into or consolidated with the Company or such Restricted Subsidiary, as applicable;

(3) Liens on property existing at the time of acquisition thereof by any Obligor or Restricted Subsidiary; *provided* that such Liens were not Incurred in anticipation of such acquisition;

(4) Liens Incurred to secure Indebtedness (and customary obligations related thereto) permitted by clause (7) of the definition of Permitted Indebtedness, attaching to or encumbering only the subject assets and directly related property such as proceeds (including insurance proceeds) and products thereof and accessions, replacements and substitutions thereof;

(5) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business including Liens securing letters of credit issued in the ordinary course of business consistent with industry practice in connection therewith;

(6) Liens created by notice or precautionary filings in connection with operating leases or other transactions pursuant to which no Indebtedness is Incurred by the Company or any Restricted Subsidiary;

(7) Liens to secure Indebtedness (and customary obligations related thereto) permitted by clause (3) of the definition of Permitted Indebtedness;

(8) Liens existing on the Issue Date (other than Liens described in clause (7) above);

(9) Liens for taxes, assessments or governmental charges or claims (including, without limitation, Liens securing the performance of workers compensation, social security, or unemployment insurance obligations) that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as shall be required in conformity with GAAP shall have been made therefor;

(10) Liens on shares of any equity security or any warrant or option to purchase an equity security or any security which is convertible into an equity security issued by any Obligor that holds, directly or indirectly through a holding company or otherwise, a license under any applicable Gaming Laws; *provided* that this clause (10) shall apply only so long as such Gaming Laws provide that the creation of any restriction on the disposition of any of such securities shall not be effective and, if such Gaming Laws at any time cease to so provide, then this clause (10) shall be of no further effect;

(11) Liens on securities constituting margin stock within the meaning of Regulation T, U or X promulgated by the Board of Governors of the Federal Reserve System, to the extent that (i) prohibiting such Liens would result in the classification of the obligations of the Company under the Notes as a purpose credit and (ii) the Investment by any Obligor in such margin stock is permitted by this Indenture;

(12) Liens securing Permitted Refinancing Indebtedness (and customary obligations related thereto); *provided* that any such Lien attaches only to the assets encumbered by the predecessor Indebtedness (and customary obligations related thereto), unless the Incurrence of such Liens is otherwise permitted under this Indenture;

(13) Liens securing stay and appeal bonds or judgment Liens in connection with any judgment not giving rise to an Event of Default under paragraph (5) of the Events of Default;

(14) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business, in respect of obligations that are not yet delinquent, are bonded or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that adequate reserves shall have been established therefor in accordance with GAAP;

(15) easements, rights-of-way, zoning restrictions, reservations, covenants, encroachments and other similar charges or encumbrances in respect of real property which do not, individually or in the aggregate, materially interfere with the conduct of business by any Obligor;

(16) any interest or title of a lessor under any Capitalized Lease Obligation permitted to be incurred hereunder;

(17) Liens upon specific items of inventory or equipment and proceeds thereof, Incurred to secure obligations in respect of bankers acceptances issued or created for the account of any Obligor or Restricted Subsidiary in the ordinary course of business to facilitate the purchase, shipment, or storage of such inventory or equipment;

(18) Liens securing Letter of Credit Obligations permitted to be Incurred hereunder Incurred in connection with the purchase of inventory or equipment by an Obligor or Restricted Subsidiary in the ordinary course of business and secured only by such inventory or equipment, the documents issued in connection therewith and the proceeds thereof;

(19) Liens of a collection bank under Section 4-210 of the Uniform Commercial Code on items in the course of collection and normal and customary rights of setoff upon deposits of cash in favor of banks and other depository institutions;

(20) Liens in favor of the Trustee arising under this Indenture;

(21) Liens securing Interest Swap Obligations or Hedging Obligations that are permitted under this Indenture;

(22) Liens securing customary cash management obligations not otherwise prohibited by the Indenture; and

(23) Liens incurred in the ordinary course of business of the Company or any Restricted Subsidiary with respect to obligations that do not exceed $100 million at any one time outstanding.

Permitted Refinancing Indebtedness means any Indebtedness of the Company or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to repay, redeem, extend, refinance, renew, replace, defease or refund other Permitted Indebtedness of such Person arising under clause (1), (2), (3), (5), (7), (13) or (17) of the definition of Permitted Indebtedness or Indebtedness Incurred under the Consolidated Coverage Ratio test in the covenant described above under the heading Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock (any such Indebtedness, *Existing Indebtedness*); *provided* that:

(1) the principal amount of such Permitted Refinancing Indebtedness does not exceed the principal amount and accrued interest of such Existing Indebtedness (plus the amount of prepayment penalties, fees, premiums and expenses incurred or paid in connection therewith), except to the extent that the Incurrence of such excess is otherwise permitted by this Indenture;

(2) such Permitted Refinancing Indebtedness has a final maturity date on or later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, such Existing Indebtedness;

(3) if such Existing Indebtedness is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness has a final maturity date on or later than the final maturity date of, and is subordinated in right of payment to, the Notes on terms at least as favorable to the Holders of the Notes as those contained in the documentation governing the Indebtedness being repaid, redeemed, extended, refinanced, renewed, replaced, defeased or refunded;

(4) such Permitted Refinancing Indebtedness shall be Indebtedness solely of an Obligor or a Restricted Subsidiary obligated under such Existing Indebtedness, unless otherwise permitted by this Indenture; and

(5) if the Indebtedness being repaid, redeemed, extended, refinanced, renewed, replaced, defeased or refunded was incurred pursuant to clause (13) of the definition of Permitted Indebtedness, the Permitted Refinancing Indebtedness used to repay, redeem, extend, refinance, renew, replace, defease or refund such Indebtedness shall comply with the provisions of such clause (13).

Productive Assets means assets (including assets owned directly or indirectly through Capital Stock of a Restricted Subsidiary) of a kind used or usable in the businesses of the Obligors as they are conducted on the date of the Asset Sale or on any other determination date and any Related Business.

Project means any new facility developed or being developed by the Company or one of its Restricted Subsidiaries and any expansion, renovation or refurbishment of a facility owned by the Company or one of its Restricted Subsidiaries which expansion, renovation or refurbishment is reasonably expected to cost $40 million or more.

Qualified Capital Stock means any Capital Stock that is not Disqualified Capital Stock.

Registrar means the Person so designated by the Company in accordance with the Indenture, initially the Trustee.

Related Business means the gaming (including parimutuel betting) business and/or any and all businesses that in the good faith judgment of the Company are reasonably related to, necessary for, in support or anticipation of ancillary or complementary to or in preparation for (or required by a Gaming Authority to be developed, constructed, improved or acquired in connection with the licensing approval of such Casino or Casinos), the gaming business including, without limitation, the development, expansion or operation of any Casino (including any land-based, dockside, riverboat or other type of Casino), owned, or to be owned, by the Company or one of its Subsidiaries.

Restricted Investment means an Investment other than a Permitted Investment.

Restricted Subsidiary of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary. If no referent Person is specified, Restricted Subsidiary means a Restricted Subsidiary of the Company.

S&P means Standard & Poor s Rating Group, a division of The McGraw-Hill Industries, Inc., and its successors.

Significant Subsidiary means any Obligor, other than the Company, that would be a significant subsidiary as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of this Indenture.

Stated Maturity means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which such payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

Subsidiary, with respect to any Person, means:

(1) any corporation or comparably organized entity, a majority of whose voting stock (defined as any class of capital stock having voting power under ordinary circumstances to elect a majority of the Board of such Person) is owned, directly or indirectly, by any one or more of the Obligors, and

(2) any other Person (other than a corporation) in which any one or more of the Obligors, directly or indirectly, has at least a majority ownership interest entitled to vote in the election of directors, managers or trustees thereof or of which such Obligor is the managing general partner.

If no referent Person is specified, Subsidiary means a subsidiary of the Company.

Treasury Rate means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to December 1, 2011; *provided*, *however*, that if the period from the redemption date to December 1, 2011 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Unrestricted Subsidiary means any Subsidiary of the Company that is designated by the Board of the Company as its Unrestricted Subsidiary pursuant to a Board resolution; but only to the extent that such Subsidiary:

(a) has, or will have after giving effect to such designation, no Indebtedness other than Non-Recourse Indebtedness,

(b) is not party to any agreement, contract, arrangement or understanding with any Obligor unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to such Obligor than those that might be obtained at the time from Persons who are not Affiliates of such Obligor, or such agreement, contract, arrangement or understanding constitutes a Restricted Payment that is made in accordance with the covenant described above under the caption Certain Covenants Restricted Payments, a Permitted Investment, or an Asset Sale that is made in accordance with the covenant described above under the caption Repurchase at the Option of Holders-Asset Sales,

(c) is a Person with respect to which none of the Obligors has any direct or indirect obligation (i) to subscribe for additional Equity Interests or (ii) to maintain or preserve such Person s financial condition or to cause such Person to achieve any specified levels of operating results, and

(d) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of any Obligor.

Voting Stock of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of such Person.

Weighted Average Life to Maturity means, when applied to any Indebtedness at any date, the Company s calculations of the number of years obtained by dividing:

(1) the then outstanding aggregate principal amount of such Indebtedness into,

(2) the total of the products obtained by multiplying:

(a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof, by

(b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

BOOK-ENTRY, DELIVERY AND FORM

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered Note certificates will be issued in the aggregate principal amount of the Notes, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for issues of securities that DTC s participants (Direct Participants) deposit with DTC. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants).

The ownership interest of each actual purchaser of Notes (each, a Beneficial Owner) is recorded on the Direct and Indirect Participants records. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except as described below.

The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Notices and other communications from DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent with respect to Notes unless authorized by a Direct Participant in accordance with DTC s procedures. Under its usual procedures, DTC mails an omnibus proxy to issuers as soon as possible after the record date. The omnibus proxy assigns Cede & Co. s consenting or voting rights to those Direct Participants to whose accounts securities are credited on the record date (identified in a listing attached to the omnibus proxy).

Redemption proceeds, distributions, and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC s practice is to credit Direct Participants accounts upon DTC s receipt of funds and corresponding detailed information from an issuer, on the payment date in accordance with their respective holdings shown on DTC s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of Ameristar or DTC or its nominee or agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is our responsibility, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving us notice that it is unwilling or unable to continue as depository for the Notes, or if DTC ceases to be registered or in good

standing under the Exchange Act or other applicable statute or regulation. In the event that a successor depository is not obtained within 90 days, Note certificates are generally required to be printed and delivered. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered. The information in this section concerning DTC and DTC s book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the United States federal tax consequences of an exchange of outstanding notes for exchange notes in the exchange offer and the purchase, beneficial ownership and disposition of Notes. It is based on provisions of the U.S. Internal Revenue Code of 1986, as amended (the Code), existing and proposed Treasury regulations promulgated thereunder (the Treasury Regulations), and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change, possibly on a retroactive basis. No ruling from the Internal Revenue Service (the IRS) has been or will be sought by us with respect to any aspect of the transactions described herein. Accordingly, no assurance can be given that the IRS will agree with the views expressed in this summary, or that a court will not sustain any challenge by the IRS in the event of litigation. This summary does not address all of the U.S. federal income tax consequences that may be relevant to particular holders in light of their personal circumstances, or to certain types of holders that may be subject to special tax treatment (such as banks and other financial institutions, employee stock ownership plans, partnerships or other pass-through entities for U.S. federal income tax purposes (or investors in pass-through entities), former citizens or residents of the United States, controlled foreign corporations, corporations that accumulate earnings to avoid U.S. federal income tax, insurance companies, tax-exempt organizations, dealers in securities and foreign currencies, brokers, persons who hold the Notes as a hedge or other integrated transaction or who hedge the interest rate on the Notes, holders whose functional currency is not U.S. dollars, or persons subject to the alternative minimum tax). In addition, this summary does not include any description of the tax laws of any state, local, or non-U.S. jurisdiction that may be applicable to a particular holder and does not consider any aspects of U.S. federal tax law (such as estate and gift tax laws) other than income taxation.

The U.S. federal income tax treatment of a partner in a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) that holds the Notes generally will depend on such partner s particular circumstances and on the activities of the partnership. Partners in such partnerships should consult their own tax advisors regarding the consequences of acquiring, holding and disposing of the Notes.

Our obligation to pay additional amounts in excess of the accrued interest and principal in certain circumstances (such as in the event that we had failed to comply with specified obligations under the registration rights agreement or in certain other circumstances) may implicate the provisions of Treasury Regulations relating to contingent payment debt instruments. Under these Treasury Regulations, however, one or more contingencies will not cause a debt instrument to be treated as a contingent payment debt instrument if, as of the issue date, each such contingency is remote or is considered to be incidental. We believe and have taken the position that the likelihood of any such additional payments is a remote and/or incidental contingency. However, this determination is inherently factual and we can give you no assurance that our position would be sustained if challenged by the IRS. A successful challenge of this position by the IRS could affect the timing and amount of a holder s income and could cause the gain from the sale or other disposition of an Note to be treated as ordinary income, rather than capital gain. Our position is binding on a holder, unless the holder discloses in the proper manner to the IRS that it is taking a different position. The remainder of this discussion assumes that the regulations relating to contingent payment debt instruments are not applicable. Holders are urged to consult their own tax advisors regarding the potential application to the Notes of the contingent payment debt regulations and the consequences thereof.

HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR U.S. FEDERAL INCOME, ESTATE AND GIFT TAX CONSEQUENCES TO THEM OF THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF THE NOTES AND THE TAX CONSEQUENCES UNDER FEDERAL, STATE, LOCAL, AND NON-U.S. TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN TAX LAWS.

For purposes of this discussion, a U.S. holder is a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other business entity treated as a corporation) created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
a trust if a court within the United States can exercise primary supervision over its administration, and one or more United States persons has the authority to control all of the substantial decisions of that trust (or the trust was in existence on August 20, 1996, and validly elected to continue to be treated as a U.S. trust).

A non-U.S. holder is an individual, corporation, estate, or trust that is, for U.S. federal income tax purposes, a beneficial owner of the Notes and is not a U.S. holder.

U.S. Federal Income Tax Consequences of the Exchange Offer to U.S. Holders and Non-U.S. Holders

The exchange of outstanding notes for exchange notes pursuant to the exchange offer will not be a taxable transaction for U.S. federal income tax purposes. U.S. holders and non-U.S. holders will not recognize any taxable gain or loss as a result of such exchange and will have the same adjusted issue price, tax basis, and holding period in the exchange notes as they had in the outstanding notes immediately before the exchange.

U.S. Federal Income Tax Consequences to U.S. Holders

Treatment of stated interest

Absent an election to treat all interest as original issue discount, as discussed below under Original issue discount, stated interest on the Notes will be treated as qualified stated interest (i.e., stated interest that is unconditionally payable at least annually at a single fixed rate over the entire term of the Note) and will be taxable to U.S. holders as ordinary interest income as the interest accrues or is paid in accordance with the holder s regular method of tax accounting.

Original issue discount

The Notes will be treated as being issued with original issue discount (OID) for U.S. federal income tax purposes to the extent their issue price was less than their stated principal amount (by more than a *de minimis* amount).

A U.S. holder (whether a cash or accrual method taxpayer) will be required to include in gross income all OID as it accrues on a constant yield to maturity basis, before the receipt of cash payments attributable to this income. The amount of OID includible in gross income for a taxable year will be the sum of the daily portions of OID with respect to the Note for each day during that taxable year on which the U.S. holder holds the Note. The daily portion is determined by allocating to each day in an accrual period a pro rata portion of the OID allocable to that accrual period. The OID allocable to any accrual period will equal (a) the product of the adjusted issue price of the Note as of the beginning of such period and the Note s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the qualified stated interest allocable to that accrual period. The adjusted issue price of a Note as of the beginning of any accrual period will equal its issue price, increased by previously accrued OID.

A U.S. holder will not be required to recognize any additional income upon the receipt of any payment on the Notes that is attributable to previously accrued OID.

Acquisition premium

If the tax basis of a holder in the Notes immediately after the purchase is less than all amounts payable on the Notes after the purchase date (other than payments of qualified stated interest), but is in excess of the adjusted issue price of the Notes, the holder has acquired the notes with acquisition premium. A U.S. holder who purchases the Notes with

acquisition premium and does not make the election described below under Election to treat all interest as original issue discount is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the acquisition premium and the denominator of which is the aggregate original issue discount includible in income with respect to the Notes.

Bond premium

If a holder has a tax basis in the Notes immediately after the purchase that is greater than the stated redemption price at maturity, the holder has acquired the Notes with bond premium. Such holder will not be required to include any OID in income with respect to the Notes. A holder may elect to amortize such bond premium over the life of the Notes to offset a portion of the stated interest that would otherwise be includible in income. Such an election generally applies to all taxable debt instruments held by the holder on or after the first day of the first taxable year to which the election applies, and may be revoked only with the consent of the IRS. Holders that acquire a Note with bond premium should consult their tax advisors regarding the manner in which such premium is calculated and the election to amortize bond premium over the life of the instrument.

Market discount

A Note that is acquired for an amount that is less than its revised issue price (which is the sum of the issue price of the Note and the aggregate amount of the OID previously includible in the gross income of any holder for periods before the acquisition of the Note by the holder, without regard to any acquisition premium) by more than a *de minimis* amount (generally 0.25% of the principal amount multiplied by the number of remaining whole years to maturity), will be treated as having market discount equal to such difference. Unless the U.S. holder elects to include such market discount in income as it accrues, a U.S. holder will be required to treat any principal payment on, and any gain on the sale, exchange, retirement or other disposition (including a gift) of, the Note as ordinary income to the extent of any accrued market discount that has not previously been included in income. In general, market discount on the Notes will accrue ratably over the remaining term of the Notes or, at the election of the U.S. holder, under a constant yield method. In addition, a U.S. holder could be required to defer the deduction of all or a portion of the interest paid on any indebtedness incurred or continued to purchase or carry a Note unless the U.S. holder elects to include market discount in income currently. Such an election applies to all debt instruments held by a taxpayer and may not be revoked without the consent of the IRS.

Election to treat all interest as original issue discount

A U.S. holder may elect to include in gross income all interest that accrues on the Notes using the constant-yield method described above under Original issue discount, with certain modifications. For purposes of this election, interest includes stated interest and OID, as adjusted by acquisition premium. This election generally applies only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. U.S. holders should consult their tax advisors concerning the consequences of this election.

Sale, exchange or other taxable disposition of the Notes

In general, upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a U.S. holder will recognize taxable gain or loss equal to the difference between (1) the amount of the cash and the fair market value of any property received (less any portion allocable to any accrued and unpaid stated interest that the holder has not elected to treat as OID as discussed above, which will be taxable as interest to the extent not previously included in income by the holder) and (2) the U.S. holder s adjusted tax basis in the Note. A U.S. holder s adjusted tax basis in a Note generally will be equal to the holder s cost therefor, increased by any OID previously includible in income by the U.S. holder. Gain or loss realized on the sale, redemption, retirement or other taxable disposition of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of disposition the holder has held the Note for more than one year. The deductibility of capital losses is subject to limitations.

Backup withholding and information reporting

In general, a U.S. holder of the Notes will be subject to backup withholding with respect to interest and OID on the Notes, and the proceeds of a sale or other disposition of the Notes (including a redemption or

retirement), at the applicable tax rate (currently 28%), unless such holder (a) is an entity that is exempt from backup withholding (including corporations) and, when required, demonstrates this fact, or (b) provides the payor with its taxpayer identification number (TIN), certifies that the TIN provided to the payor is correct and that the holder has not been notified by the IRS that such holder is subject to backup withholding due to underreporting of interest or dividends, and otherwise complies with applicable requirements of the backup withholding rules. In addition, such payments to U.S. holders that are not exempt entities will generally be subject to information reporting requirements. A U.S. holder who does not provide the payor with its correct TIN may be subject to penalties imposed by the IRS. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against such holder s U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

U.S. Federal Income Tax Consequences to Non-U.S. Holders

Treatment of stated interest and OID

Subject to the discussion of backup withholding below, if interest or OID on a Note is not effectively connected with the conduct of a trade or business by a non-U.S. holder in the U.S., then under the portfolio interest exemption, a non-U.S. holder will generally not be subject to U.S. federal income tax (or any withholding tax) on payments of stated interest or OID on the Notes, provided that:

- the non-U.S. holder does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote;
- the non-U.S. holder is not, and is not treated as, a bank receiving interest or OID on an extension of credit pursuant to a loan agreement entered into in the ordinary course of its trade or business;
- the non-U.S. holder is not a controlled foreign corporation that is related (actually or constructively) to us; and
- certain certification requirements are met. Under current law, the certification requirement will be satisfied in any of the following circumstances:

If a non-U.S. holder provides to us or our paying agent a statement on IRS Form W-8BEN (or suitable successor form), together with all appropriate attachments, signed under penalties of perjury, identifying the non-U.S. holder by name and address and stating, among other things, that the non-U.S. holder is not a United States person.

If a Note is held through a securities clearing organization, bank or another financial institution that holds customers securities in the ordinary course of its trade or business, (i) the non-U.S. holder provides such a form to such organization or institution and (ii) such organization or institution, under penalty of perjury, certifies to us that it has received such statement from the beneficial owner or another intermediary and furnishes us or our paying agent with a copy thereof.

If a financial institution or other intermediary that holds the Note on behalf of the non-U.S. holder has entered into a withholding agreement with the IRS and submits an IRS Form W-8IMY (or suitable successor form) and certain other required documentation to us or our paying agent.

If the requirements of the portfolio interest exemption described above are not satisfied, a 30% withholding tax will apply to the gross amount of interest or OID on the Notes that is paid to a non-U.S. holder, unless either: (a) an applicable income tax treaty reduces or eliminates such tax, and the non-U.S. holder claims the benefit of that treaty by providing a properly completed and duly executed IRS Form W-8BEN (or suitable successor or substitute form) establishing qualification for benefits under the treaty, or (b) the interest or OID is effectively connected with the non-U.S. holder s conduct of a trade or business in the United States and the non-U.S. holder provides an appropriate statement to that effect on a properly completed and duly executed IRS Form W-8ECI or W-8BEN, as applicable (or suitable successor form).

If a non-U.S. holder is engaged in a trade or business in the U.S. and interest or OID on a Note is effectively connected with the conduct of that trade or business, the non-U.S. holder generally will be required to pay U.S. federal income tax on that interest or OID on a net income basis (and the 30% withholding tax

described above will not apply provided the duly executed IRS Form W-8ECI (or Form W-8BEN, as applicable) is provided to us or our paying agent) generally in the same manner as a U.S. holder. If a non-U.S. holder is eligible for the benefits of an income tax treaty between the U.S. and its country of residence, and the non-U.S. holder claims the benefit of the treaty by properly submitting an IRS Form W-8BEN, any interest or OID income that is effectively connected with a U.S. trade or business will be subject to U.S. federal income tax in the manner specified by the treaty and generally will only be subject to such tax if such income is attributable to a permanent establishment (or a fixed base in the case of an individual) maintained by the non-U.S. holder in the U.S. In addition, a non-U.S. holder that is treated as a foreign corporation for U.S. federal income tax purposes may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its earnings and profits for the taxable year, subject to adjustments, that are effectively connected with its conduct of a trade or business in the U.S.

Sale, exchange or other taxable disposition of the Notes

Subject to the discussion of backup withholding below, a non-U.S. holder generally will not be subject to U.S. federal income tax (or any withholding thereof) on any gain realized by such holder upon a sale, exchange, redemption, retirement at maturity, or other taxable disposition of a Note, unless:

- the non-U.S. holder is an individual present in the U.S. for 183 days or more during the taxable year of disposition and certain other conditions are met; or
- the gain is effectively connected with the conduct of a U.S. trade or business of the non-U.S. holder.

If the first exception applies, the non-U.S. holder generally will be subject to U.S. federal income tax at a rate of 30% (except as otherwise provided by an applicable income tax treaty) on the amount by which its U.S.-source capital gains exceed its U.S.-source capital losses. If the second exception applies, the non-U.S. holder will generally be subject to U.S. federal income tax on the net gain derived from the sale, exchange, redemption, retirement at maturity or other taxable disposition of the Notes in the same manner as a U.S. holder. In addition, corporate non-U.S. holders may be subject to a 30% branch profits tax on any effectively connected earnings and profits (subject to adjustments). If a non-U.S. holder is eligible for the benefits of an income tax treaty between the United States and its country of residence, the U.S. federal income tax treatment of any such gain may be modified in the manner specified by the treaty.

Additional interest if the Notes are not timely registered

As discussed above, the interest rate on the Notes may be subject to increase in certain circumstances. It is possible that such payments might be subject to U.S. federal withholding tax at a rate of 30% or lower treaty rate, if applicable. The issuer will determine whether any withholding is required if and when any such amounts become payable. Non-U.S. holders should consult their own tax advisors as to the tax considerations that relate to the potential additional interest payments.

Information reporting and backup withholding

When required, we or our paying agent will report to the IRS and to each non-U.S. holder the amount of any interest or OID paid on the Notes in each calendar year, and the amount of U.S. federal income tax withheld, if any, with respect to these payments.

Non-U.S. holders who have provided certification as to their non-U.S. status or who have otherwise established an exemption will generally not be subject to backup withholding tax on payments of interest or OID if neither we nor our agent has actual knowledge or reason to know that such certification is unreliable or that the conditions of the exemption are in fact not satisfied.

Payments of the proceeds from the sale or other disposition of a Note (including a redemption or retirement) to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting, but generally not backup withholding, may apply to those payments if the broker is one of the following: (a) a United States person, (b) a controlled foreign corporation for U.S. federal income tax purposes, (c) a foreign person 50 percent or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the

payment was effectively connected with a U.S. trade or business, or (d) a foreign partnership with specified connections to the United States, unless the non-U.S. holder certifies as to its non-U.S. status or otherwise establishes an exemption.

Payment of the proceeds from a sale or other disposition of a Note (including a redemption or retirement) to or through the United States office of a broker will be subject to information reporting and backup withholding unless the non-U.S. holder certifies as to its non-U.S. status or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a non-U.S. holder will be allowed as a credit against such holder s U.S. federal income tax liability, if any, and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the exchange notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the consummation of the exchange offer, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until _____, 2010, all dealers effecting transactions in the exchange notes may be required to deliver a prospectus.

We will not receive any proceeds from any sale of exchange notes by brokers-dealers. Exchange notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the exchange notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or at negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such exchange notes. Any broker-dealer that resells exchange notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such exchange notes may be deemed to be an underwriter within the meaning of the Securities Act and any profit on any such resale of exchange notes and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act.

For a period of 180 days after the consummation of the exchange offer, we will promptly send additional copies of this prospectus and any amendments or supplements to this prospectus to any broker-dealer that requests such documents in the letter of transmittal. We have agreed to pay all expenses incident to the exchange offer, other than the expenses of counsel for the holders of the outstanding notes, commissions or concessions of any brokers or dealers and any transfer taxes relating to the sale or disposition of the outstanding notes or the exchange notes, and we will indemnify the holders of the outstanding notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

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LEGAL MATTERS

Certain legal matters with respect to the validity of the exchange notes will be passed upon for us by Gibson, Dunn & Crutcher LLP. We have also been advised as to certain matters relating to (i) the laws of the State of Nevada by Brownstein Hyatt Farber Schreck, LLP; (ii) the laws of the State of Iowa by Dreher, Simpson and Jensen, P.C.; (iii) the laws of the State of Mississippi by Watkins, Ludlam, Winter & Stennis, P.A.; (iv) the laws of the State of Missouri by Sonnenschein, Nath & Rosenthal LLP; (v) the laws of the State of Colorado by Holme Roberts & Owen LLP; and (vi) the laws of the State of Indiana by Bingham McHale LLP.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our consolidated financial statements as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, incorporated by reference in this prospectus, have been audited by Ernst & Young LLP, Independent Registered Public Accounting Firm, as stated in their report, which is also incorporated by reference herein.

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PROSPECTUS

$650,000,000

Ameristar Casinos, Inc.

Exchange Offer for All Outstanding

91/4% Senior Notes due 2014
(CUSIP Nos. 03070Q AK7 and U02677 AD1)
for new
91/4% Senior Notes due 2014
that have been registered under the Securities Act of 1933

, 2010

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PART II

Item 20. Indemnification of Directors and Officers

Subsection 7 of Section 78.138 of the Nevada Revised Statutes (the Nevada Law) provides that, subject to certain very limited statutory exceptions, a director or officer is not personally liable to the corporation or its stockholders for any damages as a result of any act or failure to act in his or her capacity as a director or officer, unless it is proven that the act or failure to act constituted a breach of his or her fiduciary duties as a director or officer and such breach of those duties involved intentional misconduct, fraud or a knowing violation of law. The statutory standard of liability established by Section 78.138 is not optional and controls even if there is a provision in the articles of incorporation of a Nevada corporation, including such a provision in the registrant s Articles of Incorporation, that attempts to establish a different standard of liability.

Subsection 1 of Section 78.7502 of the Nevada Law empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (an Indemnified Party), against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Indemnified Party in connection with such action, suit or proceeding if the Indemnified Party would not be liable pursuant to Section 78.138 of the Nevada Law or the Indemnified Party acted in good faith and in a manner the Indemnified Party reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceedings, had no reasonable cause to believe the Indemnified Party s conduct was unlawful.

Subsection 2 of Section 78.7502 of the Nevada Law empowers a corporation to indemnify any Indemnified Party who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in the capacity of an Indemnified Party against expenses, including amounts paid in settlement and attorneys fees actually and reasonably incurred by the Indemnified Party in connection with the defense or settlement of such action or suit, if the Indemnified Party acted under standards similar to those set forth above, except that no indemnification may be made in respect of any claim, issue or matter as to which the Indemnified Party shall have been adjudged to be liable to the corporation or for amounts paid in settlement to the corporation unless and only to the extent that the court in which such action or suit was brought determines upon application that in view of all the circumstances the Indemnified Party is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

Section 78.7502 of the Nevada Law further provides that to the extent an Indemnified Party has been successful on the merits or otherwise in the defense of any action, suit or proceeding referred to in Subsection 1 or 2 described above or in the defense of any claim, issue or matter therein, the corporation shall indemnify the Indemnified Party against expenses (including attorneys fees) actually and reasonably incurred by the Indemnified Party in connection therewith.

Subsection 1 of Section 78.751 of the Nevada Law provides that any discretionary indemnification pursuant to Section 78.7502 of the Nevada Law, unless ordered by a court or advanced pursuant to Subsection 2 of Section 78.751, may be made by a corporation only as authorized in the specific case upon a determination that indemnification of the Indemnified Person is proper in the circumstances. Such determination must be made (a) by the stockholders, (b) by the board of directors of the corporation by majority vote of a quorum consisting of directors who were not parties to the action, suit or proceeding, (c) if a majority vote of a quorum of such disinterested directors so orders, by independent legal counsel in a written opinion, or (d) by independent legal counsel in a written opinion if a quorum of such disinterested directors cannot be obtained.

Subsection 2 of Section 78.751 of the Nevada Law provides that a corporation s articles of incorporation or bylaws or an agreement made by the corporation may require the corporation to pay as

incurred and in advance of the final disposition of a criminal or civil action, suit or proceeding, the expenses of officers and directors in defending such action, suit or proceeding upon receipt by the corporation of an undertaking by or on behalf of the officer or director to repay the amount if it is ultimately determined by a court that he or she is not entitled to be indemnified by the corporation. Said Subsection 2 further provides that the provisions of that Subsection 2 do not affect any rights to advancement of expenses to which corporate personnel other than officers and directors may be entitled under contract or otherwise by law.

Subsection 3 of Section 78.751 of the Nevada Law provides that indemnification pursuant to Section 78.7502 of the Nevada Law and advancement of expenses authorized in or ordered by a court pursuant to Section 78.751 does not exclude any other rights to which the Indemnified Party may be entitled under the articles of incorporation or any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, for either an action in his or her official capacity or in another capacity while holding his or her office. However, indemnification, unless ordered by a court pursuant to Section 78.7502 or for the advancement of expenses under Subsection 2 of Section 78.751 of the Nevada Law, may not be made to or on behalf of any director or officer of the corporation if a final adjudication establishes that his or her acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and were material to the cause of action. Additionally, the scope of such indemnification and advancement of expenses shall continue as to an Indemnified Party who has ceased to hold one of the positions specified above, and shall inure to the benefit of his or her heirs, executors and administrators.

Section 78.752 of the Nevada Law empowers a corporation to purchase and maintain insurance or make other financial arrangements on behalf of an Indemnified Party for any liability asserted against such person and liabilities and expenses incurred by such person in his or her capacity as an Indemnified Party or arising out of such person s status as an Indemnified Party whether or not the corporation has the authority to indemnify such person against such liability and expenses.

The Bylaws of the registrant provide for indemnification of Indemnified Parties substantially identical in scope to that permitted under the Nevada Law. Such Bylaws provide that the expenses of directors and officers of the registrant incurred in defending any action, suit or proceeding, whether civil, criminal, administrative or investigative, must be paid by the registrant as they are incurred and in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking by or on behalf of such director or officer to repay all amounts so advanced if it is ultimately determined by a court of competent jurisdiction that the director or officer is not entitled to be indemnified by the registrant.

The registrant has a contract for insurance coverage under which the Registrant and certain Indemnified Parties (including the directors and officers of the registrant) are indemnified under certain circumstances with respect to litigation and other costs and liabilities arising out of actual or alleged misconduct of such Indemnified Parties. In addition, the registrant has entered into indemnification agreements with its directors and officers that require the registrant to indemnify such directors and officers to the fullest extent permitted by applicable provisions of Nevada Law, subject to amounts paid by insurance. The above-described provisions relating to the indemnification of directors and officers are sufficiently broad to permit the indemnification of such persons in certain circumstances against liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

Item 21. Exhibits and Financial Statement Schedules

(a) *Exhibits*

See the Exhibit Index attached to this registration statement and incorporated herein by reference.

(b) *Financial Statement Schedules*

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under related instructions or are inapplicable and therefore have been omitted.

Item 22. Undertakings

The undersigned registrant hereby undertakes:

To respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11 or 13 of this Form within one business day of the receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

To supply by means of post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

That, for the purpose of determining liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

That, for the purpose of determining liability of the registrant under the Securities Act to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the

undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

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(ii) any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) the portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

That, for purposes of determining any liability under the Securities Act, each filing of the registrant s annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of Securities Act of 1933, as amended, registrant AMERISTAR CASINOS, INC. has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Las Vegas, State of Nevada, on January 11, 2010.

AMERISTAR CASINOS, INC.

*

By: Gordon R. Kanofsky

Title: Chief Executive Officer and Vice Chairman

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
* Gordon R. Kanofsky	Chief Executive Officer and Vice Chairman of the Board and Director (principal executive officer)	January 11, 2010
/s/ Thomas M. Steinbauer Thomas M. Steinbauer	Senior Vice President of Finance, Chief Financial Officer, Treasurer and Director (principal financial officer)	January 11, 2010
* Heather A. Rollo	Chief Accounting Officer (principal accounting officer)	January 11, 2010
* Ray H. Neilsen	Chairman of the Board and Director	January 11, 2010
* Larry A. Hodges	President, Chief Operating Officer and Director	January 11, 2010
* Carl Brooks	Director	January 11, 2010
* Luther P. Cochrane	Director	January 11, 2010
*	Director	January 11, 2010

Leslie Nathanson Juris *	Director	January 11, 2010
J. William Richardson		

*By: /s/ Thomas M. Steinbauer

Thomas M. Steinbauer
Attorney-in-fact

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Pursuant to the requirements of the Securities Act of 1933, as amended, co-registrants A.C. FOOD SERVICES, INC., AMERISTAR CASINO BLACK HAWK, INC., AMERISTAR CASINO COUNCIL BLUFFS, INC., AMERISTAR CASINO EAST CHICAGO, LLC, AMERISTAR CASINO KANSAS CITY, INC., AMERISTAR CASINO LAS VEGAS, INC., AMERISTAR CASINO ST. CHARLES, INC., AMERISTAR CASINO ST. LOUIS, INC., AMERISTAR CASINO VICKSBURG, INC., AMERISTAR EAST CHICAGO HOLDINGS, LLC and CACTUS PETE S, INC. have duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Las Vegas, State of Nevada on January 11, 2010.

A.C. FOOD SERVICES, INC.
AMERISTAR CASINO BLACK HAWK, INC.
AMERISTAR CASINO COUNCIL BLUFFS, INC.
AMERISTAR CASINO EAST CHICAGO, LLC
AMERISTAR CASINO KANSAS CITY, INC.
AMERISTAR CASINO LAS VEGAS, INC.
AMERISTAR CASINO ST. CHARLES, INC.
AMERISTAR CASINO ST. LOUIS, INC.
AMERISTAR CASINO VICKSBURG, INC.
AMERISTAR EAST CHICAGO HOLDINGS, LLC
CACTUS PETE S, INC.

*

By: Gordon R. Kanofsky
Title: President

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
*	President and Director/Manager (principal executive officer)	January 11, 2010
Gordon R. Kanofsky		
/s/ Thomas M. Steinbauer	Chief Financial Officer (principal financial and accounting officer)	January 11, 2010
Thomas M. Steinbauer		
*	Director/Manager	January 11, 2010
Ray H. Neilsen		

*By: /s/ Thomas M. Steinbauer

Thomas M. Steinbauer
Attorney-in-fact

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EXHIBIT INDEX

Exhibit No.	Description
4.1	Indenture, dated as of May 27, 2009, among Ameristar Casinos, Inc., the Guarantors named therein and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to ACI s Current Report on Form 8-K filed May 29, 2009, File No. 000-22494).
4.2	Registration Rights Agreement, dated May 27, 2009, among Ameristar Casinos, Inc., the Guarantors named therein and Banc of America Securities LLC, Wachovia Capital Markets, LLC and Deutsche Bank Securities Inc., as representatives of the Initial Purchasers (incorporated by reference to Exhibit 10.1 to ACI s Current Report on Form 8-K filed May 29, 2009, File No. 000-22494).
4.3*	First Supplemental Indenture, dated as of December 7, 2009, among Ameristar Casinos, Inc., the Guarantors party thereto, Deutsche Bank Trust Company Americas and Wilmington Trust FSB.
5.1	Opinion of Gibson, Dunn & Crutcher LLP.
5.2	Opinion of Brownstein Hyatt Farber Schreck, LLP
5.3	Opinion of Dreher, Simpson and Jensen, P.C.
5.4	Opinion of Watkins, Ludlam, Winter & Stennis, P.A.
5.5	Opinion of Sonnenschein, Nath & Rosenthal LLP
5.6	Opinion of Holme Roberts & Owen LLP
5.7	Opinion of Bingham McHale LLP
12.1*	Statement of Computation of Ratio of Earnings to Fixed Charges.
23.1	Consent of Gibson, Dunn & Crutcher LLP (included in Exhibit 5.1).
23.2	Consent of Brownstein Hyatt Farber Schreck, LLP (included in Exhibit 5.2)
23.3	Consent of Dreher, Simpson and Jensen, P.C. (included in Exhibit 5.3)
23.4	Consent of Watkins, Ludlam, Winter & Stennis, P.A. (included in Exhibit 5.4)
23.5	Consent of Sonnenschein, Nath & Rosenthal LLP (included in Exhibit 5.5)
23.6	Consent of Holme Roberts & Owen LLP (included in Exhibit 5.6)
23.7	Consent of Bingham McHale LLP (included in Exhibit 5.7)

23.8	Consent of Ernst & Young LLP.
24.1*	Powers of Attorney (included on the signature pages of the registration statement).
25.1*	Statement of Eligibility of Trustee, Wilmington Trust FSB, on Form T-1.
99.1*	Form of Letter of Transmittal.
99.2*	Substitute Form W-9 and Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
99.3*	Form of Notice of Guaranteed Delivery.
99.4*	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
99.5*	Form of Letter to Clients for Use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.

* Previously filed

cash flows. The required disclosure is provided in Note 8.

ASU 2011-05, "Presentation of Comprehensive Income" (ASU 2011-05) and ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" (ASU 2011-12): ASU 2011-05 amends ASC Topic 220, Comprehensive Income, and eliminates the option to report other comprehensive income and its components in the statement of changes in equity. The ASU allows an entity an option to present the components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements.

ASU 2011-05 does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income, or the earnings per share computation.

ASU 2011-12 defers the requirement to separately present on the face of the statement of operations or statement of comprehensive income reclassification adjustments for items that are reclassified from other comprehensive income to net income.

We adopted ASU 2011-05 on January 1, 2012 and have elected to present the components of net income and other comprehensive income in two separate, but consecutive, statements.

ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities" (ASU 2011-11): In order to allow for balance sheet comparison between GAAP and IFRSs, ASU 2011-11 requires enhanced disclosures related to financial assets and liabilities eligible for offsetting in the statement of financial position. An entity will have to disclose both gross and net information about financial instruments and transactions subject to a master netting arrangement and eligible for offset, including cash collateral received and posted.

We will adopt ASU 2011-11 on January 1, 2013 as required and do not expect it to affect our financial position, results of operations or cash flows. We will provide the additional disclosure in our 2013 interim financial statements.

NOTE 3. ACQUISITION AND INVESTMENT ACTIVITY

We discuss our investments in unconsolidated entities in Note 4.

SEMPRA SOUTH AMERICAN UTILITIES

Chilquinta Energía S.A. (Chilquinta Energía) and Luz del Sur S.A.A. (Luz del Sur)

On April 6, 2011, Sempra South American Utilities acquired from AEI its interests in Chilquinta Energía in Chile and Luz del Sur in Peru, and their subsidiaries. Prior to the acquisition, Sempra South American Utilities and AEI each owned 50 percent of Chilquinta Energía and approximately 38 percent of Luz del Sur and accounted for the investments under the equity method. Upon completion of the acquisition and a public tender offer to the minority shareholders of Luz del Sur, Sempra South American Utilities owned 100 percent of Chilquinta Energía and approximately 80 percent of Luz del Sur, with the remaining shares of Luz del Sur held by institutional investors and the general public. As part of the transaction, Sempra South American Utilities also acquired AEI's interests in two energy-services companies, Tecnored S.A. (Tecnored) and Tecsur S.A. (Tecsur). We provide additional information about Sempra South American Utilities' acquisition of Chilquinta Energía and Luz del Sur and the public tender offer in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report.

Our Condensed Consolidated Statements of Operations for the three months ended March 31, 2012 include 100 percent of the acquired companies' revenues, net income and earnings of $357 million, $49 million and $43 million, respectively. Net income and earnings include holding companies reported in Parent and Other. For the three months ended March 31, 2011, the acquired companies were accounted for as equity method investments and equity earnings were $12 million for each of Chilquinta Energía and Luz del Sur.

Following are pro forma revenues and earnings for Sempra Energy had the acquisition occurred at the beginning of the year prior to the year of acquisition, which primarily reflect the incremental increase to revenues and earnings from our increased ownership and consolidation of the entities acquired. Although some short-term debt borrowings may have resulted from the actual acquisition in 2011, we have not assumed any additional interest expense in the pro forma impact on earnings below, as the amounts would be immaterial due to the low interest rates available to us on commercial paper. The pro forma amounts do not include the impact of the increased ownership in Luz del Sur resulting from the tender offer completed in September 2011 discussed above and in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report.

(Dollars in millions)	Three months ended March 31, 2011
Revenues	$ 2,777
Earnings	279

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We provide additional information concerning all of our equity method investments in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA RENEWABLES

For the three months ended March 31, 2012, Sempra Renewables invested $50 million in its renewable wind generation joint ventures, of which $43 million was invested in the Flat Ridge 2 Wind Farm project.

SEMPRA NATURAL GAS

Sempra Natural Gas owns a 25-percent interest in Rockies Express Pipeline LLC (Rockies Express), a partnership that operates a natural gas pipeline, the Rockies Express Pipeline (REX), that links producing areas in the Rocky Mountains region to the upper Midwest and the eastern United States. Kinder Morgan Energy Partners L.P. (KMP) and ConocoPhillips (Conoco) own the remaining interests of 50 percent and 25 percent, respectively. Our total investment in Rockies Express is accounted for as an equity method investment.

KMP has announced its intention to sell certain assets, including its interest in REX. KMP is proposing to divest these assets in order for KMP’s general partner, Kinder Morgan, Inc., to obtain approval for a proposed acquisition. We believe that this sales process could result in an indication of fair value for KMP’s interest in REX. If so, we would consider what, if any, impacts this information could have on our recorded value for REX. If such information indicated an impairment of our investment, we would also need to evaluate whether such impairment, if any, was other than temporary, in accordance with applicable accounting standards for equity method investments.

RBS SEMPRA COMMODITIES

RBS Sempra Commodities LLP (RBS Sempra Commodities) is a United Kingdom limited liability partnership that owned and operated commodities-marketing businesses previously owned by us. We and our partner in the joint venture, The Royal Bank of Scotland plc (RBS), sold substantially all of the partnership’s businesses and assets in four separate transactions completed in July, November and December of 2010 and February of 2011. We account for our investment in RBS Sempra Commodities under the equity method, and report our share of partnership earnings and other associated costs in Parent and Other.

In April 2011, we and RBS entered into a letter agreement (Letter Agreement) which amended certain provisions of the agreements that formed RBS Sempra Commodities. The Letter Agreement addresses the wind-down of the partnership and the distribution of the partnership’s remaining assets. The investment balance of $126 million at March 31, 2012 reflects remaining distributions expected to be received from the partnership in accordance with the Letter Agreement. The timing and amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities in Note 10 under “Other Litigation.” In addition, amounts may be retained by the partnership for an extended period of time to help offset unanticipated future general and administrative costs necessary to complete the dissolution of the partnership.

In connection with the Letter Agreement described above, we also released RBS from its indemnification obligations with respect to the items for which J.P. Morgan Chase & Co. (JP Morgan), one of the buyers of the partnership’s

businesses, has agreed to indemnify us.

Pretax equity losses from RBS Sempra Commodities were $8 million for the three months ended March 31, 2011. We recorded no equity earnings or loss related to the partnership in the first quarter of 2012. The fair value measurement of our investment in RBS Sempra Commodities was significantly impacted by unobservable inputs (i.e., Level 3 inputs) as defined by the accounting guidance for fair value measurements which we discuss in Note 11 in the Notes to Consolidated Financial Statements in the Annual Report. The inputs included estimated future cash distributions expected from the partnership.

We discuss the RBS Sempra Commodities sales transactions, the Letter Agreement and other matters concerning the partnership in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 5. OTHER FINANCIAL DATA

TEMPORARY LIFO LIQUIDATION

SoCalGas values natural gas inventory by the last-in first-out (LIFO) method. As inventories are sold, differences between the LIFO valuation and the estimated replacement cost are reflected in customer rates. Temporary LIFO liquidation represents the difference between the carrying value of natural gas inventory withdrawn during the period for delivery to customers and the projected cost of the replacement of that inventory during summer months.

VARIABLE INTEREST ENTITIES (VIE)

We consolidate a VIE if we are the primary beneficiary of the VIE. Our determination of whether we are the primary beneficiary is based upon qualitative and quantitative analyses, which assess

§ the purpose and design of the VIE;

§ the nature of the VIE’s risks and the risks we absorb;

§ the power to direct activities that most significantly impact the economic performance of the VIE; and

§ the obligation to absorb losses or right to receive benefits that could be significant to the VIE.

SDG&E has agreements under which it purchases power generated by facilities for which it supplies all of the natural gas to fuel the power plant (i.e., tolling agreements). SDG&E’s obligation to absorb natural gas costs may be a significant variable interest. In addition, SDG&E has the power to direct the dispatch of electricity generated by these facilities. Based upon our analysis, the ability to direct the dispatch of electricity may have the most significant impacts on the economic performance of the entity owning the generating facility because of the associated exposure to the cost of natural gas, which fuels the plants, and the value of electricity produced. To the extent that SDG&E (1) is obligated to purchase and provide fuel to operate the facility, (2) has the power to direct the dispatch, and (3) purchases all of the output from the facility for a substantial portion of the facility’s useful life, SDG&E may be the

primary beneficiary of the entity owning the generating facility. SDG&E determines if it is the primary beneficiary in these cases based on the operational characteristics of the facility, including its expected power generation output relative to its capacity to generate and the financial structure of the entity, among other factors. If we determine that SDG&E is the primary beneficiary, Sempra Energy and SDG&E consolidate the entity that owns the facility as a VIE, as we discuss below.

Otay Mesa VIE

SDG&E has a 10-year agreement to purchase power generated at the Otay Mesa Energy Center (OMEC), a 605-megawatt (MW) generating facility that began operations in October 2009. In addition to tolling, the agreement provides SDG&E with the option to purchase the power plant at the end of the contract term in 2019, or upon earlier termination of the purchased-power agreement, at a predetermined price subject to adjustments based on performance of the facility. If SDG&E does not exercise its option, under certain circumstances, it may be required to purchase the power plant at a predetermined price, which we refer to as the put option.

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights and does not operate OMEC. In addition to the risks absorbed under the tolling agreement, SDG&E absorbs separately through the put option a significant portion of the risk that the value of Otay Mesa VIE could decline. Sempra Energy and SDG&E have consolidated Otay Mesa VIE since the second quarter of 2007. Otay Mesa VIE’s equity of $108 million at March 31, 2012 and $102 million at December 31, 2011 is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

OMEC LLC has a loan outstanding of $352 million at March 31, 2012, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by OMEC’s property, plant and equipment. SDG&E is not a party to the loan agreement and does not have any additional implicit or explicit financial responsibility to OMEC LLC. The loan fully matures in April 2019 and bears interest at rates varying with market rates. In addition, OMEC LLC has entered into interest rate swap agreements to moderate its exposure to interest rate changes. We provide additional information concerning the interest rate swaps in Note 7.

Other Variable Interest Entities

SDG&E’s power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary. SDG&E has determined that no contracts, other than the one relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary as of March 31, 2012. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

Sempra Energy’s other business units also enter into arrangements which could include variable interests. We evaluate these arrangements and applicable entities based upon the qualitative and quantitative analyses described above. Certain of these entities are service companies that are VIEs. As the primary beneficiary of these service

companies, we consolidate them. In all other cases, we have determined that these contracts are not variable interests in a VIE and therefore are not subject to the requirements of GAAP concerning the consolidation of VIEs.

The Condensed Consolidated Statements of Operations of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE. The amounts are net of eliminations of transactions between SDG&E and Otay Mesa VIE. The financial statements of other consolidated VIEs are not material to the financial statements of Sempra Energy. The captions on the table below correspond to SDG&E's Condensed Consolidated Statements of Operations.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE
(Dollars in millions)

	Three months ended March 31,			
	2012		2011	
Operating revenues				
Electric	$		$	
Natural gas				
Total operating revenues				
Operating expenses				
Cost of electric fuel and purchased power		(19)		(17)
Operation and maintenance		4		4
Depreciation and amortization		6		6
Total operating expenses		(9)		(7)
Operating income		9		7
Interest expense		(3)		(3)
Income before income taxes/Net income		6		4
Earnings attributable to noncontrolling interest		(6)		(4)
Earnings	$		$	

We provide additional information regarding Otay Mesa VIE in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

GOODWILL

Goodwill is the excess of the purchase price over the fair value of the identifiable net assets of acquired companies measured at the time of acquisition. Goodwill is not amortized but is tested annually on October 1 for impairment. Impairment of goodwill occurs when the carrying amount (book value) of goodwill exceeds its implied fair value. If the carrying value of the reporting unit, including goodwill, exceeds its fair value, and the book value of goodwill is greater than its fair value on the test date, we record a goodwill impairment loss.

Goodwill included on the Sempra Energy Condensed Consolidated Balance Sheets is recorded as follows:

GOODWILL
(Dollars in millions)

	Sempra South American Utilities	Sempra Mexico	Sempra Natural Gas	Total

Balance as of December 31, 2011	$ 949	$ 25	$ 62	$ 1,036
Foreign currency translation(1)	35			35
Balance at March 31, 2012	$ 984	$ 25	$ 62	$ 1,071

(1) We record the offset of this fluctuation to other comprehensive income.

We provide additional information concerning goodwill in Notes 1 and 3 of the Notes to Consolidated Financial Statements in the Annual Report.

PENSION AND OTHER POSTRETIREMENT BENEFITS

Remeasurement

The SoCalGas union collective bargaining agreement (CBA) covering wages, hours, working conditions and medical and other benefit plans was ratified on March 1, 2012 and is effective January 1, 2012 through September 30, 2015. The new CBA includes a change in plans offered for post-65 medical benefits. As a result, SoCalGas changed the option for administering the Medicare Part D benefit to an Employer Group Waiver Plan (EGWP). The EGWP allows a plan sponsor to contract with a Medicare Part D sponsor to receive the benefit of the subsidy through reduced premiums. Because this change in benefits is a significant event under GAAP, SoCalGas was required to remeasure the benefit obligations for this postretirement welfare plan as of February 29, 2012 and selected a discount rate of 4.65% for the remeasurement. The effect of the remeasurement was a $66 million decrease in the recorded liability for other postretirement benefits as of March 31, 2012 at SoCalGas and Sempra Energy Consolidated. We discuss the Medicare Part D benefit in Note 8 of the Notes to Consolidated Financial Statements in the Annual Report.

Net Periodic Benefit Cost

The following three tables provide the components of net periodic benefit cost:

NET PERIODIC BENEFIT COST – SEMPRA ENERGY CONSOLIDATED
(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits	
	Three months ended March 31,		Three months ended March 31,	
	2012	2011	2012	2011
Service cost	$ 23	$ 22	$ 8	$ 7
Interest cost	41	43	14	17
Expected return on assets	(39)	(37)	(13)	(12)
Amortization of:				
Prior service cost	1	1		
Actuarial loss	12	9	3	4
Regulatory adjustment	(30)	(29)	3	2
Total net periodic benefit cost	$ 8	$ 9	$ 15	$ 18

NET PERIODIC BENEFIT COST – SDG&E
(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits	
	Three months ended March 31,		Three months ended March 31,	
	2012	2011	2012	2011
Service cost	$ 7	$ 7	$ 2	$ 2

Interest cost	12	13	2	2
Expected return on assets	(12)	(12)	(1)	(2)
Amortization of:				
Prior service cost		1	1	1
Actuarial loss	4	2		
Regulatory adjustment	(10)	(9)		1
Total net periodic benefit cost	$ 1	$ 2	$ 4	$ 4

NET PERIODIC BENEFIT COST – SOCALGAS
(Dollars in millions)

	Pension Benefits Three months ended March 31,		Other Postretirement Benefits Three months ended March 31,	
	2012	2011	2012	2011
Service cost	$ 13	$ 12	$ 5	$ 5
Interest cost	25	25	11	13
Expected return on assets	(24)	(22)	(11)	(10)
Amortization of:				
Prior service cost (credit)	1	1	(1)	(1)
Actuarial loss	6	4	3	5
Regulatory adjustment	(20)	(20)	3	1
Total net periodic benefit cost	$ 1	$	$ 10	$ 13

Benefit Plan Contributions

The following table shows our year-to-date contributions to pension and other postretirement benefit plans and the amounts we expect to contribute in 2012:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
Contributions through March 31, 2012:			
Pension plans	$ 10	$	$ 2
Other postretirement benefit plans	15	4	10
Total expected contributions in 2012:			
Pension plans	$ 218	$ 67	$ 113
Other postretirement benefit plans	46	14	27

EARNINGS PER SHARE

The following table provides the per share computations for our earnings for the three months ended March 31, 2012 and 2011. Basic earnings per common share (EPS) is calculated by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

EARNINGS PER SHARE COMPUTATIONS
(Dollars in millions, except per share amounts; shares in thousands)

	Three months ended March 31,	
	2012	2011(1)
Numerator:		
Earnings/Income attributable to common shareholders	$ 236	$ 254
Denominator:		
Weighted-average common shares outstanding for basic EPS	240,566	240,128
Dilutive effect of stock options, restricted stock awards and restricted stock units	3,195	1,775
Weighted-average common shares outstanding for diluted EPS	243,761	241,903
Earnings per share:		
Basic	$ 0.98	$ 1.06
Diluted	$ 0.97	$ 1.05

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits recognized and minus tax shortfalls recognized are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation excludes options for which the exercise price on common stock was greater than the average market price during the period (out-of-the-money options). We had 767,833 and 2,120,225 such antidilutive stock options outstanding during the three months ended March 31, 2012 and 2011, respectively.

We had no stock options outstanding during the three months ended March 31, 2012 and 10,800 stock options outstanding during the three months ended March 31, 2011 that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method.

The dilution from unvested restricted stock awards (RSAs) and restricted stock units (RSUs) is also based on the treasury stock method. Proceeds equal to the unearned compensation and windfall tax benefits recognized and minus tax shortfalls recognized related to the awards and units are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits recognized or tax shortfalls recognized are the difference between tax deductions we would receive upon the assumed vesting of RSAs or RSUs and the deferred income taxes we recorded related to the compensation expense on such awards and units. There were no antidilutive RSUs from the application of unearned compensation in the treasury stock method for the three months ended March 31, 2012 and 997,609 such antidilutive RSUs for the three months ended March 31, 2011. There were 15,932 such antidilutive RSAs for the three months ended March 31, 2012 and none for the three months ended March 31, 2011.

Each performance based RSU represents the right to receive between zero and 1.5 shares of Sempra Energy common stock based on Sempra Energy's four-year cumulative total shareholder return compared to the Standard & Poor's (S&P) 500 Utilities Index, as follows:

Four-Year Cumulative Total Shareholder Return Ranking versus S&P 500 Utilities Index(1)	Number of Sempra Energy Common Shares Received for Each Restricted Stock Unit(2)
75th Percentile or Above	1.5
50th Percentile	1

35th Percentile or Below

(1) If Sempra Energy ranks at or above the 50th percentile compared to the S&P 500 Index, participants will receive a minimum of 1.0 share for each restricted stock unit.

(2) Participants may also receive additional shares for dividend equivalents on shares subject to restricted stock units, which are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.

RSAs have a maximum potential of 100 percent vesting. We include our performance based RSAs and RSUs in potential dilutive shares at zero to 100 percent and zero to 150 percent, respectively, to the extent that they currently meet the performance requirements for vesting, subject to the application of the treasury stock method. Due to market fluctuations of both Sempra Energy stock and the comparative index, dilutive RSA and RSU shares may vary widely from period-to-period. We include our RSAs, which are service based, in potential dilutive shares at 100 percent.

RSUs and RSAs may be excluded from potential dilutive shares by the application of unearned compensation in the treasury stock method or because performance goals are currently not met. The maximum excluded RSUs and RSAs, assuming performance goals were met at maximum levels, were 3,191,073 and 3,959,911 for the three months ended March 31, 2012 and 2011, respectively.

COMMON STOCK REPURCHASE PROGRAM

In September 2010, we entered into a share repurchase program under which we prepaid $500 million to repurchase shares of our common stock in a share forward transaction. The program was completed in March 2011 with a total of 9,574,435 shares repurchased at an average price of $52.22 per share. Our outstanding shares used to calculate earnings per share were reduced by the number of shares repurchased when they were delivered to us, and the $500 million purchase price was recorded as a reduction in shareholders' equity upon its prepayment. We received 5,670,006 shares during the quarter ended September 30, 2010; 2,407,994 shares on October 4, 2010 and 1,496,435 shares on March 22, 2011. We discuss the repurchase program further in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 9 of the Notes to Consolidated Financial Statements in the Annual Report. We recorded share-based compensation expense, net of income taxes, of $5 million and $6 million for the three months ended March 31, 2012 and 2011, respectively. Pursuant to our share-based compensation plans, we granted 905,868 RSUs and 15,932 RSAs during the three months ended March 31, 2012, primarily in January.

CAPITALIZED FINANCING COSTS

Capitalized financing costs include capitalized interest costs and, primarily at the California Utilities, an allowance for funds used during construction (AFUDC) related to both debt and equity financing of construction projects. The following table shows capitalized financing costs for the three months ended March 31, 2012 and 2011.

CAPITALIZED FINANCING COSTS

(Dollars in millions)

	Three months ended March 31,	
	2012	2011
Sempra Energy Consolidated:		
AFUDC related to debt	$ 14	$ 8
AFUDC related to equity	35	19
Other capitalized financing costs	11	6
Total Sempra Energy Consolidated	$ 60	$ 33
SDG&E:		
AFUDC related to debt	$ 12	$ 6
AFUDC related to equity	29	15
Total SDG&E	$ 41	$ 21
SoCalGas:		
AFUDC related to debt	$ 2	$ 2
AFUDC related to equity	6	4
Total SoCalGas	$ 8	$ 6

COMPREHENSIVE INCOME

The amounts for comprehensive income in the Condensed Consolidated Statements of Comprehensive Income are net of income tax expense (benefit) as follows:

INCOME TAX EXPENSE (BENEFIT) ASSOCIATED WITH OTHER COMPREHENSIVE INCOME
(Dollars in millions)

	Three months ended March 31,					
	2012			2011		
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total
Sempra Energy Consolidated:						
Net actuarial gain	$ 1	$	$ 1	$ 1	$	$ 1
Financial instruments	3		3	1		1

Income tax amounts associated with other comprehensive income during the three months ended March 31, 2012 and 2011 at SDG&E and SoCalGas were negligible.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

The following two tables provide a reconciliation of Sempra Energy's and SDG&E's shareholders' equity and noncontrolling interests for the three months ended March 31, 2012 and 2011.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS
(Dollars in millions)

	Sempra Energy	Non-

	Shareholders' Equity	controlling Interests	Total Equity
Balance at December 31, 2011	$ 9,775	$ 403	$ 10,178
Comprehensive income	309	17	326
Preferred dividends of subsidiaries	(2)		(2)
Share-based compensation expense	11		11
Common stock dividends declared	(144)		(144)
Issuance of common stock	13		13
Repurchase of common stock	(16)		(16)
Common stock released from ESOP	6		6
Distributions to noncontrolling interests		(2)	(2)
Balance at March 31, 2012	$ 9,952	$ 418	$ 10,370
Balance at December 31, 2010	$ 8,990	$ 211	$ 9,201
Comprehensive income	254	5	259
Preferred dividends of subsidiaries	(2)		(2)
Share-based compensation expense	11		11
Common stock dividends declared	(115)		(115)
Issuance of common stock	15		15
Tax benefit related to share-based compensation	2		2
Repurchase of common stock	(17)		(17)
Common stock released from ESOP	7		7
Equity contributed by noncontrolling interests		1	1
Balance at March 31, 2011	$ 9,145	$ 217	$ 9,362

SHAREHOLDER'S EQUITY AND NONCONTROLLING INTEREST
(Dollars in millions)

	SDG&E Shareholder's Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2011	$ 3,739	$ 102	$ 3,841
Comprehensive income	106	6	112
Preferred stock dividends declared	(1)		(1)
Balance at March 31, 2012	$ 3,844	$ 108	$ 3,952
Balance at December 31, 2010	$ 3,108	$ 113	$ 3,221
Comprehensive income	90	5	95
Preferred stock dividends declared	(1)		(1)
Capital contribution	200		200
Equity contributed by noncontrolling interest		1	1
Balance at March 31, 2011	$ 3,397	$ 119	$ 3,516

Ownership interests that are held by owners other than Sempra Energy and SDG&E in subsidiaries or entities consolidated by them are accounted for and reported as noncontrolling interests. As a result, noncontrolling interests are reported as a separate component of equity on the Condensed Consolidated Balance Sheets. Net income or loss attributable to the noncontrolling interests is separately identified on the Condensed Consolidated Statements of Operations, and comprehensive income attributable to the noncontrolling interests is separately identified on the Condensed Consolidated Statements of Comprehensive Income.

The preferred stock of SoCalGas is presented at Sempra Energy as a noncontrolling interest at March 31, 2012 and December 31, 2011. The preferred stock of SDG&E is contingently redeemable preferred stock. At Sempra Energy, the preferred stock dividends of both SDG&E and SoCalGas are charges against income related to noncontrolling interests. We provide additional information concerning preferred stock in Note 12 of the Notes to Consolidated Financial Statements in the Annual Report. At March 31, 2012 and December 31, 2011, Sempra Energy Consolidated reported the following other noncontrolling ownership interests held by others:

OWNERSHIP INTERESTS HELD BY OTHERS
(Dollars in millions)

	Percent Ownership Held by Others	March 31, 2012	December 31, 2011
Bay Gas Storage, Ltd.(1)	9 %	$ 18	$ 17
Southern Gas Transmission Company(1)	49	1	1
Liberty Gas Storage, LLC(1)	25	9	9
Tecsur	10	3	4
Luz del Sur	20	222	216
Chilquinta Energía subsidiaries	15 - 43	37	34
Otay Mesa VIE (at SDG&E)	100	108	102
Total Sempra Energy		$ 398	$ 383

(1) Part of Sempra Natural Gas.

TRANSACTIONS WITH AFFILIATES

Loans to Unconsolidated Affiliates

Sempra South American Utilities has a U.S. dollar-denominated loan to Camuzzi Gas del Sur S.A., an affiliate of the segment’s Argentine investments, which we discuss in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report. The loan has an $18 million principal balance outstanding plus $6 million of accumulated interest at a variable interest rate (7.58 percent as of March 31, 2012). In June 2011, the maturity date of the loan was extended from June 2011 to June 30, 2012. The loan was fully reserved at March 31, 2012 and December 31, 2011.

Investments

Sempra Energy, at Parent and Other, has an investment in bonds issued by Chilquinta Energía that we discuss in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Affiliate Transactions

Sempra Energy, SDG&E and SoCalGas provide certain services to each other and are charged an allocable share of the cost of such services. Amounts due to/from affiliates are as follows:

AMOUNTS DUE TO AND FROM AFFILIATES AT SDG&E AND SOCALGAS

(Dollars in millions)				
		March 31, 2012		December 31, 2011
SDG&E				
Current:				
Due from SoCalGas	$		$	2
Due from various affiliates		1		65
	$	1	$	67
Due to Sempra Energy	$	25	$	14
Due to SoCalGas		11		
	$	36	$	14
Income taxes due from Sempra Energy(1)	$	85	$	97
SoCalGas				
Current:				
Due from Sempra Energy	$	218	$	23
Due from SDG&E		11		
Due from various affiliates				17
	$	229	$	40
Due to SDG&E	$		$	2
Income taxes due (to) from Sempra Energy(1)	$	(9)	$	17

(1) SDG&E and SoCalGas are included in the consolidated income tax return of Sempra Energy and are allocated income tax expense from Sempra Energy in an amount equal to that which would result from the companies' having always filed a separate return.

Revenues from unconsolidated affiliates at SDG&E and SoCalGas are as follows:

REVENUES FROM UNCONSOLIDATED AFFILIATES AT SDG&E AND SOCALGAS (Dollars in millions)				
	Three months ended March 31,			
		2012		2011
SDG&E	$	2	$	2
SoCalGas		15		13

Transactions with RBS Sempra Commodities

Several of our segments have engaged in transactions with RBS Sempra Commodities. As a result of the divestiture of substantially all of RBS Sempra Commodities' businesses, transactions between our segments and RBS Sempra Commodities were assigned over time to the buyers of the joint venture businesses. The assignments of the related contracts were substantially completed by May 1, 2011. Amounts in our Condensed Consolidated Statements of Operations related to these transactions are as follows:

AMOUNTS RECORDED FOR TRANSACTIONS WITH RBS SEMPRA COMMODITIES (Dollars in millions)		
	Three months ended March 31, 2011	
Revenues:		
Sempra Mexico	$	33
Sempra Natural Gas		12
Cost of natural gas:		
Sempra Mexico	$	58
Sempra Natural Gas		3

OTHER INCOME, NET

Other Income, Net on the Condensed Consolidated Statements of Operations consists of the following:

OTHER INCOME, NET (Dollars in millions)				
	Three months ended March 31,			
	2012		2011	
Sempra Energy Consolidated:				
Allowance for equity funds used during construction	$	35	$	19
Investment gains(1)		19		8
Gains on interest rate and foreign exchange instruments, net		11		10
Regulatory interest, net(2)		1		
Sundry, net		9		6
Total	$	75	$	43
SDG&E:				
Allowance for equity funds used during construction	$	29	$	15
Regulatory interest, net(2)		1		
Sundry, net				1
Total	$	30	$	16
SoCalGas:				
Allowance for equity funds used during construction	$	6	$	4
Sundry, net		(2)		(1)
Total	$	4	$	3

(1) Represents investment gains on dedicated assets in support of our executive retirement and deferred compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.

(2) Interest on regulatory balancing accounts.

INCOME TAXES

INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES

(Dollars in millions)

	Three months ended March 31,			
	2012		2011	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate
Sempra Energy Consolidated	$ 117	33 %	$ 114	33 %
SDG&E	60	35	49	34
SoCalGas	40	38	37	35

Changes in Effective Income Tax Rates

Sempra Energy Consolidated

While our effective tax rate for the three months ended March 31, 2012 remained unchanged from the prior year, it was impacted by:

§ higher income tax expense in 2012 due to Mexican currency translation adjustments;

§ lower deductions for self-developed software costs; and

§ lower favorable adjustments related to prior years' income tax issues; offset by

§ lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets; and

§ higher planned renewable energy income tax credits and deferred income tax benefits related to renewable energy projects.

Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted effective tax rate, as required by U.S. GAAP. The income tax effect of items that can be reliably forecasted are factored into the forecasted effective tax rate and their impact is spread evenly over the year. The forecasted items may include, among others, self-developed software, renewable energy income tax credits, exclusions from taxable income of the equity portion of AFUDC, and depreciation on a certain portion of utility plant assets. Items that cannot be reliably forecasted (e.g., adjustments related to prior years' income tax issues, Mexican currency translation and inflation adjustments, etc.) are recorded in the interim period in which they actually occur, which can result in variability to income tax expense.

Our plan for assets placed into service in 2012 includes assets that were under construction in 2011. We have used grant accounting for these assets in anticipation of applying for cash grants. Grant accounting for cash grants is very similar to the deferral method of accounting for investment tax credits, the primary difference being the recording of a grant receivable instead of an income tax receivable.

Under the deferral method of accounting for ITC and under grant accounting for cash grants, a deferred income tax benefit, on day one, is reflected in income tax expense by recording a deferred tax asset when renewable energy assets are placed in service. This deferred tax asset results from the day-one difference in the income tax basis and financial statement basis of the renewable energy assets, referred to as the "day-one basis difference." The financial statement basis of the assets is reduced by 100 percent of the ITC or grant expected; U.S. Federal income tax basis is reduced by only 50 percent for both ITC and grants; and state income tax basis is reduced 50 percent for grants and not at all for ITC.

SDG&E

The increase in SDG&E's effective income tax rate for the three months ended March 31, 2012 was primarily due to:

- lower deductions for self-developed software costs; and
- lower exclusions from taxable income of the equity portion of AFUDC; offset by
- lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets; and
- the impact of Otay Mesa VIE, as we discuss below.

Results for Sempra Energy Consolidated and SDG&E include Otay Mesa VIE, which is consolidated, and therefore, their effective income tax rates are impacted by the VIE's stand-alone effective income tax rate.

SoCalGas

The increase in SoCalGas' effective income tax rate for the three months ended March 31, 2012 was primarily due to:

- lower deductions for self-developed software costs; and
- unfavorable adjustments related to prior years' income tax issues in 2012 versus favorable adjustments in 2011; offset by
- lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets.

The California Public Utilities Commission (CPUC) requires flow-through rate-making treatment for the current income tax benefit or expense arising from certain property-related and other temporary differences between the treatment for financial reporting and income tax, which will reverse over time. Under the regulatory accounting treatment required for these flow-through temporary differences, deferred income taxes are not recorded to deferred income tax expense, but rather to a regulatory asset or liability. As a result, changes in the relative size of these items compared to pretax income, from period to period, can cause variations in the effective income tax rate. The following items are subject to flow-through treatment:

- the equity portion of AFUDC
- cost of removal of utility plant assets
- self-developed software costs
- depreciation on a certain portion of utility plant assets

NOTE 6. DEBT AND CREDIT FACILITIES

COMMITTED LINES OF CREDIT

At March 31, 2012, Sempra Energy Consolidated had $4.1 billion in committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes, the major components of which we detail below. Available unused credit on these lines at March 31, 2012 was $3.4 billion.

Sempra Energy

In March 2012, Sempra Energy entered into a new $1.067 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 24 lenders. No single lender has greater than a 7-percent share. The new facility replaces the $1.0 billion credit agreement set to expire in 2014.

Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. The facility also provides for issuance of up to $400 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

At March 31, 2012, Sempra Energy had $2 million of variable-rate demand notes outstanding supported by the facility.

Sempra Global

In March 2012, Sempra Global entered into a $2.189 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 25 lenders. No single lender has greater than a 7-percent share. The new facility replaces the $2.0 billion credit agreement set to expire in 2014.

Sempra Energy guarantees Sempra Global's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter.

At March 31, 2012, Sempra Global had $417 million of commercial paper outstanding supported by the facility. At December 31, 2011, $400 million of commercial paper outstanding was classified as long-term debt based on management's intent and ability to maintain this level of borrowing on a long-term basis either supported by this credit facility or by issuing long-term debt. This classification has no impact on cash flows. As a result of issuances of long-term debt in the three months ended March 31, 2012, as we discuss below, none of the commercial paper outstanding at March 31, 2012 is classified as long-term debt.

California Utilities

In March 2012, SDG&E and SoCalGas entered into a new combined $877 million, five-year syndicated revolving credit agreement expiring in March 2017. JPMorgan Chase Bank, N.A. serves as administrative agent for the syndicate of 24 lenders. No single lender has greater than a 7-percent share. The agreement permits each utility to individually borrow up to $658 million, subject to a combined limit of $877 million for both utilities. It also provides for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of $200 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit. The new facility replaces the $800 million combined credit agreement set to expire in

2014.

Borrowings under the facility bear interest at benchmark rates plus a margin that varies with market index rates and the borrowing utility's credit ratings. The agreement requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter.

Each utility's obligations under the agreement are individual obligations, and a default by one utility would not constitute a default by the other utility or preclude borrowings by, or the issuance of letters of credit on behalf of, the other utility.

At March 31, 2012, SDG&E and SoCalGas had no outstanding borrowings and SDG&E had $237 million variable-rate demand notes outstanding supported by the facility. Available unused credit on the lines at March 31, 2012 was $421 million at SDG&E and $640 million at SoCalGas; SoCalGas' availability reflects the impact of SDG&E's use of the combined credit available on the line.

GUARANTEES

RBS Sempra Commodities

As we discuss in Note 4, in 2010 and early 2011, Sempra Energy, RBS and RBS Sempra Commodities sold substantially all of the businesses and assets within the partnership in four separate transactions. In connection with each of these transactions, the buyers were, subject to certain qualifications, obligated to replace any guarantees that we had issued in connection with the applicable businesses sold with guarantees of their own. The buyers substantially completed this process in 2011 with regard to existing, open positions. For those guarantees which have not been replaced, the buyers are obligated to indemnify us in accordance with the applicable transaction documents for any claims or losses in connection with the guarantees that we issued associated with the businesses sold.

At March 31, 2012, RBS Sempra Commodities no longer requires significant working capital support. However, we have provided back-up guarantees for a portion of RBS Sempra Commodities' remaining trading obligations. A few of these back-up guarantees may continue for a prolonged period of time. RBS has fully indemnified us for any claims or losses in connection with these arrangements, with the exception of those obligations for which JP Morgan has agreed to indemnify us. We discuss the indemnification release in Note 4.

RBS Sempra Commodities' net trading liabilities supported by Sempra Energy's guarantees at March 31, 2012 were negligible, consisting of guaranteed trading obligations net of collateral. The amount of guaranteed net trading liabilities varies from day to day with the value of the trading obligations and related collateral. We discuss additional matters related to our investment in RBS Sempra Commodities in Note 10.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt outstanding at Sempra Energy were 0.72 percent and 0.93 percent at March 31, 2012 and December 31, 2011, respectively. The weighted average interest rates at December 31, 2011 include interest rates for commercial paper borrowings classified as long-term, as we discuss above.

LONG-TERM DEBT

In March 2012, Sempra Energy publicly offered and sold $600 million of 2.3-percent notes maturing in 2017.

In March 2012, SDG&E publicly offered and sold $250 million of 4.3-percent first mortgage bonds maturing in 2042.

INTEREST RATE SWAPS

We discuss our fair value interest rate swaps and interest rate swaps to hedge cash flows in Note 7.

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative instruments primarily to manage exposures arising in the normal course of business. Our principal exposures are commodity market risk and benchmark interest rate risk. We may also manage foreign exchange rate exposures using derivatives. Our use of derivatives for these risks is integrated into the economic management of our anticipated revenues, anticipated expenses, assets and liabilities. Derivatives may be effective in mitigating these risks (1) that could lead to declines in anticipated revenues or increases in anticipated expenses, or (2) that our asset values may fall or our liabilities increase. Accordingly, our derivative activity summarized below generally represents an impact that is intended to offset associated revenues, expenses, assets or liabilities that are not presented below.

We record all derivatives at fair value on the Condensed Consolidated Balance Sheets. We designate each derivative as (1) a cash flow hedge, (2) a fair value hedge, or (3) undesignated. Depending on the applicability of hedge accounting and, for the California Utilities and other operations subject to regulatory accounting, the requirement to pass impacts through to customers, the impact of derivative instruments may be offset in other comprehensive income (cash flow hedge), on the balance sheet (fair value hedges and regulatory offsets), or recognized in earnings. We classify cash flows from the settlements of derivative instruments as operating activities on the Condensed Consolidated Statements of Cash Flows.

In certain cases, we apply the normal purchase or sale exception to derivative accounting and have other commodity contracts that are not derivatives. These contracts are not recorded at fair value and are therefore excluded from the disclosures below.

HEDGE ACCOUNTING

We may designate a derivative as a cash flow hedging instrument if it effectively converts anticipated revenues or expenses to a fixed dollar amount. We may utilize cash flow hedge accounting for derivative commodity instruments and interest rate instruments. Designating cash flow hedges is dependent on the business context in which the instrument is being used, the effectiveness of the instrument in offsetting the risk that a given future revenue or expense item may vary, and other criteria.

We may designate an interest rate derivative as a fair value hedging instrument if it effectively converts our own debt from a fixed interest rate to a variable rate. The combination of the derivative and debt instruments results in fixing that portion of the fair value of the debt that is related to benchmark interest rates. Designating fair value hedges is dependent on the instrument being used, the effectiveness of the instrument in offsetting changes in the fair value of our debt instruments, and other criteria.

ENERGY DERIVATIVES

Our market risk is primarily related to natural gas and electricity price volatility and the specific physical locations where we transact. We use energy derivatives to manage these risks. The use of energy derivatives in our various businesses depends on the particular energy market, and the operating and regulatory environments applicable to the business.

§ The California Utilities use natural gas energy derivatives, on their customers' behalf, with the objective of managing price risk and basis risks, and lowering natural gas costs. These derivatives include fixed price natural gas positions, options, and basis risk instruments, which are either exchange-traded or over-the-counter financial instruments. This activity is governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas derivative activities are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Net commodity cost impacts on the Condensed Consolidated Statements of Operations are reflected in Cost of Electric Fuel and Purchased Power or in Cost of Natural Gas.

§ SDG&E is allocated and may purchase congestion revenue rights (CRRs), which serve to reduce the regional electricity price volatility risk that may result from local transmission capacity constraints. Unrealized gains and losses do not impact earnings, as they are offset by regulatory account balances. Realized gains and losses associated with CRRs are recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Condensed Consolidated Statements of Operations.

§ Sempra Mexico uses natural gas derivatives and Sempra Natural Gas uses natural gas and electricity derivatives to market energy commodities and optimize the earnings of their natural gas power plants. Gains and losses associated with these undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.

§ Sempra Mexico and Sempra Natural Gas use natural gas derivatives to market energy commodities and optimize the earnings of our liquefied natural gas (LNG) business and Sempra Natural Gas' natural gas storage and transportation assets and LNG assets. These derivatives are undesignated, and their impact on earnings is recorded in Energy-Related Businesses Revenues on the Condensed Consolidated Statements of Operations. Sempra Mexico also uses natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its Mexican distribution operations. These derivatives, which are recorded as commodity costs that are offset by regulatory account balances and recovered in rates, are recognized in Cost of Natural Gas on the Condensed Consolidated Statements of Operations.

§ From time to time, our various businesses, including the California Utilities, may use other energy derivatives to hedge exposures such as the price of vehicle fuel.

We summarize net energy derivative volumes as of March 31, 2012 and December 31, 2011 as follows:

Segment and Commodity	March 31, 2012	December 31, 2011
California Utilities:		
SDG&E:		
Natural gas	32 million MMBtu	35 million MMBtu(1)
Congestion revenue rights	17 million MWh	19 million MWh(2)

Energy-Related Businesses:		
Sempra Natural Gas:		
Electric power	4 million MWh	5 million MWh
Natural gas	15 million MMBtu	20 million MMBtu
Sempra Mexico - natural gas	1 million MMBtu	1 million MMBtu

(1) Million British thermal units
(2) Megawatt hours

In addition to the amounts noted above, we frequently use commodity derivatives to manage risks associated with the physical locations of our customers, assets and other contractual obligations, such as natural gas purchases and sales.

INTEREST RATE DERIVATIVES

We are exposed to interest rates primarily as a result of our current and expected use of financing. We periodically enter into interest rate derivative agreements intended to moderate our exposure to interest rates and to lower our overall costs of borrowing. We utilize interest rate swaps typically designated as fair value hedges, as a means to achieve our targeted level of variable rate debt as a percent of total debt. In addition, we may utilize interest rate swaps, which are typically designated as cash flow hedges, to lock in interest rates on outstanding debt or in anticipation of future financings.

Interest rate derivatives are utilized by the California Utilities as well as by other Sempra Energy subsidiaries. Although the California Utilities generally recover borrowing costs in rates over time, the use of interest rate derivatives is subject to certain regulatory constraints, and the impact of interest rate derivatives may not be recovered from customers as timely as described above with regard to natural gas derivatives. Accordingly, interest rate derivatives are generally accounted for as hedges at the California Utilities, as well as at the rest of Sempra Energy's subsidiaries. Separately, Otay Mesa VIE has entered into interest rate swap agreements to moderate its exposure to interest rate changes. This activity was designated as a cash flow hedge as of April 1, 2011.

The net notional amounts of our interest rate derivatives as of March 31, 2012 and December 31, 2011 were:

	March 31, 2012		December 31, 2011	
(Dollars in millions)	Notional Debt	Maturities	Notional Debt	Maturities
Sempra Energy Consolidated(1)	$ 15-305	2013-2019	$ 15-305	2013-2019
SDG&E(1)	285-352	2019	285-355	2019

(1) Includes Otay Mesa VIE. All of SDG&E's interest rate derivatives relate to Otay Mesa VIE.

FOREIGN CURRENCY DERIVATIVES

We are exposed to exchange rate movements primarily as a result of our Mexican subsidiaries, which have U.S. dollar denominated receivables and payables (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. These subsidiaries also have deferred income tax assets and liabilities that are denominated in the Mexican peso, which must be translated into U.S. dollars for financial reporting purposes. From time to time, we may utilize short-term foreign currency derivatives at our subsidiaries and at the consolidated level as a means to manage the risk of exposure to significant fluctuations in our income tax expense from these impacts.

FINANCIAL STATEMENT PRESENTATION

The following tables provide the fair values of derivative instruments, without consideration of margin deposits held or posted, on the Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011:

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	March 31, 2012			
Derivatives designated as hedging instruments	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Interest rate instruments(3)	$ 7	$ 12	$ (17)	$ (61)
SDG&E:				
Interest rate instruments(3)	$	$	$ (17)	$ (61)
Derivatives not designated as hedging instruments				
Sempra Energy Consolidated:				
Interest rate instruments	$ 8	$ 37	$ (8)	$ (31)
Commodity contracts not subject to rate recovery	234	23	(232)	(40)
Associated offsetting commodity contracts	(208)	(19)	208	19
Commodity contracts subject to rate recovery	21	7	(69)	(23)
Associated offsetting commodity contracts	(6)	(1)	6	1
Total	$ 49	$ 47	$ (95)	$ (74)
SDG&E:				
Commodity contracts subject to rate recovery	$ 18	$ 7	$ (66)	$ (23)
Associated offsetting commodity contracts	(3)	(1)	3	1
Total	$ 15	$ 6	$ (63)	$ (22)
SoCalGas:				
Commodity contracts not subject to rate recovery	$ 1	$	$	$
Commodity contracts subject to rate recovery	2		(3)	
Associated offsetting commodity contracts	(2)		2	
Total	$ 1	$	$ (1)	$

(1)

Included in Current Assets: Other for SoCalGas.

(2) Included in Current Liabilities: Other for SoCalGas.

(3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	December 31, 2011			
Derivatives designated as hedging instruments	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Interest rate instruments(3)	$ 5	$ 11	$ (17)	$ (65)
SDG&E:				
Interest rate instruments(3)	$	$	$ (16)	$ (65)
Derivatives not designated as hedging instruments				
Sempra Energy Consolidated:				
Interest rate instruments	$ 8	$ 41	$ (7)	$ (36)
Commodity contracts not subject to rate recovery	156	72	(148)	(94)
Associated offsetting commodity contracts	(120)	(68)	120	68
Commodity contracts subject to rate recovery	28	8	(62)	(24)
Associated offsetting commodity contracts	(10)	(2)	10	2
Total	$ 62	$ 51	$ (87)	$ (84)
SDG&E:				
Commodity contracts subject to rate recovery	$ 22	$ 8	$ (55)	$ (24)
Associated offsetting commodity contracts	(5)	(2)	5	2
Total	$ 17	$ 6	$ (50)	$ (22)
SoCalGas:				
Commodity contracts subject to rate recovery	$ 6	$	$ (7)	$
	(5)		5	

Associated offsetting commodity contracts				
Total	$ 1	$	$ (2)	$

(1) Included in Current Assets: Other for SoCalGas.
(2) Included in Current Liabilities: Other for SoCalGas.
(3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.

The effects of derivative instruments designated as hedges on the Condensed Consolidated Statements of Operations and on Other Comprehensive Income (OCI) and Accumulated Other Comprehensive Income (AOCI) for the three months ended March 31 were:

FAIR VALUE HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

	Location	Gain (loss) on derivatives recognized in earnings Three months ended March 31, 2012	2011
Sempra Energy Consolidated:			
Interest rate instruments	Interest Expense	$ 2	$ 3
Interest rate instruments	Other Income, Net	2	(5)
Total(1)		$ 4	$ (2)
SoCalGas:			
Interest rate instrument	Interest Expense	$	$ 1
Interest rate instrument	Other Income, Net		(3)
Total(1)		$	$ (2)

(1) There has been no hedge ineffectiveness on these swaps. Changes in the fair values of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt.

CASH FLOW HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

	Pretax gain recognized in OCI (effective portion) Three months ended March 31, 2012	2011	Location	Loss reclassified from AOCI into earnings (effective portion) Three months ended March 31, 2012	2011
Sempra Energy Consolidated:					
Interest rate instruments(1)	$ 3	$	Interest Expense	$ (1)	$ (2)
Interest rate instruments	1	1	Equity Earnings, Net of Income Tax	(2)	(1)

Total	$	4	$	1		$	(3)	$	(3)
SDG&E:									
Interest rate instruments(1)	$		$		Interest Expense	$		$	(1)
SoCalGas:									
Interest rate instruments	$		$		Interest Expense	$	(1)	$	(1)

(1) Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE. There has been a negligible amount of ineffectiveness related to these swaps.

Sempra Energy expects that losses of $14 million, which are net of income tax benefit, that are currently recorded in AOCI related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. Actual amounts ultimately reclassified into earnings depend on the interest rates in effect when derivative contracts that are currently outstanding mature.

SDG&E and SoCalGas expect that losses of $5 million and $1 million, respectively, which are net of income tax benefit, that are currently recorded in AOCI related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.

For all forecasted transactions, the maximum term over which we are hedging exposure to the variability of cash flows at March 31, 2012 is 85 months for Sempra Energy and SDG&E. The maximum term of exposure related to contracts at Sempra Renewables' equity method investees is 18 years.

We recorded negligible hedge ineffectiveness in the three months ended March 31, 2012.

The effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Operations for the three months ended March 31 were:

UNDESIGNATED DERIVATIVE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

		Gain (loss) on derivatives recognized in earnings			
		Three months ended March 31,			
	Location	2012		2011	
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments	Other Income, Net	$	11	$	10
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses		11		6
Commodity contracts not subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power				1
Commodity contracts not subject to rate recovery	Operation and Maintenance		1		2
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(21)		9
Total		$	2	$	28

SDG&E:					
Commodity contracts not subject to rate recovery	Operation and Maintenance	$		$	1
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(21)		9
Total		$	(21)	$	10
SoCalGas:					
Commodity contracts not subject to rate recovery	Operation and Maintenance	$	1	$	1
Total		$	1	$	1

CONTINGENT FEATURES

For Sempra Energy and SDG&E, certain of our derivative instruments contain credit limits which vary depending upon our credit ratings. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our ratings. In certain cases, if our credit ratings were to fall below investment grade, the counterparty to these derivative liability instruments could request immediate payment or demand immediate and ongoing full collateralization.

For Sempra Energy and SDG&E, the total fair value of this group of derivative instruments in a net liability position at March 31, 2012 is $26 million and $13 million, respectively. As of March 31, 2012, if the credit ratings of Sempra Energy and SDG&E were reduced below investment grade, $26 million and $13 million, respectively, of additional assets could be required to be posted as collateral for these derivative contracts.

For Sempra Energy, SDG&E and SoCalGas, some of our derivative contracts contain a provision that would permit the counterparty, in certain circumstances, to request adequate assurance of our performance under the contracts. Such additional assurance, if needed, is not material and is not included in the amounts above.

NOTE 8. FAIR VALUE MEASUREMENTS

We discuss the valuation techniques and inputs we use to measure fair value and the definition of the three levels of the fair value hierarchy in Notes 1 and 2 of the Notes to Consolidated Financial Statements in the Annual Report. We have not changed the valuation techniques or inputs we use to measure fair value during the three months ended March 31, 2012.

Recurring Fair Value Measures

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2012 and December 31, 2011. We classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires

judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

The fair value of commodity derivative assets and liabilities is determined in accordance with our netting policy, as discussed below under “Derivative Positions Net of Cash Collateral.”

The determination of fair values, shown in the tables below, incorporates various factors, including but not limited to, the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests).

Our financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2012 and December 31, 2011 in the tables below include the following:

§ Nuclear decommissioning trusts reflect the assets of SDG&E’s nuclear decommissioning trusts, excluding cash balances. A third party trustee values the trust assets using prices from a pricing service based on a market approach. We validate these prices by comparison to prices from other independent data sources. Equity and certain debt securities are valued using quoted prices listed on nationally recognized securities exchanges or based on closing prices reported in the active market in which the identical security is traded (Level 1). Other debt securities are valued based on yields that are currently available for comparable securities of issuers with similar credit ratings (Level 2).

§ We enter into commodity contracts and interest rate derivatives primarily as a means to manage price exposures. We primarily use a market approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). All Level 3 recurring items are related to CRRs at SDG&E, as discussed below under “Level 3 Information.” Commodity derivative contracts that are subject to rate recovery are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates.

§ Investments include marketable securities that we value using a market approach based on closing prices reported in the active market in which the identical security is traded (Level 1).

There were no transfers into or out of Level 1, Level 2, or Level 3 for Sempra Energy Consolidated, SDG&E or SoCalGas during the periods presented.

RECURRING FAIR VALUE MEASURES – SEMPRA ENERGY CONSOLIDATED
(Dollars in millions)

	At fair value as of March 31, 2012				
	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$ 515	$	$	$	$ 515
Debt securities:					
Debt securities issued by the U.S. Treasury and other					

	Level 1	Level 2	Level 3	Collateral netted	Total
U.S. government corporations and agencies	91	80			171
Municipal bonds		70			70
Other securities		84			84
Total debt securities	91	234			325
Total nuclear decommissioning trusts(1)	606	234			840
Interest rate instruments		65			65
Commodity contracts subject to rate recovery	13		21		34
Commodity contracts not subject to rate recovery	13	30			43
Investments	1				1
Total	$ 633	$ 329	$ 21	$	$ 983
Liabilities:					
Interest rate instruments	$	$ 116	$	$	$ 116
Commodity contracts subject to rate recovery	69	17		(69)	17
Commodity contracts not subject to rate recovery		45		(3)	42
Total	$ 69	$ 178	$	$ (72)	$ 175

	At fair value as of December 31, 2011				
	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$ 468	$	$	$	$ 468
Debt securities:					
Debt securities issued by the U.S. Treasury and other					
U.S. government corporations and agencies	92	78			170
Municipal bonds		77			77
Other securities		78			78
Total debt securities	92	233			325
Total nuclear decommissioning trusts(1)	560	233			793
Interest rate instruments		66			66
Commodity contracts subject to rate recovery	10	1	23		34
Commodity contracts not subject to rate recovery	15	35		(2)	48
Investments	5				5
Total	$ 590	$ 335	$ 23	$ (2)	$ 946
Liabilities:					
Interest rate instruments	$ 1	$ 124	$	$	$ 125
Commodity contracts subject to rate recovery	61	13		(61)	13
Commodity contracts not subject to rate recovery	1	52		(4)	49
Total	$ 63	$ 189	$	$ (65)	$ 187

(1)

Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES – SDG&E
(Dollars in millions)

	At fair value as of March 31, 2012				
	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$ 515	$	$	$	$ 515
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	91	80			171
Municipal bonds		70			70
Other securities		84			84
Total debt securities	91	234			325
Total nuclear decommissioning trusts(1)	606	234			840
Commodity contracts subject to rate recovery	11		21		32
Commodity contracts not subject to rate recovery	1				1
Total	$ 618	$ 234	$ 21	$	$ 873
Liabilities:					
Interest rate instruments	$	$ 77	$	$	$ 77
Commodity contracts subject to rate recovery	69	16		(69)	16
Total	$ 69	$ 93	$	$ (69)	$ 93

	At fair value as of December 31, 2011				
	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$ 468	$	$	$	$ 468
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	92	78			170
Municipal bonds		77			77
Other securities		78			78
Total debt securities	92	233			325
Total nuclear decommissioning trusts(1)	560	233			793
	9		23		32

Commodity contracts subject to rate recovery										
Commodity contracts not subject to rate recovery		1								1
Total	$	570	$	233	$	23	$		$	826
Liabilities:										
Interest rate instruments	$		$	81	$		$		$	81
Commodity contracts subject to rate recovery		61		12				(61)		12
Total	$	61	$	93	$		$	(61)	$	93

(1) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES – SOCALGAS
(Dollars in millions)

	At fair value as of March 31, 2012									
	Level 1		Level 2		Level 3		Collateral netted		Total	
Assets:										
Commodity contracts subject to rate recovery	$	2	$		$		$		$	2
Commodity contracts not subject to rate recovery		2								2
Total	$	4	$		$		$		$	4
Liabilities:										
Commodity contracts subject to rate recovery	$		$	1	$		$		$	1
Total	$		$	1	$		$		$	1

	At fair value as of December 31, 2011									
	Level 1		Level 2		Level 3		Collateral netted		Total	
Assets:										
Commodity contracts subject to rate recovery	$	1	$	1	$		$		$	2
Commodity contracts not subject to rate recovery		2								2
Total	$	3	$	1	$		$		$	4
Liabilities:										
Commodity contracts subject to rate recovery	$		$	1	$		$		$	1
Total	$		$	1	$		$		$	1

Level 3 Information

The following table sets forth reconciliations of changes in the fair value of CRRs classified as Level 3 in the fair value hierarchy for Sempra Energy Consolidated and SDG&E:

	Three months ended March 31,			
(Dollars in millions)	2012		2011	
Balance as of January 1	$	23	$	2
Realized and unrealized gains		2		6
Allocated transmission instruments		1		1
Settlements		(5)		(6)
Balance as of March 31	$	21	$	3
Change in unrealized gains or losses relating to instruments still held at March 31	$		$	

CRRs are recorded at fair value based almost entirely on the most current auction prices published by the California Independent System Operator (ISO), an objective source. The impact associated with discounting is negligible. Because auction prices are a less observable input, these instruments are classified as Level 3. Auction prices range from ($3)/MWh to $5/MWh at a given location, and the fair value of these instruments is derived from auction price differences between two locations. Positive values between two locations represent expected future reductions in congestion costs, whereas negative values between two locations represent expected future charges. Valuation of our CRRs is sensitive to a change in auction price. If auction prices at one location increase (decrease) relative to another location, this could result in a higher (lower) fair value measurement. We summarize CRR volumes in Note 7. The earnings impacts of CRRs are deferred and recorded in regulatory accounts to the extent they are recoverable or refundable through rates. Upon settlement, CRRs are included in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.

Derivative Positions Net of Cash Collateral

Each Condensed Consolidated Balance Sheet reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of offset exists.

The following table provides the amount of fair value of cash collateral receivables that were not offset in the Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011:

(Dollars in millions)	March 31, 2012		December 31, 2011	
Sempra Energy Consolidated	$	25	$	20
SDG&E		12		10
SoCalGas		3		2

Fair Value of Financial Instruments

The fair values of certain of our financial instruments (cash, temporary investments, accounts and notes receivable, dividends and accounts payable, short-term debt and customer deposits) approximate their carrying amounts. The following table provides the carrying amounts and fair values of certain other financial instruments at March 31, 2012 and December 31, 2011:

FAIR VALUE OF FINANCIAL INSTRUMENTS
(Dollars in millions)

	March 31, 2012				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Sempra Energy Consolidated:					
Investments in affordable housing partnerships(1)	$ 20	$	$	$ 49	$ 49
Total long-term debt(2)	10,709		11,288	615	11,903
Preferred stock of subsidiaries	99		106		106
SDG&E:					
Total long-term debt(3)	$ 4,143	$	$ 4,103	$ 352	$ 4,455
Contingently redeemable preferred stock	79		85		85
SoCalGas:					
Total long-term debt(4)	$ 1,312	$	$ 1,480	$	$ 1,480
Preferred stock	22		23		23

	December 31, 2011				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Sempra Energy Consolidated:					
Investments in affordable housing partnerships(1)	$ 21	$	$	$ 48	$ 48
Total long-term debt(2)	9,826		10,447	600	11,047
Preferred stock of subsidiaries	99		106		106
SDG&E:					
Total long-term debt(3)	$ 3,895	$	$ 3,933	$ 355	$ 4,288
Contingently redeemable preferred stock	79		86		86
SoCalGas:					
Total long-term debt(4)	$ 1,313	$	$ 1,506	$	$ 1,506
Preferred stock	22		23		23

(1) We discuss our investments in affordable housing partnerships in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

(2) Before reductions for unamortized discount (net of premium) of $16 million at both March 31, 2012 and December 31, 2011, and excluding capital leases of $200 million at March 31, 2012 and $204 million at December 31, 2011, and commercial paper classified as long-term debt of $400 million at December 31, 2011. We discuss our long-term debt in Note 6 above and in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.

(3) Before reductions for unamortized discount of $12 million at March 31, 2012 and $11 million at December 31, 2011, and excluding capital leases of $191 million at March 31, 2012 and $193 million at December 31, 2011.

(4) Before reductions for unamortized discount of $2 million at March 31, 2012 and $3 million at December 31, 2011, and excluding capital leases of $9 million at March 31, 2012 and $11 million at December 31, 2011.

We calculate the fair value of our investments in affordable housing partnerships using an income approach based on the present value of estimated future cash flows discounted at rates available for similar investments (Level 3).

We base the fair value of certain of our long-term debt and preferred stock on a market approach using quoted market prices for identical or similar securities in thinly-traded markets (Level 2). We value other long-term debt using an income approach based on the present value of estimated future cash flows discounted at rates available for similar securities (Level 3).

Nuclear Decommissioning Trusts

We discuss SDG&E's investments in nuclear decommissioning trust funds in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report. The following table shows the fair values and gross unrealized gains and losses for the securities held in the trust funds:

NUCLEAR DECOMMISSIONING TRUSTS
(Dollars in millions)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of March 31, 2012:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies(1)	$ 162	$ 9	$	$ 171
Municipal bonds(2)	66	5	(1)	70
Other securities(3)	80	4		84
Total debt securities	308	18	(1)	325
Equity securities	239	278	(2)	515
Cash and cash equivalents	25			25
Total	$ 572	$ 296	$ (3)	$ 865
As of December 31, 2011:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	$ 157	$ 13	$	$ 170
Municipal bonds	72	5		77
Other securities	76	3	(1)	78
Total debt securities	305	21	(1)	325
Equity securities	246	227	(5)	468
Cash and cash equivalents	11			11
Total	$ 562	$ 248	$ (6)	$ 804

(1) Maturity dates are 2013-2042
(2) Maturity dates are 2012-2057
(3) Maturity dates are 2012-2051

The following table shows the proceeds from sales of securities in the trusts and gross realized gains and losses on those sales:

SALES OF SECURITIES (Dollars in millions)		
	Three months ended March 31,	
	2012	2011
Proceeds from sales	$ 129	$ 42
Gross realized gains	4	1
Gross realized losses		(1)

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on the Condensed Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

Non-Recurring Fair Value Measures – Sempra Energy Consolidated

We discuss non-recurring fair value measures and the associated accounting impact on our investments in RBS Sempra Commodities and Argentina in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report and, with regard to RBS Sempra Commodities, in Note 4 above.

NOTE 9. CALIFORNIA UTILITIES' REGULATORY MATTERS

JOINT MATTERS

General Rate Case (GRC)

The CPUC uses a general rate case proceeding to prospectively set rates sufficient to allow the California Utilities to recover their reasonable cost of operations and maintenance and to provide the opportunity to realize their authorized rates of return on their investment. In December 2010, the California Utilities filed their 2012 General Rate Case (GRC) applications to establish their authorized 2012 revenue requirements and the ratemaking mechanisms by which those requirements will change on an annual basis over the subsequent three-year (2013-2015) period. Both SDG&E and SoCalGas filed revised applications with the CPUC in July 2011. Evidentiary hearings were completed in January 2012 and final briefs reflecting the results from these hearings are scheduled to be filed with the CPUC by May 14, 2012.

In February 2012, the California Utilities filed amendments to update their July 2011 revised applications. With these amendments, SDG&E is requesting a revenue requirement in 2012 of $1.849 billion, an increase of $235 million (or 14.6%) over 2011, of which $67 million is being requested for cost recovery of the incremental wildfire insurance premiums which are not included in the 2011 revenue requirement as set forth in the 2008 GRC. SoCalGas is requesting a revenue requirement in 2012 of $2.112 billion, an increase of $268 million (14.5%) over 2011. The Division of Ratepayer Advocates and other intervening parties are recommending that the CPUC reduce the utilities' revenue requirements in 2012 by approximately 5 percent compared to 2011.

Until such time as a final decision for the 2012 GRC is issued, the California Utilities are recording revenues in 2012 based on levels authorized in 2011 plus, for SDG&E, consistent with the recent CPUC decisions for cost recovery for SDG&E's incremental wildfire insurance premiums, an amount for the recovery of 2012 wildfire insurance premiums.

We currently expect a final decision for the 2012 GRC, which will be made effective retroactive to January 1, 2012, in the second half of 2012.

Cost of Capital

A cost of capital proceeding determines a utility's authorized capital structure and authorized rate of return on rate base (ROR), which is a weighted average of the authorized returns on debt, preferred stock, and common equity (return on equity or ROE). The authorized ROR is the rate that the California Utilities are authorized to earn on their investment in electric and natural gas distribution, natural gas transmission and electric generation assets. In addition, a cost of capital proceeding also addresses market-based benchmarks to be monitored to determine whether an adjustment to the established authorized rate of return is required during the interim years between proceedings through the approved adjustment mechanism.

SDG&E and SoCalGas filed separate applications with the CPUC in April 2012 to update their cost of capital effective January 1, 2013. Southern California Edison (Edison) and Pacific Gas and Electric Company (PG&E) also filed separate cost of capital applications with the CPUC. SDG&E is proposing to adjust its authorized capital structure by increasing the amount of its common equity from 49.0 percent to 52.0 percent. SDG&E is also proposing to lower its authorized ROE from 11.1 percent to 11.0 percent and to lower its authorized ROR from 8.40 percent to 8.20 percent. SoCalGas is proposing to adjust its authorized capital structure by increasing the amount of its common equity from 48.0 percent to 52.0 percent. SoCalGas is also proposing to increase its authorized ROE from 10.82 percent to 10.9 percent and to lower its authorized ROR from 8.68 percent to 8.42 percent. SDG&E is proposing to continue its cost of capital adjustment mechanism which uses a utility bond benchmark. SoCalGas is proposing to switch from its current cost of capital adjustment mechanism, which is based on U.S. Treasury Bonds, to the utility bond benchmark used by SDG&E, Edison and PG&E. Both SDG&E and SoCalGas are proposing to add an "off ramp" provision to the adjustment mechanism as a safeguard to protect against extreme changes in interest rates and to allow the CPUC latitude to suspend the annual mechanism if prudent.

SDG&E's cost of capital adjustment mechanism benchmark is based on the 12-month average monthly A-rated utility bond yield as published by Moody's for the 12-month period October through September of each fiscal year. If this 12-month average falls outside of a specified range, then SDG&E's authorized ROE would be adjusted, upward or downward, by one-half of the difference between the 12-month average and the mid-point of the specified range. In addition, SDG&E's authorized recovery rate for the cost of debt and preferred stock would also be adjusted to their respective actual weighted average cost. Therefore, SDG&E's authorized ROR would adjust, upward or downward, as a result of all three adjustments with the new rate going into effect on January 1 following the year in which the benchmark range was exceeded. However, SDG&E expects the CPUC decision from the 2013 cost of capital application to supersede the rates that would result if, at the end of September 2012, this mechanism were to indicate that an adjustment is required.

SoCalGas' current cost of capital mechanism (the Market Indexed Capital Adjustment Mechanism or MICAM) identifies two conditions for determining whether a change in the authorized rate of return is required. Both conditions are based on the 30-year Treasury bond yields – one being the most recent trailing 12-month rolling average yield and the second being the corresponding 12-month forward forecast yield as published by Global Insight. If both conditions fall outside a specified range in a given month, SoCalGas' authorized ROE would be adjusted, upward or downward, by one-half of the difference between the trailing 12-month rolling average yield and the midpoint of the range, effective January 1 following the year in which both conditions were exceeded. Also, SoCalGas' authorized recovery rate for the cost of debt and preferred stock would be adjusted to their respective actual weighted average cost. Therefore, SoCalGas' authorized ROR would adjust, upward or downward, as a result of all three cost adjustments. In the event of such an event occurring, the benchmark interest rate would be reset to the interest rate in effect at the time it was determined that the benchmark range had been exceeded.

As of January 31, 2012, the historical rolling average yield for the 30-year Treasury bonds of 3.79 percent fell below the MICAM floor of 3.88 percent. In addition, the Global Insight 12-month forward forecasted yield of 3.48 percent published in February 2012 was also below the MICAM floor. Therefore, the MICAM calls for an adjustment of SoCalGas' ROE and authorized recovery for the cost of debt and preferred stock to their actual weighted average cost to be effective on January 1, 2013. If the MICAM adjustment is implemented, SoCalGas' ROE would be reduced to 10.02 percent effective January 1, 2013, a reduction of 80 basis points from its current authorized ROE, and its authorized ROR would be reduced to 7.99 percent, a reduction of 69 basis points from its current authorized ROR. However, SoCalGas expects that the CPUC decision from its 2013 cost of capital application will supersede the rates that would result from the MICAM adjustment. The CPUC proposed schedule calls for a final decision by the end of 2012.

Natural Gas Pipeline Operations Safety Assessments

As a result of recent natural gas pipeline explosions in the U.S., including the September 2010 rupture in San Bruno, California of a natural gas pipeline owned and operated by PG&E (the San Bruno incident), various regulatory agencies, including the CPUC, are evaluating natural gas pipeline safety regulations, practices and procedures.

In February 2011, the CPUC opened a forward-looking rulemaking proceeding to examine what changes should be made to existing pipeline safety regulations for California natural gas pipelines. The California Utilities are parties to this proceeding.

In June 2011, the CPUC directed SoCalGas, SDG&E, PG&E and Southwest Gas to file comprehensive implementation plans to test or replace all natural gas transmission pipelines that have not been pressure tested. The California Utilities filed their Pipeline Safety Enhancement Plan (PSEP) with the CPUC in August 2011. The proposed safety measures, investments and estimated costs are not included in the California Utilities' 2012 GRC requests discussed above.

In December 2011, the assigned Commissioner to the rulemaking proceeding for the pipeline safety regulations ruled that SDG&E's and SoCalGas' Triennial Cost Allocation Proceeding (TCAP) would be the most logical proceeding to conduct the reasonableness and ratemaking review of the companies' PSEP.

In January 2012, the CPUC Consumer Protection and Safety Division (CPSD) issued a Technical Report of the California Utilities' PSEP. The report, along with testimony and evidentiary hearings, will be used to evaluate the PSEP in the regulatory process. Generally, the report found that the PSEP approach to pipeline replacement and pressure testing and other proposed enhancements is reasonable.

In February 2012, the assigned Commissioner in the TCAP issued a ruling setting a schedule for the review of the SDG&E and SoCalGas PSEP with evidentiary hearings in August 2012 and a final decision in the first quarter of 2013. In April 2012, the CPUC issued an interim decision in the rulemaking proceeding formally transferring the PSEP to the TCAP and authorizing SDG&E and SoCalGas to establish regulatory accounts to record the incremental costs of initiating the PSEP prior to a final decision on the PSEP. The TCAP proceeding will address the recovery of the costs recorded in the regulatory account.

In April 2012, the CPUC issued a decision expanding the scope of the rulemaking proceeding to incorporate the provisions of California Senate Bill 705 which requires gas utilities to develop and implement a plan for the safe and reliable operation for their gas pipeline facilities. The CPUC must accept, modify or reject the plans by the end of 2012. The CPUC decision also orders the utilities to undergo independent management and financial audits to assure that the utilities are fully meeting their safety responsibilities. CPSD will select the independent auditors and will oversee the audits. A schedule for the audits has not been established.

We provide additional information regarding these rulemaking proceedings and the California Utilities' PSEP in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Utility Incentive Mechanisms

The CPUC applies performance-based measures and incentive mechanisms to all California investor-owned utilities, under which the California Utilities have earnings potential above authorized base margins if they achieve or exceed specific performance and operating goals.

We provide additional information regarding these incentive mechanisms in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report, and updates below.

Natural Gas Procurement

In the first quarter of 2012, the CPUC approved and SoCalGas recorded SoCalGas' application for its Gas Cost Incentive Mechanism award of $6.2 million for natural gas procured for its core customers during the 12-month period ending March 31, 2011.

SDG&E MATTERS

Power Procurement and Resource Planning

Renewable Energy

SDG&E is subject to the Renewables Portfolio Standard (RPS) Program administered by both the CPUC and the California Energy Commission (CEC), which requires each California utility to procure 33 percent of its annual electric energy requirements from renewable energy sources by 2020, with an average of 20 percent required from January 1, 2011 to December 31, 2013; 25 percent by December 31, 2016; and 33 percent by December 31, 2020. The CPUC began a rulemaking in May 2011 to address the implementation of the 33% RPS Program. We discuss the RPS Program further in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

South Orange County Reliability Enhancement

SDG&E plans to file an application with the CPUC in May 2012 for a Certificate of Public Convenience and Necessity (CPCN) to construct the South Orange County Reliability Enhancement project. The purpose of the project is to enhance the capacity and reliability of SDG&E's electric service to the south Orange County area. The proposed project primarily includes replacing and upgrading approximately eight miles of transmission lines and rebuilding and upgrading a substation at an existing site. SDG&E will be requesting a CPUC decision approving the estimated $473 million project by the third quarter 2013. SDG&E obtained approval for the project from the California Independent System Operator (CAISO) in May 2011. The project is expected to be in service by the second half of 2017.

Incremental Insurance Premium Cost Recovery

In December 2010, the CPUC approved SDG&E's request for a $29 million revenue requirement for the recovery of the incremental increase in its general liability and wildfire liability insurance premium costs for the July 2009/June 2010 policy period. In its decision approving this cost recovery, the CPUC also authorized SDG&E to request

recovery of any incremental insurance premiums for future policy periods through December 31, 2011, with a $5 million deductible applied to each policy renewal period. This approval was in response to a request filed by SDG&E with the CPUC in August 2009 seeking authorization to recover higher liability insurance premiums (amounts in excess of those authorized to be recovered in the 2008 GRC), which SDG&E began incurring commencing July 1, 2009, and any losses realized due to higher deductibles associated with the new policies. SDG&E made the filing under the CPUC's rules allowing utilities to seek recovery of significant cost increases incurred between GRC filings resulting from unforeseen circumstances. The CPUC's rules allow a utility to seek recovery of incurred costs that meet certain criteria, subject to a $5 million deductible per event.

In December 2011, the CPUC approved SDG&E's request for an incremental revenue requirement of $63 million for the July 2010/June 2011 policy period. SDG&E recorded the revenue resulting from this decision in the fourth quarter of 2011. In addition, SDG&E's fourth quarter 2011 earnings included revenue to recover $28 million of incremental insurance premiums incurred in the six month period of July through December 2011 for which a final decision from the CPUC is pending. In April 2012, the CPUC issued a draft resolution approving the $28 million in cost recovery as requested. We expect a final CPUC resolution on this pending request by June 2012.

In the CPUC's December 2010 decision, discussed above, the CPUC directed SDG&E to include in its 2012 GRC application the amount of the incremental wildfire insurance premiums it would be seeking recovery for in rates subsequent to December 31, 2011. SDG&E's 2012 GRC application does request $67 million of revenue requirement for cost recovery of wildfire insurance premiums in 2012. As a decision on SDG&E's 2012 GRC application is pending with the CPUC, with a decision currently expected in the second half of 2012, and based on the CPUC's rulings for the recovery of the cost of the incremental wildfire insurance premiums incurred since July 2009, SDG&E's first quarter 2012 revenue reflects the expected recovery of the cost of the incremental wildfire insurance premiums incurred in the first quarter of 2012.

Excess Wildfire Claims Cost Recovery

SDG&E and SoCalGas filed an application, along with other related filings, with the CPUC in August 2009 proposing a new mechanism for the future recovery of all wildfire-related expenses for claims, litigation expenses and insurance premiums that are in excess of amounts authorized by the CPUC for recovery in rates. This application was made jointly with Edison and PG&E. In July 2010, the CPUC approved SDG&E's and SoCalGas' requests for separate regulatory memorandum accounts to record the subject expenses while the application is pending before the CPUC. Several parties protested the original application and, in response, the four utilities jointly submitted an amended application in August 2010. In November 2011, Edison and PG&E requested to withdraw from the joint utility application due, in part, to the delays in the proceeding. In January 2012, the CPUC granted their requests to withdraw and held evidentiary hearings for SDG&E and SoCalGas, both of which are still moving forward with the application. Legal briefs were completed in March 2012. We expect a final CPUC decision in the second half of 2012.

SDG&E intends to request recovery for costs incurred associated with the 2007 wildfires that are in excess of amounts recovered from its insurance coverage and other responsible third parties in a future application. If a cost recovery mechanism covering the 2007 wildfire costs is approved by the CPUC as a result of these proceedings, SDG&E intends to utilize the methodology authorized. Otherwise, SDG&E will file an application for cost recovery utilizing other cost recovery application processes available through the CPUC.

We provide additional information about 2007 wildfire litigation costs and their recovery in Note 10.

SOCALGAS MATTER

Aliso Canyon Natural Gas Storage Compressor Replacement

In September 2009, SoCalGas filed an application with the CPUC requesting approval to replace certain obsolete natural gas turbine compressors used in the operations of SoCalGas' Aliso Canyon natural gas storage reservoir, with a new electric compressor station. In April 2012, the CPUC issued a draft environmental impact report for the project concluding that no significant or unavoidable adverse environmental impacts have been identified from the construction or operation of the proposed project. A final environmental impact report and CPUC decision on the estimated $200 million project are expected by the end of 2012.

We discuss additional matters affecting our California Utilities in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 10. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

We accrue losses for legal proceedings when it is probable that a loss has been incurred and the amounts of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to estimate with reasonable certainty the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from amounts accrued, may exceed applicable insurance coverages and could materially adversely affect our business, cash flows, results of operations, and financial condition. Unless otherwise indicated, we are unable to estimate reasonably possible losses in excess of any amounts accrued.

At March 31, 2012, Sempra Energy's accrued liabilities for material legal proceedings, on a consolidated basis, were $529 million. At March 31, 2012, accrued liabilities for material legal proceedings for SDG&E and SoCalGas were $498 million and $18 million, respectively. At March 31, 2012, liabilities of $498 million at Sempra Energy and SDG&E were related to wildfire litigation discussed below.

SDG&E

2007 Wildfire Litigation

In October 2007, San Diego County experienced several catastrophic wildfires. Reports issued by the California Department of Forestry and Fire Protection (Cal Fire) concluded that two of these fires (the Witch and Rice fires) were SDG&E "power line caused" and that a third fire (the Guejito fire) occurred when a wire securing a Cox Communications' (Cox) fiber optic cable came into contact with an SDG&E power line "causing an arc and starting the fire." Cal Fire reported that the Rice fire burned approximately 9,500 acres and damaged 206 homes and two commercial properties, and the Witch and Guejito fires merged and eventually burned approximately 198,000 acres, resulting in two fatalities, approximately 40 firefighters injured and approximately 1,141 homes destroyed.

A September 2008 staff report issued by the CPUC's CPSD reached substantially the same conclusions as the Cal Fire reports, but also contended that the power lines involved in the Witch and Rice fires and the lashing wire involved in the Guejito fire were not properly designed, constructed and maintained. In April 2010, proceedings initiated by the CPUC to determine if any of its rules were violated were settled with SDG&E's payment of $14.75 million.

Numerous parties have sued SDG&E and Sempra Energy in San Diego County Superior Court seeking recovery of unspecified amounts of damages, including punitive damages, from the three fires. These include owners and insurers of properties that were destroyed or damaged in the fires and public entities seeking recovery of firefighting, emergency response, and environmental costs. They assert various bases for recovery, including inverse condemnation based upon a California Court of Appeal decision finding that another California investor-owned utility was subject to strict liability, without regard to foreseeability or negligence, for property damages resulting from a wildfire ignited by power lines.

In October 2010, the Court of Appeal affirmed the trial court’s ruling that these claims must be pursued in individual lawsuits, rather than as class actions on behalf of all persons who incurred wildfire damages. In February 2011, the California Supreme Court denied a petition for review of the affirmance. The trial court has scheduled a Witch fire and Guejito fire trial to begin in March 2013.

SDG&E filed cross-complaints against Cox seeking indemnification for any liability that SDG&E might incur in connection with the Guejito fire, two SDG&E contractors seeking indemnification in connection with the Witch fire, and one SDG&E contractor seeking indemnification in connection with the Rice fire.

In December 2010, SDG&E and Cox reached an agreement settling SDG&E’s claims against Cox and Cox’s insurers in the wildfire litigation (Cox Settlement). Among other things, the settlement agreement provided that SDG&E receive approximately $444 million for wildfire related expenditures, and SDG&E will defend and indemnify Cox against all compensatory damage claims and related costs arising out of the wildfires.

SDG&E has settled all of the approximately 19,000 claims brought by homeowner insurers for damage to insured property relating to the three fires. Under the settlement agreements, SDG&E has paid or will pay 57.5 percent of the approximately $1.6 billion paid or reserved for payment by the insurers to their policyholders and received an assignment of the insurers’ claims against other parties potentially responsible for the fires.

The wildfire litigation also includes claims of non-insurer plaintiffs for damage to uninsured and underinsured structures, business interruption, evacuation expenses, agricultural damage, emotional harm, personal injuries and other losses. SDG&E has settled the claims of approximately 3,100 of these plaintiffs. Approximately 950 of the approximately 2,300 remaining individual and business plaintiffs have submitted settlement demands and damage estimates totaling approximately $950 million and government entity claims totaling approximately $80 million. SDG&E expects to receive additional settlement demands and damage estimates as settlement negotiations continue. SDG&E has established reserves for the wildfire litigation as we discuss below.

SDG&E’s settled claims and defense costs have exceeded its $1.1 billion of liability insurance coverage and the approximately $450 million it has received from third parties, including Cox. It expects that its wildfire reserves and amounts paid to resolve wildfire claims will continue to increase as it obtains additional information; it is presently unable to reasonably estimate the amount or timing of recoveries from other potentially responsible parties.

SDG&E has concluded, however, that it is probable that it will be permitted to recover from its utility customers substantially all reasonably incurred costs of resolving wildfire claims in excess of its liability insurance coverage and any amounts recovered from other potentially responsible parties. Accordingly, although such recovery will require future regulatory actions, at March 31, 2012, SDG&E recorded a regulatory asset of $603 million, which represents the amount substantially equal to the aggregate amount it has paid or reserved for payment for the resolution of wildfire claims and related costs in excess of its liability insurance coverage and amounts received from Cox. SDG&E will increase the regulatory asset as additional amounts are paid or reserves are recorded and reduce it by any amounts recovered from other potentially responsible parties.

As a consequence of the expected recovery of wildfire costs from utility customers, Sempra Energy and SDG&E expect no significant earnings impact from the resolution of the remaining wildfire claims. However, SDG&E's cash flow may be materially adversely affected due to the timing differences between the resolution of claims and the recoveries from other potentially responsible parties and utility customers, which may extend over a number of years. Also, recovery from customers will require future regulatory actions, and a failure to obtain substantial or full recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's financial position, cash flows and results of operations.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claims and the likelihood, amount and timing of related recoveries from other potentially responsible parties and utility customers and will make appropriate adjustments to wildfire reserves and the related regulatory asset as additional information becomes available.

In 2010 and 2011, as liabilities for wildfire litigation have become reasonably estimable in the form of settlement demands, damage estimates, and other damage information, SDG&E has recorded related reserves as a liability. The impact of this liability at March 31, 2012 is offset by the recognition of a regulatory asset, as discussed above, for reserves in excess of the insurance coverage and the Cox Settlement. The impact of the reserves on SDG&E's and Sempra Energy's after-tax earnings was $2 million and $1 million for the three months ended March 31, 2012 and 2011, respectively. At March 31, 2012, wildfire litigation reserves were $498 million ($441 million in current and $57 million in long-term). Additionally, through March 31, 2012, SDG&E has expended $204 million (excluding amounts covered by insurance and amounts recovered from other responsible third parties) to pay costs associated with the settlement of wildfire claims.

Sunrise Powerlink Electric Transmission Line

SDG&E commenced construction on the Sunrise Powerlink in the fall of 2010. The Sunrise Powerlink is a new 117-mile, 500-kV electric transmission line that is being built between the Imperial Valley and the San Diego region, along a route that generally runs south of the Anza-Borrego Desert State Park. The current project plan provides for the transmission line to be completed and in-service by mid-2012.

The Sunrise Powerlink project was originally approved by the CPUC in December 2008, including approval of the environmental impact review conducted jointly with the Bureau of Land Management (BLM). The CPUC has subsequently denied or dismissed all requests for rehearing of its approval of the project. In February 2011, the California Supreme Court denied a petition filed jointly by the Utility Consumers' Action Network (UCAN) and the Center for Biological Diversity/Sierra Club (CBD) challenging the CPUC's decision with regard to implementation of the California Environmental Quality Act (CEQA).

In January 2009, the BLM issued its decision approving the portions of the project, route and environmental review within its jurisdiction. The Interior Board of Land Appeals (IBLA) subsequently denied or dismissed all administrative appeals that were filed challenging the BLM's approval of the project.

In February 2010, parties opposed to the project filed a lawsuit in Federal District Court in San Diego alleging that the BLM failed to properly address the environmental impacts of the approved Sunrise Powerlink route and the related potential development of renewable resources in east San Diego County and Imperial County. In June 2011, the court granted the defendants' motion for summary judgment. The plaintiffs have appealed to the U.S. Court of Appeals for the Ninth Circuit.

In July 2010, the United States Forest Service (USFS) issued its decision approving the portions of the project, route and environmental review within its jurisdiction. The USFS has subsequently denied all administrative appeals challenging its approval of the project.

The CPUC and BLM jointly approved the final Project Modification Report for Sunrise Powerlink in September 2010, accepting all of the proposed modifications to the approved route and finding that no additional environmental review was required. In March 2011, opponents of the Sunrise Powerlink filed a petition with the California Supreme Court challenging the CPUC's acceptance of the Project Modification Report. The California Supreme Court denied the petition in April 2011.

In January 2011, project opponents filed a lawsuit in Federal District Court in San Diego alleging that the federal approvals for construction of the project on USFS land and BLM land violated the National Environmental Policy Act and other federal environmental laws. In October 2011, the opponents appealed the court's denial of their motion for a preliminary injunction.

In February 2011, opponents of the Sunrise Powerlink filed a lawsuit in Sacramento County Superior Court against the State Water Resources Control Board and SDG&E alleging that the water quality certification issued by the Board under the Federal Clean Water Act violated CEQA.

September 2011 Power Outage

In September 2011, a power outage lasting approximately 12 hours affected millions of people from Mexico to southern Orange County, California. Within several days of the outage, several SDG&E customers filed a class action lawsuit in Federal District Court against Arizona Public Service Company, Pinnacle West, and SDG&E alleging that the companies failed to prevent the outage. The lawsuit seeks recovery of unspecified amounts of damages, including punitive damages. In March 2012, the court stayed the case until the conclusion of the joint regulatory investigation and dismissed Arizona Public Service Company and Pinnacle West but allowed plaintiffs to amend their complaint. In addition, more than 7,000 customers' claims, primarily related to food spoilage, have been submitted directly to SDG&E. The Federal Energy Regulatory Commission (FERC) and North American Electric Reliability Corp. (NERC) conducted a joint inquiry to determine the cause of the power failure and issued a report in May 2012 regarding their findings. The report does not include any findings of failure on SDG&E's part that led to the power failure.

Smart Meters Patent Infringement Lawsuit

In October 2011, SDG&E was sued by a Texas design and manufacturing company in Federal District Court alleging that SDG&E's recently installed smart meters infringed certain patents. The meters were purchased from a third party vendor that has agreed to defend and indemnify SDG&E. The lawsuit seeks injunctive relief and recovery of unspecified amounts of damages.

SoCalGas

SoCalGas, along with Monsanto Co., Solutia, Inc., Pharmacia Corp., and Pfizer, Inc., are defendants in four Los Angeles County Superior Court lawsuits filed beginning in April 2011 seeking recovery of unspecified amounts of damages, including punitive damages, as a result of plaintiffs' exposure to PCBs (polychlorinated biphenyls). The lawsuits allege plaintiffs were exposed to PCBs not only through the food chain and other various sources but from PCB-contaminated natural gas pipelines owned and operated by SoCalGas. This contamination allegedly caused plaintiffs to develop cancer and other serious illnesses. Plaintiffs assert various bases for recovery, including negligence and products liability.

Sempra Natural Gas

Liberty Gas Storage, LLC (Liberty) received a demand for arbitration from Williams Midstream Natural Gas Liquids, Inc. (Williams) in February 2011 related to a sublease agreement. Williams alleges that Liberty was negligent in its attempt to convert certain salt caverns to natural gas storage and seeks damages of $56.7 million. Liberty filed a counterclaim alleging breach of contract in the inducement and seeks damages of more than $215 million.

Sempra Mexico

Sempra Mexico has been engaged in a long-running land dispute relating to property adjacent to its Energía Costa Azul liquefied natural gas (LNG) terminal near Ensenada, Mexico. The adjacent property is not required by environmental or other regulatory permits for the operation of the terminal. A claimant to the adjacent property has nonetheless asserted that his health and safety are endangered by the operation of the facility. In June 2010, a Mexican federal appeals court revoked a district court order, issued at the behest of the claimant, directing Mexican regulatory authorities to provisionally suspend authorizations for the operation of the LNG terminal. In February 2011, based on a complaint by the claimant, the new Ensenada Mayor attempted to temporarily close the terminal based on claims of irregularities in municipal permits issued six years earlier. This attempt was promptly countermanded by Mexican federal and Baja California state authorities. No terminal permits or operations were affected as a result of these proceedings or events and the terminal has continued to operate normally.

Sempra Mexico expects additional Mexican court proceedings and governmental actions regarding the claimant’s assertions as to whether the terminal’s permits should be modified or revoked in any manner.

The property claimant also filed a lawsuit in July 2010 against Sempra Energy in Federal District Court in San Diego seeking compensatory and punitive damages as well as the earnings from the Energía Costa Azul LNG terminal based on his allegations that he was wrongfully evicted from the adjacent property and that he has been harmed by other allegedly improper actions.

Other Litigation

In August 2007, the U.S. Court of Appeals for the Ninth Circuit issued a decision reversing and remanding certain FERC orders declining to provide refunds regarding short-term bilateral sales up to one month in the Pacific Northwest for the December 2000 to June 2001 time period. In December 2010, the FERC approved a comprehensive settlement previously reached by Sempra Energy and RBS Sempra Commodities with the State of California. The settlement resolves all issues with regard to sales between the California Department of Water Resources (DWR) and Sempra Commodities in the Pacific Northwest, but potential claims may exist regarding sales between Sempra Commodities and other buyers in the Pacific Northwest. The FERC is in the process of addressing these potential claims on remand. Pursuant to the agreements related to the formation of RBS Sempra Commodities, we have indemnified RBS should the liability from the final resolution of these matters be greater than the reserves related to Sempra Commodities. Pursuant to our agreement with the Noble Group Ltd., one of the buyers of RBS Sempra Commodities’ businesses, we have also indemnified Noble Americas Gas & Power Corp. and its affiliates for all losses incurred by such parties resulting from these proceedings as related to Sempra Commodities.

Sempra Energy and several subsidiaries, along with three oil and natural gas companies, the City of Beverly Hills, and the Beverly Hills Unified School District, are defendants in toxic tort lawsuits filed beginning in 2003 in Los Angeles County Superior Court by approximately 1,000 plaintiffs. These lawsuits claim that various emissions resulted in cancer or fear of cancer. In November 2006, the court granted the defendants’ summary judgment motions based on lack of medical causation for the 12 initial plaintiffs scheduled to go to trial first. The court also granted summary judgment excluding punitive damages. The court has stayed the lawsuits as to the remaining plaintiffs pending the appeal of the rulings. A mediation occurred in June 2010, after which the plaintiffs’ counsel agreed to recommend a settlement of the lawsuits as to Sempra Energy and its subsidiaries for an amount that is not significant and has been

recorded. Any such settlement will require approval by each of the plaintiffs. If approval is obtained, finalization of the settlement is expected to occur within six months.

As described in Note 4, we hold a noncontrolling interest in RBS Sempra Commodities, a limited liability partnership in the process of being liquidated. In March 2012, RBS received a letter from the United Kingdom's Revenue and Customs Department (HMRC) regarding a value-added-tax (VAT) matter related to RBS Sempra Energy Europe (RBS SEE), a former indirect subsidiary of RBS Sempra Commodities that was sold to JP Morgan. The letter states that HMRC is conducting a number of investigations into VAT tax refund claims made by various businesses related to the purchase and sale of carbon credit allowances. The letter also states that HMRC believes it has grounds to deny RBS the ability to reduce its VAT liability by VAT paid during 2009 because it knew or should have known that certain vendors in the trading chain did not remit their own VAT to HMRC. The letter states VAT paid in connection with these transactions totals £86 million. While RBS has not yet responded to the letter and there has been no formal tax assessment issued by HMRC, it is possible that RBS Sempra Commodities could incur losses as a result of this matter that were not previously anticipated.

We are also defendants in ordinary routine litigation incidental to our businesses, including personal injury, product liability, property damage and other claims. California juries have demonstrated an increasing willingness to grant large awards, including punitive damages, in these types of cases.

NUCLEAR INSURANCE

SDG&E and the other owners of SONGS have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides $375 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to $12.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the $375 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E's contribution would be up to $47 million. This amount is subject to an annual maximum of $7 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have $2.75 billion of nuclear property, decontamination, and debris removal insurance. In addition, the SONGS owners have up to $490 million insurance coverage for outage expenses and replacement power costs due to accidental property damage. This coverage is limited to $3.5 million per week for the first 52 weeks, then $2.8 million per week for up to 110 additional weeks. There is a 12-week waiting period deductible. These insurance coverages are provided through a mutual insurance company. Insured members are subject to retrospective premium assessments. SDG&E could be assessed up to $9.6 million.

The nuclear property insurance program includes an industry aggregate loss limit for non-certified acts of terrorism (as defined by the Terrorism Risk Insurance Act). The industry aggregate loss limit for property claims arising from non-certified acts of terrorism is $3.24 billion. This is the maximum amount that will be paid to insured members who suffer losses or damages from these non-certified terrorist acts.

CONTRACTUAL COMMITMENTS

We discuss below significant changes in the first three months of 2012 to contractual commitments discussed in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Natural Gas Contracts

SoCalGas' natural gas purchase and pipeline capacity commitments have decreased by $25 million since December 31, 2011. The decrease, primarily due to a reduction of $222 million from fulfillment of commitments in the first three months of 2012, is offset by new natural gas purchase and pipeline capacity contracts of $197 million. Net future payments are therefore expected to decrease by $78 million in 2012 and to increase by $51 million in 2013 and $2 million in 2014 compared to December 31, 2011.

Sempra Mexico's natural gas purchase commitments have decreased by $121 million since December 31, 2011, primarily due to changes in forward prices and fulfillment of commitments in the first three months of 2012. Net future payments are therefore expected to decrease by $51 million in 2012, $31 million in 2013 and $39 million in 2014 compared to December 31, 2011.

Sempra Natural Gas' natural gas purchase and storage capacity commitments have increased by $41 million since December 31, 2011, primarily due to new storage capacity contracts in the first three months of 2012. Net future payments are therefore expected to decrease by $1 million in 2012, and increase by $10 million in 2013, $9 million in 2014, $8 million in 2015, $8 million in 2016 and $7 million thereafter compared to December 31, 2011.

LNG Purchase Agreements

At March 31, 2012, Sempra Natural Gas has various purchase agreements with major international companies for the supply of LNG to the Energía Costa Azul and Cameron receipt terminals. We discuss these agreements further in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report. Sempra Natural Gas' commitments under all LNG purchase agreements, reflecting changes in forward prices since December 31, 2011 and actual transactions for the first three months of 2012, are expected to decrease by $221 million in 2012, $83 million in 2013, $67 million in 2014, $57 million in 2015 and $55 million in 2016 and $912 million thereafter compared to December 31, 2011.

The LNG commitment amounts above are based on Sempra Natural Gas' commitment to accept the maximum possible delivery of cargoes under the agreements. Actual LNG purchases for the three months ended March 31, 2012 have been significantly lower than the maximum amounts possible.

Purchased-Power Contracts

SDG&E's purchased-power contracts have decreased by $165 million since December 31, 2011. The decrease is primarily due to cancellation of certain long-term renewable energy contracts and changes in expected prices. Net future payments are therefore expected to decrease by $6 million in 2012, increase by $1 million in 2013, decrease by $4 million in 2014, $4 million in 2015, $4 million in 2016 and $148 million thereafter compared to December 31, 2011.

Sempra South American Utilities' purchased-power contracts have increased by $676 million since December 31, 2011, primarily due to foreign currency translation (as the contracts are denominated in the local currency) and changes in expected prices. Net future payments for the purchased-power contracts at Luz del Sur are expected to decrease by $39 million in 2012, and increase by $38 million in 2013, $23 million in 2014, $24 million in 2015, $26 million in 2016 and $209 million thereafter. Net future payments for the purchased-power contracts at Chilquinta Energía are expected to decrease by $49 million in 2012, and increase by $29 million in 2013, $32 million in 2014, $34 million in 2015, $33 million in 2016 and $316 million thereafter. These amounts are based on estimated future purchases at current contracted rates, as the contracts require no minimum purchases.

Construction and Development Projects

In the first three months of 2012, significant increases to contractual commitments at SDG&E were $22 million for electric distribution systems and electric generation plant and equipment and $8 million for biological monitoring and construction costs associated with the Sunrise Powerlink project. The future payments for these contractual commitments are all expected to be in 2012.

In the first three months of 2012, significant increases to contractual commitments at SoCalGas were $49 million for construction and infrastructure improvements for natural gas transmission and distribution operations. The future payments for these contractual commitments are all expected to be in 2012.

NOTE 11. SEGMENT INFORMATION

We have six separately managed reportable segments, as follows:

1. SDG&E provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.

2. SoCalGas is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.

3. Sempra South American Utilities operates electric transmission and distribution utilities in Chile and Peru, and owns interests in utilities in Argentina. We are currently pursuing the sale of our interests in the Argentine utilities, which we discuss further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

4. Sempra Mexico owns and operates, or holds interests in, natural gas transmission pipelines and propane systems, a natural gas distribution utility, electric generation facilities and a terminal for the import of LNG and sale of natural gas in Mexico.

5. Sempra Renewables develops, owns and operates, or holds interests in, wind and solar energy projects in Arizona, California, Colorado, Hawaii, Indiana, Kansas, Nevada and Pennsylvania to serve wholesale electricity markets in the United States.

6. Sempra Natural Gas develops, owns and operates, or holds interests in, a natural gas-fired electric generation plant, natural gas pipelines and storage facilities, a natural gas distribution utility and a terminal for the import and export of LNG and sale of natural gas, all within the United States.

Sempra South American Utilities and Sempra Mexico comprise our Sempra International operating unit. Sempra Renewables and Sempra Natural Gas comprise our Sempra U.S. Gas & Power operating unit.

We evaluate each segment's performance based on its contribution to Sempra Energy's reported earnings. The California Utilities operate in essentially separate service territories, under separate regulatory frameworks and rate structures set by the CPUC. The California Utilities' operations are based on rates set by the CPUC and the FERC.

The following tables show selected information by segment from our Condensed Consolidated Statements of Operations and Condensed Consolidated Balance Sheets. Amounts labeled as “All other” in the following tables consist primarily of parent organizations and the former commodities-marketing businesses.

SEGMENT INFORMATION (Dollars in millions)						
	Three months ended March 31,					
	2012			2011		
REVENUES						
SDG&E	$	834	35 %	$	840	35 %
SoCalGas		880	37		1,056	43
Sempra South American Utilities		357	15			
Sempra Mexico		135	6		207	9
Sempra Renewables		8			4	
Sempra Natural Gas		269	11		449	18
Intersegment revenues(1)		(100)	(4)		(122)	(5)
Total	$	2,383	100 %	$	2,434	100 %
INTEREST EXPENSE						
SDG&E	$	36		$	36	
SoCalGas		17			17	
Sempra South American Utilities		10			2	
Sempra Mexico		4			5	
Sempra Renewables		4			3	
Sempra Natural Gas		20			20	
All other		58			56	
Intercompany eliminations(2)		(36)			(31)	
Total	$	113		$	108	
INTEREST INCOME						
Sempra South American Utilities	$	4		$	2	
Sempra Mexico		3			2	
Sempra Natural Gas		11			11	
All other		1			2	
Intercompany eliminations(2)		(14)			(14)	
Total	$	5		$	3	
DEPRECIATION AND AMORTIZATION						
SDG&E	$	112	44 %	$	103	45 %
SoCalGas		87	34		81	35
Sempra South American Utilities		13	5			
Sempra Mexico		15	6		15	7
Sempra Renewables		3	1		1	
Sempra Natural Gas		23	9		26	11
All other		4	1		4	2
Total	$	257	100 %	$	230	100 %
INCOME TAX EXPENSE (BENEFIT)						
SDG&E	$	60		$	49	
SoCalGas		40			37	
Sempra South American Utilities		13				
Sempra Mexico		20			18	

Sempra Renewables		(17)		(7)
Sempra Natural Gas		2		32
All other		(1)		(15)
Total	$	117	$	114

SEGMENT INFORMATION (Continued)
(Dollars in millions)

	Three months ended March 31,							
	2012				2011			
EQUITY EARNINGS								
Earnings (losses) recorded before tax:								
Sempra Renewables	$	1			$	1		
Sempra Natural Gas		11				9		
All other						(9)		
Total	$	12			$	1		
Earnings recorded net of tax:								
Sempra South American Utilities	$				$	24		
Sempra Mexico		11				7		
Total	$	11			$	31		
EARNINGS (LOSSES)								
SDG&E(3)	$	105	45	%	$	89	35	%
SoCalGas(3)		66	28			68	27	
Sempra South American Utilities		40	17			22	9	
Sempra Mexico		37	16			39	15	
Sempra Renewables		10	4			4	1	
Sempra Natural Gas		1				63	25	
All other		(23)	(10)			(31)	(12)	
Total	$	236	100	%	$	254	100	%
EXPENDITURES FOR PROPERTY PLANT & EQUIPMENT								
SDG&E	$	398	49	%	$	348	57	%
SoCalGas		165	20			168	28	
Sempra South American Utilities		19	2					
Sempra Mexico		5	1			3		
Sempra Renewables		201	25			46	8	
Sempra Natural Gas		22	3			42	7	
All other		1						
Total	$	811	100	%	$	607	100	%
	March 31, 2012				December 31, 2011			
ASSETS								
SDG&E	$	14,048	41	%	$	13,555	41	%
SoCalGas		8,492	25			8,475	25	
Sempra South American Utilities		3,161	9			2,981	9	
Sempra Mexico		2,931	9			2,914	9	
Sempra Renewables		1,581	5			1,210	4	
Sempra Natural Gas		5,852	17			5,738	17	
All other		497	1			538	2	
Intersegment receivables		(2,517)	(7)			(2,162)	(7)	
Total	$	34,045	100	%	$	33,249	100	%
INVESTMENTS IN EQUITY METHOD INVESTEES								

Sempra Mexico	$	313	$	302
Sempra Renewables		442		390
Sempra Natural Gas		789		800
All other		136		137
Total	$	1,680	$	1,629

(1) Revenues for reportable segments include intersegment revenues of:
$2 million, $15 million, $46 million and $37 million for the three months ended March 31, 2012, and $2 million, $13 million, $58 million and $49 million for the three months ended March 31, 2011 for SDG&E, SoCalGas, Sempra Mexico and Sempra Natural Gas, respectively.

(2) Prior year amounts have been revised to present amounts after eliminations between Parent and corporate entities.

(3) After preferred dividends.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the financial statements contained in this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our 2011 Annual Report on Form 10-K (Annual Report), and "Risk Factors" contained in our Annual Report.

OVERVIEW

2012 Business Segment Realignment

Effective January 1, 2012, management realigned some of the company's major subsidiaries to better fit its strategic direction and to enhance the management and integration of our assets. This realignment resulted in a change in reportable segments in 2012. In accordance with accounting principles generally accepted in the United States (GAAP), we have restated historical information in this Form 10-Q to reflect the effect of this change. All discussions of our operating units and reportable segments in this report reflect the new segments and operating structure.

Sempra Energy is a Fortune 500 energy-services holding company whose operating units develop energy infrastructure, operate utilities and provide related services to their customers. Our operations are divided principally between our California Utilities, which are San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), Sempra International and Sempra U.S. Gas & Power. SDG&E and SoCalGas are separate, reportable segments. Sempra International includes two reportable segments – Sempra South American Utilities and Sempra Mexico. Sempra U.S. Gas & Power also includes two reportable segments – Sempra Renewables and Sempra Natural Gas.

This report includes information for the following separate registrants:

§ Sempra Energy and its consolidated entities

§ SDG&E

§ SoCalGas

References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by its context. All references in this report to "Sempra International" and "Sempra U.S. Gas & Power," and to their respective principal segments, are not intended to refer to any legal entity with the same or similar name.

Below are summary descriptions of our operating units and their reportable segments.

SEMPRA ENERGY OPERATING UNITS AND REPORTABLE SEGMENTS

CALIFORNIA UTILITIES		
	MARKET	SERVICE TERRITORY
SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) A regulated public utility; infrastructure supports electric generation, transmission and distribution, and natural gas distribution	§ Provides electricity to 3.4 million consumers (1.4 million meters) § Provides natural gas to 3.1 million consumers (855,000 meters)	Serves the county of San Diego, California and an adjacent portion of southern Orange County covering 4,100 square miles
SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) A regulated public utility; infrastructure supports natural gas distribution, transmission and storage	§ Residential, commercial, industrial, utility electric generation and wholesale customers § Covers a population of 21 million (5.8 million meters)	Southern California and portions of central California (excluding San Diego County, the city of Long Beach and the desert area of San Bernardino County) covering 20,000 square miles

We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International and Sempra U.S. Gas & Power operating units described below.

As this report is the first time that we are presenting results based on our new operating units (Sempra International and Sempra U.S. Gas & Power) and their reportable segments, we provide descriptions of our reorganized businesses below.

SEMPRA INTERNATIONAL		
	MARKET	GEOGRAPHIC REGION
SEMPRA SOUTH AMERICAN UTILITIES Infrastructure supports electric transmission and distribution	§ Provides electricity to more than 600,000 customers in Chile and more than 900,000 customers in Peru	§ Serves the cities of Valparaiso and Viña del Mar in central Chile § Serves the southern zone of metropolitan Lima, Peru
SEMPRA MEXICO Owns and operates, or holds interests in: § natural gas transmission pipelines and propane systems § a natural gas distribution utility § electric generation facilities § a terminal in Mexico for the importation of liquefied natural gas (LNG) and purchase and sale of natural gas	§ Natural gas § Wholesale electricity § Liquefied natural gas	§ Mexico

Sempra International

Sempra South American Utilities

Sempra South American Utilities operates electric transmission and distribution utilities in Chile and Peru, and owns interests in utilities in Argentina.

On April 6, 2011, Sempra South American Utilities completed the acquisition of AEI's interests in Chilquinta Energía S.A. (Chilquinta Energía) in Chile and Luz del Sur S.A.A. (Luz del Sur) in Peru. Upon completion of the transaction, Sempra South American Utilities owned 100 percent of Chilquinta Energía and approximately 76 percent of Luz del Sur, and the companies are now consolidated. Pursuant to a tender offer that was completed in September 2011, Sempra South American Utilities now owns 79.82 percent of Luz del Sur, as we discuss in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report. The remaining shares of Luz del Sur are held by institutional investors and the general public.

We provide additional information about the acquisition and Sempra South American Utilities' investments in Chilquinta Energía and Luz del Sur in Note 3 of the Notes to Condensed Consolidated Financial Statements herein.

Sempra South American Utilities also is currently pursuing the sale of its interests in the Argentine utilities, which we discuss further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Mexico

Transportation. Sempra Mexico owns and operates natural gas transmission pipelines and propane systems in Mexico. These facilities are contracted under long-term, U.S. dollar-based agreements with PEMEX (the Mexican state-owned oil company), the Federal Electricity Commission (Comisión Federal de Electricidad, or CFE), Shell México Gas Natural (Shell), Gazprom Marketing & Trading Mexico (Gazprom) and other similar counterparties.

Distribution. Sempra Mexico's natural gas distribution utility, Ecogas Mexico, S de RL de CV (Ecogas), operates in three separate areas in Mexico, and had a customer count of 89,800 and sales volume of 60 million cubic feet per day in 2011.

Generation. Sempra Mexico's Termoeléctrica de Mexicali, a 625-megawatt (MW) natural gas-fired power plant, is located in Mexicali, Baja California, Mexico. Under an agreement with Sempra Natural Gas, Sempra Mexico records revenue for the sale of power generated by Termoeléctrica de Mexicali to Sempra Natural Gas, and records cost of sales for purchases from Sempra Natural Gas of natural gas to fuel the facility. J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures) facilitates the transactions between the segments. Sempra Mexico also develops renewable energy generation facilities.

LNG. Sempra Mexico's Energía Costa Azul LNG terminal in Baja California, Mexico is capable of processing 1 billion cubic feet (Bcf) of natural gas per day. The Energía Costa Azul facility generates revenue under a capacity services agreement with Shell, expiring in 2028, that originally permitted Shell to use one-half of the terminal's capacity. In April 2009, Shell assigned a portion of its terminal capacity at Energía Costa Azul to Gazprom, transferring all further rights and obligations with respect to the assigned capacity, and a separate capacity services agreement between Energía Costa Azul and Gazprom was put into place.

A nitrogen-injection facility at Energía Costa Azul allows the terminal to process LNG cargoes from a wider variety of sources and provides additional revenue from payments for capacity reservation and usage fees for nitrogen injection services for Shell and Gazprom.

In connection with Sempra Natural Gas' LNG purchase agreement with Tangguh PSC Contractors (Tangguh PSC), which we discuss below, Sempra Mexico purchases from Sempra Natural Gas the LNG delivered to Energía Costa Azul by Tangguh PSC. Sempra Mexico uses the natural gas produced from this LNG to supply a contract through 2022 for the sale of an average of approximately 150 million cubic feet per day of natural gas to Mexico's national electric company, the CFE, at prices that are based on the Southern California border index. If LNG volumes received from Tangguh PSC are not sufficient to satisfy the commitment to the CFE, Sempra Mexico may purchase natural gas from Sempra Natural Gas' natural gas marketing operations. Under an agreement among Sempra Natural Gas, Sempra Mexico, J.P. Morgan Mexico and J.P. Morgan Ventures, Sempra Natural Gas and Sempra Mexico sell to J.P. Morgan Ventures and J.P. Morgan Mexico any volumes received from Tangguh PSC that are not sold to the CFE. The agreement was previously with RBS Sempra Commodities LLP (RBS Sempra Commodities). In connection with the 2010 sale of businesses within RBS Sempra Commodities, substantially all contracts with RBS Sempra Commodities were assigned to J.P. Morgan Ventures by May 1, 2011, as we discuss under "Transactions with RBS Sempra Commodities" in Note 5 of the Notes to Condensed Consolidated Financial Statements herein.

SEMPRA U.S. GAS & POWER		
	MARKET	GEOGRAPHIC REGION
SEMPRA RENEWABLES Develops, owns, operates, or holds interests in renewable energy generation projects	§ Wholesale electricity	§ U.S.A.
SEMPRA NATURAL GAS Develops, owns and operates, or holds interests in: § a natural gas-fired electric generation plant § natural gas pipelines and storage facilities § a natural gas distribution utility § terminal in the U.S. for the importation and export of LNG and sale of natural gas § marketing operations	§ Wholesale electricity § Natural gas § Liquefied natural gas	§ U.S.A.

Sempra U.S. Gas & Power

Sempra Renewables

The following table provides information about the Sempra Renewables facilities that were operational as of March 31, 2012. The generating capacity of these facilities is fully contracted under long-term contracts, as we discuss below.

SEMPRA RENEWABLES OPERATING FACILITIES Capacity in Megawatts (MW)		
Name	First	Location

	Maximum Generating Capacity		In Service	
Cedar Creek 2 Wind Farm (50% owned)	125	(1)	2011	New Raymer, CO
Fowler Ridge 2 Wind Farm (50% owned)	100	(1)	2009	Benton County, IN
Copper Mountain Solar 1	58	(2)	2010	Boulder City, NV
Mesquite Solar 1	42	(3)	2011	Arlington, AZ
Total MW in operation	325			

(1) Sempra Renewables' share.

(2) Includes the 10-MW facility previously referred to as El Dorado Solar, which was first placed in service in 2008.

(3) Represents only the portion of the project that was completed in 2011. The entire 150-MW project is expected to be completed in early 2013.

We discuss these facilities in more detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report.

Sempra Natural Gas

Generation. Sempra Natural Gas sells electricity under short-term and long-term contracts and into the spot market and other competitive markets. While it may also purchase electricity in the open market to satisfy its contractual obligations, Sempra Natural Gas generally purchases natural gas to fuel its Mesquite Power natural gas-fired power plant, and, as we discuss above, Sempra Mexico's Termoeléctrica de Mexicali plant. The Mesquite Power plant is a 1,250-MW facility located in Arlington, Arizona.

Sempra Natural Gas' El Dorado natural gas-fired generation plant (excluding the solar facility) was sold to SDG&E on October 1, 2011. This sale, pursuant to an option to acquire the plant that was exercised by SDG&E in 2007, coincided with the end of a contract with the California Department of Water Resources (DWR). During the first three quarters of 2011, the Mesquite Power plant and the El Dorado generation plant, along with Sempra Mexico's Termoeléctrica de Mexicali power plant, sold the majority of their output under this long-term purchased-power contract with the DWR which provided for 1,200 MW to be supplied during all hours and an additional 400 MW during on-peak hours, and ended on September 30, 2011.

Sempra Natural Gas also has other power sale transactions, primarily with J.P. Morgan Ventures, to sell varying amounts of power through 2012. These contracts were initially with RBS Sempra Commodities. In connection with the 2010 sale of businesses within RBS Sempra Commodities, substantially all of these transactions with RBS Sempra Commodities were assigned to J.P. Morgan Ventures by May 1, 2011. The remaining output of our natural gas facilities, including that of Sempra Mexico's Termoeléctrica de Mexicali power plant, is available to be sold into energy markets on a day-to-day basis. Sempra Natural Gas has sold certain quantities of expected future generation output under long-term contracts.

Transportation and Storage. Sempra Natural Gas owns and operates, or holds interests in, natural gas underground storage and related pipeline facilities in Alabama and Mississippi. Sempra Natural Gas provides natural gas marketing, trading and risk management activities through the utilization and optimization of contracted natural gas supply, transportation and storage capacity, as well as optimizing its assets in the short-term services market.

Sempra Natural Gas, Kinder Morgan Energy Partners, L.P. (KMP) and ConocoPhillips jointly own, through Rockies Express Pipeline LLC (Rockies Express), the Rockies Express Pipeline (REX) that links producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Our ownership interest in the pipeline is 25

percent. Sempra Rockies Marketing has an agreement with Rockies Express for 200 million cubic feet per day of capacity on REX, which has a total capacity of 1.8 Bcf per day. Sempra Rockies Marketing released a portion of its capacity to RBS Sempra Commodities, which capacity was assigned to J.P. Morgan Ventures effective January 1, 2011 in connection with the sale of businesses within RBS Sempra Commodities.

KMP, the majority owner, has announced its intention to sell certain assets, including its interest in REX. KMP is proposing to divest these assets in order for KMP's general partner, Kinder Morgan, Inc., to obtain approval for a proposed acquisition. We believe that this sales process could result in an indication of fair value for KMP's interest in REX. If so, we would consider what, if any, impacts this information could have on our recorded value for REX. If such information indicated an impairment of our investment, we would also need to evaluate whether such impairment, if any, was other than temporary, in accordance with applicable accounting standards for equity method investments.

Distribution. Sempra Natural Gas owns and operates Mobile Gas Service Corporation (Mobile Gas), a regulated natural gas distribution utility in southwest Alabama.

LNG. Sempra Natural Gas' Cameron LNG terminal in Hackberry, Louisiana is capable of processing 1.5 Bcf of natural gas per day. Cameron LNG generates revenue under a capacity services agreement for approximately 600 million cubic feet of natural gas per day through 2029. The agreement allows customers to pay Sempra Natural Gas capacity reservation and usage fees to use its facilities to receive, store and regasify the customer's LNG. Sempra Natural Gas also may enter into short-term and/or long-term supply agreements to purchase LNG to be received, stored and regasified at its terminals for sale to other parties. Sempra Natural Gas is currently taking steps towards the development of a liquefaction facility at the Cameron LNG terminal. We discuss these activities below in "Factors Influencing Future Performance."

Sempra Natural Gas has an LNG purchase agreement with Tangguh PSC for the supply of the equivalent of 500 million cubic feet of natural gas per day from Tangguh PSC's Indonesian liquefaction facility with delivery to Sempra Mexico's Energía Costa Azul receipt terminal at a price based on the Southern California border index for natural gas. As discussed above, Sempra Natural Gas has an agreement to sell to J.P. Morgan Ventures any volumes purchased from Tangguh PSC that are not sold to the CFE or J.P. Morgan Mexico. This agreement was previously with RBS Sempra Commodities. In connection with the 2010 sale of businesses within RBS Sempra Commodities, substantially all contracts with RBS Sempra Commodities were assigned to J.P. Morgan Ventures by May 1, 2011. Sempra Natural Gas may also record revenues from non-delivery of cargoes related to this contract.

Sempra Natural Gas also owns property in Port Arthur, Texas, that it is evaluating for potential development.

RBS Sempra Commodities LLP

Prior to 2011, our Sempra Commodities segment contained our investment in RBS Sempra Commodities LLP (RBS Sempra Commodities), which held commodities-marketing businesses previously owned by us. Our investment in the partnership is reported on the equity method. We and The Royal Bank of Scotland plc (RBS), our partner in the joint venture, sold substantially all of the partnership's businesses and assets in four separate transactions completed in July, November and December of 2010 and February of 2011. We discuss these transactions and other matters concerning the partnership in Notes 4 and 10 of the Notes to Condensed Consolidated Financial Statements herein and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

The activity in the partnership no longer meets the quantitative thresholds that require Sempra Commodities to be reported as a reportable segment under applicable accounting rules, and we do not consider the remaining wind-down activities of the partnership to be of continuing significance. As a result, effective January 1, 2011, we are reporting the former Sempra Commodities segment in Parent and Other.

RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

§ Overall results of our operations and factors affecting those results

§ Our segment results

§ Significant changes in revenues, costs and earnings between periods

In the three months ended March 31, 2012, our earnings decreased by $18 million (7%) to $236 million primarily due to lower earnings at Sempra Natural Gas, offset by higher earnings at Sempra South American Utilities and SDG&E.

Diluted earnings per share for the three-month period decreased by $0.08 per share to $0.97 per share primarily due to the lower earnings in 2012.

CHANGE IN ACCOUNTING PRINCIPLE

As we discuss in Note 1 of the Notes to Condensed Consolidated Financial Statements herein, effective January 1, 2012, we changed our method of accounting for investment tax credits (ITC) from the flow-through method to the deferral method. We applied this change in accounting principle by retrospectively adjusting the historical financial statement amounts for all periods presented. The change in accounting principle has no impact on the financial results of SDG&E or SoCalGas for prior or future periods.

The following table shows our earnings (losses) by segment, which we discuss below in "Segment Results."

SEMPRA ENERGY EARNINGS (LOSSES) BY SEGMENT
(Dollars in millions)

	Three months ended March 31,					
	2012			2011		
California Utilities:						
SDG&E(1)	$	105	45 %	$	89	35 %
SoCalGas(1)		66	28		68	27
Sempra International:						
Sempra South American Utilities		40	17		22	9
Sempra Mexico		37	16		39	15
Sempra U.S. Gas & Power:						
Sempra Renewables		10	4		4	1
Sempra Natural Gas		1			63	25
Parent and other(2)		(23)	(10)		(31)	(12)
Earnings	$	236	100 %	$	254	100 %

(1) After preferred dividends.
(2)

Includes after-tax interest expense ($34 million and $33 million for the three months ended March 31, 2012 and 2011, respectively), intercompany eliminations recorded in consolidation and certain corporate costs.

SEGMENT RESULTS

The following section is a discussion of earnings (losses) by Sempra Energy segment, as presented in the table above. Variance amounts are the after-tax earnings impact, unless otherwise noted.

EARNINGS BY SEGMENT – CALIFORNIA UTILITIES
(Dollars in millions)

SDG&E

Our SDG&E segment recorded earnings of:

§ $105 million in the three months ended March 31, 2012 ($106 million before preferred dividends)

§ $89 million in the three months ended March 31, 2011 ($90 million before preferred dividends)

The increase of $16 million (18%) in the three months ended March 31, 2012 was primarily due to:

§ $14 million increase in allowance for funds used during construction (AFUDC) related to equity, primarily the result of the Sunrise Powerlink investment;

§ $9 million favorable earnings impact due to 2011 incremental wildfire insurance premiums not recovered in revenues; and

§ $5 million in earnings for Desert Star in 2012, which was acquired in October 2011; offset by

§ $5 million higher income tax expense due to a higher effective tax rate in 2012;

§ $4 million in unplanned Palomar Energy Center repairs in 2012; and

§ $2 million lower electric transmission margin.

SoCalGas

Our SoCalGas segment recorded earnings of:

- § $66 million in the three months ended March 31, 2012 (both before and after preferred dividends)
- § $68 million in the three months ended March 31, 2011 (both before and after preferred dividends)

The decrease of $2 million (3%) in the three months ended March 31, 2012 was primarily due to:

- § $3 million increase in operating expenses, including depreciation; and
- § $2 million higher bad debt accruals; offset by
- § $4 million higher regulatory awards.

EARNINGS BY SEGMENT – SEMPRA INTERNATIONAL
(Dollars in millions)

Sempra South American Utilities

Our Sempra South American Utilities segment recorded earnings of:

- § $40 million in the three months ended March 31, 2012
- § $22 million in the three months ended March 31, 2011

The increase of $18 million (82%) in the three months ended March 31, 2012 was primarily due to higher earnings related to the acquisition of additional interests in Chilquinta Energía and Luz del Sur in April 2011.

Sempra Mexico

Our Sempra Mexico segment recorded earnings of:

§ $37 million in the three months ended March 31, 2012

§ $39 million in the three months ended March 31, 2011

Earnings for the three months ended March 31, 2012 were consistent with the corresponding period in the prior year.

EARNINGS BY SEGMENT – SEMPRA U.S. GAS & POWER
(Dollars in millions)

Sempra Renewables

Our Sempra Renewables segment recorded earnings of:

§ $10 million in the three months ended March 31, 2012

§ $4 million in the three months ended March 31, 2011

The increase of $6 million in the three months ended March 31, 2012 was primarily due to deferred income tax benefits as a result of placing solar and wind generating assets in service in 2012, partially offset by increased general and administrative costs.

Sempra Natural Gas

Our Sempra Natural Gas segment recorded earnings of:

§ $1 million in the three months ended March 31, 2012

§ $63 million in the three months ended March 31, 2011

The decrease of $62 million (98%) in the three months ended March 31, 2012 was primarily due to:

§ $62 million lower earnings from gas power plant operations primarily from the end of the DWR contract as of September 30, 2011; and

§ $9 million decrease in natural gas inventory value due to lower prices; offset by

§ $6 million decreased gas plant operation and maintenance expenses primarily from the sale of the El Dorado power plant to SDG&E as of October 1, 2011.

Parent and Other

Losses for Parent and Other were

§ $23 million in the three months ended March 31, 2012

§ $31 million in the three months ended March 31, 2011

The decrease in losses of $8 million (26%) in the three months ended March 31, 2012 was primarily due to:

§ $5 million equity losses in 2011 from our former commodities-marketing businesses;

§ $5 million higher earnings from foreign currency exchange effects related to a Chilean holding company, and hedging transactions; and

§ $3 million higher investment gains on dedicated assets in support of our executive retirement and deferred compensation plans, net of the increase in deferred compensation liability associated with the investments; offset by

§ $7 million lower income tax benefits.

CHANGES IN REVENUES, COSTS AND EARNINGS

This section contains a discussion of the differences between periods in specific line items of the Condensed Consolidated Statements of Operations for Sempra Energy, SDG&E and SoCalGas.

Utilities Revenues

Our utilities revenues include

Natural gas revenues at:

§ SDG&E

§ SoCalGas

§ Sempra Natural Gas' Mobile Gas, a regulated natural gas distribution utility in southwest Alabama

§ Sempra Mexico's Ecogas

Electric revenues at:

§ SDG&E

§ Sempra South American Utilities' Chilquinta Energía and Luz del Sur

Intercompany revenues included in the separate revenues of each utility are eliminated in the Sempra Energy Condensed Consolidated Statements of Operations.

The California Utilities

The current regulatory framework for SoCalGas and SDG&E permits the cost of natural gas purchased for core customers (primarily residential and small commercial and industrial customers) to be passed on to customers substantially as incurred. However, SoCalGas' Gas Cost Incentive Mechanism provides SoCalGas the opportunity to share in the savings and/or costs from buying natural gas for its core customers at prices below or above monthly market-based benchmarks. This mechanism permits full recovery of costs incurred when average purchase costs are within a price range around the benchmark price. Any higher costs incurred or savings realized outside this range are shared between the core customers and SoCalGas. We provide further discussion in Note 9 of the Notes to Condensed Consolidated Financial Statements herein.

The regulatory framework also permits SDG&E to recover the actual cost incurred to generate or procure electricity based on annual estimates of the cost of electricity supplied to customers. The differences in cost between estimates and actual are recovered in the next year through rates.

The table below summarizes Utilities Revenues and Cost of Sales for Sempra Energy, net of intercompany activity:

UTILITIES REVENUES AND COST OF SALES (Dollars in millions)				
	Three months ended March 31,			
		2012		2011
Electric revenues:				
SDG&E	$	671	$	665
Sempra South American Utilities		338		
Eliminations and adjustments		(1)		(2)
Total		1,008		663
Natural gas revenues:				
SoCalGas		880		1,056
SDG&E		163		175
Sempra Mexico		23		28
Sempra Natural Gas		32		37
Eliminations and adjustments		(15)		(13)
Total		1,083		1,283
Total utilities revenues	$	2,091	$	1,946
Cost of electric fuel and purchased power:				
SDG&E	$	163	$	171
Sempra South American Utilities		225		
Total	$	388	$	171
Cost of natural gas:				
SoCalGas	$	349	$	531
SDG&E		67		83
Sempra Mexico		13		19
Sempra Natural Gas		7		14
Eliminations and adjustments		(5)		(5)

Total	$	431 $	642

Sempra Energy Consolidated

Electric Revenues

During the three months ended March 31, 2012, our electric revenues increased by $345 million (52%) to $1.0 billion primarily due to:

§ $338 million from the consolidation of electric revenues of Chilquinta Energía and Luz del Sur acquired in April 2011; and

§ $6 million increase at SDG&E, which we discuss below.

Our utilities' cost of electric fuel and purchased power increased by $217 million to $388 million in the three months ended March 31, 2012 primarily due to:

§ $225 million from the consolidation of cost of electric fuel and purchased power of Chilquinta Energía and Luz del Sur; offset by

§ $8 million decrease at SDG&E, which we discuss below.

Natural Gas Revenues

During the three months ended March 31, 2012, Sempra Energy's natural gas revenues decreased by $200 million (16%) to $1.1 billion, and the cost of natural gas decreased by $211 million (33%) to $431 million. The decrease in natural gas revenues was primarily attributable to $176 million at SoCalGas.

We discuss the changes in natural gas revenues and the cost of natural gas individually for SDG&E and SoCalGas below.

SDG&E: Electric Revenues and Cost of Electric Fuel and Purchased Power

The table below shows electric revenues for SDG&E for the three-month periods ended March 31, 2012 and 2011. Because the cost of electricity is substantially recovered in rates, changes in the cost are reflected in the changes in revenues.

SDG&E
ELECTRIC DISTRIBUTION AND TRANSMISSION
(Volumes in millions of kilowatt-hours, dollars in millions)

	Three months ended March 31, 2012		Three months ended March 31, 2011	
Customer class	Volumes	Revenue	Volumes	Revenue
Residential	1,925 $	300	1,959 $	314
Commercial	1,655	220	1,669	231
Industrial	484	54	493	58
Direct access	752	32	786	36
Street and highway lighting	25	3	27	4

	4,841	609	4,934	643
Other revenues		48		26
Balancing accounts		14		(4)
Total(1)		$ 671		$ 665

(1) Includes sales to affiliates of $2 million in both 2012 and 2011.

During the three months ended March 31, 2012, electric revenues increased by $6 million (1%) to $671 million at SDG&E, primarily due to:

- § $20 million higher authorized base margin on electric generation, primarily due to the acquisition of the Desert Star generation facility in October 2011; and
- § $17 million revenues associated with incremental wildfire insurance premiums; offset by
- § $32 million lower recoverable expenses that are fully offset in operation and maintenance expenses.

SDG&E's cost of electric fuel and purchased power decreased by $8 million (5%) to $163 million in the three months ended March 31, 2012 primarily due to a decrease in electric fuel and purchased-power prices.

We do not include in the Condensed Consolidated Statements of Operations the commodity costs (and the revenues to recover those costs) associated with long-term contracts that are allocated to SDG&E by the California DWR. However, we do include the associated volumes and distribution revenues in the table above. We provide further discussion of these contracts in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E and SoCalGas: Natural Gas Revenues and Cost of Natural Gas

The tables below show natural gas revenues for SDG&E and SoCalGas for the three-month periods ended March 31, 2012 and 2011. Because the cost of natural gas is recovered in rates, changes in the cost are reflected in the changes in revenues. In addition to the change in market prices, natural gas revenues recorded during a period are impacted by the difference between customer billings and recorded or California Public Utilities Commission (CPUC)-authorized costs. These differences are required to be balanced over time, resulting in over- and undercollected regulatory balancing accounts. We discuss balancing accounts and their effects further in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E
NATURAL GAS SALES AND TRANSPORTATION
(Volumes in billion cubic feet, dollars in millions)

	Natural Gas Sales		Transportation		Total	
Customer class	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Three months ended March 31, 2012:						
Residential	12	$ 112		$	12	$ 112
Commercial and industrial	5	26	2	3	7	29
Electric generation plants			8	2	8	2
	17	$ 138	10	$ 5	27	143
Other revenues						11
Balancing accounts						9
Total						$ 163

Three months ended March 31, 2011:						
Residential	12	$ 133		$	12	$ 133
Commercial and industrial	5	33	2	3	7	36
Electric generation plants			5	2	5	2
	17	$ 166	7	$ 5	24	171
Other revenues						10
Balancing accounts						(6)
Total						$ 175

During the three months ended March 31, 2012, SDG&E's natural gas revenues decreased by $12 million (7%) to $163 million, and the cost of natural gas sold decreased by $16 million (19%) to $67 million.

SDG&E's average cost of natural gas sold for the three months ended March 31, 2012 was $3.89 per thousand cubic feet (Mcf) compared to $4.83 per Mcf for the corresponding period in 2011, a 19-percent decrease of $0.94 per Mcf, resulting in lower revenues and cost of $16 million.

SOCALGAS
NATURAL GAS SALES AND TRANSPORTATION
(Volumes in billion cubic feet, dollars in millions)

	Natural Gas Sales		Transportation		Total	
Customer class	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Three months ended March 31, 2012:						
Residential	88	$ 692	1	$ 2	89	$ 694
Commercial and industrial	29	185	69	62	98	247
Electric generation plants			44	9	44	9
Wholesale			47	7	47	7
	117	$ 877	161	$ 80	278	957
Other revenues						27
Balancing accounts						(104)
Total(1)						$ 880
Three months ended March 31, 2011:						
Residential	92	$ 825	1	$ 1	93	$ 826
Commercial and industrial	29	224	66	62	95	286
Electric generation plants			40	11	40	11
Wholesale			43	6	43	6
	121	$ 1,049	150	$ 80	271	1,129
Other revenues						22
Balancing accounts						(95)
Total(1)						$ 1,056

(1) Includes sales to affiliates of $15 million in 2012 and $13 million in 2011.

During the three months ended March 31, 2012, SoCalGas' natural gas revenues decreased by $176 million (17%) to $880 million, and the cost of natural gas sold decreased by $182 million (34%) to $349 million. The decrease in revenues was primarily due to the decrease in cost of natural gas sold, which was caused primarily by lower natural gas prices.

SoCalGas' average cost of natural gas sold for the three months ended March 31, 2012 was $2.97 per Mcf compared to $4.36 per Mcf for the corresponding period in 2011, a 32-percent decrease of $1.39 per Mcf, resulting in lower revenues and cost of $163 million. Lower natural gas sales volume of 4 Bcf also contributed to lower revenues and cost by $19 million in 2012.

Other Utilities: Revenues and Cost of Sales

Revenues generated by Chilquinta Energía and Luz del Sur are based on tariffs that are set by government agencies in their respective countries based on an efficient model distribution company defined by those agencies. The basis for the tariffs do not meet the requirement necessary for treatment under applicable accounting principles generally accepted in the United States of America (GAAP) for regulatory accounting. We discuss revenue recognition further for Chilquinta Energía and Luz del Sur in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Operations of Mobile Gas and Ecogas qualify for regulatory accounting treatment under applicable GAAP, similar to the California Utilities.

For the three months ended March 31, 2012, electric revenues and cost of electric fuel and purchased power at Sempra South American Utilities increased due primarily to the consolidation of Chilquinta Energía and Luz del Sur starting in April 2011.

The table below summarizes natural gas and electric revenues for our other utilities for the three months ended March 31, 2012 and 2011:

OTHER UTILITIES
NATURAL GAS AND ELECTRIC REVENUES
(Dollars in millions)

	Three months ended March 31, 2012		Three months ended March 31, 2011	
	Volumes	Revenue	Volumes	Revenue
Natural Gas Sales (billion cubic feet):				
Sempra Natural Gas - Mobile Gas	15 $	32	10 $	37
Sempra Mexico - Ecogas	6	23	6	28
Total	21 $	55	16 $	65
Electric Sales (million kilowatt hours)(1):				
Sempra South American Utilities:				
Luz del Sur	1,690 $	187	$	
Chilquinta Energía	745	139		
	2,435	326		
Other service revenues		12		
Total	$	338	$	

(1) Luz del Sur and Chilquinta Energía were accounted for under the equity method until April 6, 2011, when they became consolidated entities upon our acquisition of additional ownership interests.

Energy-Related Businesses: Revenues and Cost of Sales

The table below shows revenues and cost of sales for our energy-related businesses.

ENERGY-RELATED BUSINESSES: REVENUES AND COST OF SALES
(Dollars in millions)

	Three months ended March 31, 2012	2011
Energy-related businesses revenues:		
Sempra South American Utilities	$ 19	$
Sempra Mexico	113	179
Sempra Renewables	8	4
Sempra Natural Gas	237	412
Intersegment revenues, adjustments and eliminations(1)	(85)	(107)
Total energy-related businesses revenues	$ 292	$ 488
Cost of natural gas, electric fuel and purchased power(2):		
Sempra Mexico	$ 41	$ 98
Sempra Renewables	1	
Sempra Natural Gas	153	217
Adjustments and eliminations(1)	(66)	(85)
Total cost of natural gas, electric fuel and purchased power	$ 129	$ 230
Other cost of sales(2):		
Sempra South American Utilities	$ 10	$
Sempra Mexico	1	1
Sempra Natural Gas	40	47
Adjustments and eliminations(1)	(18)	(25)
Total other cost of sales	$ 33	$ 23

(1) Includes eliminations of intercompany activity.

(2) Excludes depreciation and amortization, which are shown separately on the Condensed Consolidated Statements of Operations.

During the three months ended March 31, 2012, revenues from our energy-related businesses decreased by $196 million (40%) to $292 million. The decrease included

§ $175 million decrease at Sempra Natural Gas due to decreased power sales primarily from the end of the DWR contract as of September 30, 2011, and less favorable pricing; and

§ $66 million decrease at Sempra Mexico, including $24 million from lower LNG volumes sold, $11 million from lower natural gas prices and $12 million lower intersegment revenues; offset by

§ $22 million lower intercompany eliminations primarily associated with power and natural gas sales between Sempra Mexico and Sempra Natural Gas; and

§ $19 million increase at Sempra South American Utilities due to the consolidation of revenues in Chile and Peru starting in April 2011.

During the three months ended March 31, 2012, the cost of natural gas, electric fuel and purchased power from our energy-related businesses decreased by $101 million (44%) to $129 million. The decrease was primarily due to:

§ $64 million decrease at Sempra Natural Gas primarily associated with lower power sales from the end of the DWR contract; and

§ $57 million decrease at Sempra Mexico associated with the lower revenues; offset by

§ $19 million lower intercompany eliminations primarily associated with power and natural gas sales between Sempra Mexico and Sempra Natural Gas.

Operation and Maintenance

Sempra Energy Consolidated

For the three months ended March 31, 2012, our operation and maintenance expenses increased by $32 million (5%) to $671 million. The increase included

§ $44 million at Sempra South American Utilities primarily from the consolidation of expenses in Chile and Peru; offset by

§ $5 million lower operation and maintenance expenses at SDG&E, which we discuss below.

SDG&E

For the three months ended March 31, 2012, SDG&E's operation and maintenance expenses decreased by $5 million (2%) to $268 million. The decrease was due to:

§ $32 million lower recoverable expenses; offset by

§ $27 million higher other operational and maintenance costs, including an incremental $6 million due to the acquisition of the Desert Star generation facility in October 2011 and $7 million from increased generation costs from other generating facilities.

Equity Earnings, Before Income Tax

For the three months ended March 31, 2012, equity earnings, before income tax, increased to $12 million from $1 million in 2011. The increase in equity earnings, before income tax, for the three-month period was primarily due to equity losses of $8 million from RBS Sempra Commodities in 2011.

Other Income, Net

Sempra Energy Consolidated

In the three months ended March 31, 2012, other income, net, increased by $32 million (74%) to $75 million primarily due to:

§ $14 million increase in AFUDC at SDG&E primarily due to construction on the Sunrise Powerlink project; and

§ $11 million increase in gains from investment activity related to our executive retirement and deferred compensation plans in 2012.

SDG&E

In the three months ended March 31, 2012, other income, net, increased by $14 million (88%) to $30 million due to an increase in AFUDC primarily due to construction on the Sunrise Powerlink project.

Income Taxes

The table below shows the income tax expense and effective income tax rates for Sempra Energy, SDG&E and SoCalGas.

INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES
(Dollars in millions)

	Three months ended March 31,			
	2012		2011	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate
Sempra Energy Consolidated	$ 117	33 %	$ 114	33 %
SDG&E	60	35	49	34
SoCalGas	40	38	37	35

Sempra Energy Consolidated

The increase in income tax expense in the three months ended March 31, 2012 was primarily due to higher pretax income. While our effective tax rate remained unchanged from the prior year, it was impacted by:

§ higher tax expense in 2012 due to Mexican currency translation adjustments;

§ lower deductions for self-developed software costs; and

§ lower favorable adjustments related to prior years' income tax issues; offset by

§ lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets; and

§ higher planned renewable energy income tax credits and deferred income tax benefits related to renewable energy projects.

As we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements herein, Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted effective tax rate anticipated for the full year, as required by U.S. GAAP. We also discuss renewable energy income tax credits and deferred income tax benefits related to renewable energy projects in Notes 1 and 5 of the Notes to Condensed Consolidated Financial Statements herein.

As discussed above, through December 31, 2011, Sempra Renewables used what is referred to as the flow-through method of accounting in which the investment tax credits associated with a project are recognized as a reduction of tax expense in the year in which capacity is placed in service. Starting in the first quarter of 2012, Sempra Renewables adopted the deferral method of accounting for these projects. Under this methodology, instead of recognizing the investment tax credit, Sempra Renewables reduced the book basis of the asset by the amount of the tax credit. This

resulted in lower book depreciation, but higher income tax expense. Therefore, over time total earnings will be equal under the deferred method when compared to the flow-through method. This change in accounting principle was applied retrospectively in the first quarter of 2012.

Our plan for assets placed into service in 2012 includes assets that were under construction in 2011. We have used grant accounting for these assets in anticipation of applying for cash grants. Grant accounting for cash grants is very similar to the deferral method of accounting for investment tax credits, the primary difference being the recording of a grant receivable instead of an income tax receivable.

In 2012, we anticipate that our effective tax rate will be approximately 29% compared to 23% in 2011, excluding income tax items that cannot be reliably forecasted, as discussed in Note 5 of the Notes to Condensed Consolidated Financial Statements herein. This increase is primarily as a result of lower non-U.S. earnings taxed at lower statutory income tax rates. In the years 2013 through 2016, we are currently projecting that our effective income tax rate will be, excluding income tax items that cannot be reliably forecasted, approximately 30% to 32%. This increase in effective income tax rates is primarily due to: projected increases in pretax income; decreases in favorable tax deductions for self-developed software costs; increases in the amount by which book depreciation exceeds normalized tax depreciation; and lower exclusions from income for the equity portion of AFUDC. These projected effective tax rates do not include any impact from a possible repatriation of future earnings from our Mexican and Peruvian subsidiaries. If we were to repatriate future foreign earnings, as we discuss below, the rates would increase accordingly.

SDG&E

SDG&E's income tax expense increased in the three months ended March 31, 2012 due to higher pretax income and a higher effective income tax rate primarily resulting from:

§ lower deductions for self-developed software costs; and

§ lower exclusions from taxable income of the equity portion of AFUDC; offset by

§ lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets; and

§ the impact of Otay Mesa VIE, as we discuss below.

Results for Sempra Energy Consolidated and SDG&E include Otay Mesa VIE, which is consolidated, and therefore, their effective income tax rates are impacted by the VIE’s stand-alone effective income tax rate.

In 2012, we anticipate that SDG&E’s effective income tax rate will be approximately 36% compared to 34% in 2011, excluding income tax items that cannot be reliably forecasted. This increase is due to a projected rise in pretax income, combined with a decrease in favorable income tax deductions for self-developed software costs (due to completion of SDG&E’s advanced meter project), and lower exclusions from income for the equity portion of AFUDC (due to the projected completion of construction on the Sunrise Powerlink electric transmission line), offset by lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets. In the years 2013 through 2016, we are currently projecting that SDG&E’s effective income tax rate will be approximately 37%, excluding income tax items that cannot be reliably forecasted, due to projected increases in pretax income.

SoCalGas

In the three months ended March 31, 2012, income tax expense increased at SoCalGas due to a higher effective tax rate. The higher effective tax rate in 2012 compared to 2011 was primarily due to:

§ lower deductions for self-developed software costs; and

§ unfavorable adjustments related to prior years' income tax issues in 2012 versus favorable adjustments in 2011; offset by

§ lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets.

In 2012, we anticipate that SoCalGas' effective income tax rate will be approximately 37% compared to 33% in 2011, excluding income tax items that cannot be reliably forecasted. This increase is due to a projected rise in pretax income, combined with a decrease in favorable income tax deductions for self-developed software costs. In the years 2013 through 2016, we are currently projecting that SoCalGas' effective income tax rate, excluding income tax items that cannot be reliably forecasted, will be approximately 40% to 42%, which is approximately 3% to 5% higher than the anticipated 2012 effective income tax rate. This expected increase is primarily due to projected increases in pretax income, combined with a decrease in favorable income tax deductions for self-developed software costs, and an increase in the amount by which book depreciation exceeds normalized tax depreciation.

In general, the following items are subject to flow-through treatment at the California Utilities:

§ the equity portion of AFUDC

§ cost of removal of utility plant assets

§ self-developed software costs

§ depreciation on a certain portion of utility plant assets

We discuss the impact of items subject to flow-through treatment on our effective income tax rates in Note 5 of the Notes to Condensed Consolidated Financial Statements herein.

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Act) was signed into law. The 2010 Tax Act included the extension of bonus depreciation for U.S. federal income tax purposes for years 2010 through 2012 and an increase in the rate of bonus depreciation from 50 percent to 100 percent. This increased rate only applies to certain investments made after September 8, 2010 through December 31, 2012. Self-constructed property, where the construction period exceeds one year, construction starts between December 31, 2007 and January 1, 2013, and the property is placed in service by December 31, 2013, will qualify for bonus depreciation in 2013 at either the original or increased rate.

Due to the extension of bonus depreciation, Sempra Energy generated a large U.S. federal net operating loss (NOL) in 2011 and is currently projecting a large U.S. federal NOL in 2012. We currently project the total NOL will not be fully utilized until 2016. Because of these projected NOLs, and the carryforward of U.S. federal income tax credits discussed below, Sempra Energy expects no U.S. federal income tax payments in years 2012 through 2015. However, because bonus depreciation only creates a temporary difference, versus a permanent difference, between Sempra Energy's U.S. federal income tax return and its U.S. GAAP financial statements, it does not impact Sempra Energy's effective income tax rate. We expect larger U.S. federal income tax payments in the future as these temporary differences reverse.

SDG&E and SoCalGas both generated a large U.S. federal NOL in 2011, also due to bonus depreciation. In addition, SDG&E is currently projecting a large U.S. federal NOL in 2012. However, SoCalGas is not projecting a U.S. federal NOL in 2012. In 2012, SDG&E and SoCalGas will be able to, on a stand-alone basis, carry back their 2011 NOLs to 2009 and 2010 to offset taxable income in those years. Therefore, 2011 NOLs are recorded as current income tax

receivable. In 2013, SDG&E will be able to, on a stand-alone basis, carry back a portion of its 2012 NOL to 2010 and the remaining portion will need to be carried forward. Therefore, the 2012 NOL generated to date is recorded as noncurrent income tax receivable. The portion of SDG&E's 2012 NOL that will be carried forward will be recorded as a deferred income tax asset. We currently project that SDG&E's carryforward NOL, on a stand-alone basis, will be fully utilized in 2013. Because of this projected 2012 NOL, and the carryforward of U.S. federal income tax credits discussed below, SDG&E expects no U.S. federal income tax payments in 2012. However, because bonus depreciation only creates a temporary difference, versus a permanent difference, between SDG&E's and SoCalGas' U.S. federal income tax returns and U.S. GAAP financial statements, it does not impact SDG&E's and SoCalGas' effective income tax rates. We expect larger U.S. federal income tax payments in the future as these temporary differences reverse.

Bonus depreciation, in addition to impacting Sempra Energy's and SDG&E's U.S. federal income tax payments, will also have a temporary impact on Sempra Energy's and SDG&E's ability to utilize their U.S. federal income tax credits, which primarily are investment tax credits and production tax credits generated by Sempra Energy's and SDG&E's current and future renewable energy investments. However, based on current projections, Sempra Energy and SDG&E do not expect, based on more-likely-than-not criteria required under U.S. GAAP, any of these income tax credits to expire prior to the end of their 20-year carryforward period, as allowed under current U.S. federal income tax law. We also expect bonus depreciation to increase the deferred tax component of SDG&E's and SoCalGas' rate base, which reduces rate base.

We are currently considering the potential repatriation of future earnings beginning in 2013 from certain of our non-U.S. subsidiaries in Mexico and Peru. However, we expect to continue to indefinitely reinvest future earnings from our Chilean subsidiaries. Currently, all future repatriated earnings would be subject to U.S. income tax (with a credit for foreign income taxes) and future repatriations from Peru would be subject to local country withholding tax. Because this potential repatriation would only be from future earnings, it does not change our current assertion, as we discuss in Note 7 of the Notes to Consolidated Financial Statements in the Annual Report, that we intend to continue to indefinitely reinvest, for the foreseeable future, our cumulative undistributed non-U.S. earnings as of March 31, 2012. The forward-looking statements above on income tax matters do not include any impact from potential repatriation of future non-U.S. earnings.

Additionally, the 2010 Tax Act extended for years 2010 and 2011 the U.S. federal income tax law known as the look-through rule. This rule allows, under certain situations, for certain non-operating activity (e.g., dividend income, royalty income, interest income, rental income, etc.), of a greater than 50-percent owned non-U.S. subsidiary, to not be taxed under U.S. federal income tax law. As of March 31, 2012, this rule has not yet been extended beyond 2011, therefore, Sempra Energy's effective income tax rate is currently unfavorably impacted for 2012 and could potentially increase, over the amounts projected above, in subsequent years. However, for years 2013-2016, we currently do not believe the lack of the extension of this rule will cause the effective income tax rate to be outside the estimated range provided above. It is generally thought that this rule will be extended beyond 2011. However, until the extension of the rule is enacted into law, U.S. GAAP accounting rules will preclude us from reflecting its favorable impact in our financial results for 2012. If, starting in 2013, we were to decide to repatriate future non-U.S. earnings from Mexico and Peru, as discussed above, the loss of the look-through rule will not result in additional U.S. federal income tax beyond what would be paid on the repatriated future non-U.S. earnings from nonoperating activity in Mexico and Peru.

Mexican Currency Exchange Rate and Inflation Impact on Income Taxes and Related Economic Hedging Activity

Our Mexican subsidiaries have U.S. dollar denominated receivables and payables (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. They also have deferred income tax assets and liabilities that are denominated in the Mexican peso, which must be translated to U.S. dollars for financial reporting purposes. In addition, monetary assets and liabilities are adjusted for Mexican inflation for Mexican income tax purposes.

The fluctuations in both the currency exchange rate for the Mexican peso against the U.S. dollar, with regard to Mexican monetary assets and liabilities, and Mexican inflation are subject to Mexican income tax and thus expose us to significant fluctuations in our income tax expense. The income tax expense of Sempra Mexico is impacted by these factors. Parent and Other is also impacted due to a Mexican holding company. The impacts of these fluctuations may offset to some extent at the consolidated level.

For Sempra Energy Consolidated, the impacts on the three months ended March 31, 2012 and 2011 related to the factors described above are as follows:

MEXICAN CURRENCY IMPACT ON INCOME TAXES AND RELATED ECONOMIC HEDGING ACTIVITY
(Dollars in millions)

	Three months ended March 31,	
	2012	2011
Income tax expense on currency exchange rate movement of monetary assets and liabilities	$ (9)	$ (5)
Translation of non-U.S. deferred income tax balances	(8)	(5)
Income tax expense on inflation	(1)	(1)
Total impact on income taxes	(18)	(11)
After-tax gains on Mexican peso exchange rate instruments (included in Other Income, Net)	6	5
Net impacts on Sempra Energy Condensed Consolidated Statements of Operations	$ (12)	$ (6)

Equity Earnings, Net of Income Tax

Equity earnings of unconsolidated subsidiaries, net of income tax, which are primarily earnings from Sempra South American Utilities' and Sempra Mexico's equity method investments, were $11 million in the three months ended March 31, 2012 compared to $31 million for the corresponding period in 2011. The change in 2012 was primarily due to $24 million lower earnings related to equity method investments in Chile and Peru, for entities that are now consolidated.

Earnings Attributable to Noncontrolling Interests

Sempra Energy Consolidated

Earnings attributable to noncontrolling interests were $13 million for the three months ended March 31, 2012 compared to $4 million for the same period in 2011. The change was primarily due to:

§ $6 million earnings primarily from noncontrolling interests at Luz del Sur in 2012; and

§ $2 million higher earnings attributable to noncontrolling interests in 2012 at Otay Mesa VIE.

Earnings

We discuss variations in earnings by segment above in "Segment Results."

CAPITAL RESOURCES AND LIQUIDITY

We expect our cash flows from operations to fund a substantial portion of our capital expenditures and dividends. In addition, we may meet our cash requirements through the issuance of short-term and long-term debt and distributions from our equity method investments.

Our committed lines of credit provide liquidity and support commercial paper. As we discuss in Note 6 of the Notes to Condensed Consolidated Financial Statements herein, in March 2012, Sempra Energy, Sempra Global (the holding company for our subsidiaries not subject to California utility regulation) and the California Utilities each entered into new five-year revolving credit facilities, expiring in 2017, which replace the previous principal credit agreements that were scheduled to expire in 2014. At Sempra Energy and the California Utilities, the agreements are syndicated broadly among 24 different lenders and at Sempra Global, among 25 different lenders. No single lender has greater than a 7-percent share in any agreement.

The table below shows the amount of available funds at March 31, 2012:

AVAILABLE FUNDS AT MARCH 31, 2012
(Dollars in millions)

	Sempra Energy Consolidated	SDG&E	SoCalGas
Unrestricted cash and cash equivalents	$ 404	$ 139	$ 70
Available unused credit(1)	3,477	421	640

(1) Borrowings on the shared line of credit at SDG&E and SoCalGas, discussed in Note 6 of the Notes to Condensed Consolidated Financial Statements herein, are limited to $658 million for each utility and $877 million in total. SDG&E's available funds reflect variable-rate demand notes outstanding of $237 million supported by the line. SoCalGas' availability reflects the impact of SDG&E's use of the combined credit available on the line.

Sempra Energy Consolidated

We believe that these available funds and cash flows from operations, distributions from equity method investments and security issuances, combined with current cash balances, will be adequate to:

- § finance capital expenditures
- § meet liquidity requirements
- § fund shareholder dividends
- § fund new business acquisitions or start-ups
- § repay maturing long-term debt

In March 2012, Sempra Energy publicly offered and sold $600 million of 2.3-percent notes maturing in 2017, and SDG&E publicly offered and sold $250 million of 4.3-percent first mortgage bonds maturing in 2042. Sempra Energy and SDG&E issued long-term debt in 2011 in the aggregate principal amounts of $800 million and $600 million, respectively. Changing economic conditions could affect the availability and cost of both short-term and long-term financing. If cash flows from operations were to be significantly reduced or we were unable to borrow under acceptable terms, we would reduce or postpone discretionary capital expenditures and investments in new businesses. If these measures were necessary, they would primarily impact certain of our Sempra International and Sempra U.S. Gas & Power businesses before we would reduce funds necessary for the ongoing needs of the California Utilities, and secondarily our South American utilities. We continuously monitor our ability to finance the needs of our operating, investing and financing activities in a manner consistent with our intention to maintain strong, investment-grade credit ratings and capital structure.

In three separate transactions during 2010 and one in early 2011, we and RBS sold substantially all of the businesses and assets of our joint-venture partnership that comprised our commodities-marketing businesses. Distributions from the partnership in 2011 were $623 million. The investment balance of $126 million at March 31, 2012 reflects remaining distributions expected to be received from the partnership as it is dissolved. The timing and amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities in Note 10 of the Notes to Condensed Consolidated Financial Statements herein under "Other Litigation." In addition, amounts may be retained by the partnership for an extended period of time to help offset unanticipated future general and administrative costs necessary to complete the dissolution of the partnership. We are providing transitional back-up guarantees, a few of which may continue for a prolonged period of time. Either RBS or JP Morgan Chase & Co., one of the buyers' parties in the sales transactions, has fully indemnified us for any claims or losses in connection with the related transactions.

We provide additional information about RBS Sempra Commodities and the sales transactions and guarantees in Notes 4, 6 and 10 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 3, 4, 5 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

At March 31, 2012, our cash and cash equivalents held in foreign jurisdictions that are unavailable to fund domestic operations unless repatriated were approximately $160 million. We intend for funds associated with accumulated foreign earnings through March 31, 2012 to remain indefinitely in our foreign subsidiaries to fund their operations. We are currently considering a plan to repatriate future earnings from certain foreign operations beginning in 2013.

We have significant investments in several trusts to provide for future payments of pensions and other postretirement benefits, and nuclear decommissioning. Changes in asset values, which are dependent on the activity in the equity and fixed income markets, have not affected the trust funds' abilities to make required payments, but may impact funding requirements for pension and other postretirement benefit plans. At the California Utilities, funding requirements are generally recoverable in rates.

We discuss our principal credit agreements more fully in Note 6 of the Notes to Condensed Consolidated Financial Statements herein.

California Utilities

SoCalGas expects that cash flows from operations and debt issuances will continue to be adequate to meet its capital expenditure requirements. In March 2011, Sempra Energy made a $200 million capital contribution to SDG&E, and SDG&E expects its cash flows from operations and debt issuances will be adequate to meet its future capital expenditure requirements.

SoCalGas declared and paid a $50 million common dividend in the first quarter of both 2012 and 2011. As a result of the increase in SoCalGas' capital investment programs over the next few years, management expects SoCalGas' dividends on common stock to be reduced, when compared to the dividends on common stock declared on an annual basis historically, or temporarily suspended over the next few years to maintain SoCalGas' authorized capital structure during the periods of high capital investments.

As a result of SDG&E's large capital investment program over the past few years and the level of capital investment planned for 2012, SDG&E does not expect to pay common dividends to Sempra Energy in 2012. However, due to the scheduled completion of construction of the Sunrise Powerlink transmission power line in 2012, SDG&E expects to resume the declaration and payment of dividends on its common stock in 2013.

Sempra South American Utilities

We expect projects at Chilquinta Energía and Luz del Sur to be funded by external borrowings and funds internally generated by Chilquinta Energía and Luz del Sur.

Sempra Mexico

We expect projects in Mexico to be funded through a combination of funds internally generated by the Mexico businesses, project financing and partnering in joint ventures.

Sempra Renewables

We expect Sempra Renewables to require funds for the development of and investment in electric renewable energy projects. Projects at Sempra Renewables may be financed through a combination of operating cash flow, project financing, low-cost financing from the U.S. Department of Energy, U.S. Treasury Department cash grants, funds from the parent and partnering in joint ventures. The Sempra Renewables projects have planned in-service dates ranging from 2012 to 2016.

Sempra Natural Gas

We expect Sempra Natural Gas to require funding from the parent and external sources to fund projects and investments, including development and expansion of its natural gas storage projects.

Cash flows from operations at Sempra Natural Gas are expected to decrease substantially since its contract with the DWR expired in September 2011, due to less favorable pricing on any replacement contracts obtained, and the sale of its El Dorado natural gas generation plant to SDG&E in 2011. Also, Sempra Natural Gas may not be able to replace all of the lost revenue due to decreased market demand. Sales to the DWR comprised six percent of Sempra Energy's revenues in 2011.

Some of Sempra Natural Gas' long-term power sale contracts contain collateral requirements which require its affiliates and/or the counterparty to post cash, guarantees or letters of credit to the other party for exposure in excess of established thresholds. Sempra Natural Gas may be required to provide collateral when market price movements adversely affect the counterparty's cost of replacement energy supplies if Sempra Natural Gas fails to deliver the contracted amounts. Sempra Natural Gas had no outstanding collateral requirements under such contracts at March 31, 2012.

CASH FLOWS FROM OPERATING ACTIVITIES

CASH PROVIDED BY OPERATING ACTIVITIES (Dollars in millions)						
		2012	2012 Change			2011
Sempra Energy Consolidated	$	699 $	(106)	(13)%	$	805
SDG&E		266	(235)	(47)		501
SoCalGas		449	78	21		371

Sempra Energy Consolidated

Cash provided by operating activities at Sempra Energy decreased in 2012 primarily due to:

§ $300 million of funds received in 2011 from a wildfire litigation settlement, which is offset by an increase in restricted cash in cash flows from investing activities; and

§ $23 million increase in settlement payments in 2012 for wildfire claims; offset by

§ $130 million settlement payment in 2011 related to energy crisis litigation; and

§ a $120 million decrease in accounts receivable in 2012, primarily related to SoCalGas.

SDG&E

Cash provided by operating activities at SDG&E decreased in 2012 primarily due to:

§ $300 million of funds received in 2011 from a wildfire litigation settlement, which is offset by an increase in restricted cash in cash flows from investing activities; and

§ $23 million increase in settlement payments in 2012 for wildfire claims; offset by

§ $90 million higher net income, adjusted for noncash items included in earnings, in 2012 compared to 2011, primarily due to an increase in deferred income taxes related to regulatory balancing accounts and temporary differences in the financial and tax basis of depreciable and amortizable assets.

SoCalGas

Cash provided by operating activities at SoCalGas increased in 2012 primarily due to:

§ a $110 million decrease in accounts receivable in 2012; offset by

§ $29 million lower net income, adjusted for noncash items included in earnings, in 2012 compared to 2011.

The table below shows the contributions to pension and other postretirement benefit plans for the three months ended March 31, 2012.

(Dollars in millions)	Pension Benefits	Other Postretirement Benefits
Sempra Energy Consolidated	$ 10	$ 15
SDG&E		4
SoCalGas	2	10

CASH FLOWS FROM INVESTING ACTIVITIES

CASH USED IN INVESTING ACTIVITIES (Dollars in millions)				
	2012	2012 Change		2011
Sempra Energy Consolidated	$ (859)	$ 103	14 %	$ (756)
SDG&E	(399)	(153)	(28)	(552)
SoCalGas	(365)	(90)	(20)	(455)

Sempra Energy Consolidated

Cash used in investing activities at Sempra Energy increased in 2012 primarily due to:

- a $204 million increase in capital expenditures;
- $99 million in payments in 2011 by SDG&E for claims related to wildfire litigation using restricted funds received from a wildfire litigation settlement in 2010; and
- $43 million invested in Flat Ridge 2; offset by
- a $300 million increase in SDG&E’s restricted cash due to funds received in 2011 from a wildfire litigation settlement.

SDG&E

Cash used in investing activities at SDG&E decreased in 2012 primarily due to:

- a $300 million increase in restricted cash due to funds received from a wildfire litigation settlement in 2011; offset by
- a $50 million increase in capital expenditures; and
- $99 million in payments in 2011 for claims related to wildfire litigation using restricted funds received from a wildfire litigation settlement.

SoCalGas

Cash used in investing activities at SoCalGas decreased in 2012 primarily due to an $87 million lower increase in the amount advanced to Sempra Energy in 2012 as compared to 2011.

FUTURE CONSTRUCTION EXPENDITURES AND INVESTMENTS

The amounts and timing of capital expenditures are generally subject to approvals by the CPUC, the Federal Energy Regulatory Commission (FERC) and other regulatory bodies. However, in 2012, we expect to make capital expenditures and investments of approximately $3.1 billion. These expenditures include

§ $2.1 billion at the California Utilities for capital projects and plant improvements ($1.4 billion at SDG&E and $710 million at SoCalGas)

§ $1.0 billion at our other subsidiaries for capital projects in South America, renewable energy generation projects, and development of natural gas storage facilities and pipelines.

In 2012, the California Utilities expect their capital expenditures and investments to include

§ $630 million for improvements to SDG&E's natural gas and electric distribution systems

§ $170 million at SDG&E for the Sunrise Powerlink transmission line and substation expansions

§ $200 million for improvements to SDG&E's electric transmission systems

§ $90 million for SDG&E's electric generation plants and equipment

§ $285 million for SDG&E's renewable energy projects

§ $710 million at SoCalGas for improvements to distribution and transmission systems and storage facilities, and for advanced metering infrastructure

The California Utilities expect to finance these expenditures and investments with cash flows from operations, cash on hand and debt issuances.

In 2012, the expected capital expenditures and investments of $1.0 billion at our other subsidiaries, net of anticipated project financing and joint venture structures, include

Sempra South American Utilities

§ approximately $100 million to $200 million for capital projects in South America, including approximately $70 million for the Santa Teresa hydroelectric power plant at Luz del Sur

Sempra Renewables

§ approximately $400 million for investment in the first phase (150 MW) of Mesquite Solar, a solar project at our Mesquite Power plant near Arlington, Arizona

§

approximately $100 million for investment in the second phase (approximately 150 MW) of Copper Mountain Solar, a solar project located near Boulder City, Nevada

§ approximately $200 million for investment in other renewable energy projects

Sempra Natural Gas

§ approximately $100 million for development of natural gas storage projects at Bay Gas and Mississippi Hub

§ approximately $50 million to $100 million for other natural gas projects

Our level of capital expenditures and investments in the next few years may vary substantially and will depend on the cost and availability of financing, regulatory approvals, changes in U.S. federal tax law and business opportunities providing desirable rates of return. We intend to finance our capital expenditures in a manner that will maintain our strong investment-grade credit ratings and capital structure.

CASH FLOWS FROM FINANCING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES
(Dollars in millions)

		2012	2012 Change			2011
Sempra Energy Consolidated	$	310 $	52	20 %	$	258
SDG&E		243	47	24		196
SoCalGas		(50)	250	83		(300)

Sempra Energy Consolidated

Cash provided by financing activities at Sempra Energy increased in 2012 primarily due to:

§ $205 million higher issuances of long-term debt; offset by

§ $87 million higher long-term debt payments;

§ a $32 million higher decrease in short-term debt; and

§ a $21 million increase in common dividends paid.

SDG&E

Cash provided by financing activities at SDG&E increased in 2012 primarily due to:

§ $249 million higher issuances of long-term debt; offset by

§ a $200 million capital contribution from Sempra Energy in 2011.

SoCalGas

Cash used by financing activities decreased in 2012 at SoCalGas due to a $250 million long-term debt payment in 2011.

COMMITMENTS

We discuss significant changes to contractual commitments at Sempra Energy, SDG&E and SoCalGas in Note 10 of the Notes to Condensed Consolidated Financial Statements herein.

CREDIT RATINGS

The credit ratings of Sempra Energy, SDG&E and SoCalGas remained at investment grade levels during the first three months of 2012.

Our credit ratings may affect the rates at which borrowings bear interest and of commitment fees on available unused credit. We provide additional information about our credit ratings at Sempra Energy, SDG&E and SoCalGas in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report.

FACTORS INFLUENCING FUTURE PERFORMANCE

SEMPRA ENERGY OVERVIEW

California Utilities

The California Utilities’ operations have historically provided relatively stable earnings and liquidity. However, for the next few years, SoCalGas intends to limit its common stock dividends to reinvest its earnings in significant capital projects.

The California Utilities’ performance will depend primarily on the ratemaking and regulatory process, environmental regulations, economic conditions, actions by the California legislature to address the state budget crisis and the changing energy marketplace. Their performance will also depend on the successful completion of capital projects that we discuss in various sections of this report and below.

Sempra South American Utilities

In April 2011, Sempra South American Utilities increased its investment in two utilities in South America. We expect the acquisition to be accretive to our earnings per share. However, in connection with our increased interests in Chilquinta Energía and Luz del Sur, Sempra Energy has $984 million in goodwill on its Consolidated Balance Sheet as of March 31, 2012. Goodwill is subject to impairment testing, annually and under other potential circumstances, which may cause its fair value to vary if differing estimates and assumptions are used in the valuation techniques applied as indicated by changing market or other conditions.

We discuss the acquisition in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report. Sempra South American Utilities is also expected to provide earnings from construction projects when completed and other investments, but will require substantial funding for these investments.

Sempra Renewables

Sempra Renewables is developing and investing in renewable energy generation projects that have long-term contracts with utilities. The renewable energy projects have planned in-service dates ranging from 2012 to 2016. These projects require construction financing which may come from a variety of sources including operating cash flow, project financing, low-cost financing procured under the U.S. Department of Energy's (DOE) loan guaranty program, U.S. Treasury Department cash grants, funds from the parent and partnering in joint ventures. The varying costs of these alternative financing sources impact the projects' returns.

Currently, Sempra Renewables is planning for Auwahi Wind, Mehoopany Wind Farm and Flat Ridge 2 Wind Farm projects to be placed in service in 2012. If all or any portion of these projects are not placed in service during 2012, Sempra Renewables' cash flows and earnings for the next 10 years will be adversely affected as wind projects must be placed in service during 2012 in order to claim production tax credits or cash grants.

Sempra Natural Gas

Current energy market prices are significantly lower than those under Sempra Natural Gas' contract with the DWR, which ended on September 30, 2011 and had provided a significant portion of Sempra Natural Gas' revenues. Revenues from Sempra Natural Gas' generation plants are also expected to be lower due to a decline in market demand and the sale of Sempra Natural Gas' El Dorado natural gas generation plant to SDG&E on October 1, 2011. Based on current market prices for electricity, contracts Sempra Natural Gas enters into at its natural gas-fired plants to replace the DWR contract, if obtained, or merchant (daily) sales will provide substantially lower earnings. Because Sempra Mexico sells power from its Mexicali plant to Sempra Natural Gas, its earnings from generation may also decrease due to the completion of the DWR contract.

In June 2011, Sempra Natural Gas entered into a 25-year contract with various members of Southwest Public Power Resources Group (SPPR Group), an association of 40 not-for-profit utilities in Arizona and southern Nevada, for 240 MW of electricity. Under the terms of the agreement, Sempra Natural Gas will provide 21 participating SPPR Group members with firm, day-ahead dispatchable power delivered to the Palo Verde hub beginning in January 2015.

At Sempra Natural Gas, until there are firm liquefied natural gas (LNG) supply or capacity services contracts from third parties that would subscribe to 100 percent of the capacity of Sempra Natural Gas' Cameron terminal, Sempra Natural Gas will seek to purchase short-term LNG supplies and sell short-term capacity, which may result in greater variability in revenues and earnings. Sempra Natural Gas is currently evaluating opportunities to utilize its assets to support the liquefaction and exportation of LNG. The objective is to obtain a long-term contract and fully utilize our existing infrastructure while minimizing our future additional capital investment. In January 2012, the DOE approved Cameron LNG's application for an LNG export license to Free Trade Act countries. The authorization to export LNG to countries with which the U.S. does not have a Free Trade Agreement is pending review by the DOE.

In April and May 2012, Sempra Natural Gas signed commercial development agreements with Mitsubishi Corporation, Mitsui & Co., Ltd., and a subsidiary of GDF SUEZ S.A. (GDF SUEZ) to develop a natural gas liquefaction export facility at the Cameron LNG terminal. The completed liquefaction facility is expected to be comprised of three liquefaction trains with a total export capability of 12 million tonnes per annum (Mtpa) of LNG, or approximately 1.7 Bcf per day. Sempra Natural Gas expects to receive the required permits from the FERC and enter

into a turnkey contract in 2013 for engineering and construction services for the project. Pending regulatory approvals and the achievement of other key milestones, construction on the project is planned to start in 2013 and begin operations in late 2016. The liquefaction facility will utilize Cameron LNG's existing facilities, including two marine berths, three LNG storage tanks, and vaporization capability for regasification services of 1.5 Bcf per day. The anticipated incremental investment in the three-train liquefaction project is estimated to be approximately $6 billion, the majority of which will be project-financed and the balance provided by the project partners in a joint-venture arrangement.

The commercial development agreements bind the parties to fund all development expenses, including design, permitting and engineering, as well as to negotiate 20-year tolling agreements, based on agreed-upon key terms outlined in the commercial development agreements. Each tolling agreement would be for 4 Mtpa.

As we discuss above under "Overview–Sempra Natural Gas," Sempra Natural Gas, KMP and Conoco jointly own REX. KMP, the majority owner, has announced its intention to sell certain assets, including its interest in REX. These assets are being divested in order for KMP's general partner, Kinder Morgan, Inc., to obtain approval for a proposed acquisition. We believe that this sales process could result in an indication of fair value for KMP's interest in REX. If so, we would consider what, if any, impacts this information could have on our recorded value for REX. If such information indicated an impairment of our investment, we would also need to evaluate whether such impairment, if any, was other than temporary, in accordance with applicable accounting standards for equity method investments.

Sempra Commodities

In three separate transactions in 2010 and one in early 2011, we and RBS sold substantially all of the businesses and assets of our commodities-marketing partnership. The investment balance of $126 million at March 31, 2012 reflects remaining distributions expected to be received from the partnership as it is dissolved. The timing and amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities in Note 10 of the Notes to Condensed Consolidated Financial Statements herein under "Other Litigation." In addition, amounts may be retained by the partnership for an extended period of time to help offset unanticipated future general and administrative costs necessary to complete the dissolution of the partnership. We provide additional information in Notes 4, 6 and 10 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 3, 4, 5 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

CALIFORNIA UTILITIES

Joint Matters

General Rate Case (GRC)

Both SDG&E and SoCalGas have their 2012 General Rate Case (GRC) applications pending at the CPUC. The California Utilities filed their initial applications for the 2012 GRC in December 2010 to establish their authorized 2012 revenue requirements and the ratemaking mechanisms by which those requirements will change on an annual basis over the subsequent three-year (2013-2015) period. In July 2011, SDG&E and SoCalGas filed revised applications and in February 2012, SDG&E and SoCalGas filed amendments to update the July 2011 filing. The 2012 amendments revised the requested increases to their authorized revenue requirements, as compared to their 2011 authorized revenues, to $235 million at SDG&E, of which $67 million is for the cost recovery of incremental wildfire insurance premiums, and to $268 million at SoCalGas. The Division of Ratepayer Advocates and other intervening parties are recommending that the CPUC reduce the utilities' revenue requirements in 2012 by approximately 5 percent compared to 2011.

Evidentiary hearings were completed in January 2012 and final briefs reflecting the results from these hearings are scheduled to be filed with the CPUC by May 14, 2012. We currently expect a final decision for the 2012 GRC, which will be made effective retroactive to January 1, 2012, in the second half of 2012. However, until such time as a final decision for the 2012 GRC is issued, the California Utilities are recording revenues in 2012 based on levels authorized in 2011 plus, for SDG&E, consistent with the recent CPUC decisions for cost recovery for SDG&E's incremental wildfire insurance premiums, an amount for the recovery of 2012 wildfire insurance premiums. The timing of the CPUC decision and the outcome from these proceedings will have an impact on the financial condition, operating results and cash flows of the California Utilities. If the CPUC's final decision grants a significantly lower authorized revenue requirement, it could result in a material adverse effect to the California Utilities' cash flows, financial position and results of operations starting in 2012 as compared to 2011. We provide additional information regarding the 2012 GRC in Note 9 of the Notes to Condensed Consolidated Financial Statements herein and in Note 14 of the Notes to the Consolidated Financial Statements in the Annual Report.

Cost of Capital

SDG&E and SoCalGas filed separate applications with the CPUC in April 2012 to update their cost of capital effective January 1, 2013. SDG&E is proposing to adjust its authorized capital structure by increasing the amount of its common equity from 49.0 percent to 52.0 percent. SDG&E is also proposing to lower its authorized ROE from 11.1 percent to 11.0 percent and to lower its authorized ROR from 8.40 percent to 8.20 percent. The proposed change in SDG&E's capital structure and resulting ROR would result in a decrease in its 2013 authorized revenue of approximately $7.7 million if approved by the CPUC.

SoCalGas is requesting to adjust its authorized capital structure by increasing the amount of its common equity from 48.0 percent to 52.0 percent. SoCalGas is also requesting to increase its authorized ROE from 10.82 percent to 10.9 percent and to lower its authorized ROR from 8.68 percent to 8.42 percent. The proposed change in SoCalGas' capital structure and resulting ROR would result in a decrease in its 2013 authorized revenue of approximately $1.4 million if approved by the CPUC.

If the CPUC were to approve a capital structure in the cost of capital proceedings that resulted in either SDG&E's or SoCalGas' ROR being significantly lower than what was proposed, it could materially adversely affect the respective company's cash flows, financial position and results of operations starting in 2013.

SDG&E is proposing to continue using the cost of capital adjustment mechanism currently in effect, which uses a utility bond benchmark. SoCalGas is proposing to switch from its current cost of capital adjustment mechanism, which is based on U.S. Treasury Bonds, to the utility bond benchmark used by SDG&E, Edison and PG&E. We provide more information about the cost of capital proceedings in Note 9 of the Notes to Condensed Consolidated Financial Statements herein.

Natural Gas Pipeline Operations Safety Assessments

Pending the outcome of the various regulatory agency evaluations of natural gas pipeline safety regulations, practices and procedures, Sempra Energy, including the California Utilities, may incur incremental expense and capital investment associated with its natural gas pipeline operations and investments. In August 2011, SoCalGas, SDG&E, PG&E and Southwest Gas filed implementation plans to test or replace all natural gas transmission pipelines that have not been pressure tested with the CPUC as we discuss in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report. The California Utilities are currently estimating that the total cost for Phase 1 of the two-phase plan is $3.1 billion over a 10-year period. The California Utilities requested that the incremental capital investment required as a result of any approved plan be included in rate base and that cost recovery be allowed for any other incremental cost not eligible for rate-base recovery. The costs that are the subject of these plans are outside the scope of the 2012 GRC proceedings discussed above. We provide additional information in Note 9 of the Notes to

Condensed Consolidated Financial Statements herein.

SDG&E Matters

2007 Wildfire Litigation

In regard to the 2007 wildfire litigation, SDG&E's settlement of claims and the estimate of outstanding claims and legal fees is approximately $2 billion, which is in excess of the $1.1 billion of liability insurance coverage and the approximately $450 million it has received from third parties, including Cox. However, SDG&E has concluded that it is probable that it will be permitted to recover from its utility customers substantially all reasonably incurred costs of resolving wildfire claims in excess of its liability insurance coverage and amounts recovered from other potentially responsible parties. Consequently, Sempra Energy and SDG&E expect no significant earnings impact from the resolution of the remaining wildfire claims. As of March 31, 2012, Sempra Energy's and SDG&E's Condensed Consolidated Balance Sheets reflect a regulatory asset in the amount of $603 million for these costs. However, SDG&E's cash flow may be adversely affected by timing differences between the resolution of claims and recoveries from other potentially responsible parties and utility customers, which may extend over a number of years. In addition, recovery from customers will require future regulatory actions, and a failure to obtain substantial or full recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's financial condition, cash flows and results of operations.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claims and the likelihood, amount and timing of related recoveries from other potentially responsible parties and utility customers and will make appropriate adjustments to wildfire reserves and the related regulatory asset as additional information becomes available. We provide additional information concerning these matters in Notes 9 and 10 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

SONGS

SDG&E has a 20-percent ownership interest in San Onofre Nuclear Generating Station (SONGS), a 2,150-MW nuclear generating facility near San Clemente, California. SONGS is operated by Southern California Edison Company (Edison) and is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC). Edison is currently addressing a number of regulatory and performance issues at SONGS, and the NRC has required Edison to take actions to provide greater assurance of compliance by SONGS personnel. Edison continues to implement plans and address the identified issues, however a number of these issues remain outstanding. To the extent that these issues persist, the likelihood of further required action by Edison persists, which may result in increased SONGS operating costs and/or materially adversely impacted operations. Currently, SDG&E is allowed to fully offset its share of SONGS operating costs in revenue. If further action is required, it may result in an increase in SDG&E's Operation and Maintenance expense, with any increase being fully offset in Operating Revenues – Electric or, if electric generation is adversely impacted, require SDG&E to procure additional electricity supply from other sources.

In light of the aftermath and the significant safety events at the Fukushima Daiichi nuclear plant in Japan resulting from the earthquake and tsunami in March 2011, the NRC plans to perform additional operation and safety reviews of nuclear facilities in the United States. The lessons learned from the events in Japan and the results of the NRC reviews may materially impact future operations and capital requirements at nuclear facilities in the United States, including the operations and capital requirements at SONGS.

In 2010 and 2011, Edison installed four replacement steam generators in SONGS' Units 2 and 3. Inspections of the Unit 2 steam generators during a planned maintenance and refueling outage in February 2012 found isolated areas of wear in some of the approximately 19,500 heat transfer tubes. As the steam generators are designed to include

sufficient tubes to accommodate a need to remove some from service, Edison, in consultation with the steam generators' manufacturer, determined that a number of the tubes should be removed from service as a preventive measure with the number of tubes being removed from service being well within the extra margin. Additionally, on January 31, 2012, a water leak was detected in one of the tubes of a new steam generator in Unit 3, and the unit was safely taken offline. Both Units 2 and 3 continue to be offline.

Findings from the extensive testing conducted by Edison have determined that the water leak in the Unit 3 steam generator was caused by wear resulting from tube-to-tube contact in the area of the leak. Causal analysis of the tube-to-tube contact continues. The same area was re-inspected in the Unit 2 steam generators using a more sensitive inspection method and similar tube-to-tube wear was found on two tubes in one of the steam generators at wear levels below the detection capability of the initial testing. Earlier tests performed on the Unit 2 steam generators during the planned outage initially found high levels of wear in some tubes that were in contact with a tube support structure. As a result, all tubes in contact with the support structure in both Unit 2 steam generators were preventatively removed from service through plugging. Subsequent inspections on Unit 3 found similar tube-to-tube structure wear, and the affected tubes will also be plugged preventatively.

During the inspection and testing of the steam generators by Edison, additional pressure tests of certain tubes were completed to determine the safety significance of the wear. Eight of the 129 tubes subjected to the additional tests failed, and the NRC was notified as required. Given these test results, the NRC launched an Augmented Inspection Team to assess: 1) the tube failures and their causes, 2) Edison's operation of the units, and 3) Edison's oversight of the design, fabrication, and shipping process. The efforts of the Augmented Inspection Team remain in progress.

In March 2012, the NRC issued a confirmatory action letter that requires NRC permission to restart Units 2 and 3 and outlined the actions Edison must complete. Each unit will be restarted only when the necessary repairs and appropriate mitigation plans for each respective Unit are completed in accordance with the NRC's letter and it is safe to do so.

In 2005, the CPUC authorized a project to install four new steam generators in Units 2 and 3 and remove and dispose of their predecessors. Through March 31, 2012, SDG&E's proportional investment in this project was approximately $177 million. Those expenditures remain subject to CPUC review upon submission of Edison's final costs for the overall project.

During the unscheduled outage at SONGS, SDG&E has procured replacement power, the cost of which is balanced subject to reasonableness review. Replacement power costs for outages associated with the unscheduled SONGS outage (commencing in 2012 on February 1 for Unit 3 and March 5 for Unit 2) through March 31, 2012 were approximately $12 million. Total replacement power costs will not be known until the Units are returned to service, but costs for power are likely to be higher during the summer months should replacement power still be required at that time.

The steam generators are warranted for an initial period of 20 years from acceptance by its supplier, Mitsubishi Heavy Industries (MHI). Subject to certain exceptions, the purchase agreement sets forth specified damages for certain repairs, generally limits MHI's aggregate contractual liability to the purchase price of the generators and excludes consequential damages from recovery, such as the cost of replacement power. We provide more information about SONGS in Note 10 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 6, 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

OTHER SEMPRA ENERGY MATTERS

We discuss additional potential and expected impacts of the 2010 Tax Act on our income tax expense, earnings and cash flows in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" above.

We may be further impacted by depressed and rapidly changing economic conditions. Moreover, the dollar has fluctuated significantly compared to some foreign currencies, especially in Mexico and South America where we have significant operations. We discuss foreign currency rate risk further under “Market Risk—Foreign Currency Rate Risk” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report. North American natural gas prices, which affect profitability at Sempra Renewables and Sempra Natural Gas, are currently significantly below Asian and European prices. These factors could, if they remain unchanged, adversely affect profitability. However, management expects that future export capability at Sempra Natural Gas’ Cameron LNG facility would benefit from lower gas prices in North America compared to other regions.

We discuss additional matters that could affect our future performance in Notes 9 and 10 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

FINANCIAL DERIVATIVES REFORMS

In July 2010, federal legislation to reform financial markets was enacted that significantly alters how over-the-counter (OTC) derivatives are regulated, which may impact all of our businesses. The law increased regulatory oversight of OTC energy derivatives, including (1) requiring standardized OTC derivatives to be traded on registered exchanges regulated by the U.S. Commodity Futures Trading Commission (CFTC), (2) imposing new and potentially higher capital and margin requirements and (3) authorizing the establishment of overall volume and position limits. The law gives the CFTC authority to exempt end users of energy commodities which could reduce, but not eliminate, the applicability of these measures to us and other end users. These requirements could cause our OTC transactions to be more costly and have an adverse effect on our liquidity due to additional capital requirements. In addition, as these reforms aim to standardize OTC products, they could limit the effectiveness of our hedging programs, because we would have less ability to tailor OTC derivatives to match the precise risk we are seeking to mitigate.

LITIGATION

We describe legal proceedings which could adversely affect our future performance in Note 10 of the Notes to Condensed Consolidated Financial Statements herein.

CALIFORNIA UTILITIES – INDUSTRY DEVELOPMENTS AND CAPITAL PROJECTS

We describe capital projects, electric and natural gas regulation and rates, and other pending proceedings and investigations that affect our business in Note 9 of the Notes to Condensed Consolidated Financial Statements herein and in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA INTERNATIONAL AND SEMPRA U.S. GAS & POWER INVESTMENTS

As we discuss in “Cash Flows From Investing Activities,” our investments will significantly impact our future performance. In addition to the discussion below, we provide information about these investments in “Capital Resources and Liquidity” herein and “Capital Resources and Liquidity” and “Factors Influencing Future Performance” in the Annual Report.

Sempra South American Utilities

Santa Teresa

In May 2011, groundbreaking took place for Santa Teresa, a project at Luz del Sur to build a 98-MW hydroelectric power plant in Peru's Cusco region. It is planned to be completed in 2014.

Sempra Mexico

Energía Sierra Juárez

In April 2011, SDG&E entered into a 20-year contract for up to 156 MW of renewable power supplied from the first phase of Sempra Mexico's Energía Sierra Juárez wind project in Baja California, Mexico. The contract was approved by the CPUC in March 2012, and the required approval by the FERC is pending. We expect construction on the project to begin in 2012, and the project to be fully operational in 2014.

Sempra Mexico intends to develop the project within the framework of a joint venture, and is working on an agreement for the sale of a 50-percent partnership interest in the current phase of the project to BP Wind Energy.

Sempra Renewables

Copper Mountain Solar

Copper Mountain Solar is a photovoltaic generation facility operated and under development by Sempra Renewables in Boulder City, Nevada. When fully developed, the project will be capable of producing up to approximately 400 MW of solar power. Copper Mountain Solar 1 is a 58-MW photovoltaic generation facility currently in operation, and now includes the 10-MW facility previously referred to as El Dorado Solar.

Copper Mountain Solar 2 (CMS 2) will total 150 MW and construction began in December 2011. CMS 2 is divided into two phases, with the first phase of 92 MW planned to be completed by the end of January 2013 and the remaining 58 MW planned to be completed in 2015. PG&E has contracted for all of the solar power at CMS 2 for 25 years and has an option to accelerate the second phase of 58 MW to be available before 2015.

Mesquite Solar

Mesquite Solar is a photovoltaic generation facility under development by Sempra Renewables in Maricopa County, Arizona. When fully developed, the project will be capable of producing up to approximately 700 MW of solar power. Construction of the first phase (Mesquite Solar 1) of 150 MW began in June 2011 and is expected to be completed in early 2013. In December 2011, solar panels were fully installed and began delivering 42 MW of electricity to the grid. Currently, the project is at 74 MW capacity. PG&E has contracted for all of the solar power at Mesquite Solar 1 for 20 years.

Auwahi Wind

The Auwahi Wind project, in the southeastern region of Maui, is a joint venture project with a BP affiliate, Auwahi Wind Energy Holdings, with a 20-year contract with Maui Electric Company to provide 21 MW of wind energy. Construction on the project began in March 2012, and we expect the project to be fully operational in late 2012.

Mehoopany Wind Farm

In December 2011, Sempra Renewables entered into a joint venture with BP Wind Energy to develop the Mehoopany Wind Farm in Wyoming County, Pennsylvania, which is expected to generate up to 141 MW of energy. The power output from the wind farm has been sold under 20-year contracts to Old Dominion Electric Cooperative and Southern Maryland Electric Cooperative Inc. Construction began in November 2011, and we expect the project to be fully operational by the end of 2012.

Flat Ridge 2 Wind Farm

In December 2011, Sempra Renewables entered into a joint venture with BP Wind Energy to develop the Flat Ridge 2 Wind Farm near Wichita, Kansas, which is expected to generate up to 419 MW of energy. The power output from the wind farm has been sold under three contracts for 20 to 25 year terms, including contracts with Associated Electric Cooperative, Inc. and Southwestern Electric Power Company. Construction began in April 2012, and we expect the project to be fully operational by the end of 2012. Sempra Renewables plans to participate with BP in a 51-MW expansion of Flat Ridge 2 since obtaining a purchase power agreement with Arkansas Electric Cooperative for the expansion, which was approved by the Rural Electric Service in April 2012.

Sempra Natural Gas

Natural Gas Storage

Currently, Sempra Natural Gas has 23 Bcf of operational working natural gas storage capacity. We are currently developing another 20 Bcf of capacity with planned in-service dates through 2013 and may, over the long term, develop as much as 76 Bcf of total storage capacity.

Sempra Natural Gas' natural gas storage facilities and projects include

§ Bay Gas, a facility located 40 miles north of Mobile, Alabama, that provides underground storage and delivery of natural gas. Sempra Natural Gas owns 91 percent of the project. It is the easternmost salt dome storage facility on the Gulf Coast, with direct service to the Florida market and markets across the Southeast, Mid-Atlantic and Northeast regions.

§ Mississippi Hub, located 45 miles southeast of Jackson, Mississippi, an underground salt dome natural gas storage project with access to shale basins of East Texas and Louisiana, traditional gulf supplies and LNG, with multiple interconnections to serve the Southeast and Northeast regions.

§ Liberty natural gas storage expansion, a salt cavern development project in Cameron Parish, Louisiana. Sempra Natural Gas owns 75 percent of the project and ProLiance Transportation LLC owns the remaining 25 percent. The project's location provides access to several LNG facilities in the area.

Cameron LNG

In April and May 2012, Sempra Natural Gas signed commercial development agreements with Mitsubishi Corporation, Mitsui & Co., Ltd., and GDF SUEZ to develop a natural gas liquefaction export facility at the site of its Cameron LNG terminal in Hackberry, Louisiana. We discuss these agreements above in "Factors Influencing Future Performance – Sempra Energy Overview."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We view certain accounting policies as critical because their application is the most relevant, judgmental, and/or material to our financial position and results of operations, and/or because they require the use of material judgments and estimates. We discuss these accounting policies in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

NEW ACCOUNTING STANDARDS

We discuss the relevant pronouncements that have recently become effective and have had or may have an impact on our financial statements in Note 2 of the Notes to Condensed Consolidated Financial Statements herein.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We provide disclosure regarding derivative activity in Note 7 of the Notes to Condensed Consolidated Financial Statements herein. We discuss our market risk and risk policies in detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

INTEREST RATE RISK

The table below shows the nominal amount and the one-year VaR for long-term debt, excluding commercial paper classified as long-term debt and capital lease obligations, and before reductions for unamortized discount, at March 31, 2012 and December 31, 2011:

	Sempra Energy Consolidated		SDG&E		SoCalGas	
(Dollars in millions)	Nominal Debt	One-Year VaR(1)	Nominal Debt	One-Year VaR(1)	Nominal Debt	One-Year VaR(1)
At March 31, 2012:						
California Utilities fixed-rate	$ 4,867	$ 616	$ 3,555	$ 501	$ 1,312	$ 115
California Utilities variable-rate	588	23	588	23		
All other, fixed-rate and variable-rate	5,236	296				
At December 31, 2011:						

California Utilities fixed-rate	$ 4,617	$ 782	$ 3,304	$ 623	$ 1,313	$ 159
California Utilities variable-rate	591	25	591	25		
All other, fixed-rate and variable-rate	4,602	377				

(1) After the effects of interest rate swaps.

At March 31, 2012, the net notional amount of interest rate swap transactions ranged from $15 million to $305 million at Sempra Energy (ranges relate to the tenor of the various hedging instruments). We provide additional information about interest rate swap transactions in Note 7 of the Notes to Condensed Consolidated Financial Statements herein.

FOREIGN CURRENCY RATE RISK

We discuss our foreign currency rate risk in detail in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report. At March 31, 2012, there were no significant changes to our exposure to foreign currency rate risk since December 31, 2011.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Sempra Energy, SDG&E and SoCalGas have designed and maintain disclosure controls and procedures to ensure that information required to be disclosed in their respective reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the management of each company, including each respective Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, the management of each company recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives; therefore, the management of each company applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

Under the supervision and with the participation of management, including the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E and SoCalGas, each company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of March 31, 2012, the end of the period covered by this report. Based on these evaluations, the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E and SoCalGas concluded that their respective company’s disclosure controls and procedures were effective at the reasonable assurance level.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the companies' internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the companies' internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not party to, and our property is not the subject of, any material pending legal proceedings (other than ordinary routine litigation incidental to our businesses) except for the matters 1) described in Notes 9 and 10 of the Notes to Condensed Consolidated Financial Statements herein and Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report, or 2) referred to in "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and in the Annual Report.

ITEM 1A. RISK FACTORS

There have not been any material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 6. EXHIBITS

The exhibits filed under Forms 8-K and Form 8-K/A that are incorporated herein by reference were filed under Commission File Number 1-14201 (Sempra Energy).

The following exhibits relate to each registrant as indicated.

EXHIBIT 10 -- MATERIAL CONTRACTS

Sempra Energy

	10.1	Form of Sempra Energy 2008 Long Term Incentive Plan 2012 Performance-Based Restricted Stock Unit Award.

EXHIBIT 12 – STATEMENTS RE: COMPUTATION OF RATIOS

Sempra Energy

12.1 Sempra Energy Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

San Diego Gas & Electric Company

12.2 San Diego Gas & Electric Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

Southern California Gas Company

12.3 Southern California Gas Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

EXHIBIT 31 -- SECTION 302 CERTIFICATIONS

Sempra Energy

31.1 Statement of Sempra Energy’s Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.2 Statement of Sempra Energy’s Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

San Diego Gas & Electric Company

31.3 Statement of San Diego Gas & Electric Company’s Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.4 Statement of San Diego Gas & Electric Company’s Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

Southern California Gas Company

31.5 Statement of Southern California Gas Company’s Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.6 Statement of Southern California Gas Company’s Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

EXHIBIT 32 -- SECTION 906 CERTIFICATIONS

Sempra Energy

32.1 Statement of Sempra Energy's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

32.2 Statement of Sempra Energy's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

San Diego Gas & Electric Company

	32.3	Statement of San Diego Gas & Electric Company’s Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
	32.4	Statement of San Diego Gas & Electric Company’s Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.
Southern California Gas Company		
	32.5	Statement of Southern California Gas Company’s Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
	32.6	Statement of Southern California Gas Company’s Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

EXHIBIT 101 -- INTERACTIVE DATA FILE

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Sempra Energy:

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

SEMPRA ENERGY,
(Registrant)

Date: May 3, 2012

By: /s/ Joseph A. Householder
Joseph A. Householder
Executive Vice President, Chief Financial Officer and Chief Accounting Officer

San Diego Gas & Electric Company:

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

SAN DIEGO GAS & ELECTRIC COMPANY,
(Registrant)

Date: May 3, 2012

By: /s/ Robert M. Schlax
Robert M. Schlax
Vice President, Controller, Chief Financial Officer and Chief Accounting Officer

Southern California Gas Company:

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

SOUTHERN CALIFORNIA GAS COMPANY,
(Registrant)

Date: May 3, 2012

By: /s/ Robert M. Schlax
Robert M. Schlax
Vice President, Controller, Chief Financial Officer and Chief Accounting Officer