BOYD GAMING CORP
Form 10-Q
October 27, 2010
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from to

Commission file number: 1-12882

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

Nevada	88-0242733
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3883 Howard Hughes Parkway, Ninth Floor, Las Vegas, NV 89169
(Address of principal executive offices) (Zip Code)
(702) 792-7200
(Registrant's telephone number, including area code)

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

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

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

Class

	Outstanding as of October 25, 2010
Common stock, $0.01 par value	86,234,141 shares

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BOYD GAMING CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2010
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PART I. Financial Information

Item 1. Financial Statements

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

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

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009 and our unaudited condensed consolidated financial statements and notes thereto included in our subsequent Quarterly Reports on Form 10-Q. The condensed consolidated balance sheet as of December 31, 2009, as presented herein, has been derived from our audited financial statements presented in our Annual Report on Form 10-K.

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BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited and in thousands, except share and per share data)

	September 30, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$92,675	$93,202
Restricted cash	20,902	16,168
Accounts receivable, net	44,416	18,584
Inventories	15,071	11,392
Prepaid expenses and other current assets	41,506	24,818
Income taxes receivable	5,246	20,807
Deferred income taxes	9,807	7,766
Total current assets	229,623	192,737
Property and equipment, net	3,503,414	2,233,563
Assets held for development	924,460	925,614
Investments in and advances to unconsolidated subsidiaries, net	4,848	394,220
Other assets, net	112,150	78,121
Intangible assets, net	422,126	422,126
Goodwill, net	213,576	213,576
Total assets	$5,410,197	$4,459,957
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$680	$652
Accounts payable	52,408	39,127
Construction payables	3,872	34,128
Note payable	—	46,875
Accrued liabilities	269,464	174,577
Total current liabilities	326,424	295,359
Long-term debt, net of current maturities	3,175,058	2,576,911
Deferred income taxes	368,462	335,159
Other long-term tax liabilities	44,467	32,703
Other liabilities	70,362	63,456
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, $0.01 par value, 5,000,000 shares authorized	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized; 86,230,640 and 86,130,454 shares outstanding	862	861
Additional paid-in capital	631,759	623,035
Retained earnings	568,007	550,599
Accumulated other comprehensive loss, net	(11,284)	(18,126)
Total Boyd Gaming Corporation stockholders' equity	1,189,344	1,156,369
Noncontrolling interest	236,080	—
Total stockholders' equity	1,425,424	1,156,369
Total liabilities and stockholders' equity	$5,410,197	$4,459,957

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
REVENUES				
Operating revenues:				
Gaming	$503,746	$332,054	$1,344,283	$1,051,714
Food and beverage	101,164	55,695	255,166	173,424
Room	64,142	30,062	154,247	93,251
Other	33,960	24,722	91,595	76,143
Gross revenues	703,012	442,533	1,845,291	1,394,532
Less promotional allowances	107,634	44,290	256,332	138,494
Net revenues	595,378	398,243	1,588,959	1,256,038
COST AND EXPENSES				
Operating costs and expenses:				
Gaming	237,601	161,690	635,461	502,029
Food and beverage	50,690	31,026	132,481	94,524
Room	13,661	10,186	36,767	30,212
Other	28,089	19,863	74,333	58,730
Selling, general and administrative	100,697	70,901	270,641	217,492
Maintenance and utilities	42,661	24,753	104,770	70,111
Depreciation and amortization	52,451	40,578	147,905	125,324
Corporate expense	11,021	11,356	36,636	35,077
Preopening expenses	2,684	4,880	4,990	14,773
Write-downs and other charges, net	1,340	14,287	4,932	41,415
Total operating costs and expenses	540,895	389,520	1,448,916	1,189,687
Operating income from Borgata	—	38,189	8,146	63,921
Operating income	54,483	46,912	148,189	130,272
Other expense (income):				
Interest income	—	(1)	(4)	(5)
Interest expense, net of amounts capitalized	45,781	32,300	109,438	113,806
Gain on early retirements of debt	—	(3,604)	(3,949)	(12,061)
Gain on equity distribution	(2,535)	—	(2,535)	—
Other income	(10,000)	—	(10,000)	—
Other non-operating expenses	—	30	—	30
Other non-operating expenses from Borgata, net	—	7,204	3,133	16,230
Total other expense, net	33,246	35,929	96,083	118,000
Income before income taxes	21,237	10,983	52,106	12,272
Income taxes	(6,371)	(4,668)	(15,532)	(7,007)
Net income	14,866	6,315	36,574	5,265
Net income attributable to noncontrolling interest	(9,275)	—	(19,166)	—
Net income attributable to Boyd Gaming Corporation	$5,591	$6,315	$17,408	$5,265
Basic net income per common share:	$0.06	$0.07	$0.20	$0.06
Weighted average basic shares outstanding	86,582	86,264	86,508	86,481
Diluted net income per common share:	$0.06	$0.07	$0.20	$0.06
Weighted average diluted shares outstanding	86,684	86,436	86,724	86,550

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2010
(Unaudited and in thousands, except share data)

	Boyd Gaming Corporation Stockholders' Equity						
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Noncontrolling	Total Stockholders'
	Shares	Amount	Capital	Earnings	Loss, Net	Interest	Equity
Balances, January 1, 2010	86,130,454	$861	$623,035	$550,599	$ (18,126)	$ —	$ 1,156,369
Net income attributable to Boyd Gaming Corporation	—	—	—	17,408	—	—	17,408
Derivative instruments fair value adjustment, net of taxes of $3,756	—	—	—	—	6,842	—	6,842
Stock options exercised	100,186	1	622	—	—	—	623
Tax effect from share-based compensation arrangements	—	—	(22)	—	—	—	(22)
Share-based compensation costs	—	—	8,124	—	—	—	8,124
Noncontrolling interest in Borgata	—	—	—	—	—	236,080	236,080
Balances, September 30, 2010	86,230,640	$862	$631,759	$568,007	$ (11,284)	$ 236,080	$ 1,425,424

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Nine Months Ended September 30, 2010	2009
Cash Flows from Operating Activities		
Net income	$36,574	$5,265
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	147,905	125,324
Amortization of debt issuance costs	6,149	3,300
Amortization of discounts on senior secured notes	484	—
Share-based compensation expense	8,124	11,349
Deferred income taxes	14,814	3,403
Operating and non-operating income from Borgata	(5,013)	(47,691)
Distributions of earnings received from Borgata	1,910	15,777
Gain on equity distribution	(2,535)	—
Noncash asset write-downs	—	42,341
Gain on early retirements of debt	(3,949)	(12,061)
Other operating activities	1,983	(3,969)
Changes in operating assets and liabilities:		
Restricted cash	(4,734)	(6,767)
Accounts receivable, net	1,382	2,689
Inventories	439	1,715
Prepaid expenses and other current assets	(7,250)	1,708
Income taxes receivable	9,961	3,434
Other assets, net	236	4,250
Accounts payable and accrued liabilities	30,697	2,167
Other long-term tax liabilities	1,519	3,235
Other liabilities	2,265	3,628
Net cash provided by operating activities	240,961	159,097
Cash Flows from Investing Activities		
Capital expenditures	(64,069)	(143,938)
Net cash effect upon change in controlling interest of Borgata	26,025	—
Investments in and advances to unconsolidated subsidiaries, net	(1,021)	(126)
Net additional cash paid for Dania Jai-Alai	—	(9,375)
Other investing activities	290	1,842
Net cash used in investing activities	(38,775)	(151,597)
Cash Flows from Financing Activities		
Payments on retirements of long-term debt	(28,861)	(61,941)
Borrowings under bank credit facility	525,700	507,635
Payments under bank credit facility	(714,800)	(435,250)
Borrowings under Borgata bank credit facility	369,773	—
Payments under Borgata bank credit facility	(954,962)	—
Proceeds from issuance of Borgata senior secured notes	773,176	—
Payments under note payable	(46,875)	(18,750)
Repurchase and retirement of common stock	—	(7,950)
Distributions to noncontrolling interest in Borgata	(120,176)	—

Other financing activities	(5,688)	(335)
Net cash used in financing activities	(202,713)	(16,591)
Decrease in cash and cash equivalents	(527)	(9,091)
Cash and cash equivalents, beginning of period	93,202	98,152
Cash and cash equivalents, end of period	$92,675	$89,061

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BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
(Unaudited and in thousands)

	Nine Months Ended September 30, 2010	2009
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of amounts capitalized	$97,366	$108,714
Cash received for income taxes, net of income taxes paid	(9,143)	(1,819)
Supplemental Schedule of Noncash Investing and Financing Activities		
Payables incurred for capital expenditures	$4,409	$38,890
Increase (decrease) in fair value of derivative instruments	11,777	(1,235)
Extinguishment of previous Borgata credit facility with advance from new Borgata credit facility	73,010	—
Changes in Assets and Liabilities Due to Change in Control of Borgata		
Accounts receivable, net	$29,099	$—
Inventories	4,118	—
Prepaid expenses and other current assets	9,437	—
Deferred income taxes	1,290	—
Property and equipment, net	1,352,321	—
Investments in and advances to unconsolidated subsidiaries, net	5,135	—
Other assets, net	34,964	—
Provisional value of assets	$1,436,364	$—
Current maturities of long-term debt	$632,289	$—
Accounts payable	6,822	—
Income taxes payable	5,699	—
Accrued liabilities	71,949	—
Deferred income taxes	13,982	—
Other long-term tax liabilities	10,242	—
Other liabilities	16,418	—
Provisional value of liabilities	$757,401	$—
Acquisition of Dania Jai-Alai		
Fair value of noncash assets acquired	$—	$28,352
Additional cash paid	—	(9,375)
Termination of contingent liability	—	46,648
Note payable issued	—	(65,625)
Liabilities assumed	$—	$—

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

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

Note 1. Summary of Significant Accounting Policies
Organization
Boyd Gaming Corporation (and together with its subsidiaries, the "Company", "we" or "us") was incorporated in the state of Nevada in 1988 and has been operating since 1973. The Company’s common stock is traded on the New York Stock Exchange under the symbol “BYD”.
We are a diversified operator of 15 wholly-owned gaming entertainment properties and one 50% controlling interest in a limited liability company that operates Borgata Hotel Casino & Spa (“Borgata”) in Atlantic City, New Jersey. Headquartered in Las Vegas, we have gaming operations in Nevada, Illinois, Louisiana, Mississippi, Indiana and New Jersey, which we aggregate in order to present four Reportable Segments: (i) Las Vegas Locals, (ii) Downtown Las Vegas, (iii) Midwest and South, and (iv) Atlantic City.
On March 24, 2010, as a result of the amendment to our operating agreement with MGM Resorts International (the successor in interest to MGM MIRAGE) (“MGM”) (our original 50% partner in Borgata), which provided, among other things, for the termination of MGM’s participating rights in the operations of Borgata, we effectively obtained control of Borgata. The amendment to the operating agreement was related to MGM’s divestiture of its interest pursuant to a regulatory settlement, as discussed further in Note 4, Investments in and Advances to Unconsolidated Subsidiaries, Net . This resulting change in control required acquisition method accounting in accordance with the authoritative accounting guidance for business combinations. As a result, we measured our previously held equity interest at a provisional fair value as of March 24, 2010, the date of effective control. As discussed further in Note 4, Investments in and Advances to Unconsolidated Subsidiaries, Net, no remeasurement amounts have been identified and recorded through September 30, 2010. The financial position of Borgata is consolidated in our condensed consolidated balance sheet as of September 30, 2010; its results of operations for the period from July 1 through September 30, 2010 are included in our condensed consolidated statement of operations for the three months ended September 30, 2010; and its results of operations for the period from March 24 through September 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2010. Prior period amounts were not restated or recasted as a result of this change; however, detailed proforma financial information is presented in Note 4, Investments in and Advances to Unconsolidated Subsidiaries, Net for the three and nine months ended September 30, 2009. We also recorded the noncontrolling interest held in trust for the benefit of MGM as a separate component of our stockholders’ equity.
We own and operate Dania Jai-Alai, which is a pari-mutuel jai-alai facility with approximately 47 acres of related land located in Dania Beach, Florida, a travel agency in Hawaii, and a captive insurance company, also in Hawaii, that underwrites travel-related insurance.
Additionally, we own 85 acres on the Las Vegas Strip, where our multibillion dollar Echelon development project ("Echelon") is located. On August 1, 2008, due to the difficult environment in the capital markets, as well as weak economic conditions, we announced the delay of Echelon. At such time, we did not anticipate the long-term effects of the current economic downturn, evidenced by lower occupancy rates, declining room rates and reduced consumer spending across the country, but particularly in the Las Vegas geographical area; nor did we predict that the incremental supply becoming available on the Las Vegas Strip would face such depressed demand levels, thereby elongating the time for absorption of this additional supply into the market. As we do not yet believe that a significant level of economic recovery has occurred along the Las Vegas Strip, we still do not expect to resume construction of Echelon for three to five years. We also believe financing for a development project like Echelon continues to be unavailable.
Basis of Presentation
As permitted by the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, although we believe that the disclosures made herein are adequate to make the information

reliable in these condensed consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009 and our unaudited condensed consolidated financial statements and notes thereto included in our subsequent Quarterly Reports on Form 10-Q. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly our financial position as of September 30, 2010 , the results of our operations for the three and nine months ended September 30, 2010 and 2009, and our cash flows for the nine months ended September 30, 2010 and 2009. Our operating results for the three and nine months ended September 30, 2010 and 2009 and our cash flows for the nine months ended September 30, 2010 and 2009 are not necessarily indicative of the results that would be achieved during a full year of operations or in future

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periods.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Boyd Gaming Corporation and its subsidiaries. In addition, as discussed above, the financial position of Borgata is consolidated in our condensed consolidated balance sheet as of September 30, 2010, its results of operations for the period from July 1 through September 30, 2010 are included in our condensed consolidated statement of operations for the three months ended September 30, 2010, and its results of operations for the period from March 24 through September 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2010. All material intercompany accounts and transactions have been eliminated.

Investments in unconsolidated affiliates, which are less than 50% owned and do not meet the consolidation criteria of the authoritative accounting guidance for controlled or variable interest entities, are accounted for under the equity method. See Note 4, Investments in and Advances to Unconsolidated Subsidiaries, Net.

Reclassification

Certain prior period amounts presented in our condensed consolidated financial statements have been reclassified to conform to the current presentation. These reclassifications had no effect on our retained earnings or net income as previously reported. These reclassifications impacted the condensed consolidated balance sheet at December 31, 2009, and were specifically related to the reclassification of certain of our assets in order to exclude them from property and equipment, net and to present them separately in assets held for development. See Note 3, Assets Held for Development.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates incorporated into our condensed consolidated financial statements include the estimated allowance for doubtful accounts receivable, estimated useful lives for depreciable and amortizable assets, recoverability of assets held for development, measurement of our controlling interest in Borgata, fair values of acquired assets and liabilities, estimated cash flows in assessing the recoverability of long-lived assets, assumptions relative to the valuation of goodwill and intangible assets, estimated valuation allowance for deferred tax assets, certain tax liabilities, self-insured liability reserves, slot bonus point programs, share-based payment valuation assumptions, fair values of assets and liabilities measured at fair value, fair values of assets and liabilities disclosed at fair value, fair values of derivative instruments, contingencies and litigation, claims and assessments. Actual results could differ from these estimates.

Property and Equipment, Net

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, over the shorter of the asset's useful life or term of the lease. Gains or losses on disposals of assets are recognized as incurred using the specific identification method. Costs of major improvements are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred.

Assets Held for Development

The costs incurred relative to projects under development are carried at cost. Development costs clearly associated with the acquisition, development, and construction of a project are capitalized as a cost of that project, during the periods in which activities necessary to get the property ready for its intended use are in progress. Certain pre-acquisition costs, not qualifying for capitalization, are charged to preopening or other operating expense as incurred.

Interest costs associated with major construction projects are capitalized as part of the cost of the constructed assets. When no debt is incurred specifically for a project, interest is capitalized on amounts expended for the project using our weighted-average cost of borrowing. Capitalization of interest ceases when the project (or discernible portions of the project) is substantially complete. If substantially all of the construction activities of a project are suspended, capitalization of interest will cease until such activities are resumed. We amortize capitalized interest over the estimated useful life of the related assets.

Investments In and Advances to Unconsolidated Subsidiaries, Net

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

Investments in unconsolidated subsidiaries are accounted for under the equity method. Under the equity method, carrying value is adjusted for our share of the investees' earnings and losses, as well as capital contributions to and distributions from these entities.

As discussed above, due to our controlling interest in Borgata, we measured our previously held equity interest at a provisional fair value as of March 24, 2010, the date of effective control. Additionally, the financial position of Borgata is consolidated in our condensed consolidated balance sheet as of September 30, 2010, its results of operations for the period from July 1 through September 30, 2010 are included in our condensed consolidated statement of operations for the three months ended September 30, 2010, and its results of operations for the period from March 24 through September 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the nine months ended September 30, 2010. For the period from January 1, 2010 through March 23, 2010, included in our results during the nine months ended September 30, 2010, and during the three and nine months ended September 30, 2009, the results of Borgata's operations were recognized under the equity method.

We evaluate our investments in unconsolidated subsidiaries for impairment when events or changes in circumstances indicate that the carrying value of such investment may have experienced an other-than-temporary decline in value. If such conditions exist, we compare the estimated fair value of the investment to its carrying value to determine if an impairment is indicated and determine whether such impairment is other-than-temporary based on our assessment of all relevant factors. Estimated fair value is determined using a discounted cash flow analysis based on estimated future results of the investee.

Intangible Assets

Intangible assets include gaming license rights and trademarks. These assets, considered indefinite-lived intangible assets, are not subject to amortization, but instead are subject to an annual impairment test, performed in the second quarter of each year, and between annual test dates in certain circumstances. If the fair value of an indefinite-lived intangible asset is less than its carrying amount, an impairment loss is recognized equal to the difference.

License rights are tested for impairment using a discounted cash flow approach, and trademarks are tested for impairment using the relief-from-royalty method.

The results of our annual scheduled impairment test of indefinite-lived intangible assets performed during 2010 did not require us to record an impairment charge; however, if our estimates of projected cash flows related to these assets are not achieved, or if any other significant assumptions are changed, we may be subject to an interim impairment test prior to our next annual scheduled impairment test. As a result of such test, we may be subject to a future impairment charge, which could have a material adverse impact on our consolidated financial statements.

The gross amount of intangible assets recorded at September 30, 2010 and December 31, 2009 was $1,010.0 million, which has been reduced by aggregate impairment losses of $187.9 million and accumulated amortization of $400.0 million at each date. Our customer lists were fully amortized by June 2009 and, accordingly, only indefinite-lived intangible assets remain at September 30, 2010. Amortization expense was $0.04 million for the nine months ended September 30, 2009.

As discussed in Note 4, Investments in and Advances to Unconsolidated Subsidiaries, Net, no remeasurement amounts have been identified and recorded through September 30, 2010 in connection with the provisional fair values of the assets and liabilities we recognized in connection with our consolidation of Borgata. Accordingly, our intangible assets and amortization expense recorded do not include amortization expense on the provisional values of any amortizable intangible assets in connection with our consolidation of Borgata, pending finalization of the fair value allocation.

Goodwill

Goodwill represents the excess of purchase price over fair market value of net assets acquired in business combinations. Goodwill is not subject to amortization, but it is subject to an annual impairment test, which we perform in the second quarter of each year and between annual test dates in certain circumstances.

Goodwill for relevant reporting units is tested for impairment using a weighted discounted cash flow analysis and an earnings multiple valuation technique based on the estimated future results of our reporting units discounted using our weighted-average cost of capital and market indicators of terminal year capitalization rates. The implied fair value of a reporting unit’s goodwill is compared to the carrying value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to its assets and liabilities and the amount remaining, if any, is the implied fair value of goodwill. If the implied fair value of the goodwill is less than its carrying value, then it must be written down to its implied fair value.

The results of our annual scheduled impairment test of goodwill performed during 2010 did not require us to record an impairment charge; however, if our estimates of projected cash flows related to goodwill are not achieved, or if any other significant assumptions are changed, we may be subject to an interim impairment test prior to our next annual scheduled impairment test. As a result of such test, we may be subject to a future impairment charge, which could have a material adverse impact on our consolidated financial statements.

The gross amount of goodwill recorded at September 30, 2010 and December 31, 2009 was $429.7 million, which has been reduced by aggregate impairment losses of $216.2 million at each of those dates.

Noncontrolling Interest

Noncontrolling interest is the portion of the ownership in Borgata not attributable, directly or indirectly, to Boyd, and is reported as a separate component of our stockholders' equity in our consolidated financial statements. Our consolidated net income is reported at amounts that include the amounts attributable to both us and the noncontrolling interest. At September 30, 2010, we recorded a noncontrolling interest of $236.1 million associated with the portion of ownership in Borgata that is not attributable to Boyd. Borgata distributed $120.2 million to its noncontrolling interest during the nine months ended September 30, 2010.

Preopening Expenses

Certain costs of start-up activities are expensed as incurred and classified as preopening expenses in our condensed consolidated statements of operations. During the three months ended September 30, 2010 and 2009, we expensed $2.7 million and $4.9 million, respectively, in preopening costs that related primarily to our Echelon development project. Such costs consisted of security, storage, property taxes and insurance. During the nine months ended September 30, 2010 and 2009, we expensed $5.0 million and $14.8 million, respectively, in preopening costs that related primarily to our Echelon development project in both periods and our hotel at Blue Chip in 2009.

Recently Issued Accounting Pronouncements

Accruals for Casino Jackpot Liabilities - In April 2010, the Financial Accounting Standards Board issued authoritative accounting guidance for companies that generate revenue from gaming activities that involve base jackpots, which requires companies to accrue for a liability at the time the company has the obligation to pay the jackpot and record such obligation as a reduction of gaming revenue accordingly. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2010. Base jackpots are currently not accrued for by the Company until it has the obligation to pay such jackpots. As such, the application of this guidance will not have a material effect on the Company's financial condition, results of operations or cash flows.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, that the implementation of such proposed standards would have on our consolidated financial statements.

Subsequent Events

We have evaluated all events or transactions that occurred after September 30, 2010. During this period, the Company had the following subsequent events, the effects of which did not require adjustment to the Company's financial position or results of operations as of and for the three and nine months ended September 30, 2010.

De-Designation of Interest Rate Swap Agreements

At September 30, 2010, we were a party to certain floating-to-fixed interest rate swap agreements with an aggregate notional amount of $500 million, whereby we received payments based upon the three-month LIBOR and made payments based upon a stipulated fixed rate. On October 1, 2010, as discussed further in Note 9, Other Comprehensive Income and Derivative Instruments, we de-designated all of our interest rate swap agreements as cash flow hedges and suspended hedge accounting, in contemplation of the refinancing of our borrowings under our bank credit facility.

Notice Received from MGM Regarding Potential Sale of Borgata

On October 12, 2010, we received a notice from MGM that MGM had received an offer to sell its 50% interest (the "MGM Interest") in Borgata. MGM reported that, based upon Borgata's September 30, 2010 debt balances, the offer it received equates to slightly in excess of $250 million for the MGM Interest. On October 25, 2010, we announced our decision to not exercise our right of first refusal with respect to the offer.

Potential Amendment to Bank Credit Facility

We intend to amend and restate our bank credit facility on the following expected terms.

We intend to amend and restate our bank credit facility by entering into a Second Amended and Restated Credit Agreement by and among Boyd Gaming Corporation, Bank of America, N.A., as administrative agent and letter of credit issuer, and certain financial institutions as agents, managers and lenders ("amended bank credit facility"). We currently expect that our amended bank credit facility, if executed, will provide for credit facilities in the aggregate principal amount of approximately $1.5 billion (excluding any non-extending amounts) and up to $2.3 billion (including non-extending amounts). The amended bank credit facility is expected to include a covenant that requires that we maintain a senior leverage ratio of not more than 4.50 to 1.00 through March 31, 2012 (which ratio is expected to remain in effect, but reduced, during the remaining term of the amended bank credit facility). Based on our Consolidated EBITDA (as defined in our bank credit facility) for the twelve months ended September 30, 2010, such covenant would limit our borrowings under the amended bank credit facility to approximately $1.5 billion. In addition to the collateral security held by the administrative agent under our bank credit facility, we anticipate that, subject to certain exceptions, Boyd Gaming Corporation and each of its "significant subsidiaries" (as determined under the amended bank credit facility) will grant the administrative agent first priority liens and security interests on substantially all of their real and personal property (excluding gaming licenses) as additional security for the performance of the secured obligations under our amended bank credit facility.

As of October 26, 2010, we have received non-binding commitments for extensions of commitments aggregating $1.3 billion pursuant to the amended bank credit facility from lenders under our existing bank credit facility that currently hold revolving commitments aggregating $2.2 billion, subject to final documentation and other customary conditions.

We anticipate that the term loans and extended revolving facility will mature five years from the date of the amendment. Furthermore, we anticipate that the term loans will amortize in an annual amount equal to 5% of the original principal amount thereof, commencing March 31, 2011 and payable on a quarterly basis.

We anticipate that the interest rate per annum applicable to revolving loans under the amended bank credit facility will be based upon, at our option, the LIBOR rate or a "base rate", plus an applicable margin in either case.

We expect our amended bank credit facility to contain certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a minimum consolidated interest coverage ratio; (ii) establishing a maximum permitted consolidated total leverage ratio; (iii) establishing a maximum permitted secured leverage ratio; (iv) imposing limitations on our incurrence of indebtedness; (v) imposing limitations on transfers, sales and other dispositions; and (vi) imposing restrictions on investments, dividends and certain other payments.

While we anticipate that the timing for entry into our amended bank credit facility will be prior to the end of the fourth quarter of 2010 (or as soon thereafter as all necessary regulatory approvals have been received), there is no assurance that this timing will be met or that the amended bank credit facility will be entered into at all.

Offering of High Yield Debt and Tender Offer

On October 26, 2010, we announced that we are offering $500 million aggregate principal amount of 8-year senior notes in a private placement transaction, subject to market, regulatory and certain other conditions. The senior notes will be fully and unconditionally guaranteed by certain of our current and future domestic restricted subsidiaries. Subject to the satisfaction of certain conditions, we intend to use a portion of the net proceeds from the offering to finance a tender offer and related consent solicitation, which was also announced on October 26, 2010, for any and all of our outstanding 7.75% senior subordinated notes due 2012. Assuming all of the 7.75% senior subordinated notes due 2012 are tendered and purchased, we estimate that we could pay up to $159.4 million in connection with the tender offer. We intend to apply the balance of the net proceeds from the offering to repay a portion of the outstanding revolving balance on our bank credit facility and to potentially refinance other existing indebtedness, and may also use a portion of the net proceeds for general corporate purposes. The consummation of the tender offer for our 7.75%

senior subordinated notes due 2012 is subject to the consummation of the offering of the senior notes, among the satisfaction of other conditions. We can provide no assurances that the bond offering or the tender offer will be consummated. The foregoing discussion regarding the senior notes offering shall neither constitute an offer to sell or the solicitation of an offer to buy the senior notes. In addition, the foregoing discussion regarding the tender offer and consent solicitation shall neither constitute an offer to sell or purchase, or a solicitation of an offer to sell or purchase, or the solicitation of tenders or consents with respect to, the 7.75% senior subordinated notes due 2012.

Note 2. Property and Equipment, Net

Property and equipment, net consists of the following.

	Estimated Life (Years)	September 30, 2010	December 31, 2009
		(In thousands)	
Land	—	$560,368	$473,067
Buildings and improvements	10-40	3,406,514	1,980,086
Furniture and equipment	3-10	1,130,039	863,854
Riverboats and barges	10-40	167,424	167,427
Other	—	23,590	10,025
Total property and equipment		5,287,935	3,494,459
Less accumulated depreciation		1,784,521	1,260,896
Property and equipment, net		$3,503,414	$2,233,563

Depreciation expense for the three months ended September 30, 2010 and 2009 was $52.5 million and $40.6 million, respectively, and was $147.9 million and $125.3 million for the nine months ended September 30, 2010 and 2009, respectively.

Other assets presented in the table above primarily relates to property and equipment-related costs capitalized in conjunction with major improvements and that have not yet been placed into service, and such costs are not currently being depreciated.

Note 3. Assets Held for Development

Assets held for development, which is comprised of assets associated with our Echelon development project, consists of the following.

	September 30, 2010	December 31, 2009
	(In thousands)	
Land	$213,649	$213,649
Construction and development costs	501,554	501,527
Project management and other costs	115,712	117,033
Professional and design fees	93,545	93,405
Total assets held for development	$924,460	$925,614

As of September 30, 2010, the capitalized costs related to the Echelon project included land and construction in progress. The construction and development costs consist primarily of site preparation work, underground utility installation and infrastructure and common area development. Professional and design fees include architectural design, development and permitting fees, inspections, consulting and legal fees. We expect to additionally incur approximately $5 million to $6.5 million of capitalized costs annually, principally related to the offsite fabrication of escalators, curtain wall and a skylight.

In addition, we expect annual recurring project costs, consisting of security, storage, property taxes, rent and insurance, of approximately $7 million to $10 million that will be charged to preopening or other expense as incurred during the project's suspension period. As referenced in Note 7, Commitments and Contingencies, these capitalized costs and recurring project costs are in addition to other contingencies with respect to our various commitments, including commitments and contingencies with respect to our Energy Services Agreement ("ESA") entered into between Echelon and Las Vegas Energy, LLC ("LVE").

We evaluate our investment in assets held for development in accordance with the authoritative accounting guidance on impairment or disposal of long lived assets. For a long-lived asset to be held and used, such as these assets under development, we review the asset for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We then compare the estimated undiscounted future cash flows of the asset to the carrying value of the asset. The asset is not impaired if the undiscounted future cash flows exceed its carrying value. If the carrying value exceeds the undiscounted future cash flows, then an impairment charge is recorded, typically measured using a discounted cash flow model, which is based on the estimated future results of the relevant reporting unit discounted using our weighted-average cost of capital and market indicators of terminal year free cash flow multiples. For these assets under development, future cash flows include remaining construction costs.

The suspension of development on the Echelon project implied that the carrying amounts of the assets related to the development may not be recoverable; therefore, at the time, we performed an impairment test of these assets, which occurred during the three months ended September 30, 2009. This impairment test was comprised of a future undiscounted cash flow analysis, and contemplated several viable alternative plans for the future development of Echelon.

One such scenario includes the outright sale of the project as is, which is primarily based upon land value. We considered the land value by analyzing recent sales transactions of sites with similar characteristics such as location, zoning, access, and visibility, to establish a general understanding of the potential comparable sales. The recoverability under this option represented any excess sales price, net of estimated selling costs, from the land over the carrying value of the assets, including land, held for development.

Another scenario is the full development of the project, as designed, at a later date. The cash inflows related to this option represent the revenue projections for the individual components associated with each planned construction element (casino, hotel, food and beverage, retail, convention and other), based upon the estimated respective dates of completion and particular graduated absorption rates. These projections are offset by outflows for incurred and estimated costs to complete the development. For costs already incurred, and to compensate for potential losses due to the delay, we adjusted for (i) physical deterioration; (ii) functional obsolescence; and (iii) economic obsolescence. Physical deterioration is impairment to the condition of the asset brought about by “wear and tear,” disintegration, and/or the action of the elements. Functional obsolescence is the impairment in the efficiency of the asset brought about by such factors as inadequacy or change in technology that affect the asset. Economic obsolescence is the impairment in the desirability of the asset arising from external economic forces, building code enhancements or changes in supply and demand relationships. For estimated costs to complete, we applied selected construction expense growth rates to our present cost analysis. In addition to these hard and soft construction costs, we estimated outflows for preservation costs that are intended and required to maintain the development site and the existing structures as well as development materials for future use. These net outflows were incrementally added to our estimated operating and ongoing maintenance costs, to establish the undiscounted net cash flow of the project.

Our final scenario is a scaled-down version of the full project, whereby only certain components would be developed. This cash flow projection considered the inflows and outflows discussed above, with relevant curtailment for revenue from, and costs related to, the amenities not completed.

Because no specific strategic plan can be determined with certainty at this time, the analysis considered the net cash flows related to each alternative, weighted against its projected likelihood. The outcome of this evaluation resulted in the determination that there was no impairment of the assets held for development, as the estimated weighted net undiscounted cash flows from the project exceed the current carrying value of the assets held for development. As we further explore the viability of alternatives for the project, we will continue to monitor these assets for recoverability.

Note 4. Investments in and Advances to Unconsolidated Subsidiaries, Net

Investments in and advances to unconsolidated subsidiaries, net consist of the following:

	September 30, 2010	December 31, 2009
	(In thousands)	
Net investment in and advances to Borgata (50%)	$—	$394,220
Net investment in and advances to Atlantic City Express Service, LLC (33.3%)	4,848	—

Investments in and advances to unconsolidated subsidiaries, net	$4,848	$394,220

Borgata Hotel Casino and Spa

We and MGM each originally held a 50% interest in Marina District Development Holding Co., LLC ("Holding Company"). The Holding Company owns all the equity interests in Marina District Development Company, LLC, d.b.a. Borgata Hotel Casino and Spa.

By letter of July 27, 2009 (the "Letter"), the New Jersey Department of Gaming Enforcement (the "NJDGE") made a formal

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request to the NJCCC that the NJCCC reopen the gaming license held by Borgata. In June 2005, the NJCCC had renewed Borgata's gaming license for a five-year term. The Letter indicated that the NJDGE's reopening request was for the exclusive purpose of examining the qualifications of MGM, in light of the issues raised by the Special Report of the NJDGE to the NJCCC on its investigation of MGM's joint venture in Macau, Special Administrative Region, People's Republic of China. The Letter noted that the NJDGE had found that neither we nor the Holding Company had any involvement with MGM's development activities in Macau and also expressed the NJDGE's confidence that the NJCCC could thoroughly examine the issues raised in the Special Report as to MGM's qualifications without negatively affecting the casino license, the operation of Borgata or us.

The NJCCC informed us that, pursuant to Section 88(a) of the New Jersey Casino Control Act (the "Casino Control Act"), the MDDC gaming license was reopened on July 27, 2009, the date of the Letter. This was a procedural step required by the Casino Control Act that does not represent a finding as to the issues raised by the NJDGE.

In February 2010, we entered into an agreement with MGM to amend the operating agreement to, among other things, facilitate the transfer of MGM's Interest to a divestiture trust ("Divestiture Trust") established for the purpose of selling the MGM Interest to a third party. The proposed sale of the MGM Interest through the Divestiture Trust was a part of a then-proposed settlement agreement between MGM and the NJDGE. Pursuant to the terms of the operating agreement, in connection with the refinancing of the Borgata bank credit facility on August 6, 2010, the Holding Company made a $135.4 million one-time distribution to us, of which $30.8 million was a priority distribution equal to the excess prior capital contributions made by us. As discussed below, we recorded a $2.5 million gain in connection with the receipt of this distribution, which is reported in gain on equity distribution on the condensed consolidated statements of operations for the three and nine months ended September 30, 2010. Concurrently with this distribution, the Divestiture Trust paid $10 million to us, which is recorded in other income on the condensed consolidated statements of operations for the three and nine months ended September 30, 2010. Upon the sale of the MGM Interest, we will receive an additional payment from the Divestiture Trust in an amount (if any) equal to the excess of 3% of the proceeds from the sale over $10 million.

On March 17, 2010, MGM announced that its settlement agreement with the NJDGE had been approved by the NJCCC. Under the terms of the settlement agreement, MGM agreed to transfer the MGM Interest into the Divestiture Trust and further agreed to sell such interest within a 30-month period. During the first 18 months of such period, MGM has the power to direct the trustee to sell the MGM Interest, subject to the approval of the NJCCC. If the sale has not occurred by such time, the trustee will be solely responsible for the sale of the MGM Interest. The MGM Interest was transferred to the Divestiture Trust on March 24, 2010.

Pursuant to certain of the amended terms of the operating agreement, we have a right of first refusal to purchase the MGM Interest from the Divestiture Trust on the same terms as any proposed third-party buyer. As discussed above, on October 12, 2010, we received a notice from MGM that MGM had received an offer to sell the MGM Interest. On October 25, 2010, we announced our decision to not exercise our right of first refusal with respect to the offer.

In addition, in connection with the amendments to the operating agreements MGM relinquished all of its specific participating rights under the operating agreement, and we retained all authority to manage the day-to-day operations of Borgata. MGM's relinquishment of its participating rights effectively provided us with direct control of Borgata. This resulting change in control required acquisition method accounting in accordance with the authoritative accounting guidance for business combinations. The application of this accounting guidance had the following effects on our condensed consolidated financial statements during the three months ended March 31, 2010: (i) our previously held equity interest was measured at a provisional fair value at the date control was obtained; (ii) we recognized and measured the identifiable assets and liabilities in accordance with promulgated valuation recognition and measurement provisions; and (iii) we recorded the noncontrolling interest held in trust for the economic benefit of MGM as a separate component of our stockholders' equity. The provisional fair value measurements and estimates of these items approximated their historical carrying values as of the date we effectively obtained control, and through September 30, 2010. We have provisionally recorded these fair values using an earnings valuation multiple model. No remeasurement amounts have been identified and recorded through September 30, 2010; however, we will continue to refine our valuation modeling as information regarding the tangible and intangible assets and liabilities is obtained, which may result in a possible change to these provisional fair value measurements and estimates in future periods. The following table summarizes the estimated fair values of the assets and liabilities, provisionally, as of the date we obtained control. We will retrospectively adjust these amounts to reflect refined valuation information in future periods when available.

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

Condensed Balance Sheet	March 24, 2010
	(In thousands)
ASSETS	
Cash	$26,025
Current assets	43,944
Property and equipment, net	1,352,321
Other assets, net	40,099
Provisional value of assets	$1,462,389
LIABILITIES	
Current maturities of long-term debt	$632,289
Other current liabilities	84,470
Deferred income taxes	13,982
Other liabilities	26,660
Provisional value of liabilities	$757,401

The results of Borgata have been included in the accompanying condensed consolidated statements of operations from the date we effectively obtained control, March 24, 2010, through September 30, 2010 (specifically, for the period from July 1 through September 30, 2010 for the three months ended September 30, 2010, and from March 24 through September 30, 2010 for the nine months ended September 30, 2010), and are comprised of the following:

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

Condensed Statements of Operations	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
	(In thousands)	
REVENUES		
Operating revenues:		
Gaming	$176,839	$357,314
Food and beverage	43,232	82,372
Room	34,090	64,042
Other	12,687	24,047
Gross revenues	266,848	527,775
Less promotional allowances	59,161	116,420
Net revenues	207,687	411,355
COSTS AND EXPENSES		
Operating costs and expenses:		
Gaming	70,576	141,649
Food and beverage	19,700	39,593
Room	4,369	8,593
Other	10,335	19,528
Selling, general and administrative	31,173	64,473
Maintenance and utilities	17,215	35,337
Depreciation and amortization	16,452	36,313
Write-downs and other charges, net	(4)	8
Total operating costs and expenses	169,816	345,494
Operating income	37,871	65,861
Other expense:		
Interest expense	17,275	23,347
Total other expense	17,275	23,347
Income before income taxes	20,596	42,514
Income taxes	(2,046)	(4,183)
Net income	$18,550	$38,331

The following supplemental pro forma information presents the financial results as if the effective control of Borgata had occurred on January 1, 2010 for the nine months ended September 30, 2010 and on January 1, 2009 for the three and nine months ended September 30, 2009. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what the actual results would have been had the consolidation of Borgata been completed as of the earlier dates, nor are they indicative of any future results.

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

	Condensed Consolidated Statement of Operations Nine Months Ended September 30, 2010			
	Boyd Gaming Corp As Presented Here in	MDDC LLC 1/1/10 to 3/23/10	Adjustments	Boyd Gaming Corp Pro Forma
	(In thousands, except per share data)			
REVENUES				
Gaming revenue	$ 1,344,283	$ 137,831	$—	$ 1,482,114
Nongaming revenue	501,008	64,551	—	565,559
Gross revenues	1,845,291	202,382	—	2,047,673
Less promotional allowances	256,332	44,093	—	300,425
Net revenues	1,588,959	158,289	—	1,747,248
COSTS AND EXPENSES				
Operating expenses	1,254,453	125,176	—	1,379,629
Depreciation and amortization	147,905	16,754	—	164,659
Corporate expense	36,636	—	—	36,636
Preopening expenses	4,990	—	—	4,990
Write-downs and other charges, net	4,932	68	—	5,000
Total costs and expenses	1,448,916	141,998	—	1,590,914
Operating income from Borgata	8,146	—	(8,146)	—
Operating income	148,189	16,291	(8,146)	156,334
Other expense (income):				
Interest income	(4)		—	(4)
Interest expense, net	109,438	5,060	—	114,498
Gain on early retirements of debt	(3,949)	—	—	(3,949)
Gain on equity distribution	(2,535)	—	—	(2,535)
Other income	(10,000)	—	—	(10,000)
Other non-operating expenses from Borgata, net	3,133	—	(3,133)	—
Total other expense, net	96,083	5,060	(3,133)	98,010
Income before income taxes	52,106	11,231	(5,013)	58,324
Income taxes	(15,532)	(1,206)	—	(16,738)
Net income	36,574	10,025	(5,013)	41,586
Net income attributable to noncontrolling interest	(19,166)	—	(5,012)	(24,178)
Net income attributable to Boyd Gaming Corporation	$ 17,408	$ 10,025	$ (10,025)	$ 17,408
Basic net income per common share:	$ 0.20			$ 0.20
Weighted average basic shares outstanding	86,508			86,508
Diluted net income per common share:	$ 0.20			$ 0.20
Weighted average diluted shares outstanding	86,724			86,724

The pro forma adjustments reflect the differences resulting from the conversion of the equity method of accounting to a fully consolidated presentation. There were no significant intercompany transactions affecting the statements of operations between the Boyd entities and Borgata which would require elimination during the three and nine months ended September 30, 2010.

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

Condensed Consolidated Statement of Operations	
Three Months Ended September 30, 2009	
Boyd Gaming Corp	
As Presented Herein	MDDC LLC