AMGEN INC
Form 10-Q
August 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

Commission file number 000-12477

Amgen Inc.

(Exact name of registrant as specified in its charter)

Delaware	**95-3540776**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Amgen Center Drive, Thousand Oaks, California	**91320-1799**
(Address of principal executive offices)	(Zip Code)

(805) 447-1000

(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 þ 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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 þ	Accelerated filer o	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 þ

As of July 30, 2010, the registrant had 958,474,477 shares of common stock, $0.0001 par value, outstanding.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

AMGEN INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues:				
Product sales	$ 3,613	$ 3,634	$ 7,141	$ 6,872
Other revenues	191	79	255	149
Total revenues	3,804	3,713	7,396	7,021
Operating expenses:				
Cost of sales (excludes amortization of certain acquired intangible assets presented below)	553	531	1,061	1,008
Research and development	675	693	1,321	1,326
Selling, general and administrative	986	910	1,870	1,708
Amortization of certain acquired intangible assets	73	73	147	147
Other		49	(1)	54
Total operating expenses	2,287	2,256	4,398	4,243
Operating income	1,517	1,457	2,998	2,778
Interest expense, net	147	150	292	297
Interest and other income, net	94	50	178	108
Income before income taxes	1,464	1,357	2,884	2,589
Provision for income taxes	262	88	515	301
Net income	$ 1,202	$ 1,269	$ 2,369	$ 2,288
Earnings per share:				
Basic	$ 1.25	$ 1.25	$ 2.44	$ 2.24
Diluted	$ 1.25	$ 1.25	$ 2.43	$ 2.23
Shares used in calculation of earnings per share:				
Basic	959	1,013	970	1,023
Diluted	964	1,017	976	1,027

See accompanying notes.

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AMGEN INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share data)
(Unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,712	$ 2,884
Marketable securities	12,811	10,558
Trade receivables, net	2,208	2,109
Inventories	2,112	2,220
Other current assets	1,321	1,161
Total current assets	20,164	18,932
Property, plant and equipment, net	5,630	5,738
Intangible assets, net	2,421	2,567
Goodwill	11,334	11,335
Other assets	1,251	1,057
Total assets	$ 40,800	$ 39,629
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 722	$ 574
Accrued liabilities	2,856	3,299
Current portion of convertible notes	2,414	
Total current liabilities	5,992	3,873
Convertible notes	2,232	4,512
Other long-term debt	7,086	6,089
Other non-current liabilities	2,320	2,488
Contingencies and commitments		
Stockholders equity:		
Common stock and additional paid-in capital; $0.0001 par value; 2,750 shares authorized; outstanding - 958 shares in 2010 and 995 shares in 2009	27,119	26,944
Accumulated deficit	(4,266)	(4,322)
Accumulated other comprehensive income	317	45
Total stockholders equity	23,170	22,667
Total liabilities and stockholders equity	$ 40,800	$ 39,629

See accompanying notes.

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AMGEN INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Cash flows from operating activities:		
Net income	$ 2,369	$ 2,288
Depreciation and amortization	503	520
Stock-based compensation expense	166	123
Other items, net	72	111
Changes in operating assets and liabilities:		
Trade receivables, net	(99)	(108)
Inventories	120	50
Other current assets	(129)	(48)
Accounts payable	148	48
Accrued income taxes	(297)	(79)
Other accrued liabilities	(376)	(367)
Net cash provided by operating activities	2,477	2,538
Cash flows from investing activities:		
Purchases of property, plant and equipment	(271)	(256)
Purchases of marketable securities	(7,607)	(7,483)
Proceeds from sales of marketable securities	5,246	5,365
Proceeds from maturities of marketable securities	290	964
Other	(48)	(32)
Net cash used in investing activities	(2,390)	(1,442)
Cash flows from financing activities:		
Repurchases of common stock	(2,300)	(1,997)
Net proceeds from issuance of debt	989	1,980
Net proceeds from issuance of common stock in connection with the Company s equity award programs	54	97
Other	(2)	18
Net cash (used in) provided by financing activities	(1,259)	98
(Decrease) increase in cash and cash equivalents	(1,172)	1,194
Cash and cash equivalents at beginning of period	2,884	1,774

Cash and cash equivalents at end of period	$ 1,712	$ 2,968

See accompanying notes.

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AMGEN INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(Unaudited)

1. Summary of significant accounting policies

Business

Amgen Inc. (including its subsidiaries, referred to as Amgen, the Company, we, our or us) is a global biotechn medicines company that discovers, develops, manufactures and markets medicines for grievous illnesses. We concentrate on innovating novel medicines based on advances in cellular and molecular biology and we operate in one business segment, human therapeutics.

Basis of presentation

The financial information for the three and six months ended June 30, 2010 and 2009 is unaudited but includes all adjustments (consisting of only normal recurring adjustments, unless otherwise indicated), which Amgen considers necessary for a fair presentation of its consolidated results of operations for those periods. Interim results are not necessarily indicative of results for the full fiscal year.

The condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2009 and our condensed consolidated financial statements in our Quarterly Report on Form 10-Q for the three months ended March 31, 2010.

Principles of consolidation

The condensed consolidated financial statements include the accounts of Amgen as well as its wholly owned subsidiaries. We do not have any significant interests in any variable interest entities. All material intercompany transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Property, plant and equipment, net

Property, plant and equipment are recorded at historical cost, net of accumulated depreciation of $4.9 billion and $4.6 billion as of June 30, 2010 and December 31, 2009, respectively.

Fair value measurement

In January 2010, we adopted a newly issued accounting standard which requires additional disclosure about the amounts of and reasons for significant transfers between levels of the fair value hierarchy discussed in Note 8, *Fair value measurement.* This standard also clarifies existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value for both recurring and nonrecurring Level 2 and Level 3 measurements. As this accounting standard only requires enhanced disclosure, the adoption of this standard did not impact our financial position, results of operations or cash flows. In addition, effective for interim and annual periods beginning after December 15, 2010, this standard will require additional disclosure and require an entity to present disaggregated information about activity in Level 3 fair value measurements on a gross basis, rather than a single amount.

2. Income taxes

The effective tax rates for the three and six months ended June 30, 2010 and June 30, 2009 are different from the statutory rate primarily as a result of indefinitely invested earnings of our foreign operations. In addition, the effective tax rates for the three and six months ended June 30, 2009 were further reduced by the favorable resolution of certain non-routine transfer pricing matters with the Internal Revenue Service (IRS) for prior periods. We do not provide for U.S. income taxes on undistributed earnings of our foreign operations that are intended to be invested indefinitely outside the United States.

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AMGEN INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

One or more of our legal entities file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and certain foreign jurisdictions and our income tax returns are routinely audited by the tax authorities in those jurisdictions. Significant disputes can arise with these tax authorities involving the timing and amount of deductions, the use of tax credits and allocations of income among various tax jurisdictions because of differing interpretations of tax laws and regulations. We are no longer subject to U.S. federal income tax examinations for years ending on or before December 31, 2004 or to California state income tax examinations for years ending on or before December 31, 2003.

The IRS is currently examining our U.S. income tax returns for the years ended December 31, 2007 and 2008. As of June 30, 2010, the Company and the IRS have agreed to certain transfer pricing adjustments for the years ended December 31, 2007 and 2008 and the Company has accordingly adjusted its liability for unrecognized tax benefits (UTBs) as discussed below. The remainder of this examination is expected to be completed in 2011.

During the three and six months ended June 30, 2010, the gross amount of our UTBs increased by approximately $55 million and $130 million, respectively, as a result of tax positions taken during the current year. During the three and six months ended June 30, 2010, the gross amount of our UTBs decreased by approximately $375 million primarily as a result of resolving certain transfer pricing matters related to prior years. Substantially all of our UTBs as of June 30, 2010, if recognized, would affect our effective tax rate. The Company does not expect any significant changes to its UTBs during the next twelve months.

3. Earnings per share

The computation of basic earnings per share (EPS) is based upon the weighted-average number of our common shares outstanding. The computation of diluted EPS is based upon the weighted-average number of our common shares and potential dilutive common shares outstanding. Potential common shares outstanding, determined using the treasury stock method, principally include: stock options, restricted stock units and other equity awards under our employee compensation plans; our 2011 Convertible Notes, 2013 Convertible Notes and 2032 Modified Convertible Notes, as discussed below; and our outstanding warrants (collectively dilutive securities). The convertible note hedges purchased in connection with the issuance of our 2011 Convertible Notes and 2013 Convertible Notes are excluded from the calculation of diluted EPS as their impact is always anti-dilutive.

Upon conversion of our 2011 Convertible Notes, 2013 Convertible Notes and 2032 Modified Convertible Notes, the principal amount or accreted value would be settled in cash and the excess of the conversion value, as defined, over the principal amount or accreted value may be settled in cash and/or shares of our common stock. Therefore, only the shares of our common stock potentially issuable with respect to the excess of the notes conversion value over their principal amount or accreted value, if any, are considered as dilutive potential common shares for purposes of calculating diluted EPS.

The following table sets forth the computation for basic and diluted EPS (in millions, except per share information):

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Income (Numerator):				
Net income for basic and diluted EPS	$ 1,202	$ 1,269	$ 2,369	$ 2,288
Shares (Denominator):				
Weighted-average shares for basic EPS	959	1,013	970	1,023
Effect of dilutive securities	5	4	6	4
Weighted-average shares for diluted EPS	964	1,017	976	1,027

Basic EPS	$ 1.25	$ 1.25	$ 2.44	$ 2.24
Diluted EPS	$ 1.25	$ 1.25	$ 2.43	$ 2.23

For the three and six months ended June 30, 2010, there were employee stock options, calculated on a weighted average basis, to purchase 46 million and 43 million shares of our common stock, respectively, with exercise prices greater than the average market prices of our common stock for these periods that are not included in the computation of diluted EPS as their impact would have been anti-dilutive. For the three and six months ended June 30, 2009, there were employee stock options, calculated on a weighted average basis, to purchase 51 million and 48 million shares of our common stock, respectively, with exercise prices greater than the average market prices of our common stock for these periods that are not included in the computation of diluted EPS as their impact would have been anti-dilutive. In addition, shares of our common stock, which may be issued upon conversion of our convertible debt or upon exercise of our warrants, are not included in the computation of diluted EPS for any of the periods presented above as their impact on diluted EPS would have been anti-dilutive. Shares which may be issued under our 2010 performance award plan were also excluded because conditions under the plan were not met.

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AMGEN INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Available-for-sale securities

The fair values of available-for-sale investments by type of security, contractual maturity and classification in the Condensed Consolidated Balance Sheets are as follows (in millions):

June 30, 2010	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Type of security:				
U.S. Treasury securities	$ 3,762	$ 69	$	$ 3,831
Other government related debt securities:				
Obligations of U.S. government agencies and FDIC guaranteed bank debt	2,833	73		2,906
Foreign and other	982	16		998
Corporate debt securities:				
Financial	1,680	38	(3)	1,715
Industrial	2,103	74	(8)	2,169
Other	278	9		287
Mortgage and asset backed securities	701	6	(2)	705
Money market mutual funds	1,544			1,544
Other short-term interest bearing securities	253			253
Total debt securities	14,136	285	(13)	14,408
Equity securities	50		(9)	41
	$ 14,186	$ 285	$ (22)	$ 14,449

December 31, 2009	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Type of security:				
U.S. Treasury securities	$ 1,929	$ 12	$ (6)	$ 1,935
Obligations of U.S. government agencies and FDIC guaranteed bank debt	3,731	62	(1)	3,792
Corporate debt securities	4,193	96	(4)	4,285
Mortgage and asset backed securities	489	4	(2)	491
Money market mutual funds	2,784			2,784
Other short-term interest bearing securities	55			55
Total debt securities	13,181	174	(13)	13,342
Equity securities	63		(8)	55
	$ 13,244	$ 174	$ (21)	$ 13,397

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AMGEN INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contractual maturity	June 30, 2010	December 31, 2009
Maturing in one year or less	$ 3,187	$ 3,444
Maturing after one year through three years	5,860	6,369
Maturing after three years through five years	4,841	3,207
Maturing after five years	520	322
Total debt securities	14,408	13,342
Equity securities	41	55
	$ 14,449	$ 13,397

Classification in the Condensed Consolidated Balance Sheets	June 30, 2010	December 31, 2009
Cash and cash equivalents	$ 1,712	$ 2,884
Marketable securities	12,811	10,558
Other assets noncurrent	41	55
	14,564	13,497
Less cash	(115)	(100)
	$ 14,449	$ 13,397

For the three months ended June 30, 2010 and 2009, realized gains totaled $36 million and $26 million, respectively, and realized losses totaled $2 million and $15 million, respectively. For the six months ended June 30, 2010 and 2009, realized gains totaled $58 million and $60 million, respectively, and realized losses totaled $3 million and $48 million, respectively. The cost of securities sold is based on the specific identification method.

The primary objectives of our investment portfolio are liquidity and safety of principal. Investments are made with the objective of achieving the highest rate of return consistent with these two objectives. Our investment policy limits debt security investments to certain types of debt and money market instruments issued by institutions primarily with investment grade credit ratings and places restrictions on maturities and concentration by type and issuer.

We review our available-for-sale securities for other-than-temporary declines in fair value below their cost basis on a quarterly basis and whenever events or changes in circumstances indicate that the cost basis of an asset may not be recoverable. This evaluation is based on a number of factors including, the length of time and extent to which the fair value has been below our cost basis and adverse conditions specifically related to the security including any changes to the credit rating of the security by a rating agency. As of June 30, 2010 and December 31, 2009, we believe that the cost bases for our available-for-sale securities were recoverable in all material respects.

5. Inventories

Inventories consisted of the following (in millions):

	June 30, 2010	December 31, 2009
Raw materials	$ 127	$ 97
Work in process	1,521	1,683

Finished goods	464	440
	$ 2,112	$ 2,220

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AMGEN INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Financing arrangements

The following table reflects the carrying value of our borrowings under our various financing arrangements (dollar amounts in millions):

	June 30, 2010	December 31, 2009
0.125% convertible notes due February 2011 (2011 Convertible Notes)	$ 2,414	$ 2,342
0.375% convertible notes due 2013 (2013 Convertible Notes)	2,150	2,088
5.85% notes due 2017 (2017 Notes)	1,099	1,099
4.85% notes due 2014 (2014 Notes)		

Tax benefit from share-based compensation arrangements	-	-	108	-	-	108
Share-based compensation costs	-	-	3,662	-	-	3,662
Dividends paid on common stock	-	-	-	(13,163)	-	(13,163)
Balances, March 31, 2008	87,779,580	$ 878	$ 603,873	$ 749,943	$ (24,647)	$ 1,330,047

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 COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2008	**2007**
Net income (loss)	$ (32,587)	$ 217,866
Derivative instruments market adjustment, net of tax	(13,732)	(1,392)
Restricted available for sale securities market adjustment, net of tax	-	34
Comprehensive income (loss)	$ (46,319)	$ 216,508

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)
(In thousands)

	Three Months Ended March 31,	
	2008	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (32,587)	$ 217,866
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	43,170	40,612
Amortization of debt issuance costs	1,212	1,135
Share-based compensation expense	3,359	4,366
Excess tax benefit from share-based compensation arrangements	(58)	(1,470)
Deferred income taxes	(26,608)	64,967
Operating and non-operating income from Borgata	(13,598)	(17,311)
Distributions of earnings received from Borgata	14,707	14,611
Asset write-downs	90,313	-
Gain on disposition of Barbary Coast	-	(285,189)
Other operating activities	(1,306)	3,879
Changes in operating assets and liabilities:		
Restricted cash	300	1,806
Accounts receivable, net	1,012	3,242
Inventories	821	590
Prepaid expenses and other current assets	5,570	(658)
Income taxes receivable	8,041	8,286
Other assets	(734)	8,482
Other current liabilities	(17,963)	(13,626)
Other liabilities	591	1,818
Other long-term tax liabilities	1,208	34,941
Income taxes payable	-	9,617
Net cash provided by operating activities	77,450	97,964
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(168,155)	(42,906)
Investments in and advances to unconsolidated subsidiaries	(4,950)	(4,831)
Net cash paid for Dania Jai-Alai	-	(80,904)
Other investing activities	3,871	781
Net cash used in investing activities	(169,234)	(127,860)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(190)	(134)
Retirement of long-term debt	(15,647)	-
Borrowings under bank credit facility	205,900	114,050
Payments under bank credit facility	(98,700)	(91,100)
Proceeds from exercise of stock options	353	5,055
Excess tax benefit from share-based compensation arrangements	58	1,470
Dividends paid on common stock	(13,163)	(11,770)
Net cash provided by financing activities	78,611	17,571
Net decrease in cash and cash equivalents	(13,173)	(12,325)

Cash and cash equivalents, beginning of period	165,701	169,397
Cash and cash equivalents, end of period	$ 152,528	$ 157,072

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BOYD GAMING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) - (Continued)
(In thousands)

	Three Months Ended March 31,	
	2008	**2007**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	$ 24,996	$ 24,793
Cash paid for income taxes, net of refunds	144	4,106
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Payables for capital expenditures	$ 94,281	$ 36,558
Capitalized share based compensation costs	303	307
Restricted cash received as a deposit for Morgans Las Vegas, LLC joint venture	307	30,232
Restricted cash proceeds from maturities of restricted investments	-	640
Restricted cash used to purchase restricted investments	-	1,892
Restricted cash proceeds from sales of restricted investments	-	596
Derivative instruments market adjustment	21,361	2,164
Land acquired in exchange for Barbary Coast	-	364,000
Acquisition of Dania Jai-Alai		
Fair value of non-cash assets acquired	$ -	$ 131,372
Net cash paid	-	(80,904)
Contingent liability recorded	-	(46,648)
Liabilities assumed	$ -	$ 3,820

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

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Boyd Gaming Corporation and its subsidiaries (the "Company," "we," or "us"). Investments in unconsolidated affiliates, which are 50% or less owned and do not meet the consolidation criteria of Financial Accounting Standards Board ("FASB") Interpretation No. 46 (R) (as amended), *Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51* ("FIN 46(R)"), are accounted for under the equity method. All material intercompany accounts and transactions have been eliminated.

As of March 31, 2008, we wholly-owned and operated 15 casino entertainment facilities located in Nevada, Mississippi, Illinois, Louisiana and Indiana. In addition, we own and operate a pari-mutuel jai alai facility located in Dania Beach, Florida, two travel agencies and an insurance company that underwrites travel-related insurance. We are also a 50% partner in a joint venture that owns a limited liability company, operating Borgata Hotel Casino and Spa in Atlantic City, New Jersey.

We are developing Echelon, our Las Vegas Strip project, which we expect to open in the third quarter of 2010. We have entered into two joint ventures associated with Echelon:

Morgans Las Vegas, LLC

- This entity is a 50/50 joint venture with Morgans Hotel Group LLC ("Morgans"), which will develop, construct and operate the Delano Las Vegas and the Mondrian Las Vegas hotels at Echelon (see Note 4, "*Investments in and Advances to Unconsolidated Subsidiaries*" and Note 12, "*Commitments and Contingencies*"). We currently account for this joint venture under the equity method, as we are not the primary beneficiary of this entity under FIN 46(R). We will continue to evaluate our accounting treatment for this joint venture as the entity is developed.

Echelon Place Retail Promenade, LLC

- This entity is a 50/50 joint venture with General Growth Properties ("GGP"), which will develop, construct and operate High Street retail promenade at Echelon (see Note 12, "*Commitments and Contingencies*"). We currently consolidate this joint venture as we are the primary beneficiary of this entity under FIN 46(R). We will continue to evaluate our accounting treatment for this joint venture as the entity is developed.

Basis of Presentation

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the results of our operations for the three months ended March 31, 2008 and 2007, our cash flows for the three months ended March 31, 2008 and 2007, and our balance sheets as of March 31, 2008 and December 31, 2007. This report should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007. 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 United States generally accepted accounting principles ("GAAP") have been condensed or omitted. Our operating results for the three months ended March 31, 2008 and 2007 and our cash flows for the three months ended March 31, 2008 and 2007 are not necessarily indicative of the results that would be achieved for the full year or future periods.

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 period. Significant estimates incorporated into our condensed consolidated financial statements include the estimated useful lives for depreciable and amortizable assets, the estimated allowance for doubtful accounts receivable, the estimated valuation allowance for deferred tax assets, certain tax liabilities, estimated cash flows in assessing the recoverability of long-lived assets, asset impairments, goodwill and intangible assets, share-based payment valuation assumptions, fair values of derivative instruments, fair values of acquired assets and liabilities, property closure costs, our self-insured liability reserves, slot bonus point programs, contingencies and litigation, claims and assessments. Actual results could differ from those estimates.

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

Capitalized Interest

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. We amortize capitalized interest over the estimated useful life of the related assets. Capitalized interest for the three months ended March 31, 2008 and 2007 was $6.7 million and $1.7 million, respectively.

Preopening Expenses

We expense certain costs of start-up activities as incurred. During the three months ended March 31, 2008 and 2007, we expensed $5.6 million and $4.5 million, respectively, in preopening costs that related primarily to our Echelon development project.

Recently Issued Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133*, ("SFAS 161"). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We have not yet determined the effect, if any, that the adoption of SFAS 161 will have on our condensed consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of FASB Statement No. 157 ("SFAS 157"), *Fair Value Measurements,* to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Early adoption of SFAS 157 is permitted; however, we have only partially applied SFAS 157, as we recognize the liability related to our derivative instruments at fair value (see Note 6, "*Derivative Instruments and Other Comprehensive Income (Loss)*"). We have not yet determined the effect, if any, that the full adoption of SFAS 157 will have on our condensed consolidated financial statements.

Note 2. Acquisition of Dania Jai-Alai

On March 1, 2007, we acquired Dania Jai-Alai and approximately 47 acres of related land located in Dania Beach, Florida. Dania Jai-Alai is one of four pari-mutuel facilities in Broward County approved under Florida law to operate 2,000 Class III slot machines (see Note 12, "*Commitments and Contingencies*," for information related to the Broward County slot initiative and the pending challenge to its validity). We purchased Dania Jai-Alai with the intention of redeveloping the property into a casino with slot machines. We paid approximately $81 million to close this transaction and, if certain conditions are satisfied, we will be required to pay an additional $75 million, plus interest accrued at the prime rate (the "contingent payment"), in March 2010 or earlier. We can provide no assurances as to when, or whether, such conditions will be satisfied.

The following table sets forth the fair values assigned to the assets and liabilities of Dania Jai-Alai, including all purchase adjustments at the time of acquisition.

	March 1, 2007
	(In thousands)
Current assets, including cash of $780	$ 4,352
Property and equipment	46,000
Intangible license right	81,800
Total assets acquired	132,152
Current liabilities assumed	(3,820)
Non-current contingent liability	(46,648)
Net assets acquired	$ 81,684

The intangible license right is not subject to amortization, as we have determined that it has an indefinite useful life.

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

The $46.6 million non-current contingent liability represents the excess of the fair value of the net assets acquired over our initial cost paid for Dania Jai-Alai. We will not record the remaining portion of the contingent payment unless or until the contingency has been resolved and the additional consideration is distributable. If the contingency is resolved and the $46.6 million recognized is less than the contingent payment made, the difference will be added to the cost of the acquisition, and may result in an impairment charge in addition to the impairment charge discussed in Note 10, "*Write-Downs and Other Charges*." If the contingency is resolved and the $46.6 million recognized exceeds the contingent payment made, the excess will be allocated as a pro rata reduction of the amounts initially assigned to the assets acquired. Any amounts that remain after reducing these assets to zero will be recognized as an extraordinary gain on our condensed consolidated statement of operations.

We also reported $0.9 million of acquisition related expenses for this transaction, which are included in write-downs and other charges on our condensed consolidated statement of operations for the three months ended March 31, 2007 (see Note 10, "*Write-Downs and Other Charges*"). In addition, pro forma financial information is not provided herein as Dania Jai-Alai is not a significant subsidiary of the Company.

During the three months ended March 31, 2008, we recorded an $84.0 million non-cash impairment charge to write-off Dania Jai-Alai's intangible license right and write-down its property and equipment to their estimated fair values, following our decision to indefinitely postpone redevelopment plans to operate slot machines at the facility. Our decision to postpone the development is based on numerous factors, including the introduction of expanded gaming at a nearby Native American casino, the potential for additional casino gaming venues in Florida, and the existing Broward County pari-mutuel casinos performing below our expectations for the market (see Note 10, "*Write-Downs and Other Charges*").

Note 3. Intangible Assets

The balance of intangible assets as of March 31, 2008 and December 31, 2007 is as follows.

	March 31, 2008	**December 31, 2007**
	(In thousands)	
License rights	$ 486,065	$ 521,217
Trademarks	50,700	50,700
Customer lists	400	400
Total intangible assets	537,165	572,317
Less accumulated amortization:		
License rights	33,939	33,939
Customer lists	303	283
Intangible assets, net	$ 502,923	$ 538,095

The following table sets forth the change in our intangible assets during the three months ended March 31, 2008 (in thousands):

Balance as of January 1, 2008	$ 538,095
Finalization of Dania Jai-Alai purchase price allocation (Note 2)	46,648
Write-off of Dania Jai-Alai intangible license right (Note 2 and Note 10)	(81,800)
Amortization expense	(20)

Balance as of March 31, 2008	$ 502,923

License rights are intangible assets acquired from the purchase of gaming entities that operate in gaming jurisdictions where competition is limited to a specified number of licensed gaming operators. License rights and trademarks are not subject to amortization, as we have determined that they have an indefinite useful life.

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

Customer lists are being amortized over a five-year period. For each of the three months ended March 31, 2008 and 2007, amortization expense for the customer lists was less than $0.1 million. We estimate that the amortization expense related to the customer lists will be less than $0.1 million for the remainder of 2008 and approximately $0.1 million for the year ending December 31, 2009.

Note 4. Investments in and Advances to Unconsolidated Subsidiaries

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

	March 31, 2008	December 31, 2007
	(In thousands)	
Net investment in and advances to Borgata (50%)	$ 381,576	$ 380,140
Investment in and advances to Morgans Las Vegas, LLC (50%)	15,200	13,105
Investment in and advances to Tunica Golf Course, L.L.C. (33.3%)	270	371
Total investments in and advance to unconsolidated subsidiaries, net	$ 397,046	$ 393,616

Borgata Hotel Casino and Spa

We are a 50% partner in Borgata Hotel Casino and Spa located at Renaissance Pointe in Atlantic City, New Jersey. We account for our investment in Borgata under the equity method.

Summarized financial information of Borgata is as follows.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS INFORMATION (Unaudited)

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Gaming revenue	$ 178,636	$ 187,269
Non-gaming revenue	68,106	66,737
Gross revenues	246,742	254,006
Less promotional allowances	44,718	50,276
Net revenues	202,024	203,730
Expenses	146,558	143,161
Depreciation and amortization	17,455	16,826
Preopening expenses	816	941
Write-downs and other charges, net	140	(69)
Operating income	37,055	42,871
Interest expense, net	(6,457)	(7,693)
(Provision for) benefit from state income taxes	(2,754)	90

Total non-operating expenses	(9,211)	(7,603)
Net income	$ 27,844	$ 35,268

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

Our share of Borgata's results is included in our accompanying condensed consolidated statements of operations for the following periods:

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Our share of Borgata's operating income	$ 18,527	$ 21,436
Net amortization expense related to our investment in Borgata	(324)	(324)
Operating income from Borgata, as reported on our condensed consolidated statements of operations	$ 18,203	$ 21,112
Other non-operating expenses from Borgata, as reported on our condensed consolidated statements of operations	$ 4,605	$ 3,801

Note 5. Long-Term Debt

Long-term debt consists of the following.

	March 31, 2008	December 31, 2007
	(In thousands)	
Bank credit facility	$ 1,460,100	$ 1,352,900
7.75% Senior Subordinated Notes due 2012	283,195	300,000
6.75% Senior Subordinated Notes due 2014	350,000	350,000
7.125% Senior Subordinated Notes due 2016	250,000	250,000
Other	13,468	13,658
Total long-term debt	2,356,763	2,266,558
Less current maturities	(590)	(629)
Total	$ 2,356,173	$ 2,265,929

During the three months ended March 31, 2008, we purchased and retired $16.8 million principal amount of our 7.75% senior subordinated notes due December 2012. The total purchase price of the notes was approximately $15.6 million, resulting in a gain of approximately $1.0 million, net of associated deferred financing fees, which is recorded on our accompanying condensed consolidated statements of operations. This purchase was funded by availability under our bank credit facility.

Note 6. Derivative Instruments and Other Comprehensive Income (Loss)

GAAP requires all derivative instruments to be recognized on the balance sheet at fair value. Derivatives that are not designated as hedges for accounting purposes must be adjusted to fair value through income. If the derivative qualifies and is designated as a hedge, depending on the nature of the hedge, changes in its fair value will either be offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

We utilize derivative instruments to manage interest rate risk. The net effect of our floating-to-fixed interest rate swaps resulted in a reduction of interest expense of $0.5 million and $0.7 million, as compared to the contractual rate of the underlying hedged debt, for the three months ended March 31, 2008 and 2007, respectively.

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

The following table reports the effects of the mark-to-market valuations of our derivative instruments.

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Net gains (losses) from cash flow hedges from:		
Change in value of derivatives excluded from the assessment of hedge ineffectiveness	$ -	$ -
Net gain (loss) from ineffective portion of change in value of cash flow hedges	442	(76)
Increase (decrease) in value of derivative instruments, as reported on our condensed consolidated statements of operations	$ 442	$ (76)
Derivative instruments market adjustment	$ (21,361)	$ (2,164)
Tax effect of derivative instruments market adjustment	7,629	772
Net derivative instruments market adjustment, as reported on our condensed consolidated statements of comprehensive income (loss)	$ (13,732)	$ (1,392)

A portion of the net derivative instruments market adjustment included in other comprehensive loss at March 31, 2008 relates to certain derivative instruments that we de-designated as cash flow hedges in connection with breaking certain LIBOR contracts under our previous bank credit facility. As a result, we expect $2.1 million of deferred net gain related to these derivative instruments, included in other comprehensive loss at March 31, 2008, will be accreted as a reduction of interest expense on our condensed consolidated statement of operations during the next twelve months.

In addition, at March 31, 2008, we were a party to four floating-to-fixed interest rate swap agreements with an aggregate notional amount of $750 million, whereby we receive payments based upon the three-month LIBOR and make payments based upon a stipulated fixed rate. These derivative instruments are accounted for as cash flow hedges. We have partially adopted SFAS 157, *Fair Value Measurements,* which applies to all assets and liabilities that are being measured and reported on a fair value basis. SFAS 157 requires enhanced disclosures about investments that are measured and reported at fair value. SFAS 157 establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. This statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

Our derivative instruments are considered to be Level 2 items, as the LIBOR swap rate is observable at commonly quoted intervals for the full term of the interest rate swaps.

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

If we had terminated our interest rate swaps as of March 31, 2008, we would have been required to pay a total of $43.0 million, based on the fair values of these derivative instruments, for which the principal terms at March 31, 2008 and December 31, 2007 are presented below:

			Fair Value of Liability		
Effective Date	**Notional Amount**	**Fixed Rate Paid**	**March 31, 2008**	**December 31, 2007**	**Maturity Date**
September 28, 2007	$ 100,000	5.13%	$ 7,385	$ 4,073	June 30, 2011
September 28, 2007	200,000	5.14%	14,778	8,156	June 30, 2011
September 28, 2007	250,000	4.62%	7,315	3,025	June 30, 2009
June 30, 2008	200,000	5.13%	13,539	7,404	June 30, 2011
	$ 750,000		$ 43,017	$ 22,658	

Note 7. Stockholders' Equity and Stock Incentive Plans

The following table provides classification detail of compensation costs related to our share-based employee compensation plans reported in our condensed consolidated financial statements.

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Gaming	$ 141	$ 168
Food and beverage	25	28
Room	14	16
Selling, general and administrative	762	887
Corporate expense	2,027	3,078
Preopening expenses	390	187
Total share-based compensation expense from continuing operations	3,359	4,364
Discontinued operations	-	2
Total share-based compensation expense	3,359	4,366
Capitalized share-based compensation	303	307
Total share-based compensation costs	$ 3,662	$ 4,673

Summarized stock option plan activity for the three months ended March 31, 2008 is as follows:

	Options	**Weighted Average Option Price**	**Weighted Average Remaining Term (years)**	**Aggregate Intrinsic Value (in thousands)**
Options outstanding at January 1, 2008	7,671,250	$ 35.63		

Options granted	25,000	33.31		
Options canceled	(61,997)	39.52		
Options exercised	(32,500)	10.83		
Options outstanding at March 31, 2008	7,601,753	$ 35.70	7.7	$ 5,468
Options exercisable at March 31, 2008	4,137,467	$ 32.54	6.6	$ 5,468
Shares available for grant at March 31, 2008	2,126,508			

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

Career Shares

Our Career Shares Program is a stock incentive award program for certain executive officers to provide for additional capital accumulation opportunities for retirement and reward long-service executives. Our Career Shares Program was adopted in December 2006 as part of the overall update of our compensation programs. During the three months ended March 31, 2008 and 2007, we issued approximately 37,000 and 26,000 Career Shares with a grant date fair value of $33.31 per share and $44.36 per share, respectively, to certain of our executive management employees. The Career Shares Program rewards eligible executives with annual grants of Boyd Gaming Corporation stock units, to be paid out at retirement. The payout at retirement is dependent upon the respective executive's age at such retirement and the number of years of service with the Company. Executives must be at least 60 years old and have at least 15 years of service to receive a payout at retirement. We recorded $0.3 million during each of the three months ended March 31, 2008 and 2007 for expenses related to the issuance of these Career Shares. There were no payouts of Career Shares during the three months ended March 31, 2008. We paid out an award of 848 Career Shares during the three months ended March 31, 2007.

Subsequent Event - Restricted Stock Units

In April 2008, certain of our executive management employees were granted Restricted Stock Units ("RSU"), totalling approximately 160,000 units, with a fair value per share of $14.40. Each RSU represents a contingent right to receive one share of Boyd Gaming Corporation common stock upon vesting. The RSU will vest in full upon the sooner to occur of (i) April 16, 2013, or (ii) a date after October 16, 2009, upon which the closing price of the Company's common stock is $25.98 (which represents 150% of the closing price of our common stock on April 15, 2008) or greater for twenty consecutive trading days beginning on or after October 16, 2009. The RSU are subject to the terms and conditions contained in the applicable award agreement and our 2002 Stock Incentive Plan.

Dividends

Dividends are declared at the discretion of our Board of Directors. We are subject to certain limitations regarding the payment of dividends, such as restricted payment limitations related to our outstanding notes and our bank credit facility. During the three months ended March 31, 2008, we paid $13.2 million for quarterly cash dividends of $0.15 per share. In April 2008, our Board of Directors declared a quarterly cash dividend of $0.15 per share, payable on June 2, 2008 to shareholders of record as of the close of business on May 14, 2008. During the three months ended March 31, 2007, we paid $11.8 million for quarterly cash dividends of $0.135 per share.

Note 8. Earnings per Share

Income (loss) from continuing operations and the weighted average number of common shares and common share equivalents used in the calculation of basic and diluted earnings (loss) per share consist of the following:

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Income (loss) from continuing operations	$ (32,587)	$ 35,105

Weighted average common shares outstanding	87,809	87,240
Dilutive effect	-	1,220
Weighted average common and potential shares outstanding	87,809	88,460

Due to the loss from continuing operations for the three months ended March 31, 2008, all potential common shares were anti-dilutive, and therefore were not included in the computation of diluted earnings per share. For the three months ended March 31, 2007, anti-dilutive options not included in the computation of diluted earnings per share amounted to 1.7 million shares.

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

Note 9. Assets Held for Sale and Discontinued Operations

Assets Held for Sale

Assets held for sale at March 31, 2008 and December 31, 2007 primarily consists of land held for sale in Pennsylvania. In September 2006, we made the decision to sell land that we own in Pennsylvania that we previously planned to utilize as a site for a gaming operation. We previously withdrew our application for gaming approval, which led to our decision to sell the land and record a $3.0 million non-cash write-down of the land to its fair value, less estimated costs to sell. The remaining $23.2 million carrying value is classified as land held for sale on our accompanying condensed consolidated balance sheets. On September 5, 2007 (the "effective date"), we entered into an agreement to sell the land for $26.5 million, before selling costs, contingent upon certain conditions. As of the date of this filing, the sale has not closed; however, the closing date of the sale must occur no later than fifteen months after the effective date. The closing of the transaction is subject to various conditions; therefore, we can provide no assurances that the transaction will close on time, if at all. The expected gain will be recognized on our condensed consolidated statement of operations if and when the sale is closed.

Discontinued Operations

Barbary Coast

On February 27, 2007, we completed our exchange of the Barbary Coast and its related 4.2 acres of land for a total of approximately 24 acres located north of and contiguous to our Echelon development project on the Las Vegas Strip in a nonmonetary, tax-free transaction. Upon the closing of the transaction, we recorded a non-cash, pre-tax gain of approximately $285 million and wrote-off the $3.7 million carrying value of the Barbary Coast trademark, as we will retain the trademark but no longer have underlying cash flows to support its value.

Summary Financial Information for Discontinued Operations

The operating results from discontinued operations for the three months ended March 31, 2007 are presented as net income from discontinued operations on our condensed consolidated statement of operations. Included in the income from discontinued operations is an allocation of interest expense based on the ratio of: (i) the net assets of our discontinued operations, to (ii) the sum of total consolidated net assets and consolidated debt of the Company. The amount of interest expense allocated to discontinued operations was $0.6 million for the three months ended March 31, 2007.

Summary operating results for the discontinued operations for the three months ended March 31, 2007 are as follows (in thousands):

Net revenues	$ 9,706
Asset impairment charges	(3,728)
Operating loss	(1,633)
Gain on disposition of Barbary Coast	285,189
Income from discontinued operations	282,956
Provision for income taxes	(100,195)
Net income from discontinued operations	182,761

There was no such activity related to discontinued operations for the three months ended March 31, 2008.

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

Note 10. Write-Downs and Other Charges

Write-downs and other charges include the following for the three months ended March 31, 2008 and 2007.

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Asset write-downs	$ 90,313	$ 16
Property closure costs	-	8,048
Acquisition related expenses	-	944
Total write-downs and other charges	$ 90,313	$ 9,008

Asset Write-Downs

During the three months ended March 31, 2008, we recorded an $84.0 million non-cash impairment charge, principally related to the write-off of Dania Jai-Alai's intangible license right following our decision to indefinitely postpone redevelopment plans to operate slot machines at the facility. Our decision to postpone the development is based on numerous factors, including the introduction of expanded gaming at a nearby Native American casino, potential for additional casino gaming venues in Florida, and the existing Broward County pari-mutuel casinos performing below our expectations for the market. See Note 2, "*Acquisition of Dania Jai-Alai*" and Note 3, "*Intangible Assets*."

In addition, during the three months ended March 31, 2008, we recorded a $6.3 million non-cash charge related to the abandonment of certain leasehold improvements.

Property Closure Costs

In connection with our Echelon development project, we closed the Stardust Hotel and Casino on November 1, 2006 and demolished the property in March 2007. During the three months ended March 31, 2007, property closure costs consisted principally of demolition costs related to the Stardust. There were no such property closure costs during the three months ended March 31, 2008.

Acquisition Related Expenses

Acquisition related expenses represent indirect and general costs incurred in connection with our purchase of Dania Jai-Alai on March 1, 2007 (see Note 2, "*Acquisition of Dania Jai-Alai*"). There were no such acquisition related expenses during the three months ended March 31, 2008.

Note 11. Related Party Transactions

Percentage Ownership

William S. Boyd, our Executive Chairman of the Board of Directors, together with his immediate family, beneficially owned approximately 36% of the Company's outstanding shares of common stock as of March 31, 2008. As a result, the Boyd family has the ability to significantly influence our affairs, including the election of members of our board of directors and, except as otherwise provided by law, approving or disapproving other matters submitted to a vote of our stockholders, including a merger, consolidation, or sale of assets. For the three months ended March 31, 2008 and 2007, there were no related party transactions between the Company and the Boyd family.

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

Note 12. Commitments and Contingencies

Commitments

Echelon

In January 2006, we formed a 50/50 joint venture with Morgans to develop, construct and operate two hotel properties, the Delano Las Vegas and the Mondrian Las Vegas hotels at Echelon. We will contribute approximately six acres of land and Morgans will ultimately contribute approximately $90 million to the venture. The expected cost of the project, including the land, is estimated to be approximately $950 million; however, we can provide no assurances that the estimated cost will approximate the actual cost. Pursuant to an amendment on May 15, 2006 to our joint venture agreement, Morgans deposited $30 million with us as an advance toward its approximately $90 million capital contribution to be made to the venture. This deposit, plus the accrued interest, is included in restricted cash and accrued expenses and other on our accompanying condensed consolidated balance sheets as of March 31, 2008 and December 31, 2007.

In May 2007, we formed a 50/50 joint venture with GGP whereby we will initially contribute above-ground real estate (air rights) and GGP will initially contribute $100 million to develop High Street retail promenade at Echelon. The expected cost of the project, including air rights, is estimated to be approximately $500 million; however, we can provide no assurances that the estimated cost will approximate the actual cost. We expect that the joint venture will be 100% equity funded. We anticipate that any additional cash outlay from us will come from cash flows from operations and availability under our bank credit facility (see Note 5, "*Long-Term Debt*") to the extent availability exists after we meet our working capital needs.

Subsequent Event

In April 2008, we entered into an agreement to sell undeveloped land that we own located in St. Louis County, Missouri. The sales price is approximately $0.6 million, before selling costs, with a current closing date of May 31, 2008; however, the buyer holds three 30-day options to extend the closing, subject to payment of an additional earnest money deposit for each extension. The carrying value of the land is $1.5 million; therefore, we expect to record an estimated charge of approximately $0.9 million during the three months ending June 30, 2008, which will be included in write-downs and other charges on our condensed consolidated statements of operations. If the sale does not close in the second quarter of 2008, the carrying value of the land will be reclassified to assets held for sale on our condensed consolidated balance sheet, until such sale occurs.

Contingencies

Dania Jai-Alai Slot Initiative

On August 8, 2006, a three-judge panel of the First District Court of Appeals in Broward County, Florida overturned a lower court decision, which, in turn, could lead to the invalidation of a November 2004 initiative approved by Florida voters to operate slot machines at certain pari-mutuel gaming facilities in Broward County. This decision was essentially reaffirmed by the First District Court of Appeals on November 30, 2006, with two questions being certified to the Florida Supreme Court. On March 27, 2007, the Florida Supreme Court accepted jurisdiction to hear the certified questions. On September 27, 2007, the Florida Supreme Court reconsidered its March 27, 2007 decision and declined jurisdiction over the matter. Consequently, the matter has been remanded to the circuit court for a trial on the merits. If the initiative is invalidated, we may never be able to operate slot machines at the Dania Jai-Alai facility, which would materially affect any potential revenue and cash flow expected from the Dania Jai-Alai facility (see Note

2, "*Acquisition of Dania Jai-Alai*").

Copeland

Alvin C. Copeland, the sole shareholder of an unsuccessful applicant for a riverboat license at the location of our Treasure Chest Casino ("Treasure Chest"), has made several attempts to have the Treasure Chest license revoked and awarded to his company. In 1999 and 2000, Copeland unsuccessfully opposed the renewal of the Treasure Chest license and has brought two separate legal actions against Treasure Chest. In November 1993, Copeland objected to the relocation of Treasure Chest from the Mississippi River to its current site on Lake Pontchartrain. The predecessor to the Louisiana Gaming Control Board allowed the relocation over Copeland's objection. Copeland then filed an appeal of the agency's decision with the Nineteenth Judicial District Court. Through a number of amendments to the appeal, Copeland unsuccessfully attempted to transform the appeal into a direct action suit and sought the revocation of the Treasure Chest license. Treasure Chest intervened in the matter in order to protect its interests. The appeal/suit, as it related to Treasure Chest, was dismissed by the District Court and that dismissal was upheld on appeal by the First Circuit Court of Appeal. Additionally, in 1999, Copeland filed a direct action against Treasure Chest and certain other parties seeking the revocation of Treasure Chest's license, an award of the license to him, and monetary damages. The suit was dismissed by the trial court, citing that Copeland failed to state a claim on which relief could be granted. The dismissal was appealed by Copeland to the Louisiana First Circuit Court of Appeal. On June 21, 2002, the First Circuit Court of Appeal reversed the trial court's decision and remanded the matter to the trial court. On January 14, 2003, we filed a motion to dismiss the matter and that motion was partially denied. The Court of Appeals refused to reverse the denial of the motion to dismiss. In May 2004, we filed additional motions to dismiss on other grounds. There was no activity regarding this matter during 2005 and 2006, and the case was set to be dismissed by the court for failure to prosecute by the plaintiffs in mid-May 2007; however on May 1, 2007, the plaintiff filed a motion to set a hearing date related to the motions to dismiss. The hearing was scheduled for September 10, 2007, at which time all parties agreed to postpone the hearing indefinitely. We currently are vigorously defending the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it could have a significant adverse effect on our business, financial condition and results of operations.

Legal Matters

We are also parties to various legal proceedings arising in the ordinary course of business. We believe that, except for the Copeland matter discussed above*,* all pending claims, if adversely decided, would not have a material adverse effect on our business, financial position or results of operations.

Nevada Use Tax Refund Claims

On March 27, 2008, the Nevada Supreme Court issued a decision in Sparks Nugget, Inc. vs. The State of Nevada Department of Taxation (the "Department"), holding that food purchased for subsequent use in the provision of complimentary and/or employee meals was exempt from both sales and use tax. On April 24, 2008, the Department filed a Petition for Rehearing (the "Petition") on the decision. Additionally, on the same date the Nevada Legislature filed an *Amicus Curiae* brief in support of the Department's position. The Nevada Supreme Court has not responded to the Department's Petition, nor is there any set deadline for such response. We have been paying use tax on food purchased for subsequent use as complimentary and employee meals at our Nevada casino properties and are in the process of quantifying the amount of our potential refund, which we estimate to be in the range of $12.5 million to $15.5 million, including interest, from January 1, 2000 through March 31, 2008. Based on our review of the Petition and *Amicus Curiae* brief, the Department is attempting to establish a position that supports denial of the refund claims filed by us and other operators of Nevada casinos. Due to the uncertainty surrounding the Supreme Court's decision on the rehearing and other potential arguments that the Department may pursue, we will not record any gain until the tax refund is realized. For periods subsequent to March 2008, we will not record an accrual for sales or use tax on complimentary and employee meals at our Nevada casino properties, as it is not probable that we will owe this tax given the decision by the Nevada Supreme Court.

Note 13. Segment Information

We have aggregated certain of our properties in order to present four segments: Las Vegas Locals, Downtown Las Vegas, Midwest and South, and Borgata, our 50% joint venture in Atlantic City. The table below lists the classification of each of our properties. Due to the disposition of the Barbary Coast on February 27, 2007, the operating results from discontinued operations are separately included in our condensed consolidated statements of operations and are excluded from our presentation in the Las Vegas Locals segment for the three months ended March 31, 2007. Results for Downtown Las Vegas include the results of our two travel agencies and our insurance company. Results for the Midwest and South include the results of Dania Jai-Alai, our pari-mutuel jai alai facility located in Dania Beach, Florida.

Las Vegas Locals	Midwest and South

Gold Coast Hotel and Casino	Las Vegas, NV	Sam's Town Hotel and Gambling Hall	Tunica, MS
The Orleans Hotel and Casino	Las Vegas, NV	Par-A-Dice Hotel Casino	East Peoria, IL
Sam's Town Hotel and Gambling Hall	Las Vegas, NV	Treasure Chest Casino	Kenner, LA
Suncoast Hotel and Casino	Las Vegas, NV	Blue Chip Hotel and Casino	Michigan City, IN
Eldorado Casino	Henderson, NV	Delta Downs Racetrack Casino & Hotel	Vinton, LA
Jokers Wild Casino	Henderson, NV	Sam's Town Hotel and Casino	Shreveport, LA
Downtown Las Vegas		Borgata Hotel Casino and Spa	Atlantic City, NJ
California Hotel and Casino	Las Vegas, NV		
Fremont Hotel and Casino	Las Vegas, NV		
Main Street Station Casino, Brewery and Hotel	Las Vegas, NV		

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

The following table sets forth, for the periods indicated, certain operating data for our reportable segments.

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Gross Revenues		
Las Vegas Locals	$ 231,498	$ 241,632
Downtown Las Vegas	66,770	69,917
Midwest and South	229,643	261,544
Total gross revenues	$ 527,911	$ 573,093
Adjusted EBITDA (1)		
Las Vegas Locals	$ 66,655	$ 74,579
Downtown Las Vegas	10,169	13,881
Midwest and South	45,599	57,281
Wholly-owned property Adjusted EBITDA	122,423	145,741
Corporate expense (2)	(13,746)	(12,193)
Wholly-owned Adjusted EBITDA	108,677	133,548
Our share of Borgata's operating income before net amortization, preopening and other items (3)	19,005	21,872
Adjusted EBITDA	127,682	155,420
Other operating costs and expenses		
Deferred rent	1,134	1,130
Depreciation and amortization (4)	43,494	40,936
Preopening expenses	5,579	4,450
Our share of Borgata's preopening expenses	408	470
Our share of Borgata's write-downs and other charges, net	70	(34)
Share-based compensation expense	2,969	4,184
Write-downs and other charges	90,313	9,008
Total other operating costs and expenses	143,967	60,144
Operating income (loss)	(16,285)	95,276
Other non-operating items		
Interest expense, net (5)	30,253	36,548
(Increase) decrease in value of derivative instruments	(442)	76
Gain on early retirement of debt	(950)	-
Our share of Borgata's non-operating expenses, net	4,605	3,801
Total other non-operating costs and expenses, net	33,466	40,425
Income (loss) from continuing operations before income taxes	(49,751)	54,851
Benefit from (provision for) income taxes	17,164	(19,746)
Income (loss) from continuing operations	$ (32,587)	$ 35,105

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

(1) Earnings before interest, taxes, depreciation and amortization, or EBITDA, is a commonly used measure of performance in our industry, which we believe, when considered with measures calculated in accordance with 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. Management has historically adjusted EBITDA when evaluating operating performance because we believe that the inclusion or exclusion of certain recurring and non-recurring items is necessary to provide the most accurate measure of our core operating results and as a means to evaluate period-to-period results. We have chosen to provide this information to investors to show more meaningful comparisons of past, present and future operating results and as a means to evaluate the results of core on-going operations. We do not reflect such items when calculating EBITDA; however, we adjust for these items and refer to this measure as Adjusted EBITDA. We have historically reported this measure to our investors and believe that the continued presentation of Adjusted EBITDA provides consistency in our financial reporting. We use Adjusted EBITDA because we believe it is useful to investors in allowing greater transparency related to a significant measure used by management in its financial and operational decision-making. Adjusted EBITDA is among the more significant factors in management's internal evaluation of total company and individual property performance and in the evaluation of incentive compensation related to property management. Management also uses Adjusted EBITDA as a measure in determining the value of acquisitions and dispositions. Adjusted EBITDA is also widely used by management in the annual budget process. Externally, we believe these measures continue to be used by investors in their assessment of our operating performance and the valuation of the Company. Adjusted EBITDA reflects EBITDA adjusted for deferred rent, preopening expenses, share-based compensation expense, write-downs and other charges, change in value of derivative instruments, gain/loss on early retirement of debt, and our share of Borgata's non-operating expenses, preopening expenses and write-downs and other charges, net.

(2) The following table reconciles the presentation of corporate expense on our condensed consolidated statements of operations to the presentation on the accompanying table.

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Corporate expense as reported on our condensed consolidated statements of operations	$ 15,773	$ 15,271
Corporate share-based compensation expense	(2,027)	(3,078)
Corporate expense as reported on accompanying table	$ 13,746	$ 12,193

(3) The following table reconciles the presentation of our share of Borgata's operating income on our condensed consolidated statements of operations to the presentation of our share of Borgata's results on the accompanying table.

Three Months Ended
March 31,

	2008	2007
	(In thousands)	
Operating income from Borgata, as reported on our condensed consolidated statements of operations	$ 18,203	$ 21,112
Add back:		
Net amortization expense related to our investment in Borgata	324	324
Our share of Borgata's preopening expenses	408	470
Our share of Borgata's write-downs and other charges, net	70	(34)
Our share of Borgata's operating income before net amortization, preopening and other items as reported on the accompanying table	$ 19,005	$ 21,872

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

(4) The following table reconciles the presentation of depreciation and amortization on our condensed consolidated statements of operations to the presentation on the accompanying table.

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Depreciation and amortization as reported on our condensed consolidated statements of operations	$ 43,170	$ 40,612
Net amortization expense related to our investment in Borgata	324	324
Depreciation and amortization as reported on accompanying table	$ 43,494	$ 40,936

(5) Net of interest income and amounts capitalized.

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

We are a diversified operator of 15 wholly-owned gaming entertainment properties and one joint-venture property. Headquartered in Las Vegas, we have gaming operations in Nevada, Illinois, Louisiana, Mississippi, Indiana and New Jersey. We aggregate certain of our properties in order to present four segments: Las Vegas Locals, Downtown Las Vegas, Midwest and South, and our 50% joint venture that owns a limited liability company, operating Borgata Hotel Casino & Spa in Atlantic City, New Jersey. We own 87 acres on the Las Vegas Strip where our Echelon project is currently under development.

Due to the disposition of the Barbary Coast on February 27, 2007, the operating results from discontinued operations are separately included in our condensed consolidated statements of operations for the three months ended March 31, 2007. For further information related to our segments, including the property compositions of each segment, the definitions of Adjusted EBITDA, and reconciliations of certain financial information, see Note 13, "*Segment Information*," to the accompanying unaudited condensed consolidated financial statements.

Our main business emphasis is on slot revenues, which are highly dependent on the volume of customers at our properties. Gross revenues are one of the main performance indicators of our properties. Most of our revenue is cash-based, and our properties have historically generated significant operating cash flow. Our industry is capital intensive; we rely heavily on the ability of our properties to generate operating cash flow to repay debt financing, pay income taxes, fund maintenance capital expenditures, and provide excess cash for future development and payment of dividends.

Overall Outlook

Over the past few years, we have been working to position our Company for greater success by strengthening our existing operations and growing through capital investment and other strategic initiatives. We most recently completed the initial launch of our nationwide branding initiative and loyalty program. In the first quarter of 2008, we launched the first phase of our consolidated players' club program, with the introduction of a new Club Coast card at our Las Vegas Locals properties. The current phase involves the rollout of the program across the Midwest and South region under the "B Connected" brand. When the program launch is completed, which we expect to occur in the second quarter of 2008, players will be able to use their cards at our properties in Nevada, Illinois, Indiana, Louisiana and Mississippi.

We are currently focused on future expansion projects at several of our properties:

- Our Las Vegas Strip development, Echelon, is expected to open in the third quarter of 2010. Construction continues to advance, as foundation work is complete for our wholly-owned hotels, which include Hotel Echelon, The Enclave, and Shangri-La Las Vegas. Excavation for High Street (retail promenade) and The Meeting Center is complete and foundation work is beginning.

- Our new hotel at Blue Chip, which is expected to open in December 2008. The $130 million expansion will add a 22-story hotel tower, which will include 300 new guest rooms, a spa and fitness center, additional meeting and event space, new dining and nightlife experiences, and a new porte-cochere.

- The Water Club, an 800-room boutique hotel expansion project at Borgata, is expected to open in June 2008. The $400 million expansion will include five swimming pools, a state-of-the-art spa, additional meeting and retail space, and a separate porte-cochere and front desk.

See "*Other Items Affecting Liquidity*" and "*Other Opportunities*" below for a more comprehensive description of our expansion projects.

In addition to the expansion projects mentioned above, we regularly evaluate opportunities for growth through the development of gaming operations in existing or new markets, along with opportunities associated with acquiring other gaming entertainment facilities.

On February 27, 2007, we completed our transaction to exchange the Barbary Coast for approximately 24 acres of land on the Las Vegas Strip adjacent to our Echelon development project, which provides us with additional opportunity for future growth.

Summary Financial Results

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Gross revenues		
Las Vegas Locals	$ 231,498	$ 241,632
Downtown Las Vegas	66,770	69,917
Midwest and South	229,643	261,544
Total gross revenues	$ 527,911	$ 573,093
Operating income (loss)	$ (16,285)	$ 95,276
Income (loss) from continuing operations	$ (32,587)	$ 35,105

Significant events that affected our operating results for the three months ended March 31, 2008, as compared to the same period in 2007, or that may affect our future results, are described below:

- The effect on consumer spending by slowing economic conditions and rising fuel and other costs negatively impacted our gross revenues during the three months ended March 31, 2008, and this effect may continue for the foreseeable future.
- The opening of a competitor, which is located approximately fifteen miles from Blue Chip, in August 2007 and, to a lesser extent, construction disruption at that property, continues to impact our results.
- Non-cash impairment charges of $90.3 million during the three months ended March 31, 2008, principally related to the write-off of Dania Jai-Alai's intangible license right, following our decision to indefinitely postpone redevelopment plans to operate slot machines at the facility.

Adjusted EBITDA

We have aggregated certain of our properties in order to present the four reportable segments listed in the table below. See Note 13, "*Segment Information*," to our accompanying unaudited condensed consolidated financial statements for a definition of Adjusted EBITDA and a reconciliation of this financial information to operating income (loss) and income (loss) from continuing operations presented in accordance with GAAP.

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Adjusted EBITDA		
Las Vegas Locals	$ 66,655	$ 74,579
Downtown Las Vegas	10,169	13,881
Midwest and South	45,599	57,281
Our share of Borgata's operating income before net amortization, preopening and other items	19,005	21,872

Significant factors that affected Adjusted EBITDA for the three months ended March 31, 2008, as compared to the same period in 2007, are listed below:

- Las Vegas Locals Adjusted EBITDA declined 10.6%, due primarily to the reduction in gross revenues as a result of slowing economic conditions and rising fuel and other costs impacting consumer spending.
- Downtown Las Vegas Adjusted EBITDA declined 26.7%, due to the reduction in gross revenues coupled with the burden of increased fuel costs affecting our charter business related to our Hawaiian-based travel agency, Vacations Hawaii.
- Midwest and South Adjusted EBITDA decreased 20.4%, primarily related to Blue Chip, which continues to be materially impacted by the August 2007 opening of a new competitor and, to a lesser extent, construction disruption related to the new hotel project.

Operating Data for Borgata - our 50% joint venture in Atlantic City

The following table sets forth, for the periods indicated, certain operating data for Borgata, our 50% joint venture in Atlantic City. We use the equity method to account for our investment in Borgata.

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Gross revenues	$ 246,742	$ 254,006
Operating income	37,055	42,871
Total non-operating expenses	(9,211)	(7,603)
Net income	27,844	35,268

The following table reconciles the presentation of our share of Borgata's operating income.

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Operating income from Borgata, as reported on our condensed consolidated statements of operations	$ 18,203	$ 21,112
Net amortization expense related to our investment in Borgata	324	324
Our share of Borgata's operating income	18,527	21,436
Our share of Borgata's preopening expenses	408	470
Our share of Borgata's write-downs and other charges, net	70	(34)
Our share of Borgata's operating income before net amortization, preopening and other items	$ 19,005	$ 21,872

Our share of Borgata's operating income before net amortization, preopening and other items decreased $2.9 million during the three months ended March 31, 2008, as compared to the same period in 2007. This decline is mainly attributable to general slowing economic conditions and its effect on consumer spending, along with the heightened competitive environment in Atlantic City as a result of new competition from surrounding jurisdictions.

Operating Results-Discussion of Certain Expenses and Charges

The following expenses and charges during the three months ended March 31, 2008 and 2007 are discussed below.

	Three Months Ended March 31,	
	2008	2007
	(In thousands)	
Corporate expense	$ 13,746	$ 12,193
Write-downs and other charges	90,313	9,008

Corporate Expense

. Corporate expense represents unallocated payroll, professional fees, aircraft costs and various other expenses not directly related to our casino hotel operations. In 2007, we commenced design work on our consolidated new players' club program in order to build and reward customer loyalty and drive cross-property visitation. We launched the first phase of the program in January 2008 and expect to complete the rollout of this program in the second quarter of 2008. We expect the launch of the program to increase corporate expense by $4 million to $5 million during the three months ending June 30, 2008, as compared to the same period in 2007.

Write-downs and Other Charges

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For the three months ended March 31, 2008, write-downs and other charges primarily consist of the following:

- We recorded an $84.0 million non-cash impairment charge, principally related to the write-off of Dania Jai-Alai's intangible license right following our decision to indefinitely postpone redevelopment plans to operate slot machines at the facility.
- We recorded a $6.3 million non-cash charge related to the abandonment of certain leasehold improvements.

For the three months ended March 31, 2007, write-downs and other charges primarily consist of the following:

- In connection with our Echelon development project on the Las Vegas Strip, we closed the Stardust on November 1, 2006 and demolished the property in 2007. During the three months ended March 31, 2007, we recorded $8.0 million in property closure costs, the majority of which represents demolition costs.
- We incurred $0.9 million of acquisition-related expenses in connection with our purchase of Dania Jai-Alai on March 1, 2007.

Other Operating Items

Asset Impairment Testing

We have significant amounts of goodwill and indefinite-life intangible assets on our condensed consolidated balance sheets as of March 31, 2008 and December 31, 2007. In accordance with SFAS No. 142, "*Goodwill and Other Intangible Assets*," we perform an annual impairment test of these assets in the second quarter of each year, which resulted in no impairment charge for the year ended December 31, 2007; however, if our ongoing estimates of projected cash flows related to these assets are not met, we may be subject to a non-cash write-down of these assets in the future, which could have a material adverse impact on our condensed consolidated statements of operations.

Blue Chip

The Pokagon Band of Potawatomi Indians, a federally recognized Native American tribe, commenced operations of the Four Winds Casino in New Buffalo, Michigan (which is located approximately fifteen miles from Blue Chip) in August 2007. Although we are in the process of expanding our facility at Blue Chip in an effort to be more competitive in this market, the Four Winds Casino has had, and could continue to have, an adverse impact on the operations of Blue Chip.

We review our intangible and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the ongoing estimates of projected cash flows at Blue Chip are not met due to the negative impact of increased competition or otherwise, we may be subject to a non-cash write-down of these assets, which could have an adverse impact on our condensed consolidated statements of operations.

Sam's Town Las Vegas

A smaller hotel casino located directly across from Sam's Town Las Vegas is currently being redeveloped. This enhanced facility is expected to open in the third quarter of 2008 and may have an adverse impact on the results of operations at Sam's Town Las Vegas.

Borgata

Borgata is in the process of an expansion that will add a second hotel, The Water Club, which will include an 800-room hotel, five swimming pools, a state-of-the-art spa, and additional meeting room space. This expansion project is estimated to cost approximately $400 million and is expected to open in June 2008. Borgata expects to finance the expansion from its cash flow from operations and from its bank credit agreement. We do not expect to make further capital contributions to Borgata for this project.

On September 23, 2007, The Water Club sustained a fire that caused damage to property with a carrying value of approximately $11.4 million. Borgata carries insurance policies that management believes will cover most of the replacement costs related to property damage, with the exception of minor amounts principally related to insurance deductibles and certain other limitations. As of March 31, 2008, Borgata has received insurance advances related to property damage totaling $13 million. Borgata has recorded a deferred gain of $1.7 million on its condensed consolidated balance sheet at March 31, 2008, representing the amount of insurance advances related to property damage in excess of the $11.3 million carrying value of assets damaged or destroyed by the fire (after its $0.1 million deductible). The deferred gain, and any other deferred gain that may arise from further advances from insurance recoveries related to property damage, will not be recognized on Borgata's condensed consolidated statement of operations until final settlement with its insurance carrier. In addition, Borgata has "delay-in-completion" insurance coverage for The Water Club for certain costs, subject to various limitations and deductibles, which may help offset some of the costs related to the postponement of its opening. Recoveries, if any, from the insurance carrier will be recorded when earned and realized. The management of Borgata continues to work with its insurance carrier on the scope of the claims and can provide no assurance with respect to the ultimate resolution of these matters.

Certain Other Non-Operating Costs and Expenses

Interest Costs

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Interest costs	$ 37,468	$ 39,605
Less capitalized interest	(6,749)	(1,724)
Less effects of interest rate swaps	(458)	(733)
Less interest costs related to discontinued operations	-	(600)
Less interest income	(8)	-
Interest expense, net	$ 30,253	$ 36,548
Average debt balance	$ 2,310,825	$ 2,125,956
Average interest rate	6.4 %	7.3 %

Interest costs decreased for the three months ended March 31, 2008, as compared to the same period in the prior year, principally due to a decline in market interest rates that caused our average borrowing rate to decline to 6.4% during the three months ended March 31, 2008. Approximately 40% of our debt at March 31, 2008 is based upon variable interest rates.

Capitalized interest increased during the three months ended March 31, 2008, as compared to the same period in the prior year. The increase was due primarily to an increase in capital spending on our Echelon development project. We expect interest costs and capitalized interest to increase for the remainder of 2008, as we continue to expect increases in capital spending on our Echelon development project and our new hotel project at Blue Chip.

Included in the income from discontinued operations for the three months ended March 31, 2007 is an allocation of interest expense, based on the ratio of: (i) the net assets of our discontinued operations, to (ii) the sum of total consolidated net assets and consolidated debt of the Company.

Gain on Early Retirement of Debt

During the three months ended March 31, 2008, we purchased and retired $16.8 million principal amount of our 7.75% senior subordinated notes due December 2012. The total purchase price of the notes was approximately $15.6 million, resulting in a gain of approximately $1.0 million, net of deferred financing fees, which is recorded on our accompanying condensed consolidated statements of operations. This purchase was funded by availability under our bank credit facility.

Provision for Income Taxes

The effective tax rate for continuing operations was 34.5% for the three months ended March 31, 2008, as compared to 36.0% for the three months ended March 31, 2007.

Income (Loss) from Continuing Operations

As a result of the factors discussed above, we reported a loss from continuing operations of $32.6 million during the three months ended March 31, 2008, as compared to income from continuing operations of $35.1 million during the three months ended March 31, 2007.

Liquidity and Capital Resources

Cash Flows Summary

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Net cash provided by operating activities	$ 77,450	$ 97,964
Cash flows from investing activities:		
Capital expenditures	(168,155)	(42,906)
Net cash paid for Dania Jai-Alai	-	(80,904)
Other	(1,079)	(4,050)
Net cash used in investing activities	(169,234)	(127,860)
Cash flows from financing activities:		
Retirement of long-term debt	(15,647)	-
Net borrowings under bank credit facility	107,200	22,950
Dividends paid on common stock	(13,163)	(11,770)
Proceeds from exercise of stock options	353	5,055
Other	(132)	1,336

Net cash provided by financing activities	78,611	17,571
Net decrease in cash and cash equivalents	$ (13,173)	$ (12,325)

Cash Flows from Operating Activities and Working Capital

For the three months ended March 31, 2008, we generated operating cash flow of $77.5 million, compared to $98.0 million for the three months ended March 31, 2007. The primary reasons for the decrease in operating cash flows were a decline in operating results at each of our three wholly-owned business segments as a result of the impact of slowing economic conditions and its affect on consumer spending, as well as the impact of increased competition at Blue Chip.

Our distributions from Borgata were $14.7 million and $14.6 million during the three months ended March 31, 2008 and 2007, respectively. Borgata has significant uses for its cash flows, including maintenance and expansion capital expenditures, interest payments, state income taxes, and the repayment of debt. Borgata's cash flows are primarily used for its business needs and are not generally available, except to the extent that distributions are paid to us, in order to service our indebtedness. In addition, Borgata's bank credit facility contains certain covenants, including, without limitation, various covenants (i) requiring the maintenance of a minimum required interest coverage ratio, (ii) establishing a maximum permitted total leverage ratio, (iii) imposing limitations on the incurrence of additional secured indebtedness, and (iv) imposing restrictions on investments, dividends and certain other payments.

As of March 31, 2008 and 2007, we had balances of cash and cash equivalents of $152.5 million and $157.1 million, respectively. We had working capital deficits of $66.4 million and $67.1 million as of March 31, 2008 and 2007, respectively.

Historically, we have operated with minimal or negative levels of working capital in order to minimize borrowings and related interest costs under our revolving bank credit facility. The revolving bank credit facility generally provides any necessary funds for our day-to-day operations, interest and tax payments, as well as capital expenditures. On a daily basis, we evaluate our cash position and adjust the revolving credit facility balance as necessary, by either paying it down with excess cash or borrowing under the revolver. We also plan the timing and the amounts of our capital expenditures. We believe that our revolving bank credit facility and cash flows from operating activities will be sufficient to meet our projected operating and maintenance capital expenditures for the next twelve months. The source of funds for our development projects, such as Blue Chip's new hotel project and our Echelon development project, is expected to come primarily from cash flows from operations and availability under our bank credit facility, to the extent availability exists after we meet our working capital needs. We could also seek to fund these projects in whole or in part through incremental bank financing and additional debt or equity offerings. If availability does not exist under our bank credit facility, additional financing may not be available to us, or, if available, may not be on terms favorable to us.

Cash Flows from Investing Activities

Cash paid for capital expenditures on major projects for the three months ended March 31, 2008 included the following:

- Echelon development project; and
- New hotel project at Blue Chip.

Spending on these and other expansion projects totaled approximately $144 million. We also paid approximately $24 million for maintenance capital expenditures during the three months ended March 31, 2008.

Cash paid for capital expenditures on major projects and business acquisitions for the three months ended March 31, 2007, included the following:

- Echelon development project;

- New corporate offices; and

- New hotel project at Blue Chip.

Spending on these and other expansion projects totaled approximately $35 million. We also paid approximately $8 million for maintenance capital expenditures. In addition, we paid approximately $81 million for our acquisition of Dania Jai-Alai.

Cash Flows from Financing Activities

Substantially all of the funding for our acquisitions and renovation and expansion projects comes from cash flows from existing operations and debt financing.

During the three months ended March 31, 2008, we purchased and retired $16.8 million principal amount of our 7.75% senior subordinated notes due December 2012. The total purchase price of the notes was approximately $15.6 million, resulting in a gain of approximately $1.0 million, net of deferred financing fees, which is recorded on our accompanying condensed consolidated statements of operations. This purchase was funded by availability under our bank credit facility.

Dividends are declared at the discretion of our Board of Directors. We are subject to certain limitations regarding the payment of dividends, such as restricted payment limitations related to our outstanding notes and our bank credit facility. During the three months ended March 31, 2008, we paid $13.2 million for quarterly cash dividends of $0.15 per share, declared by our Board of Directors on February 7, 2008. In April 2008, our Board of Directors declared a quarterly cash dividend of $0.15 per share, payable on June 2, 2008 to shareholders of record on May 14, 2008. During the three months ended March 31, 2007, we paid $11.8 million for quarterly cash dividends of $0.135 per share, declared by our Board of Directors in January 2007.

In the future, we may acquire our debt or equity securities, through open market purchases, privately negotiated transactions, tender offers, exchange offers, redemptions or otherwise, upon such terms and at such prices as we may determine.

Other Items Affecting Liquidity

Echelon. We are developing Echelon, our Las Vegas Strip project, for which we commenced construction in June 2007, with a planned opening in the third quarter of 2010. We estimate that the wholly-owned components of Echelon will cost approximately $3.3 billion. In conjunction with Echelon, we have entered into two joint ventures: our hotel joint venture with Morgans Hotel Group LLC ("Morgans") and our High Street retail promenade joint venture with General Growth Properties ("GGP").

We expect that Echelon will include a total of approximately 5,000 rooms in five unique hotels, along with the following amenities:

- Casino space: 140,000 square feet
- Entertainment venues: 4,000-seat and 1,500-seat theaters, operated by AEG Live
- High Street retail promenade: 300,000 square feet, operated by GGP
- Meeting and Convention space: 750,000 square feet
- Parking: approximately 9,000 spaces

Echelon will also include approximately 30 dining, nightlife and beverage venues in addition to an approximately 5.5-acre multi-level swimming pool and recreation deck.

On February 27, 2007, we exchanged the Barbary Coast for 24 acres on the Las Vegas Strip, bringing our total land holdings to 87 contiguous acres on the Echelon site. The additional land allowed us to modify the site layout of Echelon and increase the overall size of the project to 65 acres, and provides us with two additional parcels of six and 16 acres that could allow for the addition of another distinct hotel, a residential component, and additional retail, dining, meeting and casino space.

In connection with our 50/50 joint venture with Morgans to develop, construct and operate the Delano Las Vegas and the Mondrian Las Vegas hotels at Echelon, we will contribute approximately six acres of land and Morgans will ultimately contribute approximately $90 million to the venture. The expected cost of the project, including the land, is estimated to be approximately $950 million; however, we can provide no assurances that the estimated cost will approximate the actual cost.

Construction on the Delano and Mondrian hotels is expected to begin in the summer of 2008. Given the current state of the credit markets, we anticipate that additional equity and/or credit support will be necessary to obtain construction financing for the remaining cost of the project. This additional equity and/or credit support may be contributed by us or by Morgans, or by both parties, and/or by one or more additional equity sponsors. If the joint venture is unable to obtain adequate project financing in a timely manner or at all, we may be forced to sell assets in order to raise capital for the project, limit the scope of the project, defer the project, or cancel the project altogether. Should this project be postponed or cancelled, we expect to continue the construction of the remaining aspects of our Echelon development project; however, our expected returns from the Echelon development project would be adversely impacted due to the change in the scope of the overall project.

In May 2007, we formed our 50/50 joint venture with GGP, whereby we will initially contribute the above-ground real estate (air rights) and GGP will initially contribute $100 million to develop High Street retail promenade at Echelon. The expected cost of this project, including the air rights, is estimated to be approximately $500 million; however, we can provide no assurances that the estimated cost will approximate the actual cost. We expect that the joint venture will be 100% equity funded. We anticipate that any additional cash outlay by us will come from cash flows from operations and availability under our bank credit facility, to the extent availability exists after we meet our working capital needs. If availability under our bank credit facility does not exist, additional financing may not be available to us, or, if available, may not be on terms favorable to us.

Blue Chip.

In October 2006, we announced a $130 million expansion project at Blue Chip to add a second hotel with approximately 300 guest rooms, a spa and fitness center, additional meeting and event space, as well as more dining and nightlife venues. We began construction on the project in March 2007, with an expected opening in December 2008.

Pennsylvania Land.

On September 5, 2007 (the "effective date"), we entered into an agreement to sell approximately 125 acres of land that we own in Pennsylvania for $26.5 million, before selling costs, contingent upon certain conditions. As of the date of this filing, the sale has not closed; however, the closing date of the sale must occur no later than fifteen months after the effective date. We expect to use the net proceeds from the sale of the land to reduce our outstanding balance under our revolving bank credit facility. The closing of this transaction is subject to various conditions; therefore, we can provide no assurances that the transaction will close, if at all.

Missouri Land.

In April 2008, we entered into an agreement to sell undeveloped land that we own located in St. Louis County, Missouri. The sales price is approximately $0.6 million, before selling costs, with a current closing date of May 31, 2008; however, the buyer holds three 30-day options to extend the closing, subject to payment of an additional earnest money deposit for each extension. The carrying value of the land is $1.5 million; therefore, we expect to record an estimated charge of approximately $0.9 million during the three months ending June 30, 2008, which will be included in write-downs and other charges on our condensed consolidated statements of operations. If the sale does not close in the second quarter of 2008, the carrying value of the land will be reclassified to assets held for sale on our condensed consolidated balance sheet, until such sale occurs. We can provide no assurances that the transaction will close, if at all.

North Las Vegas Gaming Site

. In April 2008, we announced that we have formed a joint venture with Olympia Gaming, an affiliate of Olympia Group, to develop a proposed casino, resort and spa within the master-planned community of Park Highlands in North Las Vegas, Nevada, subject to receipt of all required approvals. An application was filed with the City of North Las Vegas to develop a 66-acre mixed-use, regional entertainment center, consisting of 1,200 hotel rooms to be built over three phases. We expect that the first phase will include 400 hotel rooms, a casino, race and sports book, restaurants, meeting rooms and other entertainment amenities. Our arrangement with Olympia Gaming provides that we will construct and manage the casino, resort and spa on behalf of the joint venture. If the proposed project with Olympia Gaming is approved, we plan to develop the Park Highlands casino site instead of our other casino-entitled 40-acre parcel located in North Las Vegas. Following receipt of approvals, construction of the casino is not expected to begin for three to five years, allowing additional time for the surrounding area to be developed. If the joint venture is unable to obtain necessary approvals, we may change the scope of the project, defer the project, or cancel the project.

We can provide no assurances that our expansion and development projects will be completed within our current estimates, commence operations as expected, include all of the anticipated amenities, features or facilities, or achieve market acceptance. In addition, our development projects are subject to those additional risks inherent in the development and operation of a new or expanded business enterprise, including potential unanticipated operating problems. If our expansion, development, investment or renovation projects do not become operational within the time frame and project costs currently contemplated or do not successfully compete in their markets, it could have a material adverse effect on our business, financial condition and results of operations. Once our projects become operational, they will face many of the same risks that our current properties face, including, but not limited to, increases in taxes due to changes in legislation.

Recently, there have been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital. We anticipate that these disruptions may continue for the foreseeable future. Despite these disruptions, we anticipate that we will be able to fund our currently planned expansion projects, including our Blue Chip expansion project, our wholly-owned portion of the Echelon project, and our share of our equity contribution to the High Street retail promenade joint venture, using cash flows from operations and availability under our bank credit facility, to the extent availability exists after we meet our working capital needs. Any additional financing that is needed may not be available to us, or, if available, may not be on terms favorable to us.

Nevada Use Tax Refund Claims

On March 27, 2008, the Nevada Supreme Court issued a decision in Sparks Nugget, Inc. vs. The State of Nevada Department of Taxation (the "Department"), holding that food purchased for subsequent use in the provision of complimentary and/or employee meals was exempt from both sales and use tax. On April 24, 2008, the Department filed a Petition for Rehearing (the "Petition") on the decision. Additionally, on the same date the Nevada Legislature filed an *Amicus Curiae* brief in support of the Department's position. The Nevada Supreme Court has not responded to the Department's Petition, nor is there any set deadline for such response. We have been paying use tax on food purchased for subsequent use as complimentary and employee meals at our Nevada casino properties and are in the process of quantifying the amount of our potential refund, which we estimate to be in the range of $12.5 million to $15.5 million, including interest, from January 1, 2000 through March 31, 2008. Based on our review of the Petition and *Amicus Curiae* brief, the Department is attempting to establish a position that supports denial of the refund claims filed by us and other operators of Nevada casinos. Due to the uncertainty surrounding the Supreme Court's decision on the rehearing and other potential arguments that the Department may pursue, we will not record any gain until the tax refund is realized. For periods subsequent to March 2008, we will not record an accrual for sales or use tax on complimentary and employee meals at our Nevada casino properties, as it is not probable that we will owe this tax given the decision by the Nevada Supreme Court.

Other Opportunities

We regularly investigate and pursue additional expansion opportunities in markets where casino gaming is currently permitted. We also pursue expansion opportunities in jurisdictions where casino gaming is not currently permitted in order to be prepared to develop projects upon approval of casino gaming. Such expansions will be affected and determined by several key factors, including:

- outcome of gaming license selection processes;
- approval of gaming in jurisdictions where we have been active, but where casino gaming is not currently permitted;
- identification of additional suitable investment opportunities in current gaming jurisdictions; and
- availability of acceptable financing.

Additional projects may require us to make substantial investments or may cause us to incur substantial costs related to the investigation and pursuit of such opportunities, which investments and costs we may fund through cash flow from operations or availability under our bank credit facility. To the extent such sources of funds are not sufficient, we may also seek to raise such additional funds through public or private equity or debt financings or from other sources. No assurance can be given that additional financing will be available or that, if available, such financing will be obtainable on terms favorable to us.

Indebtedness

Our long-term debt primarily consists of a bank credit facility and senior subordinated notes. We currently pay a variable rate interest based on LIBOR on our bank credit facility, which matures in May 2012. At March 31, 2008, we had availability under our bank credit facility of approximately $2.5 billion. We currently pay fixed rates of interest ranging from 6.75% to 7.75% on our senior subordinated notes.

On May 24, 2007, we entered into a $4.0 billion revolving bank credit facility that matures on May 24, 2012. The bank credit facility may be increased upon our request, up to an aggregate of $1.0 billion, if certain commitments are obtained. The interest rate on the bank credit facility is based upon, at our option, the LIBOR rate or the "base rate," plus an applicable margin in either case. The applicable margin is a percentage per annum (which ranges from 0.625% to 1.625% if we elect to use the LIBOR rate, and 0.0% to 0.375% if we elect to use the base rate) determined in accordance with a specified pricing grid based upon our predefined total leverage ratio. In addition, we incur commitment fees on the unused portion of the bank credit facility that range from 0.200% to 0.350% per annum. The bank credit facility is guaranteed by our material subsidiaries and is secured by the capital stock of those subsidiaries.

Bank Credit Facility Covenants.

The bank credit facility contains certain financial and other covenants, including various covenants (i) requiring the maintenance of a minimum consolidated interest coverage ratio, (ii) establishing a maximum permitted consolidated total leverage ratio, (iii) imposing limitations on the incurrence of indebtedness, (iv) imposing limitations on transfers, sales and other dispositions, and (v) imposing restrictions on investments, dividends and certain other payments. Management believes that we are in compliance with the bank credit facility covenants at March 31, 2008.

Notes. Our senior subordinated note issuances due 2012, 2014, and 2016, respectively, contain limitations on, among other things, (i) our ability and our restricted subsidiaries' (as defined in the indentures governing the notes) ability to incur additional indebtedness, (ii) the payment of dividends and other distributions with respect to our capital stock and the stock of our restricted subsidiaries, and the purchase, redemption or retirement of our capital stock and the stock of our restricted subsidiaries, (iii) the making of certain investments, (iv) asset sales, (v) the incurrence of liens, (vi) transactions with affiliates, (vii) payment restrictions affecting restricted subsidiaries, and (viii) certain consolidations, mergers and transfers of assets. Management believes that we are in compliance with the covenants related to notes outstanding at March 31, 2008.

During the three months ended March 31, 2008, we purchased and retired $16.8 million principal amount of our 7.75% senior subordinated notes due December 2012. The total purchase price of the notes was approximately $15.6 million, resulting in a gain of approximately $1.0 million, net of deferred financing fees, which is recorded on our accompanying condensed consolidated statements of operations. This purchase was funded by availability under our bank credit facility.

Our ability to service our debt will be dependent upon future performance, which will be affected by, among other things, prevailing economic conditions and financial, business and other factors, certain of which are beyond our control. It is unlikely that our business will generate sufficient cash flow from operations to enable us to pay our indebtedness as it matures and to fund our other liquidity needs. Management believes that we will need to refinance all or a portion of our indebtedness at each maturity.

Recently Issued Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133*, ("SFAS 161"). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We have not yet determined the effect, if any, the adoption of this statement will have on our financial condition or results of operations.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of FASB Statement No. 157 ("SFAS 157"), *Fair Value Measurements,* to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Early adoption of SFAS 157 is permitted; however, we have only partially applied SFAS 157, as we recognize the liability related to our derivative instruments at fair value (see Note 6, "*Derivative Instruments and Other Comprehensive Income (Loss)*" to the accompanying unaudited condensed consolidated financial statements). We have not yet determined the effect, if any, that the full adoption of SFAS 157 will have on our condensed consolidated financial statements.

Critical Accounting Policies

A description of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2007. There have been no material changes to our critical accounting polices during the three months ended March 31, 2008.

Important Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements contain words such as "may," "will," "might," "expect," "believe," "anticipate," "could," "would," "estimate," "continue," "pursue," or the negative thereof or comparable terminology, and may include (without limitation) information regarding our expectations, hopes or intentions regarding the future, including, but not limited to, statements regarding our expectations regarding the availability of insurance coverage with respect to the fire damage sustained at The Water Club and the approximate cost of such damage, our expectations regarding the treatment of certain deferred net gains on derivative instruments, our expectations regarding our levels of recorded unrecognized tax benefits, our expectations regarding property tax assessments at Blue Chip, our expectations regarding our level of interest costs and capitalized interest during the remainder of 2008, our development projects, including our Echelon and Blue Chip projects, and the timing and source of funds for such projects and any additional expansion projects, our regular evaluations of growth opportunities through operations development and acquisitions, our competition, including the impact of increased competition in the Las Vegas Locals, Midwest and South and Borgata segments, our ability to effect strategic growth, indebtedness, financing, revenue, Adjusted EBITDA, amortization expense, tax benefits, depreciation expense recorded in connection with our Echelon development plan, our estimates regarding the expected amenities, timing and cost of our Echelon development plan and the related Morgans and GGP joint ventures, our expectations regarding the anticipated amenities, timing and cost of our Blue Chip development project, the effects on Dania Jai-Alai if the Florida slot initiative is overturned, our valuation estimates and asset impairment judgments concerning our properties and other assets, our continued monitoring of the performance of our properties, our plans and expectations with respect to the land we own in Pennsylvania and Missouri, the effects of and our plans with respect to the Nevada Supreme Court's recent decision regarding certain sales and use taxes, our expectations with respect to the rollout of our new customer loyalty program, our expectations regarding our North Las Vegas joint venture, our beliefs regarding the sufficiency of our bank credit facility and cash flows from operating activities to meet our projected expenditures (including operating and maintenance capital expenditures) and costs associated with certain of our projects over the next twelve months, our expectations regarding the sources of funds for our development projects, estimated asset and liability values, our beliefs relating to our bank credit facility and notes covenant compliance, the estimated rates relating to our derivative instruments, our need and ability to refinance all or a portion of our indebtedness at each maturity, risk of counterparty nonperformance, our legal strategies and the potential effect of pending legal claims on our business and financial condition, declaration of future dividends, and the effects of the adoption of various accounting pronouncements.

Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in each such statement. In particular, we can provide no assurances regarding the various expansion projects, including the development plans for the Echelon, Blue Chip, North Las Vegas and Borgata development projects, and whether such projects will be completed within the estimated time frame and budget, or at all. Among the factors that could cause actual results to differ materially are the following:

- The effects of intense competition that exists in the gaming industry.
- The current economic downturn and its effect on consumer spending.
- The fact that our expansion, development and renovation projects (including enhancements to improve property performance) are subject to many risks inherent in expansion, development or construction of a new or existing project, including:
    - ♦ unanticipated design, construction, regulatory, environmental and operating problems and lack of demand for our projects;
    - ♦ unanticipated delays and significant cost increases, shortages of materials, shortages of skilled labor or work stoppages;
    - ♦ poor performance or nonperformance of any of our joint venture partners or other third parties upon whom we are relying in connection with any of our projects;
    - ♦ unforeseen construction scheduling, engineering, environmental, permitting, construction or geological problems, weather interference, floods, fires or other casualty losses; and
    - ♦ failure to obtain necessary government or other approvals on time, or at all.
- The risk that any of our projects may not be completed, if at all, on time or within established budgets, or that any project will result in increased earnings to us.
- The risk that significant delays, cost overruns, or failures of any of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.
- The risk that our projects may not help us compete with new or increased competition in our markets.

- The risk that the actual fair value for assets acquired and liabilities assumed from any of our acquisitions materially differ from our preliminary estimates.

- The risks associated with growth and acquisitions, including our ability to identify, acquire, develop or profitably manage additional companies or operations or successfully integrate such companies or operations into our existing operations without substantial costs, delays or other problems.

- The risk that we may not receive gaming or other necessary licenses for new projects or that gaming will not be approved in jurisdictions where it is currently prohibited.

- The risk that we may be unable to finance our expansion, development and renovation projects, including cost overruns on any particular project, as well as other capital expenditures through cash flow, borrowings under our bank credit facility and additional financings, which could jeopardize our expansion, development and renovation efforts.

- The risk that we may not be ultimately successful in dismissing the action filed against Treasure Chest Casino and may lose our ability to operate the property, which result could materially, adversely affect our business, financial condition and results of operations.

- The effects of the extensive governmental gaming regulation and taxation policies that we are subject to, as well as any changes in laws and regulations, including increased taxes, which could harm our business.
- The effects of extreme weather conditions or natural disasters on our facilities and the geographic areas from which we draw our customers, and our ability to recover insurance proceeds (if any).
- The risks relating to mechanical failure and regulatory compliance at any of our facilities.
- The effects of events adversely impacting the economy or the regions from which we draw a significant percentage of our customers, including the effects of war, terrorist or similar activity or disasters in, at, or around our properties.
- The effects of energy price increases on our cost of operations and our revenues.
- Financial community and rating agency perceptions of our Company, and the effect of economic, credit and capital market conditions on the economy and the gaming and hotel industry.

Additional factors that could cause actual results to differ are discussed in Part II, Item 1A, "*Risk Factors*" in this Quarterly Report on Form 10-Q, and in our other current and periodic reports filed from time to time with the SEC. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

Item 3. *Quantitative and Qualitative Disclosure about Market Risk*

As of March 31, 2008, there were no material changes to the information previously reported under Part II, Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 4. *Controls and Procedures*

As of the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based on the evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II. Other Information

Item 1. *Legal Proceedings*

Copeland

Alvin C. Copeland, the sole shareholder of an unsuccessful applicant for a riverboat license at the location of our Treasure Chest Casino ("Treasure Chest"), has made several attempts to have the Treasure Chest license revoked and awarded to his company. In 1999 and 2000, Copeland unsuccessfully opposed the renewal of the Treasure Chest license and has brought two separate legal actions against Treasure Chest. In November 1993, Copeland objected to the relocation of Treasure Chest from the Mississippi River to its current site on Lake Pontchartrain. The predecessor to the Louisiana Gaming Control Board allowed the relocation over Copeland's objection. Copeland then filed an appeal of the agency's decision with the Nineteenth Judicial District Court. Through a number of amendments to the appeal, Copeland unsuccessfully attempted to transform the appeal into a direct action suit and sought the revocation of the Treasure Chest license. Treasure Chest intervened in the matter in order to protect its interests. The appeal/suit, as it related to Treasure Chest, was dismissed by the District Court and that dismissal was upheld on appeal by the First Circuit Court of Appeal. Additionally, in 1999, Copeland filed a direct action against Treasure Chest and certain other parties seeking the revocation of Treasure Chest's license, an award of the license to him, and monetary damages. The suit was dismissed by the trial court, citing that Copeland failed to state a claim on which relief could be granted. The dismissal was appealed by Copeland to the Louisiana First Circuit Court of Appeal. On June 21, 2002, the First Circuit Court of Appeal reversed the trial court's decision and remanded the matter to the trial court. On January 14, 2003, we filed a motion to dismiss the matter and that motion was partially denied. The Court of Appeals refused to reverse the denial of the motion to dismiss. In May 2004, we filed additional motions to dismiss on other grounds. There was no activity regarding this matter during 2005 and 2006, and the case was set to be dismissed by the court for failure to prosecute by the plaintiffs in mid-May 2007; however on May 1, 2007, the plaintiff filed a motion to set a hearing date related to the motions to dismiss. The hearing was scheduled for September 10, 2007, at which time all parties agreed to postpone the hearing indefinitely. We currently are vigorously defending the lawsuit. If this matter ultimately results in the Treasure Chest license being revoked, it could have a significant adverse effect on our business, financial condition and results of operations.

Legal Matters

We are also parties to various legal proceedings arising in the ordinary course of business. We believe that, except for the Copeland matter discussed above, all pending claims, if adversely decided, would not have a material adverse effect on our business, financial position or results of operations.

Item 1A. *Risk Factors*

We have revised the risk factors that relate to our business, as set forth below. These risks include any material changes to and supersede the risks previously disclosed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2007. We encourage investors to review the risk factors and uncertainties relating to our business disclosed in that Form 10-K, as well as those contained under *"Management's Discussion and Analysis of Financial Condition and Results of Operations-Important Information Regarding Forward-Looking Statements"* in Part I, Item 2 above.

Intense competition exists in the gaming industry, and we expect competition to continue to intensify.

The gaming industry is highly competitive for both customers and employees, including those at the management level. We compete with numerous casinos and casino hotels of varying quality and size in market areas where our properties are located. We also compete with other non-gaming resorts and vacation areas, and with various other casino and other entertainment businesses, and could compete with any new forms of gaming that may be legalized in the future. The casino entertainment business is characterized by competitors that vary considerably in their size, quality of facilities, number of operations, brand identities, marketing and growth strategies, financial strength and capabilities, level of amenities, management talent and geographic diversity. In most markets, we compete directly with other casino facilities operating in the immediate and surrounding market areas. In some markets, we face competition from nearby markets in addition to direct competition within our market areas.

In recent years, with fewer new markets opening for development, competition in existing markets has intensified. We have invested in expanding existing facilities, such as Blue Chip, developing new facilities, such as Echelon, and acquiring established facilities in existing markets, such as our acquisition of Coast Casinos, Inc. in July 2004. In addition, our competitors have also invested in expanding their existing facilities and developing new facilities. This expansion of existing casino entertainment properties, the increase in the number of properties and the aggressive marketing strategies of many of our competitors have increased competition in many markets in which we compete, and this intense competition can be expected to continue. For example, a smaller hotel casino located directly across from Sam's Town Las Vegas is currently being redeveloped. This enhanced facility is expected to open in the third quarter of 2008 and may have an adverse impact on the results of operations at Sam's Town Las Vegas.

If our competitors operate more successfully than we do, if they are more successful than us in attracting and retaining employees, if their properties are enhanced or expanded, or if additional hotels and casinos are established in and around the locations in which we conduct business, we may lose market share or the ability to attract or retain employees. In particular, the expansion of casino gaming in or near any geographic area from which we attract or expect to attract a significant number of our customers could have a significant adverse effect on our business, financial condition and results of operations.

We also compete with legalized gaming from casinos located on Native American tribal lands. Expansion of Native American gaming in areas located near our properties, or in areas in or near those from which we draw our customers, could have an adverse effect on our operating results.

The Pokagon Band of Potawatomi Indians, a federally recognized Native American tribe, commenced operations of the Four Winds Casino in New Buffalo, Michigan (which is located approximately fifteen miles from Blue Chip) in August 2007. Although we are in the process of expanding our facility at Blue Chip in an effort to be more competitive in this market, the Four Winds Casino has had and could continue to have an adverse impact on the operations of Blue Chip.

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

We regularly evaluate expansion, development, investment and renovation opportunities. On January 4, 2006, we announced our planned Las Vegas Strip development, Echelon, which will be the largest and most expensive development project we have undertaken to date. In addition, we have announced a new hotel expansion project at Blue Chip and that

Borgata has recently completed a public space expansion and is constructing a second hotel. We also closed our acquisition of Dania Jai-Alai in March 2007.

These projects and any other development projects we may undertake will be subject to the many risks inherent in the expansion or renovation of an existing enterprise or construction of a new enterprise, including unanticipated design, construction, regulatory, environmental and operating problems and lack of demand for our projects. Our current and future projects could also experience:

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

Our anticipated costs and construction periods for projects are based upon budgets, conceptual design documents and construction schedule estimates prepared by us in consultation with our architects and contractors. Many of these costs are estimated at inception of the project and can change over time as the project is built to completion. For example, we announced that the estimated cost of the wholly-owned portion of Echelon increased from $2.9 billion to $3.3 billion, principally as a result of additional scope, larger guest rooms and suites, and increased estimated construction costs, and that the estimated development costs associated with the properties that will be developed and constructed in connection with our joint venture with Morgans increased from $700 million to $950 million. Additional cost increases may continue to occur as we develop Echelon. The cost of any project may vary significantly from initial budget expectations, and we may have a limited amount of capital resources to fund cost overruns. If we cannot finance cost overruns on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. The completion dates of any of our projects could also differ significantly from 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, or that any project will result in increased earnings to us. Significant delays, cost overruns, or failures of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations. Furthermore, our projects may not help us compete with new or increased competition in our markets.

Certain permits, licenses and approvals necessary for some of our current or anticipated projects have not yet been obtained. The scope of the approvals required for expansion, development, investment or renovation projects can be extensive and may include gaming approvals, state and local land-use permits and building and zoning permits. Unexpected changes or concessions required by local, state or federal regulatory authorities could involve significant additional costs and delay the scheduled openings of the facilities. We may not obtain the necessary permits, licenses and approvals within the anticipated time frames, or at all.

In addition, although we design our projects to minimize disruption of our existing business operations, expansion and renovation projects require, from time to time, all or portions of affected existing operations to be closed or disrupted. For example, in November 2006 we closed the Stardust and demolished the property in March 2007 to make way for the development of Echelon. Any significant disruption in operations of a property could have a significant adverse effect on our business, financial condition and results of operations.

We face risks associated with growth and acquisitions.

As part of our business strategy, we regularly evaluate opportunities for growth through development of gaming operations in existing or new markets, through acquiring other gaming entertainment facilities or through redeveloping our existing gaming facilities. For example, in February 2007 we completed the Barbary Coast exchange transaction. In addition, in March 2007 we completed the acquisition of Dania Jai-Alai, and have previously announced an expansion project at Blue Chip, our Echelon development project and our North Las Vegas joint venture. We may also pursue expansion opportunities, including joint ventures, in jurisdictions where casino gaming is not currently permitted in order to be prepared to develop projects upon approval of casino gaming. The expansion of our operations, whether through acquisitions, development or internal growth, could divert management's attention and could also cause us to incur substantial costs, including legal, professional and consulting fees. There can be no assurance that we will be able to identify, acquire, develop or profitably manage additional companies or operations or successfully integrate such companies or operations into our existing operations without substantial costs, delays or other problems. Additionally, there can be no assurance that we will receive gaming or other necessary licenses for our new projects or that gaming will be approved in jurisdictions where it is not currently approved.

Ballot measures or other voter-approved initiatives to allow gaming in jurisdictions where gaming, or certain types of gaming (such as slots), was not previously permitted could be challenged, and, if such challenges are successful, these ballot measures or initiatives could be invalidated. For example, the Florida ballot measure to amend the Florida Constitution to allow Florida voters to approve slot machines at certain pari-mutuel gaming facilities in Miami-Dade and Broward Counties (the "Slot Initiative"), where Dania Jai Alai is located, has been subject to legal challenge since 2004 and remains unresolved.. If the Slot Initiative is ultimately invalidated, we would not be permitted to operate slot machines at the Dania Jai-Alai facility, which would materially affect any potential revenue and cash flow expected from the Dania Jai-Alai facility. Furthermore, there can be no assurance that there will not be similar or other challenges to legalized gaming in existing or current markets in which we may operate or have development plans, and successful challenges to legalized gaming could require us to abandon or substantially curtail our operations or development plans in those locations, which could have a material adverse effect on our financial condition and results of operations.

Additionally, in February 2008, our management determined to indefinitely postpone redevelopment of our Dania Jai-Alai facility, and in connection with that determination we recorded an $84.0 million non-cash impairment charge to write-off Dania Jai-Alai's intangible license right and write-down its property and equipment to their estimated fair values. Our decision to postpone the development was based on numerous factors, including the introduction of expanded gaming at a nearby Native American casino, the potential for additional casino gaming venues in Florida, and the existing Broward County pari-mutuel casinos performing below our expectations for the market. There can be no assurance that we will not face similar challenges and difficulties with respect to new development projects or expansion efforts that we may undertake, which could result in significant sunk costs that we may not be able to fully recoup or that otherwise have a material adverse effect on our financial condition and results of operations.

If we are unable to finance our expansion, development, investment and renovation projects as well as other capital expenditures through cash flow, borrowings under our bank credit facility and additional financings, our expansion, development, investment and renovation efforts will be jeopardized.

We intend to finance our current and future expansion, development, investment and renovation projects, as well as our other capital expenditures, primarily with cash flow from operations, borrowings under our bank credit facility and equity or debt financings. If we are unable to finance our current or future expansion, development, investment and renovation projects, or our other capital expenditures, we will have to adopt one or more alternatives, such as reducing, delaying or abandoning planned expansion, development, investment and renovation projects as well as other capital expenditures, selling assets, restructuring debt, reducing the amount or discontinuing the distribution of dividends, obtaining additional equity financing or joint venture partners, or modifying our bank credit facility. These sources of funds may not be sufficient to finance our expansion, development, investment and renovation projects, and other financing may not be available on acceptable terms, in a timely manner or at all. In addition, our existing indebtedness contains certain restrictions on our ability to incur additional indebtedness. If we are unable to secure additional financing, we could be forced to limit or suspend expansion, development, investment and renovation projects and other capital expenditures, which may adversely affect our business, financial condition and results of operations.

Furthermore, there have recently been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital. We anticipate that these disruptions may continue for the foreseeable future. We anticipate that we will be able to fund our currently planned expansion projects, including our Blue Chip expansion project, our wholly-owned portion of the Echelon project, and our share of our equity contributions to the High Street retail promenade joint venture at Echelon, using cash flows from operations and availability under our bank credit facility (to the extent availability exists after we meet our working capital needs). If availability under our bank credit facility does not exist or we are otherwise unable to make sufficient borrowings thereunder, any additional financing that is needed may not be available to us, or, if available, may not be on terms favorable to us. As a result, if we are unable to obtain adequate project financing in a timely manner or at all, we may be forced to sell assets in order to raise capital for the project, limit the scope of the project, defer the project or cancel the project altogether. With respect to our joint venture with Morgans to develop, construct and operate the Delano Las Vegas and the Mondrian Las Vegas hotels at Echelon, given the current state of the credit markets, we anticipate that additional equity and/or credit support will be necessary to obtain construction financing for the remaining cost of the project. This additional equity and/or credit support may need to be contributed by us or Morgans, or from both parties, and/or from one or more additional equity sponsors. If the joint venture obtains equity financing from additional sponsors, then our percentage interest in the project and resulting cash flows will be diluted. If the joint venture is unable to obtain adequate project financing in a timely manner or at all, we may be forced to sell assets in order to raise capital for the project, limit the scope of the project, defer the project or cancel the project altogether. Should we postpone or cancel this project, we expect to continue the construction of the remaining aspects of our Echelon development project as planned; however, our expected returns from the Echelon development project would be adversely impacted due to the change in the scope of the overall project.

If we are not ultimately successful in dismissing the action filed against Treasure Chest Casino, we may potentially lose our ability to operate the Treasure Chest Casino property and our business, financial condition and results of operations could be materially adversely affected.

Alvin C. Copeland, the sole shareholder of an unsuccessful applicant for a riverboat license at the location of our Treasure Chest Casino, has made several attempts to have the Treasure Chest license revoked and awarded to his company. In 1999 and 2000, Copeland unsuccessfully opposed the renewal of the Treasure Chest license and has brought two separate legal actions against us. In November 1993, Copeland objected to the relocation of Treasure Chest from the Mississippi River to its current site on Lake Pontchartrain. The predecessor to the Louisiana Gaming Control Board allowed the relocation over Copeland's objection. Copeland then filed an appeal of the agency's decision with the Nineteenth Judicial District Court. Through a number of amendments to the appeal, Copeland improperly attempted to transform the appeal into a direct action suit and sought the revocation of the Treasure Chest license. Treasure Chest intervened in the matter in order to protect its interests. The appeal/suit, as it related to Treasure Chest, was dismissed by the District Court and that dismissal was upheld on appeal by the First Circuit Court of Appeal. Additionally, in 1999, Copeland filed a direct action against Treasure Chest and certain other parties seeking the revocation of Treasure Chest's license, an award of the license to him and monetary damages. The suit was dismissed by the trial court citing that Copeland failed to state a claim on which relief could be granted. The dismissal was appealed by Copeland to the First Circuit Court of Appeal. On June 21, 2002, the First Circuit Court of Appeal reversed the trial court's decision and remanded the matter to the trial court. On January 14, 2003, we filed a motion to dismiss the matter and that motion was partially denied. The Court of Appeal refused to reverse the denial of the motion to dismiss. In May 2004, we filed additional motions to dismiss on other grounds. There was no activity regarding this matter during 2005 and 2006, and the case was set to be dismissed by the court for failure to prosecute by the plaintiffs in mid-May 2007; however on May 1, 2007, the plaintiff filed a motion to set a hearing date related to the motions to dismiss. The hearing was scheduled for September 10, 2007, at which time all parties agreed to postpone the hearing indefinitely. We currently are vigorously defending the lawsuit.

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

We are subject to extensive governmental gaming regulation and taxation policies, which may harm our business.

We are subject to a variety of regulations in the jurisdictions in which we operate. Regulatory authorities at the federal, state and local levels have broad powers with respect to the licensing of casino operations and may revoke, suspend, condition or limit our gaming or other licenses, impose substantial fines and take other actions, any one of which could have a significant adverse effect on our business, financial condition and results of operations. A more detailed description of the governmental gaming regulations to which we are subject is included in Exhibit 99.1, Governmental Gaming Regulations filed with our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

If additional gaming regulations are adopted in a jurisdiction in which we operate, such regulations could impose restrictions or costs that could have a significant adverse effect on us. From time to time, various proposals are introduced in the legislatures of some of the jurisdictions in which we have existing or planned operations that, if enacted, could adversely affect the tax, regulatory, operational or other aspects of the gaming industry and our company. Legislation of this type may be enacted in the future. For example, on January 15, 2006, the New Jersey State Legislature enacted the Smoke-Free Air Act that became effective April 15, 2006. This law called for smoke-free environments in essentially all indoor workplaces and places open to the public, including places of business and service-related activities. The law contained several exemptions, including an exemption for all casino floor space and 20% of a hotel's designated hotel rooms. On February 15, 2007, Atlantic City promulgated a local ordinance that is more restrictive than the aforementioned state law. Specifically, this ordinance reduced the casino floor exemption to 25% of a casino's floor space. As such, smoking is currently prohibited on 75% of a casino's floor space and permitted on 25% of a casino's floor space, subject to the conditions discussed below. However, it is expected that effective October 15, 2008, smoking will be prohibited on 100% of the casino floor space (also discussed below).

- Commencing on April 15, 2007, casinos were required to limit smoking to 25% of their casino floor space, which areas initially were not required to be enclosed and separately ventilated.
- Ultimately, the 25% of the casino floor in which smoking will be permissible will be required to be enclosed and separately ventilated. Casinos had until September 15, 2007 to submit construction plans for such enclosures to applicable authorities for the issuance of building permits and related required approvals. Once permits are issued, the casinos will have 90 days to commence construction of the enclosures. Borgata submitted its construction plans to the applicable authorities and is waiting on the required approvals.

Under the Atlantic City ordinance, smoking will remain permissible in 20% of a hotel's designated hotel rooms, consistent with state law. This legislation, and the local ordinance, could materially impact Borgata's operations and comparable legislation in other jurisdictions in which we operate could materially impact our other properties.

The Atlantic City Council recently voted unanimously to amend the local smoking ban ordinance (discussed above) to prohibit smoking on 100% of the casino floor. The proposed change would limit smoking to non-gaming lounges. The ban is effective October 15, 2008.

In addition, the State of Illinois enacted a 100% smoking ban in all casinos effective January 1, 2008.

The federal government has also previously considered a federal tax on casino revenues and may consider such a tax in the future. In addition, gaming companies are currently subject to significant state and local taxes and fees in addition to normal federal and state corporate income taxes, and such taxes and fees are subject to increase at any time. For example, in November 2007, Nevada's largest teachers union, the Nevada State Educational Association, submitted a petition to the Nevada Secretary of State's Office seeking to increase the gross gaming revenue tax from 6.75% to 9.75%. If this petition is successful, it could have a material adverse affect on our results of operations. In June 2006, the Illinois legislature passed certain amendments to the Riverboat Gambling Act, which affected the tax rate at Par-A-Dice. The legislation, which imposes an incremental 5% tax on adjusted gross gaming revenues, was retroactive to July 1, 2005. As a result of this legislation, we were required to pay additional taxes, resulting in a $6.7 million tax assessment in June 2006. If there is any material increase in state and local taxes and fees, our business, financial condition and results of operations could be adversely affected. Also, in May 2007, Blue Chip received a valuation notice indicating an unanticipated increase of nearly 400% to its assessed property value as of January 1, 2006. At that time, we estimated that the increase in assessed property value could result in a property tax assessment ranging between $4 million and $11 million for the eighteen-month period ended June 30, 2007. We recorded an additional charge of $3.2 million during the three months ended June 30, 2007 to increase our property tax liability to $5.8 million at June 30, 2007 as we believed that was the most likely amount to be assessed within the range. We subsequently received a property tax bill related to our 2006 tax assessment for $6.2 million in December 2007. As we have appealed the assessment, Indiana statutes allow for a minimum required payment of $1.9 million, which was paid against the $6.2 million assessment in January 2008. We believe the assessment for the twenty four-month period ended December 31, 2007 could result in a property tax assessment ranging between $4 million and $13 million. We have accrued approximately $7.5 million of property tax liability as of December 31, 2007, based on what we believe to be the most likely assessment within our range, once all appeals have been exhausted; however, we can provide no assurances that the estimated amount will approximate the actual amount. The final 2006 assessment, post appeals, as well as the March 1, 2007 assessment notice which is not expected until the second quarter of 2008, could result in further adjustment to our estimated property tax liability at Blue Chip.

Our directors, officers and other key employees must also be approved by certain state regulatory authorities. If state regulatory authorities were to find a person occupying any such position unsuitable, we would be required to sever our relationship with that person. Certain public and private issuances of securities and other transactions by us also require the approval of some state regulatory authorities.

In addition to gaming regulations, we are also subject to various federal, state and local laws and regulations affecting businesses in general. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. For example, on July 5, 2006, New Jersey gaming properties, including Borgata, were required to temporarily close their casinos for three days as a result of a New Jersey statewide government shutdown that affected certain New Jersey state employees required to be at casinos when they are open for business. In addition, Nevada recently enacted legislation that eliminated in most instances, and, for certain pre-existing development projects such as Echelon, otherwise reduced, property tax breaks and retroactively eliminated certain sales tax exemptions offered as incentives to companies developing projects that meet certain environmental "green" standards. As a result, we, along with other companies developing projects that meet such standards, may not realize the full tax benefits that were originally anticipated.

We own facilities that are located in areas that experience extreme weather conditions.

We own facilities that are located in areas that experience extreme weather conditions, including, but not limited to, hurricanes. Extreme weather conditions may interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected areas. For example, our Treasure Chest Casino, which is located near New Orleans, Louisiana, suffered minor damage and was closed for 44 days in 2005 as a result of Hurricane Katrina. Additionally, our Delta Downs Racetrack Casino & Hotel, which is located in southwest Louisiana, suffered significant property damage and closed for 42 days in 2005 as a result of Hurricane Rita. While we maintain insurance that may cover some of the costs we incur as a result of some extreme weather conditions, our coverage is subject to deductibles and limits on maximum benefits. There can be no assurance that we will be able to fully collect, if at all, on any claims resulting from extreme weather conditions. If any of our properties are damaged or if their operations are disrupted as a result of extreme weather in the future, or if extreme weather adversely impacts general economic or other conditions in the areas in which our properties are located or from which they draw their patrons, our business, financial condition and operating results could be materially adversely affected.

Our facilities, including our riverboats and dockside facilities, are subject to risks relating to mechanical failure and regulatory compliance.

Generally, all of our facilities are subject to the risk that operations could be halted for a temporary or extended period of time, as the result of casualty, forces of nature, mechanical failure, or extended or extraordinary maintenance, among other causes. In addition, our gaming operations, including those conducted on riverboats or at dockside facilities could be damaged or halted due to extreme weather conditions.

We currently conduct our Treasure Chest, Par-A-Dice, Blue Chip and Sam's Town Shreveport gaming operations on riverboats. Each of our riverboats must comply with U.S. Coast Guard requirements as to boat design, on-board facilities, equipment, personnel and safety. Each riverboat must hold a Certificate of Inspection for stabilization and flotation, and may also be subject to local zoning codes. The U.S. Coast Guard requirements establish design standards, set limits on the operation of the vessels and require individual licensing of all personnel involved with the operation of the vessels. Loss of a vessel's Certificate of Inspection or American Bureau of Shipping approval would preclude its use as a casino.

U.S. Coast Guard regulations require a hull inspection for all riverboats at five-year intervals. Under certain circumstances, alternative hull inspections may be approved. The U.S. Coast Guard may require that such hull inspections be conducted at a dry-docking facility, and if so required, the cost of travel to and from such docking facility, as well as the time required for inspections of the affected riverboats, could be significant. To date, the U.S. Coast Guard has allowed in-place inspections of our riverboats. The U.S. Coast Guard might not allow these types of inspections in the future. The loss of a dockside casino or riverboat casino from service for any period of time could adversely affect our business, financial condition and results of operations.

U.S. Coast Guard regulations also require us to prepare and follow certain security programs. In 2004, we implemented the American Gaming Association's Alternative Security Program at our riverboat casinos and dockside facilities. The American Gaming Association's Alternative Security Program is specifically designed to address maritime security requirements at riverboat casinos and their respective dockside facilities. Changes to these regulations could adversely affect our business, financial condition and results of operations.

We draw a significant percentage of our customers from limited geographic regions. Events adversely impacting the economy or these regions, including man-made or natural disasters, may also impact our business.

Our California Hotel and Casino, Fremont Hotel and Casino and Main Street Station Casino, Brewery and Hotel draw a substantial portion of their customers from the Hawaiian market. For the year ended December 31, 2007, patrons from Hawaii comprised approximately 67% of the room nights sold at the California, 54% at the Fremont and 55% at Main Street Station. An increase in fuel costs or transportation prices, a decrease in airplane seat availability, or a deterioration of relations with tour and travel agents, particularly as they affect travel between the Hawaiian market and our facilities, could adversely affect our business, financial condition and results of operations.

Our Las Vegas properties also draw a substantial number of customers from certain other specific geographic areas, including Southern California, Arizona and Las Vegas. Native American casinos in California and other parts of the United States have diverted some potential visitors away from Nevada, which has had and could continue to have a negative effect on Nevada gaming markets. In addition, due to our significant concentration of properties in Nevada, any man-made or natural disasters in or around Nevada, or the areas from which we draw customers for our Las Vegas properties, could have a significant adverse effect on our business, financial condition and results of operations. Each of our properties located outside of Nevada depends primarily on visitors from their respective surrounding regions and are subject to comparable risk. The outbreak of public health threats at any of our properties or in the areas in which they are located, or the perception that such threats exist, as well as adverse economic conditions that affect the national or regional economies, whether resulting from war, terrorist activities or other geopolitical conflict, weather, general or localized economic downturns or related events or other factors, could have a significant adverse effect on our business, financial condition and results of operations.

In addition, to the extent that the airline industry is negatively impacted due to the outbreak of war, public health threats, terrorist or similar activity, increased security restrictions or the public's general reluctance to travel by air, our business, financial condition and results of operations could be significantly adversely affected.

Energy price increases may adversely affect our cost of operations and our revenues.

Our casino properties use significant amounts of electricity, natural gas and other forms of energy. In addition, our Hawaiian air charter operation uses a significant amount of jet fuel. While no shortages of energy or fuel have been experienced to date, substantial increases in energy and fuel prices, including jet fuel prices, in the United States have negatively affected and may continue to negatively affect our operating results. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases, which impact could be material. In addition, energy and gasoline price increases in areas that constitute a significant source of customers for our properties could result in a decline in disposable income of potential customers, an increase in the cost of travel and a corresponding decrease in visitation and spending at our properties, which could have a significant adverse effect on our business, financial condition and results of operations.

Certain of our stockholders own large interests in our capital stock and may significantly influence our affairs.

William S. Boyd, our Executive Chairman, together with his immediate family, beneficially owned approximately 36% of our outstanding shares of common stock as of March 31, 2008. As a result, the Boyd family has the ability to significantly influence our affairs, including the electing of our directors and, except as otherwise provided by law, approving or disapproving other matters submitted to a vote of our stockholders, including a merger, consolidation or sale of assets.

Some of our hotel casinos are located on leased property. If we default on one or more leases, the applicable lessors could terminate the affected leases and we could lose possession of the affected hotel casino.

We lease certain parcels of land on which The Orleans, Suncoast, Sam's Town Tunica, Treasure Chest and Sam's Town Shreveport are located. In addition, we lease other parcels of land on which portions of the California and the Fremont are located. If we were to default on any one or more of these leases, the applicable lessors could terminate the affected leases and we could lose possession of the affected land and any improvements on the land, including the hotel casinos. This would have a significant adverse effect on our business, financial condition and results of operations as we would then be unable to operate all or portions of the affected facilities.

We have a significant amount of indebtedness.

We had total consolidated long-term debt, net of current maturities, of approximately $2.4 billion at March 31, 2008. We expect that our long-term indebtedness will substantially increase in connection with the capital expenditures we anticipate making as a result of our planned expansion, development, investment and renovation projects. Our substantial indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations under our current indebtedness;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, which would reduce the availability of our cash flows to fund working capital, capital expenditures, expansion efforts and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a disadvantage compared to our competitors that have less debt; and
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could have a significant adverse effect on us.

The interest rates on a portion of our long-term debt are subject to fluctuation based upon changes in short-term interest rates and, as a result, our interest expense could increase.

Our current debt service requirements on our bank credit facility primarily consist of interest payments on outstanding indebtedness. The bank credit facility consists of a $4.0 billion revolving credit facility that matures in May 2012. Subject to certain limitations, we may at any time, without the consent of the lenders under our bank credit facility, request incremental commitments to increase the size of the revolving credit facility, or request new commitments to add a term loan facility, by up to an aggregate amount of $1.0 billion.

Debt service requirements under our current outstanding senior subordinated notes consist of semi-annual interest payments (based upon fixed annual interest rates ranging from 6.75% to 7.75%) and repayment of our senior subordinated notes due on December 15, 2012, April 15, 2014, and February 1, 2016.

Our ability to make payments on and to refinance our indebtedness, and to fund planned capital expenditures and expansion efforts will depend upon our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. It is unlikely that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our bank credit facility, in amounts sufficient to enable us to pay our indebtedness as it matures and to fund our other liquidity needs. We believe that we will need to refinance all or part of our indebtedness at or prior to each maturity; however, we may not be able to refinance any of our indebtedness on commercially reasonable terms or at all. We may have to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets, restructuring debt, or obtaining additional equity or debt financing or joint venture partners. These financing strategies may not be affected on satisfactory terms, if at all. In addition, certain states' laws contain restrictions on the ability of companies engaged in the gaming business to undertake certain financing transactions. Some restrictions may prevent us from obtaining necessary capital.

Our common stock price may fluctuate substantially, and your investment could decline in value.

The market price of our common stock may be volatile and could fluctuate substantially due to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- announcements of significant acquisitions or other agreements by us or by our competitors;
- our sale of common stock or other securities in the future;
- the trading volume of our common stock;
- conditions and trends in the gaming and destination entertainment industries;
- changes in the estimation of the future size and growth of our markets; and
- general economic conditions, including, among other things, changes in the cost of fuel and air travel.

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to companies' operating performance. Broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, shareholder derivative lawsuits securities class action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

(c) No repurchases were made pursuant to our share repurchase program during the three months ended March 31, 2008.

In the future, we may acquire our debt or equity securities, through open market purchases, privately negotiated transactions, tender offers, exchange offers, redemptions or otherwise, upon such terms and at such prices as we may determine.

Item 6. *Exhibits*

(a) Exhibits

10.1*	Form of Restricted Stock Unit Agreement and Notice of Award pursuant to the 2002 Stock Incentive Plan.
10.2*	Form of Stock Option Award Agreement pursuant to the 2002 Stock Incentive Plan.
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(a).
32.1	Certification of the Chief Executive Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.
32.2	Certification of the Chief Financial Officer of the Registrant pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. § 1350.

* Management contracts or compensatory plans or arrangements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 12, 2008.

B

OYD GAMING CORPORATION

By: /

S/ JEFFREY G. SANTORO

Jeffrey G. Santoro
Senior Vice President and Controller
(Principal Accounting Officer)

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EXHIBIT LIST

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