

BOYD GAMING CORP
Form 10-Q
August 05, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

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

For the transition period from _____ to _____

Commission file number: 1-12882

BOYD GAMING CORPORATION

(Exact name of registrant as specified in its charter)

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Nevada
(State or other jurisdiction of
incorporation or organization)
3883 Howard Hughes Parkway, Ninth Floor, Las Vegas, NV 89169

88-0242733
(I.R.S. Employer
Identification No.)

(Address of principal executive offices) (Zip Code)
(702) 792-7200

(Registrant's telephone number, including area code)

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

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 No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Class	Outstanding as of July 30, 2010
Common stock, \$0.01 par value	86,226,640 shares

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QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED JUNE 30, 2010
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PART I. Financial Information

Item 1. *Financial Statements*

The accompanying unaudited condensed consolidated financial statements of Boyd Gaming Corporation (and together with its subsidiaries, the Company, we or us) have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all information and footnote disclosures necessary for complete financial statements in conformity with accounting principles generally accepted in the United States (GAAP). The results for the periods indicated are unaudited, however, our condensed consolidated balance sheet as of December 31, 2009 has been derived from our audited financial statements, but reflect all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of financial position, results of operations and cash flows.

Results of operations for interim periods are not necessarily indicative of the results that would be achieved during a full year of operations or in future periods. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009 and our unaudited condensed consolidated financial statements and notes thereto included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

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

	June 30, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 100,173	\$ 93,202
Restricted cash	15,614	16,168
Accounts receivable, net	44,044	18,584
Inventories	16,108	11,392
Prepaid expenses and other current assets	36,259	24,818
Income taxes receivable	3,105	20,807
Deferred income taxes	8,868	7,766
Total current assets	224,171	192,737
Property and equipment, net	4,463,436	3,159,177
Investments in and advances to unconsolidated subsidiaries, net	5,041	394,220
Other assets, net	108,757	78,121
Intangible assets, net	422,126	422,126
Goodwill, net	213,576	213,576
Total assets	\$ 5,437,107	\$ 4,459,957
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	\$ 670	\$ 652
Current maturities of Borgata bank credit facility	626,872	
Accounts payable	50,582	39,127
Construction payables	3,714	34,128
Note payable		46,875
Accrued liabilities	252,922	174,577
Total current liabilities	934,760	295,359
Long-term debt, net of current maturities	2,519,072	2,576,911
Deferred income taxes	355,863	335,159
Other long-term tax liabilities	44,104	32,703
Other liabilities	73,020	63,456
Commitments and contingencies (Note 6)		
Stockholders equity		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized		
Common stock, \$0.01 par value, 200,000,000 shares authorized; 86,226,641 and 86,130,454 shares outstanding	862	861
Additional paid-in capital	629,347	623,035
Retained earnings	562,416	550,599
Accumulated other comprehensive loss, net	(13,716)	(18,126)
Total Boyd Gaming Corporation stockholders equity	1,178,909	1,156,369
Noncontrolling interest	331,379	
Total stockholders equity	1,510,288	1,156,369

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Total liabilities and stockholders equity	\$ 5,437,107	\$ 4,459,957
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited and in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
REVENUES				
Operating revenues:				
Gaming	\$ 490,132	\$ 353,597	\$ 840,537	\$ 719,660
Food and beverage	94,020	58,688	154,002	117,729
Room	58,671	32,548	90,105	63,189
Other	33,813	24,486	57,635	51,421
Gross revenues	676,636	469,319	1,142,279	951,999
Less promotional allowances	98,190	46,369	148,698	94,204
Net revenues	578,446	422,950	993,581	857,795
COST AND EXPENSES				
Operating costs and expenses:				
Gaming	229,755	167,427	397,860	340,339
Food and beverage	49,149	32,114	81,791	63,498
Room	13,056	10,069	23,106	20,026
Other	27,006	19,553	46,244	38,867
Selling, general and administrative	99,666	72,618	169,944	146,591
Maintenance and utilities	37,970	22,973	62,109	45,359
Depreciation and amortization	55,408	42,093	95,454	84,745
Corporate expense	13,526	11,036	25,615	23,721
Preopening expenses	1,243	4,054	2,306	9,893
Write-downs and other charges, net	1,991	(1,835)	3,592	27,128
Total operating costs and expenses	528,770	380,102	908,021	800,167
Operating income from Borgata		13,310	8,146	25,732
Operating income	49,676	56,158	93,706	83,360
Other expense (income):				
Interest income			(4)	(4)
Interest expense, net of amounts capitalized	34,650	36,235	63,657	81,506
Gain on early retirements of debt	(1,912)	(6,057)	(3,949)	(8,457)
Other non-operating expenses from Borgata, net		4,504	3,133	9,026
Total other expense, net	32,738	34,682	62,837	82,071
Income before income taxes	16,938	21,476	30,869	1,289
Income taxes	(4,912)	(8,698)	(9,161)	(2,339)
Net income (loss)	12,026	12,778	21,708	(1,050)
Net income attributable to noncontrolling interest	(8,644)		(9,891)	

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Net income (loss) attributable to Boyd Gaming Corporation	\$ 3,382	\$ 12,778	\$ 11,817	\$ (1,050)
Basic net income (loss) per common share:	\$ 0.04	\$ 0.15	\$ 0.14	\$ (0.01)
Weighted average basic shares outstanding	86,511	86,254	86,471	86,591
Diluted net income (loss) per common share:	\$ 0.04	\$ 0.15	\$ 0.14	\$ (0.01)
Weighted average diluted shares outstanding	86,942	86,291	86,743	86,591

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

Six Months Ended June 30, 2010

(Unaudited and in thousands, except share data)

	Boyd Gaming Corporation Stockholders Equity						Total Stockholders Equity
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other		
	Shares	Amount			Comprehensive Loss, Net	Noncontrolling Interest	
Balances, January 1, 2010	86,130,454	\$ 861	\$ 623,035	\$ 550,599	\$ (18,126)	\$	\$ 1,156,369
Net income attributable to Boyd Gaming Corporation				11,817			11,817
Derivative instruments fair value adjustment, net of taxes of \$2,408					4,410		4,410
Stock options exercised	96,187	1	605				606
Tax effect from share-based compensation arrangements			(21)				(21)
Share-based compensation costs			5,728				5,728
Noncontrolling interest in Borgata						331,379	331,379
Balances, June 30, 2010	86,226,641	\$ 862	\$ 629,347	\$ 562,416	\$ (13,716)	\$ 331,379	\$ 1,510,288

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

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited and in thousands)

	Six Months Ended June 30,	
	2010	2009
Cash Flows from Operating Activities		
Net income (loss)	\$ 21,708	\$ (1,050)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	95,454	84,745
Amortization of debt issuance costs	2,917	2,241
Share-based compensation expense	5,728	7,942
Deferred income taxes	4,503	(3,642)
Operating and non-operating income from Borgata	(5,013)	(16,706)
Distributions of earnings received from Borgata	1,910	12,581
Noncash asset write-downs		28,476
Gain on early retirements of debt	(3,949)	(8,457)
Other operating activities	712	(2,776)
Changes in operating assets and liabilities:		
Restricted cash	554	(2,292)
Accounts receivable, net	2,628	172
Inventories	(598)	976
Prepaid expenses and other current assets	(2,004)	(3,969)
Income taxes receivable	12,102	5,816
Other assets, net	1,293	1,433
Accounts payable and accrued liabilities	9,622	(10,928)
Other long-term tax liabilities	1,159	2,988
Other liabilities	1,031	1,963
Net cash provided by operating activities	149,757	99,513
Cash Flows from Investing Activities		
Capital expenditures	(47,481)	(128,804)
Net cash effect upon change in controlling interest of Borgata	26,025	
Investments in and advances to unconsolidated subsidiaries, net	(387)	(500)
Net additional cash paid for Dania Jai-Alai		(9,375)
Other investing activities	223	1,669
Net cash used in investing activities	(21,620)	(137,010)
Cash Flows from Financing Activities		
Payments on retirements of long-term debt	(28,861)	(36,088)
Borrowings under bank credit facility	374,800	371,935
Payments under bank credit facility	(399,300)	(285,238)
Borrowings under Borgata bank credit facility	190,983	
Payments under Borgata bank credit facility	(196,400)	
Payments under note payable	(46,875)	(9,375)
Repurchase and retirement of common stock		(7,950)
Noncontrolling interest distributions by Borgata	(15,602)	
Other financing activities	89	(293)

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Net cash provided by (used in) financing activities	(121,166)	32,991
Increase (decrease) in cash and cash equivalents	6,971	(4,506)
Cash and cash equivalents, beginning of period	93,202	98,152
Cash and cash equivalents, end of period	\$ 100,173	\$ 93,646

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Unaudited and in thousands)

	Six Months Ended June 30,	
	2010	2009
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of amounts capitalized	\$ 69,109	\$ 80,818
Cash received for income taxes, net of income taxes paid	(9,761)	(1,946)
Supplemental Schedule of Noncash Investing and Financing Activities		
Payables incurred for capital expenditures	\$ 6,965	\$ 39,194
Increase (decrease) in fair value of derivative instruments	7,884	(3,014)
Changes in Assets and Liabilities Due to Change in Controlling Interest of Borgata		
Accounts receivable, net	\$ 29,099	\$
Inventories	4,118	
Prepaid expenses and other current assets	9,437	
Deferred income taxes	1,290	
Property and equipment, net	1,352,321	
Investments in and advances to unconsolidated subsidiaries, net	5,135	
Other assets, net	34,964	
Provisional value of assets	\$ 1,436,364	\$
Current maturities of long-term debt	\$ 632,289	\$
Accounts payable	6,822	
Income taxes payable	5,699	
Accrued liabilities	71,949	
Deferred income taxes	13,982	
Other long-term tax liabilities	10,242	
Other liabilities	16,418	
Provisional value of liabilities	\$ 757,401	\$
Acquisition of Dania Jai-Alai		
Fair value of noncash assets acquired	\$	\$ 28,352
Additional cash paid		(9,375)
Termination of contingent liability		46,648
Note payable issued		(65,625)
Liabilities assumed	\$	\$

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

Boyd Gaming Corporation was incorporated in the state of Nevada in 1988 and has been operating since 1973. The Company's common stock is traded on the New York Stock Exchange under the symbol **BYD**.

We are a diversified operator of 15 wholly-owned gaming entertainment properties and one 50% interest in a limited liability company that operates Borgata Hotel Casino & Spa (**Borgata**) in Atlantic City, New Jersey. Headquartered in Las Vegas, we have gaming operations in Nevada, Illinois, Louisiana, Mississippi, Indiana and New Jersey, which we aggregate in order to present four Reportable Segments: (i) Las Vegas Locals, (ii) Downtown Las Vegas, (iii) Midwest and South, and (iv) Atlantic City.

On March 24, 2010, as a result of the amendment to our operating agreement with MGM Resorts International (the successor in interest to MGM MIRAGE) (**MGM**) (our original 50% partner in Borgata), which provided, among other things, for the termination of MGM's participating rights in the operations of Borgata, we effectively obtained control of Borgata. The amendment to the operating agreement was related to MGM's divestiture of its interest pursuant to a regulatory settlement, as discussed further in Note 3, *Investments in and Advances to Unconsolidated Subsidiaries, Net*. This resulting change in control required acquisition method accounting in accordance with the authoritative accounting guidance for business combinations. As a result, we measured our previously held equity interest at a provisional fair value during the three months ended March 31, 2010. As discussed further in Note 3, *Investments in and Advances to Unconsolidated Subsidiaries, Net*, no remeasurement amounts were identified and recorded through June 30, 2010. Additionally, the financial position of Borgata is consolidated in our condensed consolidated balance sheet as of June 30, 2010; its results of operations for the period from April 1 through June 30, 2010 are included in our condensed consolidated statement of operations for the three months ended June 30, 2010; and its results of operations for the period from March 24 through June 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the six months ended June 30, 2010. Prior period amounts were not restated or recasted as a result of this change; however, detailed proforma financial information is presented in Note 3, *Investments in and Advances to Unconsolidated Subsidiaries, Net* for the three and six month periods ended June 30, 2009. We also recorded the noncontrolling interest held in trust for the benefit of MGM as a separate component of our stockholders equity.

We also own and operate Dania Jai-Alai, which is a pari-mutuel jai-alai facility with approximately 47 acres of related land located in Dania Beach, Florida, a travel agency in Hawaii, and a captive insurance company, also in Hawaii, that underwrites travel-related insurance.

Additionally, we own 85 acres on the Las Vegas Strip, where our Echelon development project is located. On August 1, 2008, due to the difficult environment in the capital markets, as well as weak economic conditions, we announced the delay of our multibillion dollar Echelon development project on the Las Vegas Strip. At such time, we did not anticipate the long-term effects of the current economic downturn, evidenced by lower occupancy rates, declining room rates and reduced consumer spending across the country, but particularly in the Las Vegas geographical area; nor did we predict that the incremental supply becoming available on the Las Vegas Strip would face such depressed demand levels, thereby elongating the time for absorption of this additional supply into the market. As we do not yet believe that a significant level of economic recovery has occurred along the Las Vegas Strip, we still do not expect to resume construction for three to five years. We also believe financing for a development project like Echelon continues to be unavailable.

Basis of Presentation

As permitted by the rules and regulations of the Securities and Exchange Commission (**SEC**), certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, although we believe that the disclosures made are adequate to make the information reliable. These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009 and our unaudited condensed consolidated financial statements and notes thereto included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

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BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly our financial position as of June 30, 2010 and December 31, 2009, the results of our operations for the three and six months ended June 30, 2010 and 2009, and our cash flows for the six months ended June 30, 2010 and 2009. Our operating results for the three and six months ended June 30, 2010 and 2009 and our cash flows for the six months ended June 30, 2010 and 2009 are not necessarily indicative of the results that would be achieved during a full year of operations or in future periods.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Boyd Gaming Corporation and its subsidiaries. In addition, as discussed above, the financial position of Borgata is consolidated in our condensed consolidated balance sheet as of June 30, 2010, its results of operations for the period from April 1 through June 30, 2010 are included in our condensed consolidated statement of operations for the three months ended June 30, 2010, and its results of operations for the period from March 24 through June 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the six months ended June 30, 2010.

Investments in unconsolidated affiliates, which are less than 50% owned and do not meet the consolidation criteria of the authoritative accounting guidance for controlled or variable interest entities, are accounted for under the equity method. See Note 3, *Investments in and Advances to Unconsolidated Subsidiaries, Net*. All material intercompany accounts and transactions have been eliminated.

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 allowance for doubtful accounts receivable, estimated useful lives for depreciable and amortizable assets, measurement of our equity interest in Borgata, fair values of acquired assets and liabilities, estimated cash flows in assessing the recoverability of long-lived assets, assumptions relative to the valuation of goodwill and intangible assets, estimated valuation allowance for deferred tax assets, certain tax liabilities, self-insured liability reserves, slot bonus point programs, share-based payment valuation assumptions, fair values of assets and liabilities measured at fair value, fair values of assets and liabilities disclosed at fair value, fair values of derivative instruments, contingencies and litigation, claims and assessments. Actual results could differ from these estimates.

Property and Equipment, Net

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

Investments In and Advances to Unconsolidated Subsidiaries, Net

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

As discussed above, due to our controlling interest in Borgata, we measured our previously held equity interest at a provisional fair value during the three months ended March 31, 2010. Additionally, the financial position of Borgata is consolidated in our condensed consolidated balance sheet as of June 30, 2010, its results of operations for the period from April 1 through June 30, 2010 are included in our condensed consolidated statement of operations for the three months ended June 30, 2010, and its results of operations for the period from March 24 through June 30, 2010 are included in our condensed consolidated statements of operations and cash flows for the six months ended June 30, 2010.

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Intangible Assets

Intangible assets include gaming license rights, trademarks and customer lists. Indefinite-lived intangible assets are not subject to amortization, but they are subject to an annual impairment test in the second quarter of each year and between annual test dates in certain circumstances.

License rights are tested for impairment using a discounted cash flow approach, and trademarks are tested for impairment using the relief-from-royalty method. If the fair value of an indefinite-lived intangible asset is less than its carrying amount, an impairment loss is recognized equal to the difference.

The results of our annual scheduled impairment test of indefinite-lived intangible assets did not require us to record an impairment charge during the three and six months ended June 30, 2010; however, if our estimates of projected cash flows related to these assets are not achieved, or if any other significant assumptions are changed, we may be subject to an interim impairment test prior to our next annual scheduled impairment test. As a result of such test, we may be subject to a future impairment charge, which could have a material adverse impact on our consolidated financial statements.

The gross amount of intangible assets recorded at June 30, 2010 and December 31, 2009 was \$1,010.0 million, respectively, which has been reduced by aggregate impairment losses of \$187.9 million and accumulated amortization of \$400.0 million at each date. Our customer lists were fully amortized in 2009 and, accordingly, only indefinite-lived intangible assets remain at June 30, 2010. Amortization expense was \$0.02 million and \$0.04 million for the three and six months ended June 30, 2009, respectively.

As discussed in Note 3, *Investments in and Advances to Unconsolidated Subsidiaries, Net*, no remeasurement amounts were identified and recorded through June 30, 2010 in connection with the provisional fair values of the assets and liabilities we recognized in connection with our consolidation of Borgata. Accordingly, our intangible assets and amortization expense recorded do not include amortization expense on the provisional values of any amortizable intangible assets in connection with our consolidation of Borgata, pending finalization of the fair value allocation; however, such amounts are not expected to be material.

Goodwill

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

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

The results of our annual scheduled impairment test of goodwill did not require us to record an impairment charge during the three and six months ended June 30, 2010; however, if our estimates of projected cash flows related to goodwill are not achieved, or if any other significant assumptions are changed, we may be subject to an interim impairment test prior to our next annual scheduled impairment test. As a result of such test, we may be subject to a future impairment charge, which could have a material adverse impact on our consolidated financial statements.

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

Noncontrolling Interest

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Noncontrolling interest is the portion of the ownership in Borgata not attributable, directly or indirectly, to Boyd, and is reported as a separate component of our stockholders' equity in our consolidated financial statements. Our consolidated net income is reported at amounts that include the amounts attributable to both us and the noncontrolling interest. At June 30, 2010, we recorded a noncontrolling interest of \$331.4 million associated with the portion of ownership in Borgata that is not attributable to Boyd. Borgata distributed \$17.5 million to us during the six months ended June 30, 2010. As discussed above, we effectively obtained control of Borgata on March 24, 2010 and, accordingly, no such noncontrolling interest was recorded during the six months ended June 30, 2009.

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BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Preopening Expenses

Certain costs of start-up activities are expensed as incurred. During the three months ended June 30, 2010 and 2009, we expensed \$1.2 million and \$4.1 million, respectively, in preopening costs that related primarily to our Echelon development project. Such costs consisted primarily of security, storage, property taxes and insurance. During the six months ended June 30, 2010 and 2009, we expensed \$2.3 million and \$9.9 million, respectively, in preopening costs that related primarily to our Echelon development project in both periods and our hotel at Blue Chip in 2009.

Recently Issued Accounting Pronouncements

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

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

Subsequent Events

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

Borgata Facility

On August 4, 2010, Borgata received approval from the New Jersey Casino Control Commission (NJCCC) for a proposed financing involving the issuance of high yield debt and the entry into a new credit facility. The NJCCC also approved the proposed use of proceeds from such financing, which would include, if the financing is consummated, a distribution to us of approximately \$125 million. We expect the financing to close in August 2010, subject to closing conditions and settlement procedures.

Discontinuation of Efforts to Purchase Station Casinos Assets

On July 30, 2010, we discontinued our efforts to pursue the acquisition of certain assets of Station Casinos given current bidding procedures in place and our current view of the limited potential value of the operating and development assets.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****Note 2. Property and Equipment, Net**

Property and equipment, net consists of the following.

	Estimated Life (Years)	June 30, 2010	December 31, 2009
(In thousands)			
Land		\$ 774,017	\$ 686,716
Buildings and improvements	10-40	3,403,015	1,980,086
Furniture and equipment	3-10	1,144,732	863,854
Riverboats and barges	10-40	167,424	167,427
Construction in progress		734,129	721,990
Total property and equipment		6,223,317	4,420,073
Less accumulated depreciation		1,759,881	1,260,896
Property and equipment, net		\$ 4,463,436	\$ 3,159,177

Depreciation expense for the three months ended June 30, 2010 and 2009 was \$55.4 million and \$42.1 million, respectively, and was \$95.5 million and \$84.7 million for the six months ended June 30, 2010 and 2009, respectively.

Construction in progress primarily relates to the costs capitalized in conjunction with our Echelon project, and such costs are not currently being depreciated.

Note 3. Investments in and Advances to Unconsolidated Subsidiaries, Net

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

	June 30, 2010	December 31, 2009
(In thousands)		
Net investment in and advances to Borgata (50%)	\$	\$ 394,220
Net investment in and advances to Atlantic City Express Service, LLC (33.3%)	5,041	
Investments in and advances to unconsolidated subsidiaries, net	\$ 5,041	\$ 394,220

Borgata Hotel Casino and Spa

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

By letter of July 27, 2009 (the Letter), the New Jersey Department of Gaming Enforcement (the NJDGE) made a formal request to the NJCCC that the NJCCC reopen the gaming license held by Borgata. In June 2005, the NJCCC had renewed Borgata s gaming license for a five-year term. The Letter indicated that the NJDGE s reopening request was for the exclusive purpose of examining the qualifications of MGM, in light of

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the issues raised by the Special Report of the NJDGE to the NJCCC on its investigation of MGM's joint venture in Macau, Special Administrative Region, People's Republic of China. The Letter noted that the NJDGE had found that neither we nor the Holding Company had any involvement with MGM's development activities in Macau and also expressed the NJDGE's confidence that the NJCCC could thoroughly examine the issues raised in the Special Report as to MGM's qualifications without negatively affecting the casino license, the operation of Borgata or us.

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

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BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

In February 2010, we entered into an agreement with MGM to amend the operating agreement to, among other things, facilitate the transfer of MGM's interest (MGM Interest) to a divestiture trust (Divestiture Trust) established for the purpose of selling the MGM Interest to a third party. The proposed sale of the MGM Interest through the Divestiture Trust was a part of a then-proposed settlement agreement between MGM and the NJDGE. The agreement includes the following provisions, among others, that became effective on March 24, 2010 (the date of the transfer of the MGM Interest to the Divestiture Trust): (i) in the event of a refinancing of the Borgata credit facility under terms and in circumstances that permit the Holding Company to make a one-time distribution to members of at least \$31 million: (a) we will receive a priority distribution of approximately \$31 million (equal to the excess prior capital contributions made by us), and (b) if concurrently with or after such distribution, the Divestiture Trust receives a cash distribution of at least \$10 million from the Holding Company (the Trust Distribution), the Divestiture Trust agrees to pay us \$10 million; and (ii) upon the sale of the MGM Interest, we will receive a payment from the Divestiture Trust in the following amount: (x) if the Trust Distribution has not occurred, an amount equal to the greater of \$10 million and 3% of the proceeds from the sale; or (y) if the Trust Distribution has occurred, an amount (if any) equal to the excess of 3% of the proceeds from the sale over \$10 million.

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

Pursuant to certain of the amended terms of the operating agreement, we have a right of first refusal to purchase the MGM Interest from the Divestiture Trust on the same terms as any proposed third-party buyer.

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

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

The following table summarizes the estimated fair values of the assets and liabilities, provisionally, as of the date we obtained control. We will retrospectively adjust these amounts to reflect refined valuation information in future periods when available.

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

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

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

Condensed Statements of Operations	Three Months Ended	
	June 30, 2010	Six Months Ended June 30, 2010
	(In thousands)	
REVENUES		
Operating revenues:		
Gaming	\$ 164,530	\$ 180,475
Food and beverage	35,994	39,140
Room	27,704	29,952
Other	10,696	11,360
Gross revenues	238,924	260,927
Less promotional allowances	52,032	57,259
Net revenues	186,892	203,668
COSTS AND EXPENSES		
Operating costs and expenses:		
Gaming	66,948	71,073
Food and beverage	17,423	19,893
Room	3,459	4,224
Other	8,615	9,193
Selling, general and administrative	31,841	33,300
Maintenance and utilities	15,646	18,122
Depreciation and amortization	18,236	19,861
Write-downs and other charges, net	12	12
Total operating costs and expenses	162,180	175,678
Operating income	24,712	27,990
Other expense:		
Interest expense	5,588	6,072
Total other expense	5,588	6,072
Income before income taxes	19,124	21,918
Income taxes	(1,837)	(2,137)
Net income	\$ 17,287	\$ 19,781

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

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

	Condensed Consolidated Statement of Operations			Boyd Gaming Corp Pro Forma
	Boyd Gaming Corp As Presented Herein	Six Months Ended June 30, 2010 MDDC LLC		
		1/1/10 to 3/23/10	Adjustments	
		(In thousands, except per share data)		
REVENUES				
Gaming revenue	\$ 840,537	\$ 137,831	\$	\$ 978,368
Nongaming revenue	301,742	64,551		366,293
Gross revenues	1,142,279	202,382		1,344,661
Less promotional allowances	148,698	44,093		192,791
Net revenues	993,581	158,289		1,151,870
COSTS AND EXPENSES				
Operating expenses	781,054	125,176		906,230
Depreciation and amortization	95,454	16,754		112,208
Corporate expense	25,615			25,615
Preopening expenses	2,306			2,306
Write-downs and other charges, net	3,592	68		3,660
Total costs and expenses	908,021	141,998		1,050,019
Operating income from Borgata	8,146		(8,146)	
Operating income	93,706	16,291	(8,146)	101,851
Other expense (income):				
Interest expense, net	63,653	5,060		68,713
Gain on early retirements of debt	(3,949)			(3,949)
Other non-operating expenses from Borgata, net	3,133		(3,133)	
Total other expense, net	62,837	5,060	(3,133)	64,764
Income before income taxes	30,869	11,231	(5,013)	37,087
Income taxes	(9,161)	(1,206)		(10,367)
Net income	21,708	10,025	(5,013)	26,720
Net income attributable to noncontrolling interest	(9,891)		(5,012)	(14,903)

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Net income attributable to Boyd Gaming Corporation	\$ 11,817	\$ 10,025	\$ (10,025)	\$ 11,817
Basic net income per common share:	\$ 0.14			\$ 0.14
Weighted average basic shares outstanding	86,471			86,471
Diluted net income per common share:	\$ 0.14			\$ 0.14
Weighted average diluted shares outstanding	86,743			86,743

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

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Condensed Consolidated Statement of Operations				
Three Months Ended June 30, 2009				
	Boyd Gaming Corp As Presented Herein	MDDC LLC	Adjustments	Boyd Gaming Corp Pro Forma
	(In thousands, except per share data)			
REVENUES				
Gaming revenue	\$ 353,597	\$ 173,837	\$	\$ 527,434
Nongaming revenue	115,722	71,915		187,637
Gross revenues	469,319	245,752		715,071
Less promotional allowances	46,369	54,239		100,608
Net revenues	422,950	191,513		614,463
COSTS AND EXPENSES				
Operating expenses	324,754	143,787		468,541
Depreciation and amortization	42,093	20,040	325	62,458
Corporate expense	11,036			11,036
Preopening expenses	4,054	346		4,400
Write-downs and other charges, net	(1,835)	71		(1,764)
Total costs and expenses	380,102	164,244	325	544,671
Operating income from Borgata	13,310		(13,310)	
Operating income	56,158	27,269	(13,635)	69,792
Other expense (income):				
Interest expense, net	36,235	7,447		43,682
Gain on early retirements of debt	(6,057)			(6,057)
Other non-operating expenses from Borgata, net	4,504		(4,504)	
Total other expense, net	34,682	7,447	(4,504)	37,625
Income before income taxes	21,476	19,822	(9,131)	32,167
Income taxes	(8,698)	(1,561)		(10,259)
Net income	12,778	18,261	(9,131)	21,908
Net income attributable to noncontrolling interest			(9,130)	(9,130)
Net income attributable to Boyd Gaming Corporation	\$ 12,778	\$ 18,261	\$ (18,261)	\$ 12,778
Basic net income per common share:	\$ 0.15			\$ 0.15
Weighted average basic shares outstanding	86,254			86,254
Diluted net income per common share:	\$ 0.15			\$ 0.15

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Weighted average diluted shares outstanding	86,291	86,291
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Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Condensed Consolidated Statement of Operations				
Six Months Ended June 30, 2009				
	Boyd Gaming Corp As Presented Herein	MDDC LLC	Adjustments	Boyd Gaming Corp Pro Forma
	(In thousands, except per share data)			
REVENUES				
Gaming revenue	\$ 719,660	\$ 342,686	\$	\$ 1,062,346
Nongaming revenue	232,339	141,254		373,593
Gross revenues	951,999	483,940		1,435,939
Less promotional allowances	94,204	104,537		198,741
Net revenues	857,795	379,403		1,237,198
COSTS AND EXPENSES				
Operating expenses	654,680	285,751		940,431
Depreciation and amortization	84,745	40,131	649	125,525
Corporate expense	23,721			23,721
Preopening expenses	9,893	699		10,592
Write-downs and other charges, net	27,128	61		27,189
Total costs and expenses	800,167	326,642	649	1,127,458
Operating income from Borgata	25,732		(25,732)	
Operating income	83,360	52,761	(26,381)	109,740
Other expense (income):				
Interest expense, net	81,502	15,458		96,960
Gain on early retirements of debt	(8,457)			(8,457)
Other non-operating expenses from Borgata, net	9,026		(9,026)	
Total other expense, net	82,071	15,458	(9,026)	88,503
Income before income taxes	1,289	37,303	(17,355)	21,237
Income taxes	(2,339)	(2,593)		(4,932)
Net income (loss)	(1,050)	34,710	(17,355)	16,305
Net income attributable to noncontrolling interest			(17,355)	(17,355)
Net income (loss) attributable to Boyd Gaming Corporation	\$ (1,050)	\$ 34,710	\$ (34,710)	\$ (1,050)
Basic and diluted net loss per common share:	\$ (0.01)			\$ (0.01)
Weighted average basic and diluted shares outstanding	86,591			86,591

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In addition to the pro forma adjustments reflecting the differences resulting from the conversion of the equity method of accounting to a fully consolidated presentation, there is a \$0.3 million and \$0.6 million adjustment during the three and six months ended June 30, 2009, respectively, representing the amortization of our additional investment in Borgata. Historically, we reduced this amount from our operating income from Borgata. There were no significant transactions affecting the statements of operations requiring elimination between the Boyd entities and Borgata during the three and six months ended June 30, 2009.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Summarized unaudited financial information from the condensed consolidated statements of operations of Borgata is as follows:

Condensed Statements of Operations	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Gaming revenue	\$ 164,530	\$ 173,837	\$ 318,306	\$ 342,686
Nongaming revenue	74,394	71,915	145,002	141,254
Gross revenues	238,924	245,752	463,308	483,940
Less promotional allowances	52,032	54,239	101,350	104,537
Net revenues	186,892	191,513	361,958	379,403
Operating expenses	143,932	143,787	280,981	285,751
Depreciation and amortization	18,236	20,040	36,615	40,131
Preopening expenses		346		699
Write-downs and other items, net	12	71	80	61
Operating income	24,712	27,269	44,282	52,761
Interest expense, net	(5,588)	(7,447)	(11,132)	(15,458)
State income taxes	(1,837)	(1,561)	(3,343)	(2,593)
Net income	\$ 17,287	\$ 18,261	\$ 29,807	\$ 34,710

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Our share of Borgata's operating income	\$	\$ 13,635	\$ 8,146	\$ 26,381
Net amortization expense related to our investment in Borgata		(325)		(649)
Operating income from Borgata, as reported on our condensed consolidated financial statements (1)	\$	\$ 13,310	\$ 8,146	\$ 25,732
Other non-operating expenses from Borgata, as reported on our condensed consolidated financial statements	\$	\$ 4,504	\$ 3,133	\$ 9,026

- (1) Our share of Borgata's operating income for the six months ended June 30, 2010 is reported as less than 50% of Borgata's operating income in the table above due to our consolidation of Borgata effective March 24, 2010.

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Our historical net investment in Borgata differs from our share of the underlying equity in Borgata. In 2004, pursuant to an agreement with MGM related to the funding of Borgata's original project costs, we made a unilateral capital contribution to Borgata of approximately \$31 million. We are ratably amortizing \$15.4 million (50% of the unilateral contribution, which corresponds to our ownership percentage of Borgata) over 40 years. Also, during Borgata's initial development, construction and preopening phases, we capitalized the interest on our investment and are ratably amortizing our capitalized interest over 40 years. We recorded \$0.4 million and \$0.7 million of such amortization during the three and six months ended June 30, 2010, respectively, and such amounts were reclassified to depreciation and amortization upon our consolidation of Borgata due to the incremental asset value related to our unilateral contribution.

Atlantic City Express Service, LLC

In 2006, Borgata entered into an agreement with two other Atlantic City casinos to form Atlantic City Express Service, LLC (ACES). With each member having a 33.3% interest, this New Jersey limited liability company was formed for the purpose of contracting with New Jersey Transit to operate express rail service between Manhattan and Atlantic City. Each member has guaranteed, jointly and severally, liability for all terms, covenants and conditions of the ACES agreement with New Jersey Transit consisting primarily of the necessary operating and capital expenses of ACES. The responsibilities of the managing member will rotate annually among the members. Borgata's investment in ACES was \$5.0 million at June 30, 2010.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****Note 4. Accrued Liabilities**

Accrued liabilities consist of the following:

	June 30, 2010	December 31, 2009
(In thousands)		
Gaming liabilities	\$ 64,301	\$ 50,009
Payroll and related expenses	81,584	54,620
Accrued expenses and other liabilities	95,078	55,425
Interest	11,959	14,523
Total accrued liabilities	\$ 252,922	\$ 174,577

Note 5. Long-Term Debt, Net of Current Maturities

Long-term debt, net of current maturities consists of the following:

	June 30, 2010	December 31, 2009
(In thousands)		
Bank credit facility	\$ 1,892,400	\$ 1,916,900
7.75% Senior Subordinated Notes due 2012	158,832	158,832
6.75% Senior Subordinated Notes due 2014	215,668	248,668
7.125% Senior Subordinated Notes due 2016	240,750	240,750
Borgata bank credit facility	626,872	
Other	12,092	12,413
Total long-term debt	3,146,614	2,577,563
Less current maturities of long-term debt	670	652
Less current maturities of Borgata bank credit facility	626,872	
Long-term debt, net of current maturities	\$ 2,519,072	\$ 2,576,911

Bank Credit Facility

We entered into a bank credit facility on May 24, 2007 and subsequently amended such facility on December 21, 2009. Our bank credit facility currently consists of a \$3 billion revolving credit facility that matures on May 24, 2012. The interest rate on the bank credit facility is based, at our option, upon either the London Interbank Offered Rate (LIBOR) or the base rate, plus, in each case, an applicable margin. The applicable margin is a percentage per annum (which ranges from 0.625% to 1.625% if we elect to use LIBOR, 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.

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The blended interest rates for outstanding borrowings under our bank credit facility at June 30, 2010 and December 31, 2009 were 2.0% and 1.9%, respectively. At June 30, 2010, approximately \$1.9 billion was outstanding under our revolving credit facility, with \$16.5 million allocated to support various letters of credit, leaving remaining availability of approximately \$1.1 billion.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

The bank credit facility contains certain financial and other covenants, including: (i) requiring the maintenance of a minimum interest coverage ratio of 2.00 to 1.00 (discussed below); (ii) establishing a maximum total leverage ratio (discussed below); (iii) imposing limitations on the incurrence of indebtedness and liens; (iv) imposing limitations on transfers, sales and other dispositions; and (v) imposing restrictions on investments, dividends and certain other payments.

The minimum Interest Coverage Ratio (as defined in our bank credit facility) is calculated as (a) twelve-month trailing Consolidated EBITDA (as defined in our bank credit facility) to (b) consolidated interest expense (as also defined in our bank credit facility).

The maximum permitted Total Leverage Ratio (as defined in our bank credit facility) is calculated as Consolidated Funded Indebtedness to twelve-month trailing Consolidated EBITDA (all capitalized terms are defined in the bank credit facility). The following table provides our maximum Total Leverage Ratio during the remaining term of the bank credit facility:

For the Trailing Four Quarters Ending	Maximum Total Leverage Ratio
June 30, 2010	7.00 to 1.00
September 30, 2010	7.25 to 1.00
December 31, 2010	7.25 to 1.00
March 31, 2011	7.00 to 1.00
June 30, 2011	6.75 to 1.00
September 30, 2011	6.50 to 1.00
December 31, 2011	6.00 to 1.00
March 31, 2012	5.50 to 1.00

We believe that we were in compliance with the bank credit facility covenants at June 30, 2010, including the Interest Coverage Ratio and Total Leverage Ratio, which, at June 30, 2010, were 2.97 to 1.00 and 6.91 to 1.00, respectively. At September 30, 2010, assuming our current level of Consolidated Funded Indebtedness remains constant, we estimate that a 4.7% or greater decline in our twelve-month trailing Consolidated EBITDA, as compared to June 30, 2010, would cause us to exceed our maximum Total Leverage Ratio covenant for that period. However, in the event that we project our Consolidated EBITDA may decline by 4.7% or more, we could implement certain actions in an effort to minimize the possibility of a breach of the Total Leverage Ratio covenant. These actions may include, among others, reducing payroll, benefits and certain other operating costs, deferring or eliminating certain maintenance, expansion or other capital expenditures, reducing our outstanding indebtedness through repurchases or redemption, and/or increasing cash by selling assets or issuing equity.

Senior Subordinated Notes

7.75% Senior Subordinated Notes due December 2012. On December 30, 2002, we issued \$300 million principal amount of 7.75% senior subordinated notes due December 2012. The notes require semi-annual interest payments on June 15 and December 15 of each year, through December 2012, at which time the entire principal balance becomes due and payable. The notes contain certain restrictive covenants regarding, among other things, incurrence of debt, sales of assets, mergers and consolidations, and limitations on restricted payments (as defined in the indenture governing the notes). We believe that we are in compliance with these covenants at June 30, 2010. Effective December 15, 2007, we may redeem all or a portion of the notes at redemption prices (expressed as percentages of the principal amount) ranging from 103.875% in 2007 to 100% in 2010 and thereafter, plus accrued and unpaid interest.

6.75% Senior Subordinated Notes due April 2014. On April 15, 2004, we issued, through a private placement, \$350 million principal amount of 6.75% senior subordinated notes due April 2014. In July 2004, all, except for \$50,000 in aggregate principal amount of these notes, were exchanged for substantially similar notes that were registered with the SEC. The notes require semi-annual interest payments on April 15 and October 15 of each year, through April 2014, at which time the entire principal balance becomes due and payable. The notes contain certain restrictive covenants regarding, among other things, incurrence of debt, sales of assets, mergers and consolidations, and limitations on restricted payments (as defined in the indenture governing the notes). We believe that we are in compliance with these covenants at June 30, 2010. Effective April 15, 2009, we may redeem all or a portion of the notes at redemption prices (expressed as percentages of the principal amount)

ranging from 103.375% in 2009 to 100% in 2012 and thereafter, plus accrued and unpaid interest.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

7.125% Senior Subordinated Notes due February 2016. On January 30, 2006, we issued \$250 million principal amount of 7.125% senior subordinated notes due February 2016. The notes require semi-annual interest payments on February 1 and August 1 of each year, through February 2016, at which time the entire principal balance becomes due and payable. The notes contain certain restrictive covenants regarding, among other things, incurrence of debt, sales of assets, mergers and consolidations, and limitations on restricted payments (as defined in the indenture governing the notes). We believe that we are in compliance with these covenants at June 30, 2010. At any time subsequent to February 1, 2009 and prior to February 1, 2011, we may redeem the notes, in whole or in part, pursuant to a make-whole call as provided in the indenture governing the notes, plus accrued and unpaid interest. On or after February 1, 2011, we may redeem all or a portion of the notes at redemption prices (expressed as percentages of the principal amount) ranging from 103.563% in 2011 to 100% in 2014 and thereafter, plus accrued and unpaid interest.

During the three months ended June 30, 2010 and 2009, we purchased and retired \$17.5 million and \$34.2 million, respectively, principal amount of our senior subordinated notes. The total purchase price of the notes was \$15.5 million and \$28.0 million, respectively, resulting in a gain of \$1.9 million and \$6.1 million, respectively, net of associated deferred financing fees, which is recorded on our condensed consolidated statement of operations for the respective periods. The transactions were funded by availability under our bank credit facility.

During the six months ended June 30, 2010 and 2009, we purchased and retired \$33.0 million and \$44.7 million, respectively, principal amount of our senior subordinated notes. The total purchase price of the notes was \$28.9 million and \$36.1 million, respectively, resulting in a gain of \$3.9 million and \$8.5 million, respectively, net of associated deferred financing fees, which is recorded on our condensed consolidated statement of operations for the respective periods. The transactions were funded by availability under our bank credit facility.

Borgata Bank Credit Facility

Borgata's First Amended and Restated Credit Agreement currently consists of a \$740 million revolving credit facility, with the availability of such revolving credit facility subject to quarterly reductions of \$10 million, thereby reducing availability under the revolving credit facility to \$720 million on December 31, 2010. At June 30, 2010, the outstanding balance under Borgata's credit facility was \$626.9 million, leaving availability under the facility of \$113.1 million at June 30, 2010. The revolving credit facility matures on January 31, 2011, but can be prepaid at Borgata's discretion and, as Borgata is refinancing such facility, the outstanding balance has been recorded in current maturities of long-term debt on the condensed consolidated balance sheet at June 30, 2010. On August 4, 2010, Borgata received approval from the NJCCC for a proposed financing, as well as the proposed use of proceeds from such financing. We expect the financing to close in August 2010, subject to closing conditions and settlement procedures.

The interest rate on the revolving credit facility is based, at Borgata's option, upon either the base rate or the Eurodollar rate, plus, in each case, an applicable margin. The applicable margin is a percentage per annum (which ranges from 1.00% to 2.50% if Borgata elects to use the base rate, and 2.25% to 3.75% if Borgata elects to use the Eurodollar rate) determined in accordance with a specified pricing grid based upon Borgata's predefined total leverage ratio. In addition, Borgata incurs commitment fees on the unused portion of the revolving credit facility that range from 0.25% to 0.50% per annum. The revolving credit facility is secured by substantially all of Borgata's real and personal property and is non-recourse to us and the MGM Divestiture Trust.

The blended interest rates for outstanding borrowings under the revolving credit facility at June 30, 2010 and December 31, 2009 were 2.8% and 2.7%, respectively.

The Borgata bank credit agreement contains certain financial and other covenants, including, without limitation, (i) establishing a maximum permitted Total Leverage Ratio (as defined in Borgata's bank credit agreement) of 4.25 to 1.00, (ii) establishing a minimum required Fixed Charge Coverage Ratio (as defined in Borgata's bank credit agreement) of 1.75 to 1.00, (iii) imposing limitations on the incurrence of additional secured indebtedness, and (iv) imposing restrictions on investments, dividends and certain other payments. We believe that Borgata was in compliance with its bank credit facility covenants at June 30, 2010, including the Total Leverage Ratio and Fixed Charge Coverage Ratio, which, at June 30, 2010, were 2.91 to 1.00 and 3.00 to 1.00, respectively.

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BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Note 6. Commitments and Contingencies

Commitments

There have been no material changes to our commitments described under Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 5, 2010, other than those related to Borgata and Echelon, as discussed below.

Borgata

Leases

We estimate that Borgata's future minimum lease payments required under noncancelable operating leases (principally for land) are \$6.7 million for the year ended December 31, 2010.

Utility Contract

In 2005, Borgata amended its executory contracts with a wholly-owned subsidiary of a local utility company, extending the end of the terms to 20 years from the opening of its rooms expansion. The utility company provides Borgata with electricity and thermal energy (hot water and chilled water). Obligations under the thermal energy executory contract contain both fixed fees and variable fees based upon usage rates. The fixed fee components under the thermal energy executory contract are currently estimated at approximately \$11.3 million per annum. Borgata also committed to purchase a certain portion of its electricity demand at essentially a fixed rate, which is estimated at approximately \$4.8 million per annum. Electricity demand in excess of the commitment is subject to market rates based on Borgata's tariff class.

Investment Alternative Tax

The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. Generally, Borgata may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the New Jersey Casino Reinvestment Development Authority (CRDA). Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to fifty years and bear interest at below market rates.

Borgata's CRDA obligations for the six months ended June 30, 2010 and 2009 were \$4.0 million and \$4.3 million, respectively, of which valuation provisions of \$2.3 million and \$2.4 million, respectively, were recorded due to the respective underlying agreements.

Purse Enhancement Agreement

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

Under the terms of the Agreement, the Casinos are required to make scheduled payments to the NJSEA totaling \$90 million to be used for certain authorized purposes (the Authorized Uses) as defined by the Agreement. In the event any of the \$90 million is not used by NJSEA for the Authorized Uses by January 1, 2012, the unused funds shall be returned by NJSEA to the Casinos pro rata based upon the share each casino contributed. For each year, each casino's share of the scheduled payments will equate to a percentage representing its gross gaming revenue for the prior calendar year compared to the gross gaming revenues for that period for all Casinos. Each casino, solely and individually, shall be

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responsible for its respective share of the scheduled amounts due. In the event that any casino shall fail to make its payment as required, the remaining Casinos shall have the right, but not the obligation, to cure a payment delinquency. As a result, Borgata expenses its pro rata share of the \$90 million, estimated to be approximately \$14.9 million based on its actual and forecasted market share of gross gaming revenue, on a straight-line basis over the applicable term of the Agreement. Borgata recorded expense of \$1.3 million and \$1.2 million during the three months ended June 30, 2010 and 2009, respectively, and recorded expense of \$2.6 million and \$2.4 million during the six months ended June 30, 2010 and 2009, respectively.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)*****Echelon***

As of June 30, 2010, we have incurred approximately \$926 million in capitalized costs related to the Echelon project, including land. As part of our delay of the project, we expect to additionally incur approximately \$5 million to \$6 million of capitalized costs annually, principally related to the offsite fabrication of escalators, curtain wall and a skylight. In addition, we expect annual recurring project costs, consisting primarily of security, storage, property taxes, rent and insurance, of approximately \$7 million to \$10 million that will be charged to preopening or other expense as incurred during the project's suspension period. These capitalized costs and recurring project costs are in addition to other contingencies with respect to our various commitments, as discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 5, 2010.

Contingencies***Copeland***

Alvin C. Copeland, the sole shareholder (deceased) 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 September 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. The hearing has not yet been rescheduled. Mr. Copeland has since passed away and his son, the executor of his estate, has petitioned the court to be substituted as plaintiff in the case. On June 9, 2009, the plaintiff filed to have the exceptions set for hearing. The parties decided to submit the exceptions to the court on the previously filed briefs. The court has yet to issue a ruling. 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.

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 use tax. On April 14, 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 denied the Department's Petition on July 17, 2008. We paid use tax, over the period November 2000 through May 2008, on food purchased for subsequent use in complimentary and employee meals at our Nevada casino properties and estimate the refund to be in the range of \$16.7 million to \$18.9 million, including interest. In late 2009, the Department audited our refund claim and subsequently issued a \$12.3 million sales tax assessment, plus interest of \$7.5 million. The Department continues to deny our refund claim and issued the assessment based on their position that the complimentary and employee meals at issue are now subject to sales tax. We do not believe the Department's arguments have any merit and intend to file a motion to dismiss the assessment on both a procedural and technical basis. We are currently in the discovery and deposition stage of the legal proceeding and expect our hearing before the Nevada Administrative Law Judge to occur in September 2010. Due to uncertainty surrounding the judge's decision, we will not record any gain until the tax refund is realized. For periods subsequent to May 2008, although we have received an

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assessment from the Department, we have not accrued a liability for sales tax on complimentary and employee meals at our Nevada casino properties, as it is not probable, based on both procedural issues and the technical merits of the Department's arguments, that we will owe this tax.

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BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Blue Chip Property Taxes

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. In February 2009, we received a notice of revaluation, which reduced the property assessed value by \$100 million and the tax assessment by approximately \$2.2 million per year. We have subsequently paid the minimum required payment of \$1.9 million against 2007 and 2008 provisional bills and, in July 2010, paid \$0.9 million on the first provisional bill for 2009, all of which were based on the 2006 valuation notice. We have not received valuation notices for years 2007 through 2009. We believe the assessment for the fifty four-month period ended June 30, 2010 could result in a property tax assessment ranging between \$12.7 million and \$26.6 million. We have accrued, net of the payments discussed above, approximately \$19.0 million of property tax liability as of June 30, 2010, 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, 2008 and 2009 assessment notices, which have not been received as of June 30, 2010, could result in further adjustment to our estimated property tax liability at Blue Chip.

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.

Note 7. Stockholders Equity and Stock Incentive Plans

Share Repurchase Program

Subject to applicable corporate securities laws, repurchases under our stock repurchase program may be made at such times and in such amounts as we deem appropriate. We are subject to certain limitations regarding the repurchase of common stock, such as restricted payment limitations related to our outstanding notes and our bank credit facility. Purchases under our stock repurchase program can be discontinued at any time that we feel additional purchases are not warranted. We intend to fund the repurchases under the stock repurchase program with existing cash resources and availability under our bank credit facility.

In July 2008, our Board of Directors authorized an amendment to our existing share repurchase program to increase the amount of common stock available to be repurchased to \$100 million. We are not obligated to purchase any shares under our stock repurchase program.

During the six months ended June 30, 2010, we did not repurchase any shares of our common stock. During the three and six months ended June 30, 2009, we repurchased and retired 0.2 million and 1.7 million shares, respectively, of our common stock at an average price of \$5.23 and \$4.61 per share, respectively. We are currently authorized to repurchase up to an additional \$92.1 million in shares of our common stock under the share repurchase program.

We have in the past, and may in the future, 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 from time to time.

Dividends

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Dividends are declared at our Board of Director's discretion. We are subject to certain limitations regarding payment of dividends, such as restricted payment limitations related to our outstanding notes and our bank credit facility. In July 2008, our Board of Directors suspended the quarterly dividend for the current and future periods; therefore, we did not declare a dividend during the six months ended June 30, 2010 or 2009.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****Share-Based Compensation**

We account for share-based awards exchanged for employee services in accordance with the authoritative accounting guidance for share-based payments. Under the guidance, share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense, net of estimated forfeitures, over the employee's requisite service period.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Gaming	\$ 74	\$ 31	\$ 148	\$ 61
Food and beverage	14	3	28	6
Room	7	1	13	2
Selling, general and administrative	422	651	845	1,304
Corporate expense	2,355	2,820	4,694	5,525
Preopening expenses		523		1,044
Total share-based compensation expense	\$ 2,872	\$ 4,029	\$ 5,728	\$ 7,942

Note 8. Other Comprehensive Income and Derivative Instruments

Total comprehensive income consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss)	\$ 12,026	\$ 12,778	\$ 21,708	\$ (1,050)
Derivative instruments market adjustment, net of tax	3,145	(2,730)	4,410	1,304
Comprehensive income	\$ 15,171	\$ 10,048	\$ 26,118	\$ 254

We utilize derivative instruments to manage interest rate risk. At June 30, 2010 and December 31, 2009, we were a party to certain floating-to-fixed interest rate swap agreements with an aggregate notional amount of \$500 million at each date, whereby we receive payments based upon the three-month LIBOR and make payments based upon a stipulated fixed rate. We record all derivative instruments on our consolidated balance sheets at fair value. Derivatives that are not designated as hedges for accounting purposes must be adjusted to fair value through income. We have designated all of our current interest rate swaps as cash flow hedges and measure their effectiveness using the long-haul method. 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 effective portion of any gain or loss on our interest rate swaps is recorded in other comprehensive income (loss). We use the hypothetical derivative method to measure the ineffective portion of our interest rate swaps. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

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The net effect of our floating-to-fixed interest rate swaps resulted in an increase in interest expense of \$5.6 million and \$6.6 million for the three months ended June 30, 2010 and 2009, respectively, and an increase in interest expense of \$11.2 million and \$12.6 million for the six months ended June 30, 2010 and 2009, respectively, as compared to the contractual rate of the underlying hedged debt, for these periods.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

The following table reports the effects of the changes in the fair value of our derivative instruments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Derivative instruments fair value adjustment	\$ 4,869	\$ (4,260)	\$ 6,818	\$ 1,993
Tax effect of derivative instruments fair value adjustment	(1,724)	1,530	(2,408)	(689)
Net derivative instruments fair value adjustment, as reported on our condensed consolidated statement of stockholders' equity	\$ 3,145	\$ (2,730)	\$ 4,410	\$ 1,304

A portion of the net derivative instruments market adjustment included in accumulated other comprehensive loss, net, at June 30, 2010 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 during the three months ended June 30, 2007. As a result, we expect \$0.4 million of deferred net gain related to these derivative instruments, included in accumulated other comprehensive loss, net, at June 30, 2010, will be accreted as a reduction of interest expense on our consolidated statements of operations during the next twelve months.

Note 9. Write-Downs and Other Charges, Net

Write-downs and other charges, net are comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Acquisition related expenses	\$ 1,979	\$ 177	\$ 3,580	\$ 247
Asset write-downs	12	41	12	28,872
Hurricane and related items		(2,053)		(1,991)
Total write-downs and other charges, net	\$ 1,991	\$ (1,835)	\$ 3,592	\$ 27,128

During the three and six months ended June 30, 2010, we recorded \$2.0 million and \$3.6 million, respectively, of direct expenses related to evaluating various acquisition opportunities and other business development activities.

During the six months ended June 30, 2009, we recorded a \$28.4 million non-cash impairment charge related to the write-off of Dania Jai-Alai's goodwill, which was recorded as an additional cost of the acquisition in connection with the January 2009 amendment to the purchase agreement to settle the contingent payment prior to the satisfaction of certain legal conditions (see Note 11, *Acquisition of Dania Jai-Alai*). The goodwill was subsequently written-off in connection with our impairment test for recoverability during the three months ended June 30, 2009.

Note 10. Fair Value Measurements

We have adopted the authoritative accounting guidance for fair value measurements, which does not determine or affect the circumstances under which fair value measurements are used, but defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market

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data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These inputs create the following fair value hierarchy:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

As required by the guidance for fair value measurements, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, assets and liabilities categorized as Level 3 may be measured at fair value using inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

Balances Measured at Fair Value

The following table shows the fair values of certain of our financial instruments, required to be measured at fair value at June 30, 2010 and December 31, 2009.

	June 30, 2010			
	Balance	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 100,173	\$ 100,173	\$	\$
Liabilities				
Derivative instruments	\$ 21,472	\$	\$ 21,472	\$
December 31, 2009				
	Balance	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	\$ 93,202	\$ 93,202	\$	\$
Liabilities				
Derivative instruments	\$ 29,356	\$	\$ 29,356	\$

The fair value of our cash and cash equivalents, classified in the fair value hierarchy as Level 1, is based on statements received from our banks at June 30, 2010 and December 31, 2009.

Our derivative instruments are classified in the fair value hierarchy as Level 2 as the LIBOR swap rate is observable at commonly quoted intervals for the full term of the interest rate swaps. If we had terminated our interest rate swaps as of June 30, 2010 or December 31, 2009, we would have been required to pay a total of \$22.3 million or \$31.0 million, respectively, based on the settlement values of such derivative instruments, for which the principal terms are presented below (dollars in thousands).

Effective Date	Notional Amount	Fixed Rate Paid	Fair Value of Liability		Maturity Date
			June 30, 2010	December 31, 2009	
September 28, 2007	\$ 100,000	5.13%	\$ 4,295	\$ 5,872	June 30, 2011
September 28, 2007	200,000	5.14%	8,593	11,749	June 30, 2011
June 30, 2008	200,000	5.13%	8,584	11,735	June 30, 2011
	\$ 500,000		\$ 21,472	\$ 29,356	

The fair values of our derivative instruments at June 30, 2010 and December 31, 2009 include \$0.8 million and \$1.6 million, respectively, of credit valuation adjustments to reflect the impact of the credit ratings of both the Company and our counterparties, based primarily upon the market value of the credit default swaps of the respective parties. These credit valuation adjustments resulted in a reduction in the fair values of our derivative instruments as compared to their settlement values.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****Balances Disclosed at Fair Value**

The following table provides the fair value measurement information about our long-term debt at June 30, 2010 and December 31, 2009.

	Outstanding Face Amount	June 30, 2010		Fair Value Hierarchy
		Carrying Value (In thousands)	Estimated Fair Value	
Bank credit facility	\$ 1,892,400	\$ 1,892,400	\$ 1,665,312	Level 2
7.75% Senior Subordinated Notes Due 2012	158,832	158,832	158,435	Level 1
6.75% Senior Subordinated Notes Due 2014	215,668	215,668	192,268	Level 1
7.125% Senior Subordinated Notes Due 2016	240,750	240,750	202,230	Level 1
Borgata bank credit facility	626,872	626,872	626,872	Level 2
Other	12,092	12,092	11,487	Level 3
Total long-term debt	\$ 3,146,614	\$ 3,146,614	\$ 2,856,604	

	Outstanding Face Amount	December 31, 2009		Fair Value Hierarchy
		Carrying Value (In thousands)	Estimated Fair Value	
Bank credit facility	\$ 1,916,900	\$ 1,916,900	\$ 1,686,872	Level 2
7.75% Senior Subordinated Notes Due 2012	158,832	158,832	160,420	Level 1
6.75% Senior Subordinated Notes Due 2014	248,668	248,668	223,801	Level 1
7.125% Senior Subordinated Notes Due 2016	240,750	240,750	206,925	Level 1
Other	12,413	12,413	11,792	Level 3
Total long-term debt	\$ 2,577,563	\$ 2,577,563	\$ 2,289,810	

The estimated fair value of the bank credit facility is based on a relative value analysis performed on or about June 30, 2010 and December 31, 2009, respectively. The estimated fair value of Borgata's bank credit facility at June 30, 2010 approximates its carrying value as such amounts carry variable rates of interest and mature within one year. The estimated fair values of our senior subordinated notes are based on quoted market prices as of June 30, 2010 and December 31, 2009, respectively. Debt included in the "Other" category is fixed-rate debt that is due March 2013 and is not traded and does not have an observable market input; therefore, we have estimated its fair value based on a discounted cash flow approach, after giving consideration to the changes in market rates of interest, creditworthiness of both parties, and credit spreads. There were no transfers between Level 1 and Level 2 measurements during the six months ended June 30, 2010.

Note 11. Acquisition of Dania Jai-Alai

In March 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. In March 2007, we paid approximately \$81 million to close this transaction, and agreed to pay, in March 2010 or earlier, a contingent payment of an additional \$75 million to the seller, plus interest accrued at the prime rate (the "contingent payment"), if certain legal conditions were satisfied.

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In January 2009, we amended the purchase agreement to settle the contingent payment prior to the satisfaction of the legal conditions. The principal terms of the amendment are as follows.

We paid \$9.4 million to the seller in January 2009, plus \$9.1 million of interest accrued from the March 1, 2007 date of the acquisition.

We issued an 8% promissory note to the seller in the amount of \$65.6 million, plus accrued interest. The terms of the note required principal payments of \$9.4 million, plus accrued interest, in April 2009 and July 2009, and a final principal payment of \$46.9 million, plus accrued interest, due in January 2010. The promissory note was secured by a letter of credit under our bank credit facility, and we have made all scheduled payments on the promissory note, including the final payment in January 2010.

In conjunction with this amendment, we recorded the remaining \$28.4 million of the \$75 million contingent liability as an additional cost of the acquisition (goodwill) during the three months ended June 30, 2009. During the six months ended June 30, 2009, we tested the goodwill for recoverability, which resulted in a non-cash impairment charge of \$28.4 million (see Note 9, *Write-downs and Other Charges, Net*).

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****Note 12. Earnings per Share**

Net income (loss) and the weighted average number of common shares and common share equivalents used in the calculation of basic and diluted earnings per share consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Net income (loss) attributable to Boyd Gaming Corporation	\$ 3,382	\$ 12,778	\$ 11,817	\$ (1,050)
Weighted average common shares outstanding	86,511	86,254	86,471	86,591
Potential dilutive effect	431	37	272	
Weighted average common and potential shares outstanding	86,942	86,291	86,743	86,591
Basic net income (loss) per common share	\$ 0.04	\$ 0.15	\$ 0.14	\$ (0.01)
Diluted net income (loss) per common share	\$ 0.04	\$ 0.15	\$ 0.14	\$ (0.01)

Due to the net loss for the six months ended June 30, 2009, all potential common shares were anti-dilutive, and therefore were not included in the computation of diluted earnings per share.

Note 13. Related Party Transactions***Boyd Ownership***

William S. Boyd, our Executive Chairman of the Board of Directors, together with his immediate family, beneficially owned approximately 38% of the Company's outstanding shares of common stock as of June 30, 2010. As such, 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 six months ended June 30, 2010 and 2009, there were no related party transactions between the Company and the Boyd family.

Compensation of Certain Borgata Employees

Borgata reimburses Boyd for compensation paid to employees performing services for Borgata on a full-time basis and for out-of-pocket costs and expenses incurred related to travel. Boyd is also reimbursed for various payments made on Borgata's behalf, primarily related to third party insurance premiums. The related amounts due to Boyd for these types of expenditures paid by Boyd were \$0.1 million and \$0.8 million for the six months ended June 30, 2010 and for the year ended December 31, 2009, respectively. Reimbursable expenditures during the three months ended June 30, 2010 and 2009 were \$1.2 million and \$1.7 million, respectively, and were \$1.6 million and \$4.0 million during the six months ended June 30, 2010 and 2009, respectively, and were included in selling, general and administrative on the condensed consolidated statements of operations.

Use of Corporate Plane

Boyd provides Borgata with periodic use of its corporate aircraft for business purposes. Borgata reimbursed Boyd \$0 and \$0.1 million pursuant to this arrangement during the six months ended June 30, 2010 and during the year ended December 31, 2009, respectively.

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In addition, from time to time Borgata has made its aircraft available for business purposes to members of Boyd's directors and officers, who are also directors and officers of Borgata. Boyd reimbursed Borgata \$0.05 million and less than \$0.01 million pursuant to this arrangement during the six months ended June 30, 2010 and the year ended December 31, 2009, respectively.

Table of Contents**BOYD GAMING CORPORATION AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)*****Remediation to Borgata Site***

Pursuant to the operating agreement between MGM and Borgata, MGM is solely responsible for any investigation, analyses, clean-up, detoxification, testing, monitoring, or remediation related to Renaissance Pointe, the site at which Borgata is located. MGM is also responsible for their allocable share of expenses related to master plan and government improvements at Renaissance Pointe. The related amounts due from MGM for these types of expenditures incurred by Borgata were less than \$0.1 million at each June 30, 2010 and December 31, 2009, respectively. Reimbursable expenditures incurred were \$0.1 million for each of the three months ended June 30, 2010 and 2009, respectively, and were \$0.3 million for each of the six months ended June 30, 2010 and 2009, respectively.

Borgata Ground Leases

Borgata entered into a series of ground lease agreements with MGM totaling 19.0 acres that provides the land on which Borgata's existing employee parking garage, public space expansion, rooms expansion, and modified surface parking lot reside. The lease terms extend until December 31, 2070 with the exception of the surface parking lot lease which could be terminated by either party upon 30 days written notice. The related amounts due to MGM for these types of expenditures were \$0 at each June 30, 2010 and December 31, 2009. Related rent incurred was \$1.6 million for each of the three months ended June 30, 2010 and 2009, respectively, and was \$2.9 million and \$3.2 million for the six months ended June 30, 2010 and 2009, respectively, which was included in selling, general and administrative on the condensed consolidated statements of operations.

Pursuant to the ground lease agreements, Borgata is responsible for reimbursing MGM for related property taxes paid on its behalf. The related amounts due to MGM for these types of expenditures were \$0 at each June 30, 2010 and December 31, 2009. Related property tax incurred was \$3.0 million and \$3.2 million for the three months ended June 30, 2010 and 2009, respectively, and was \$6.0 million and \$6.3 million for the six months ended June 30, 2010 and 2009, respectively, which were included in selling, general and administrative on the condensed consolidated statements of operations.

Note 14. Segment Information

We have aggregated certain of our properties in order to present four Reportable Segments: (i) Las Vegas Locals, (ii) Downtown Las Vegas, (iii) Midwest and South, and (iv) Atlantic City, which consists of our 50% investment in Borgata.

The table below lists the classification of each of our properties within our Reportable Segments.

Las Vegas Locals

Gold Coast Hotel and Casino
The Orleans Hotel and Casino
Sam's Town Hotel and Gambling Hall
Suncoast Hotel and Casino
Eldorado Casino
Jokers Wild Casino

Las Vegas, NV
Las Vegas, NV
Las Vegas, NV
Las Vegas, NV
Henderson, NV
Henderson, NV

Midwest and South

Sam's Town Hotel and Gambling Hall
Par-A-Dice Hotel Casino
Treasure Chest Casino
Blue Chip Casino, Hotel & Spa
Delta Downs Racetrack Casino & Hotel
Sam's Town Hotel and Casino
Tunica, MS
East Peoria, IL
Kenner, LA
Michigan City, IN
Vinton, LA
Shreveport, LA

Downtown Las Vegas

California Hotel and Casino
Fremont Hotel and Casino
Main Street Station Casino, Brewery and Hotel

Las Vegas, NV
Las Vegas, NV
Las Vegas, NV

Atlantic City

Borgata Hotel Casino and Spa
Atlantic City, NJ

Results for Downtown Las Vegas include the results of our travel agency and captive insurance company.

Table of Contents**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		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	(In thousands)			
Gross Revenues				
Las Vegas Locals	\$ 169,658	\$ 183,738	\$ 343,555	\$ 373,674
Downtown Las Vegas	61,007	63,159	120,720	127,354
Midwest and South	205,466	220,460	413,522	446,840
Atlantic City	238,924		260,927	
Reportable Segment Gross Revenues	675,055	467,357	1,138,724	947,868
Other (1)	1,581	1,962	3,555	4,131
Gross Revenues	\$ 676,636	\$ 469,319	\$ 1,142,279	\$ 951,999
Reportable Segment Adjusted EBITDA (2)				
Las Vegas Locals	\$ 36,810	\$ 43,917	\$ 77,223	\$ 89,237
Downtown Las Vegas	9,310	11,800	17,682	25,154
Midwest and South	35,590	45,010	74,869	93,598
Atlantic City	42,960		47,863	
Our share of Borgata's operating income before net amortization, preopening and other items (2)		13,844	8,180	26,761
Reportable Segment Adjusted EBITDA	124,670	114,571	225,817	234,750
Other operating costs and expenses				
Depreciation and amortization (3)	55,408	42,418	95,454	85,394
Corporate expense (4)	13,526	11,036	25,615	23,721
Preopening expenses	1,243	4,054	2,306	9,893
Our share of Borgata's preopening expenses		173		349
Our share of Borgata's write-downs and other items		36	34	31
Write-downs and other charges, net	1,991	(1,835)	3,592	27,128
Other (5)	2,826	2,531	5,110	4,874
Total other operating costs and expenses	74,994	58,413	132,111	151,390
Operating income	\$ 49,676	\$ 56,158	\$ 93,706	\$ 83,360

(1) Other gross revenues are generated from Dania Jai-Alai.

(2) We determine each of our wholly-owned properties' profitability based upon Property EBITDA, which represents each property's earnings before interest expense, income taxes, depreciation and amortization, preopening expenses, write-downs and other charges, share-based

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compensation expense, and deferred rent, as applicable. Reportable Segment Adjusted EBITDA is the aggregate sum of the Property EBITDA for each of the properties included in our Las Vegas Locals, Downtown Las Vegas, Midwest and South, and Atlantic City segments, and also includes our share of Borgata's operating income, during the period in which it was accounted for under the equity method of accounting, before net amortization, preopening and other items. We calculate our profitability for Borgata, our 50% joint venture, as follows:

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BOYD GAMING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Operating income from Borgata, as reported on our condensed consolidated statements of operations	\$	\$ 13,310	\$ 8,146	\$ 25,732
Add back:				
Net amortization expense related to our investment in Borgata			&nbs	